Chapter 2

BRAND IMITATION

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CHAPTER 2

BRAND IMITATION

Buildings age and become dilapidated. Machines wear out. People die. But what live on are the brands.

- Sir Hector Laing
  Group Chief Executive Officer,
  United Biscuits Plc.

BRAND IMITATION

Introduction

Imitating the look of an existing successful brand is a common occurrence in today’s crowded marketplace. A negative experience with an imitator brand increases the evaluations of the original brand whereas a positive experience with the imitator have the opposite effect, and there is a decrease in the evaluations of the original brand. In other words, there are two situations where the original manufacturer can be hurt. First, the consumer may be dissatisfied with the brand, purchased and attribute their dissatisfaction to the original brand, but not the imitator as they have not realized which brand was consumed. Second the consumer may be satisfied with the imitator brand, become aware that it was not the original brand, and switch brand preferences in favour of the (usually lower priced) imitator brand. Thus, this would harm firms by reducing the number of consumers who become repeat or loyal purchasers (Foxman et al. 1990; Stern and Eovaldi 1984).

Intentionally integrating the name, shape, symbol, colour, or look associated with a successful brand to a new brand on the marketplace can potentially shift sales away from the original brand to the new brand. This shift occurs because consumers may be led by similar cues to believe that the two brands are interchangeable. Although it is difficult to assess the dollar value of such practices, in a study on foreign infringement involving forty-five companies with
worldwide sales of $113.2 billion, lost profits to foreign infringers were estimated to be $2.1 billion (Feinberg and Roussland, 1990). In addition to the possible monetary loss to original manufacturers, there is a potential reduction in the perception of quality or image of the original due to imitated brands that are cheaper and/or of inferior quality.

Therefore, the producers of successful established brands should be motivated to protect the distinctive identify of their products and their brand equity by prosecuting possible infringers under trademark laws.

**Meaning of Imitation and Brand Imitation**

Brand Imitation: "*By similar cues to believe that two brands are interchangeable.*"

The dictionary meaning of Imitation is- To copy or be like. As far as copying is concerned it can be 100% copying or copying with some changes or copying some part only, in other words imitation exists in various forms.

According to the legal Glossary (1988), Govt. of India, “Imitation” means the action or product of imitating and “to imitate” means to follow as a pattern, model or sample, to produce likeness of.

As defined earlier (chapter 1)- A brand is a name, term, sign, symbol, or design, or a combination of them intended to identify the goods or services of one seller or a group of sellers and to differentiate them from those of the competitors. Thus Brand Imitation means to copy the name, term, sign, symbol, or design, or a combination of them. The copying can be 100% or of some parts only.

Brand Protection Committee (BPC) has classified imitation as- Counterfeit and Pass-off. We see a broad range of counterfeit or pass-off product everytime we go to a market or store, and sometimes we may knowingly purchase counterfeit or pass-off products. For example, CD’s or VCD’s or Audio-cassettes or shoes or clothes or watches. But we also unknowingly buy a lot of consumer products like detergents, toothpastes, tooth-powders, toilet soaps, shampoo, beauty products and cosmetics that are either counterfeit or pass-off products. We pay for these counterfeit and pass-off products as if they were originals, but do not get the benefits of original
products. The manufacturers and sellers of these products cheat us. In addition, several products could cause serious injury or harm or even death due to the poor quality of the products.

I Counterfeit Product

Counterfeit products are fake products, just like fake currency notes, and bear identical name of product/packaging/graphics/colour scheme and even same name and address as the genuine manufacturer. In short, counterfeits are produced to look exactly like real products by someone other than the legal owner of the real products, trademarks and product packaging. Counterfeiteers are unscrupulous people who cheat consumers by selling a fake product as real. The counterfeiters are becoming more and more sophisticated in making their products look exactly like the real products. It is becoming more and more difficult to tell which is the real “Ariel” detergent powder, “Lifebuoy” soap, “Colgate” toothpaste, and “Ponds” talcum powder from the fake products.

II Pass-Off Product

Pass-off products are look-alikes, which use names, which are similar sounding or are similar in spelling (for example “Clinic” for “clinic”, “Head & Showers” for “Head & Shoulders”, “Bala” for “Bata”, “Vix” or “Vikes” for “Vicks”). Pass-off products cleverly use similar looking packaging or colour schemes or designs. These products are meant to deliberately mislead and cheat consumers. Pass-off product manufacturers make slight changes to avoid being categorised legally as counterfeits. In most cases these products are also illegal because they violate trademark and trade dress laws. Pass-off products also cheat gullible consumers and are as serious a problem as are counterfeit products.

According to Prof. Judith Lynne Zaichkowsky (1995), there are four distinct categories of infringing on IPR. They are counterfeiting, Piracy, imitation brands and a large ‘gray’ area.

