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Pondering the First Mover Advantage

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The so-called “First Mover Advantage” is one of those terms that invites both passionate devotees and passionate skeptics. The “FMA” posits that an entrepreneur who gets to market first – with a novel technology or business model – has a sustainable competitive advantage over competitors that should predict ultimate victory. It is a theory that explains a lot: Yahoo!, for example (or even Lycos, if you prefer). Of course, it doesn’t explain Google quite as well.

The FMA was particularly popular in the internet bubble at the turn of the century. In those days, convincing a venture capitalist that you had a real FMA would get an entrepreneur most of the way to a term sheet with most venture capitalists. The term has been in and out of favor since; in when it seems to work, out when it doesn’t.

My own thinking is that the FMA is a pretty good analytical tool in so far as it goes. By that I mean that it is best understood as one-half of a much more instructive tool, which I will call the “First Mover *with the Most* Advantage” or “FMMA.”

Credit for FMMA probably goes best to Confederate Civil War General Nathan Bedford Forrest. Forrest was a spectacularly successful cavalry general who won many victories over superior forces employing a strategy that he is famously remembered for saying was based on the notion that the force that “gets there first with the most” generally wins the battle. That was almost always Forrest.

As applied to technology and business model innovation and success in today’s world, FMMA reminds entrepreneurs and investors that being first to market is by itself not the proverbially “sustainable unfair competitive advantage” that venture capitalists and business theorists are so fond of. Getting to market first is quite often an unfair competitive advantage, but by itself it is not sustainable as such. Being first to market with a new technology or business model is only a sustainable advantage if you get there with sufficient resources to capitalize on your position.

The real, but ultimately not unlimited, value of the FMMA tool can be seen in the development of the internet search engine business. Going back to the 1990s, a number of search engines that look more or less like Google in terms of technology and core business model (Google has obviously broadened the model beyond basic search, as have its competitors, and the technology has evolved) got started, including Lycos, Infoseek, Magellan and Yahoo!. Of these, Lycos could best stake the claim to the FMA in 1994.

But as history tells us – and the FMMA tool might have predicted – Lycos did not emerge as the winner of the first internet search war, but rather Yahoo! did. Why? Because Yahoo! was the first company to get to the market first with the most in terms of resources beyond basic technology and business model innovation. Resources like superior marketing, and the most capital. Resources that allowed Yahoo! to be the first of the first generation search engines to reach a critical mass in terms of brand recognition and value.

The Yahoo! experience tells us two things about the FMMA strategy. First, the obvious one: that being first is not by itself enough. You also have to be recognized and appreciated as such, and that takes another set of resources and skills, and generally lots of them. Second, and if you keep in mind what happened to Yahoo! when Google came along, you will also see that FMMA can be a sustainable competitive advantage over time, but that as a tool it is only as durable as the management team that wields it. It is only an advantage, not a guarantee.

In terms of modern examples of FMMA at work, take a look at the ecoupon business, where Groupon can I think fairly lay claim to FMMA status. It is clearly the big dog in terms of resources (brand recognition and value, as well as capital and revenues), and if the ecoupon business model has legs, Groupon would have to be the favorite to emerge as the dominant player. But the favorite in a race still has to run the race, and run it well. Favorite status is not a sure thing (Forrest got there first with the most and still, occasionally, came up short of victory; ditto Secretariat, the greatest thoroughbred of all time, who in fact did lose a race once).

In sum, the so-called First Mover Advantage is, for starters, incomplete. Being first is great, but the advantage goes to the entrepreneur that gets there first with the most. It is also an advantage that can be sustained – or not, depending on how well it is employed over time.

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