A counterfeit is a 100% direct copy usually having inferior quality, although not always. A counterfeit good is one, which the manufacturer produces with the intention of deceiving the customer by leading buyers to believe that they are purchasing the genuine article. The most obvious example of this would be counterfeit currency. Other examples are as diverse as aircraft parts, watches, cosmetics etc. This form of infringement on IPR may be punishable by death in China (Birden 1996).
Piracy is counterfeiting. However, the intention is not always to deceive the customer. The customer is aware that the product he is buying is an unauthorized copy of the original product (McDonald and Roberts 1994). The consumer consciously seeks out and purchases the fake product through purchase location, pricing, obvious differences in design, quality, or other features realized by the customer. Examples are pirated CD’s, video games, and computer software sold at low prices, often with poor packaging.

Third category is Knock-off or imitators. Here the product or service, though not identical, is viewed as similar in substance, name, shape, form, meaning or intent to an acknowledged and widely known product or service currently in the market place. E.g. Durbar Amla for Dabur Amla, Paile-G and Parag-G for Parle-G etc.

Gray marketing is when manufacturers produce more than the quantity required by the Western Companies and subsequently sell the overruns to the market illegally. This includes the unauthorized sale of garment production overruns by legitimately contracted manufacturers (McDonald and Roberts 1994).

Various Kinds of Imitation

Steven P. Schnaars has identified four different kinds of imitations that are frequently found in the business world. Imitation runs the gamut from surreptitious and illegal duplicates of popular products to truly innovative new products that are merely inspired by a pioneering brand.

1. Counterfeits or product pirates

Counterfeits are copies that carry the same brand name or trademark as the original. They are an attempt to rob the innovator of due profits. Counterfeits are strictly illegal. They trade on the protected brand name or trademark of an established seller.

The counterfeiter duplicates the leader’s product and package and sells it on the black market or through disreputable dealers. Firms such as Apple computer and Rolex are plagued with the counterfeiter problem, especially in the Far East and are seeking way to defeat counterfeiters. Counterfeits are usually low quality, shoddy goods, sold under the guise of a premium-priced seller’s respected name. They typically carry a much lower price than the
original. Counterfeits are the least creative attempt at imitation. What sets them apart from other forms of imitative products is their illegality.

The consumer may or may not be aware of the intended deception. The cachet of a prestigious brand name at a much lower price may entice consumers inadvertently to support a counterfeiter’s copy.

Counterfeits are increasing day by day, they steal several billions of business a year. Rolex & Cartier watches, Parker Pen, Arrow shirts, Levi, Wrangler Jeans are examples of products that have all been subjected to widespread counterfeiting. In recent years counterfeiting has become so widespread that sellers of popular brand products have been forced to track down and prosecute the counterfeiters. Search and seizure tactics are often used to slow the international flow of counterfeit products.

Much of the negative image attached to imitative product results from the illicit actions of counterfeiters. Their illegality is obvious and the impression is widespread that all imitations are of a similar ilk. It is no wonder that imitators are reluctant to crow about their successes.

II Knock Offs Or Clones

Clones are often legal products in their own right. The absence or expiration of patents, copyrights and trademarks makes many of them legal. But often there is a dispute, which the courts must resolve. Typically, Clones sell the same basic product as the innovator but at a lower price and without the prestigious brand name.

For example personal computer was introduced in 1981 by the IBM, it became an immediate success. The success and the open architecture of the PC, created a secondary market for IBM-PC Clones. The clones were close copies of the IBM product but carried their own brand names, not the brand name of the original. Eventually the copies surpassed the original.

Outside the computer industry, clones are usually called Knockoffs. Knockoffs are legal copies of a competitor product. Consider the case of Tyco toys, which has succeeded on numerous occasions by copying the innovations of others. In 1984 Tyco introduced Super Blocks, a children’s plastic building block that is nearly identical to those sold by Lego, the
market leader from Denmark. Lego sued to protect its product from imitation, but its case was weakened by the fact that its patent had expired in 1981. Furthermore Lego itself had copied the product from an English firm in the 1940s (Discovered by Forbes reporter in 1998). Lego lost the case and by the late 1980s, Tyco was selling $20 million a year worth of “Super Blocks”.

Tyco repeated the strategy with super Dough, a direct copy of Kenner Parker’s Play-Doh. Kenner Parker also sued. It also lost. For Tyco, Copying proved to be a potent strategy. It sells knockoffs of established products at significantly lower prices.

### III Design Copies or Trade Dress

Design copies trade on the style, design, or fashion of a competitor’s popular product. In instances where fashion or design is the most important part of the product, design copies mimic clones. But in instances where design plays a lesser role, design copies may be based on a unique and innovative technology. Design copies then combine aspects of innovation and imitation.

For e.g. 1. The case of Japanese luxury cars, in the late 1980s the Japanese auto sellers moved up-market to challenge the German luxury auto makers Mercedes and BMW with prestige models of their own: Lexus (Toyota), Infiniti (Nissan), and Acura (Honda). The Germans assert that the Japanese are using a familiar marketing strategy—they emulates the innovator and sell at a lower price. In this case the Japanese are accused of copying the coveted German design features. A BMW marketing executive is quoted by business week as saying: “Look at the shape of Lexus, it’s almost a blatant copy of Mercedes.” The Product carries its own brand name and possesses its own unique engineering specifications. It merely mimics the design of the market leader.

E.g. 2. A nearly identical situation occurred with the Mazda Miata. A lengthy analysis of that product’s entry in the New York Times concluded that the Miata is a design copy of the popular English sports cars of the 1960s and 1970s, especially the Triumph Spitfire. Mazda produced a classic British sports car without the attending quality problems that plagued the originals.
IV Creative Adaptations /Adopter

Creative adaptations are the most innovative kind of copy. They take an existing product and either improve upon it or adapt it to a new arena of competition. They are what Theodore Levitt calls “Innovative imitations.”

Creative Adaptations of existing products are often more in tune with the innovation process than the glorified notion of the break through invention. There is myth in American culture that innovation springs from the creative genius of heroic inventors. But few innovations actually develop in that way. Most innovations are deeply rooted in existing ideas and current practices. They are more accurately viewed as creative adaptations of existing ideas to new applications or incremental improvements. Innovation, in short, is often more incremental than revolutionary. Ideas rarely appear out of anywhere. Typically, new products build on old products. Stated differently, innovation often entails a great deal of imitation and extension.

Conversely, imitation often entails large degree of innovation. That is especially true in business, where the motivation for imitation is not necessarily to produce exact copies of original works but to earn profits. Art forgers may seek to profit by creating exact copies, but in business copiers have other motives. The imitator [in business] is not directly concerned with creating a good likeness, but with achieving an economic success. That is, copying is a means to an end, not an end in itself. As a result the best business imitations often combine copying with creativity. In that way, technological development moves forward a small step at a time.

Creative adaptations often take the form of either copying and then making incremental improvements on existing products or adapting existing products to new situations.

Why are Imitator brands launched?

Factors for Brand Imitation

- **Consumer Factors**
  - Desirability of Top and Western Brands
  - Little Knowledge of Authentic Brands
  - Unavailability of Top Brands
  - Low Income
- **Company Factors**
  - Economic
  - Lack of infrastructural support
- **Cultural Factor**
  - Moral Aspect

Box 2.1
I Consumer Factors

(i) Desirability of Top and Western Brands.

Brand names, especially well-known/top and foreign brands are appealing to the consumers for the status, these gives to them. These brands typically cost two to three times as much as the imitator, but they are snapped up by status-conscious consumers who want to show off that they can afford to spend.

(ii) Little knowledge of authentic brands.

Indian consumers do not have much knowledge about various alternatives. The situation is more worse in rural areas where people don’t know to distinguish among different brands.

Due to poor literacy rate consumers generally have low expectations towards products they are going to purchase or consume. When the performance of the product does not meet their expectations, they tend to attribute the failure to fate rather than to the company from whom the product was purchased or even the manufacturer. In urban areas also due to lack of time or to save themselves from unnecessary botherations consumers are reluctant to complain about products that do not meet their expectations. In view of this, the consumers are more vulnerable to pirates and imitators.

(iii) Unavailability of Top brands.

Consumer brand awareness and choices among brands are inhibited by the country’s limited retail distribution network. The top brands are available at limited location and in some places due to lower margin, retailers patronize imitated products.

Imitated products fulfil the needs of a group of customers looking for cheaper products, notably where genuine article manufacturers or their distributors fail to adequately service the market place.

(iv) Low Income.

The financial position of the majority of the population is not sound. The imitator caters the needs of these class with a reasonably lesser priced product.
II Company Factors

(i) Economic.

The copying of imitated product is a low cost phenomenon. Moreover the Company has the advantage of advertising and other strategy adopted by the genuine manufacturer/marketer (or both). Hence there is a great opportunity for profit.

(ii) Lack of Infrastructural Support.

Most of the companies in India doesn’t have the infrastructural support to ‘makes their dream comes true’. They have the skill but not the money to build the infrastructure strong enough to stand with the big companies. So they resort to copying.

III The Culture

(i) Moral Aspect.

There is a cultural difference in morality and perspective between people in the East and the West. Copyright and patent protection reflect a characteristic value of the western world in general.

Asian nations ‘traditionally believe that copyright is a western concept created to maintain a monopoly over the distribution and production of knowledge and knowledge- based products’ (Kau et al. 1993). In our country, the highest form of flattery is represented by a student who faithfully reproduces the work of teacher. In contrast, Western students are taught never to copy and encouraged to be Original.

What to Imitate

The various types of copies discussed earlier apply mostly to products and services but imitation is not restricted to products and services. It is also possible to copy procedures, processes or strategies.

Thus it is the Products, Procedures, Processes or strategies which can be copied.

I Products

Japanese competitors have excelled at copying American products and selling them on world markets at lower prices. The press is loaded with examples of how American firms have failed to reap the economic benefits of innovations made in America.
In recent years, it is seen that Japan has switched from a product imitator to a product innovator. But it would be a mistake to conclude that the Japanese have sworn off imitation and embraced innovation. Instead, they have embraced the benefits of both approaches to new product introduction, applying each where appropriate.

American competitors have been less successful in copying Japanese Products. Nathan Rosenberg and Edward Steinmueller attribute that shortcoming to an overemphasis on innovation. They observe, “American thinking about the innovation process has focused excessively upon the earliest stages” of R/D. The focus of American firms on basic research in pursuit of “Creative leaps” results in a “preoccupation with discontinuities and creative destruction, and its neglect of the cumulative power of small, incremental changes.”

II Procedures, Processes and Strategies

It is also possible to imitate the procedures, processes and strategies of competitors. In recent years, American firms have been especially interested in copying the procedures that have made Japanese firms so competitive on world markets. For a variety of reasons, however, it is more difficult to reverse engineer intangible processes than it is to copy physical products. Not only are process innovations intangible and rooted in culture and organizational design, they are also easier to keep secret. Edwin Mansfield, for example, found that process technology leaks out more slowly than product innovations.

The results are as might be expected: The Japanese generally have had more success in copying Western product innovations than American firms have had in copying Japanese processes and operational innovations.

Processes, procedures and strategies are often culturally bound. Consequently, imitations of them often must be tailored to fit a particular society. That means such imitations must entail a healthy degree of innovation.

When Japanese organization have copied American procedures they have usually adapted those innovations to fit their own culture. An insightful book by D. Eleanor Westney Examined Japanese imitations of Western ideas between 1868 and 1912, the Meiji period, when Japan sought to transform itself quickly from a feudal society to a modern industrial nation. She studied in great details a small number of case histories where the Japanese conscientiously copied
European practices. What she found was that imitation and innovations are inextricably intertwined. In the case of creating a modern police force, for example, the Japanese first conducted a ten-month study of the Paris Police force. They then copied the idea, but found that it could not be applied without adapting it to their own peculiar needs and culture. She concludes that successful imitation of procedures almost always requires innovations.

Sometimes firms even copy each other’s promotions. Radio stations often do so. Nationwide communications, which owns a successful group of radio stations around the country, has raised imitation to a high art. In 1991 Forbes reported that Nationwide often copies promotions from competitors and then claims them as its own.

**How Coke is Copying Pepsi**

<table>
<thead>
<tr>
<th>The Mimic Marketing Principle:</th>
<th>Dislodge the pioneer from the customer’s top-of-mind space.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Mimic Marketing Principle:</td>
<td>Offer downstream partners greater help than the pioneer.</td>
</tr>
<tr>
<td>The Mimic Marketing Principle:</td>
<td>Beat the pioneer using his own language of communication.</td>
</tr>
<tr>
<td>The Mimic Marketing Principle:</td>
<td>Use the pioneer’s tactics with greater resources to back them.</td>
</tr>
</tbody>
</table>

In 1997, the Rs. 758.60 crore Nirma Group had launched new commercial for its Nirma Lima Fresh Soap, which takes on the Rs. 6,600 crore Hindustan Lever’s (HLL) Liril Lime with a Rs. 4.60 price advantage (Rs. 7.90 for a 75-gm bar versus Rs. 12.50). The advertisement was a virtual reincarnation of the liril series, featuring a lime-green bathing-suited model frolicking in water.

**IMITATION VERSUS LATER MARKET ENTRY**

The concept of imitation is related to, but distinct from, the concept of later market entry. Imitation implies copying, where the imitator consciously mimics the pioneer’s product.
Later entry, in contrast, implies only that the firm has entered the market after the pioneer, often with an innovative product of its own.

Likewise, the concept of innovation differs from pioneering. Innovation conveys a strong hint of invention—the process where by a firm develops a radically new product. Pioneering, in contrast, implies commercialization, where a firm is the first to bring a product to market.

Table 1.1 illustrates the possible combinations of innovation/imitation and pioneering/later entry.

**Imitation versus later entry**

<table>
<thead>
<tr>
<th></th>
<th>Innovator</th>
<th>Imitator</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pioneer</strong></td>
<td>The innovator is first to market with an innovative product.</td>
<td>An imitator beats the innovator to market with an imitative product typically while the innovator lingers in test marketing.</td>
</tr>
<tr>
<td></td>
<td>Rollerblades introduced the first in-line roller skates.</td>
<td>Reynolds introduced the first ball point pen, which it copied from the innovator.</td>
</tr>
<tr>
<td><strong>Later Entrant</strong></td>
<td>One innovator is beaten to market by another innovator. Each has developed its new product independently.</td>
<td>The imitator enters the market after the innovator with a copy of the innovator’s product.</td>
</tr>
<tr>
<td></td>
<td>Matsushita’s VCR entered after Sony’s but it was an innovative product in its own right</td>
<td>Diet Coke did it in low-calorie soft drinks.</td>
</tr>
</tbody>
</table>

*Table 2.1*


Typically, imitation implies later entry. Lacking an innovation of its own, the imitator enters the market after the pioneer’s entry with products that are “imitative” or improved versions “inspired” by the pioneer’s innovation.

In diet soft drinks, for example, Coke and Pepsi may have copied Royal Crown’s innovative idea (Which Royal Crown, in turn probably had copied from others).

But later entry does not necessarily imply imitation, often firms simultaneously, but independently, pursue similar innovative products. When one firm rushes its entry to market, the
later entrant perforce must introduce its own innovative product after the innovator’s entry. Consider, for example, the case of Sony’s Betamax VCR versus Matsushita’s VHS format. Sony pioneered the market for videocassette recorders. Matsushita was a later entrant. But, VHS was not an imitation of Beta. It was developed independently. Matsushita was working on an innovative product that just happened to be brought to market after Sony’s Betamax, consequently, Matsushita was a later entrant but not an imitator.

In some cases, the distinction between copycats and later entrants is clear. In others, however, it is difficult to assess the motivation for product entry. DeHavilland for example, was the pioneer in jet aircraft, and Boeing was a later entrant. But while Boeing had an innovative design of its own derived from its work on jet bombers, it clearly learned much from deHavilland’s mistakes.

Although it is sometimes difficult to distinguish between imitators and later entrants in practice, there are clear conceptual differences.

*An imitator copies at least some aspect of a pioneer’s product.*

*A later entrant enters the market after a pioneer’s successful entry.*

**Classifying Later Entrants**

Later entrants can be classified in two ways: according to the sequence in which they enter the market after the pioneer and according to the amount of time that has elapsed between entries.

Order-of-entry effects tabulate the sequence of market entry - the pioneer, by definition enters first, followed by the second, third and subsequent entrants.

Early versus late followers are classified according to whether a firm reacts immediately to a pioneer’s entry or waits until much later to enter.

The distinction between early and late followers was illustrated metaphorically back in the mid 1960s by Theodore Levitt with the “used apple policy.” He described early followers as follows:

“Instead of being the first company to see and seize an opportunity they systematically avoid being first. They let others do the pioneering. If the Idea works they quickly follow
suit............ [Early followers say:] We don’t have to get the first bite of the apple. The second bite is good enough...... they at least get the second big bite, not the tenth skimpy one.”

The implication is that, in many instances, there is such a thing as being too early or too late. The pioneers bear undue risk, while the much later entrant misses most of the opportunity. The early entrant, in contrast, earns most of the economic rewards.

**Deciding who is the Pioneer?**

Defining a pioneer seems simple—-it is the first firm to introduce a new product. But a problem is often encountered when that definition is applied to actual case histories. Typically, many firms enter and leave sometimes over a period of decades, before the pioneer finally cracks the market and achieves commercial success. In light beers, videocassette recorders, personal computers, and a host of other innovative product categories that are now commonplace, there was not one single pioneer but a sequence of potential pioneers that entered and left the market before someone actually succeeded. Who was the pioneer? Was it the earliest explorers, who was killed on its unsuccessful quest? Or, was it the first firm actually to achieve commercial success?

Complicating the issue is the fact that in many cases the successful pioneer learned much about the market from the efforts of its unsuccessful predecessors. That is, many pioneers rely heavily on imitation and product improvement to pioneer new markets. In this study the following definition is used.

*A pioneer is defined as any of those firms introducing a product to the market, up to and including the first to sell it successfully.*

**FIRST-MOVER ADVANTAGES VERSUS FREE-RIDER EFFECTS**

Pioneers benefit from “first mover” advantages, which results from their being the first firms to establish themselves in the market. But pioneers do not possess all of the competitive advantages. “First mover” advantages are counter balanced by “free rider” effect, which accrue to imitators and later entrants. Which effect is stronger? Rhetorically the outcome of that argument depends on which metaphor is used to describe each set of advantages.

Proponents of pioneering explain “first mover” advantages by imagining a 5-Kilometer footrace in which the pioneer leaves the starting line before the other contestants. The greater the
length of the pioneer’s lead the less likely it is that later entrants will ever catch up. In fact, the very last entrants have almost no chance of placing anywhere near the front of the pack. Only in those rare cases where the later entrant possesses outstanding physical talents or reacts quickly to the pioneer’s entry can the horrendous odds of leaving the starting line after the first entrant be overcome to win the footrace.

Proponents of later entry illustrate “free-rider” effects with a metaphor drawn from geographic exploration. According to this view pioneers took on enormous personal risks to explore uncharted lands in the Western United States. They opened up the wilderness for the settlers who followed. Some pioneers are immortalized in history textbooks, but most were not enriched monetarily for their trail-blazing explorations. That benefit went to the settlers who created economic wealth. The pioneers may have gotten the glory, but it was the followers who reaped the largest economic rewards.

I First Mover Advantages

Many authors speak glowingly of the benefits of pioneering. Pioneers, they claim, are the beneficiaries of numerous first-mover advantages, which are unavailable to later entrants. The most important are:

(i) Image and Reputation

Pioneers benefit from important reputation advantages that derive from their innovative products and early entry. Pioneers bask in the warm glow of a positive image infused with innovativeness and progressiveness, while later entrants are stuck with a copycat image, which tarnishes the appeal of their products and hinders the firm’s performance.

(ii) Brand Loyalty

Pioneers have an opportunity to create loyal customers for their innovative products. Consumers become familiar with and even form habits around the first product they try. If the innovative product is designed correctly and priced competitively, there is no reason for consumers to experiment with similar products sold by imitators and later entrants.

Support for that advantage comes from a number of studies that show long-lived market share advantages for established brand names. One study (Schnaars, 1986) found that nineteen of the leading twenty five brand in 1923 were still number one in their product categories in 1981
Additional support comes from two studies, one by Joe Bain and another by Richard Schmalensee, who picked up on Bain’s original finding that brand loyalty accrues to the pioneer. Schmalensee concludes that-

“...brand enter sequentially and consumers are initially skeptical about their quality. When consumers become convinced that the first brand in any product class performs satisfactorily, that brand becomes the standard against which subsequent brands are rationally judged. It thus becomes harder for later entrants to persuade consumers to invest in learning about their qualities than it was for the first brand”.

(iii) An Opportunity to Pick the Market Position

Pioneers have the first opportunity at product positioning. If they understand the market correctly and can correctly predict which product attributes will ultimately be most important to consumer, they can preempt the most favorable market position before later entrants even have a product on the market. Later entrants will then be forced to pick between two unappealing choices: (i) They can adopt an inferior product position, or (ii) They can copy the pioneer’s product position and be saddled with the perception that their product is a “me-too” second rate entry. Both strategic choices place the later entrant at a competitive disadvantage. By moving first, the pioneer preempts the premier positioning strategy, forcing the later entrant into an unfavourable and often untenable, market position.

(iv) Technological Leadership

Because it starts first, the pioneer is likely to have a head start in technology as well as market position. While competitors play catch-up, the innovator can pursue the next technological generation, staying one step ahead of lagging entrants.

(v) An Opportunity to set Product Standards

Pioneers have an opportunity to define an emerging product category in terms of their own products. They can set industry standards, which later entrants are forced to follow. The first group of customers becomes familiar with the pioneers product. As that established base of...
users grows, it becomes harder and harder for later entrants to switch the market to its own proprietary standard. The later entrant is forced to imitate the pioneer’s product and adopt a subservient position.

(vi) Access to Distribution

In many cases, there is room for only a limited number of brands in distribution channels. By virtue of being first, pioneers ensure that their products have access to preferential distribution. Later entrants are less fortunate. They may find themselves shut out of the distribution network simply because of their later entry. In the early days of personal computers, for example, there were nearly 150 different brands, only a handful of which found their way into the computer-store retailing chains, which were the dominant form of distribution in the early 1980s. Many technologically worthy brands perished for lack of distribution caused by later entry.

(vii) Experience Effects

Experience effects are cost advantages that accrue to the firm that has produced the largest accumulated volume. Since the pioneer is the first entrant, it is most likely to slide down the experience curve faster than later entrants. These cost advantages place later entrants with less experience at a competitive disadvantage. That gives the pioneer a price advantage that cannot be matched by later entrants. Typical of such claims is the comment that “the initial price advantage for an established brand gives it a market share advantage over time and may enable it to enjoy a monopoly in the market”.

(viii) Patents as a Barrier to Entry

Patents granted on innovative products can be used to lock out later entrants. Innovative pioneers are able to gain control over the essence of innovative products, which allows them to reap the economic benefits.

(ix) Switching Costs as a Barrier to Entry

Pioneer can also raise barriers to entry by building mutually beneficial relationships with their customers. Those relationships keep customers loyal to the pioneer’s product and keep competitors at bay. Long-term contracts, familiarity with the first supplier’s product, a lack of incentive to switch, and other intentional and unintentional inhibitors serve to bind the buyer to the first seller.

Support for first Mover Advantages

Numerous empirical studies have found that first-mover advantages result in long-lived market share advantages for pioneers. Table 2.2 lists some of the studies that have found in favour of pioneering.
Empirical Studies that Found for Pioneering

<table>
<thead>
<tr>
<th>Study</th>
<th>Sample</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond and Lean (1977)¹</td>
<td>Two Prescription drugs</td>
<td>“The advantage to firms of being first to offer a new type of drug is considerable and physicians’ first brands appear to insulate firms from competition even more effectively than do patents.”</td>
</tr>
<tr>
<td>Whitten (1979)²</td>
<td>Seven cigarette product categories</td>
<td>“…the first entry brand received a substantial and enduring sales advantage.”</td>
</tr>
<tr>
<td>Robinson and Fornell (1985)³</td>
<td>371 mature consumer goods manufacturing businesses in the PIMS database</td>
<td>“In a broad cross-section of consumer goods businesses, market pioneers generally have substantially higher market shares than later entrants.”</td>
</tr>
<tr>
<td>Urban et. Al. (1986)⁴</td>
<td>24 frequently purchased consumer products.</td>
<td>“The results of our analysis imply a significant market share penalty for later entrants.”</td>
</tr>
<tr>
<td>Lambkin (1988)⁵</td>
<td>129 start-up and 187 adolescent businesses in the PIMS database.</td>
<td>“….. these results confirm the general tendency observed in previous research for pioneers to outperform all later entrants…”.</td>
</tr>
<tr>
<td>Robinson (1988)⁶</td>
<td>1,209 mature industrial goods manufacturing businesses and 584 mature consumer goods businesses (an update of Robinson and Fornell 1985) in the PIMS database.</td>
<td>“ In a broad cross-section of mature industrial goods businesses market pioneers have important market share advantages over later entrants.”</td>
</tr>
<tr>
<td>Carpenter and Nakamoto (1989)⁷</td>
<td>Two experiments using a total of 103 MBA students.</td>
<td>“…the pioneer occupies a favourable perceptual position that is difficult to imitate and costly to compete against, yielding a powerful competitive advantage.”</td>
</tr>
<tr>
<td>Kardes and Kalyanarm (1992)⁸</td>
<td>Two longitudinal experiments using a total of 86 MBA students.</td>
<td>…“Judgemental processes of lead to a long-run pioneering advantage….”</td>
</tr>
</tbody>
</table>

**TABLE 2.2**

II Free Rider Effects

Critics contend that the benefits of pioneering have been grossly oversold. While in theory first-mover advantages appear to be strong and immutable, in practice they prove to be weak and vulnerable to the actions of crafty later entrants.

Support for Free-Rider Effects

Critics argue that constructing actual case histories of sequential market entry is a more realistic approach than that employed by supporters of pioneering. Analyses based on historical profiles of actual competitive entries have proved much more supportive of imitation and later entry, and much less supportive of pioneering. Some of the more important studies are listed in Table 2.3.

Numerous benefits have been proposed for later entrants. Some of the more important ones are:

(i) Avoiding products that have no potential

Later entrants avoid spending time and money on products for which later there turns out to be no demand. Their strategy is to sit back and watch. Only when the market potential becomes clearly favourable do they move in and gain a viable and often commanding lead. That reduces their risks and lowers their costs considerably, although they may have to spend heavily during the later stages of market development to overcome their later start.
Empirical Studies that found for later entry

<table>
<thead>
<tr>
<th>Study</th>
<th>Sample</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooper (1979)</td>
<td>a survey of executives concerning 195 new product projects in Canadian firms</td>
<td>&quot;... the advantages of being 'first in' are almost equally balanced by the many pitfalls and disadvantages.&quot;</td>
</tr>
<tr>
<td>Glazer (1985)</td>
<td>&quot;a careful study of entry and exit in several dozen markets&quot; for daily newspapers in IOWA</td>
<td>&quot;observers who look only at the performance of early entrants in successful markets will overestimate the advantage of innovation.&quot;</td>
</tr>
<tr>
<td>Schnaars (1986)</td>
<td>detailed case histories of 12 product categories</td>
<td>&quot;pioneering, early entry and late entry each has produced its share of winners and losers ... blanketed statements such as pioneering is best cannot be supported.&quot;</td>
</tr>
<tr>
<td>Sullivan (1991)</td>
<td>historical profiles of 11 consumer non-durable product categories.</td>
<td>&quot;...late-entering brand extensions have been able to attain large market shares, even in the face of competition from strong incumbents&quot;</td>
</tr>
<tr>
<td>Golder and Tellis (1992)</td>
<td>detailed historical analysis of 50 consumer products.</td>
<td>&quot;...being first in a new market may not confer automatic long-term rewards. An alternative strategy worth considering may be to let other firms pioneer and explore markets and enter after learning more about the structure and dynamics of the market.&quot;</td>
</tr>
</tbody>
</table>

Table 2.3


(ii) Survivor Bias

Advocates who claim powerful and long lasting benefits for pioneering often fail to consider the risk inherent in pioneering new and unproven markets. They fall victim to sample bias. Most studies of first mover advantages focus solely on markets that started small and ended up large, they do not consider markets that started small and ended up even smaller. As a result, those studies minimize the extent to which money and effort are wasted on products for which there is no demand. They eliminate much of the risk of pioneering from the analysis. Those
advocates inadvertently ignore the fact that many pioneers simply are not around to study at a later date. If a similar methodology were applied to assess the characteristics of big slot machine winners, it might conclude that big winners tend to bet big and play often. That would be because the study examined only large winners. But in gambling, playing often is likely to lead to large losses as well as that one large win.

A study by Golder and Tellis examined patterns of pioneering and later entry in 50 product categories. Pioneering proved fairly risky. Overall, 47 percent of pioneer failed furthermore market pioneers maintained leadership in only 11 percent of thirty-six cases.

(iii) Estimates of New Product failure Rates

Although the business press is chock full of post hoc reviews of emerging technologies and successful new products the fact is that many new products, especially radically new products, fail to generate much interest among buyers. Expectations for demand typically turn out to be much higher than actual sales. For example for every cellular telephone there is a picture telephone. For every Polaroid camera there is a “Nimslo” a three-dimensional camera-a sort of late twentieth century update of the hand-held stereoscopic devices found in antiques stores. The fact is, many pioneers introduce new products for which there is no demand. That means they spend time, effort and money on opportunities that do not exist.

If survivor’s bias inflates the advantages of pioneering then the key question becomes: How likely is it that the pioneer will pursue an opportunity that will not pan out? Some indication of those odds can be gleaned from the surprisingly small body of research of new product success and failure rates.

There are actually two ways to measure product success and failure. The first way is to assess the likelihood that a new product idea, once conceived, will eventually make its way to market. Studies that have looked at this issue conclude that the majority of new product ideas are killed before ever being sold to actual consumers. That is money is spent on ideas that never reach the market. The second way to measure product success and failure is to assess the likelihood that once a product is brought to market it will be either accepted or rejected by consumers. The relationship between those two measures is illustrated in Figure 2.1 as follows.
The highest rate of product failure occurs during the first stage—the time between an idea's conception and its introduction in the market. Although precise estimates vary greatly, there is general agreement that the majority of new product ideas never make it to market. They are terminated at some stage of the development process. The innovative firms spend time and money on such products only to conclude that there is little chance of market success.

There is less agreement over how often product fail once they are actually placed on the market. Some experts claim that between 70 and 90 percent of all new products fail in the market place. One study, which surveyed 166 managers from 112 leading manufacturers and retailers found that only 8 percent of new product projects actually made it to market and of those 83 percent failed when they were introduced. All told, the managers felt that 99 percent of all new product effort is wasted on products that ultimately fail.

Thus, it is clear that new products must run a gauntlet of risks before "success" can be claimed. In 1975, a study by Edwin Mansfield and Samuel Wagner tried to capture the overall likelihood of success by assigning and then combining, individual probability estimates at each stage of the new product development process from a product idea to market success. In 1987, Glenn Urban, John Hauser, and Nikhilesh Dholakia adapted that idea, changed the estimates to match their personal experiences, and extended it to consumer products. It was concluded that new consumer products have only a 16 percent chance of eventual market success. Fully 84 percent of new product ideas fail some where along the line.

### Success for Consumer Products

<table>
<thead>
<tr>
<th>Probability of successful design</th>
<th>Probability of successful test market given design</th>
<th>Probability of market success given successful test Market</th>
<th>Overall probability of success</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>x</td>
<td>45%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Figure 2.2
A similar set of estimates concluded that new industrial goods have a 27 percent chance of success.

<table>
<thead>
<tr>
<th>Probability of technical completion</th>
<th>Probability of commercialization given technical completion</th>
<th>Probability of economic success given commercialization</th>
<th>Overall Probability of success</th>
</tr>
</thead>
<tbody>
<tr>
<td>57%</td>
<td>65%</td>
<td>74%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Figure 2.3

There is a tremendous amount of financial risk in new product development. The chances of failure are especially high for radically new technological products and products that establish entirely new categories. According to Crawford “The higher a project’s financial return, the higher the risk of failure associated with it.”

If a later entrant is able to partake in the rewards without having to partake in the risks, which are borne solely by the pioneer, then the risks of innovation are raised considerably, while the rewards are lowered. The risks fall solely to the pioneer while the rewards spread to others. From the perspective of the later entrant that adage can be twisted to state: “much gained with little ventured.” Thus proponents of free rider effects claim that later entrants benefit greatly by avoiding product failures.

(iv) **Lower R & D Expenditures**

Imitation is less expensive than innovation. It avoids many of the costs that must be borne solely by the first entrants. The innovator, for example, is forced to spend heavily on research and development and educating wary consumers as to the desirable benefits of the new product. The question is not whether imitation is less expensive than innovation- it clearly is- but whether sustainable benefits accrue to the pioneer who takes on those enormous expenses. That point is debatable.

Innovators are forced to spend heavily on research and development in order to identify and bring to market new products. That expanse is justified by the assumption that innovators gain a long lead on imitators, who are simply unable to catch up. An empirical study by Edwin Mansfield found that the opposite outcome is more probable. The study examined data from one hundred firms and found that imitation often occurs quickly. It concluded that new
product R & D projects typically found their way into the hands of competitors, within twelve to eighteen months. In 20% of the cases, competitors knew of new product development projects within six month of their inception. Since it takes about three years for a new product to make its way from an idea to the market place, "there is a better-than-even chance that the decision will leak out before the innovation is half completed." That leakage weakens the allure of purported first-mover advantages and enhances the appeal of free-rider effects. It also explains why imitation occurs so quickly in many applications.

Companies learn about each other’s new product development projects (i) by monitoring each other’s patent applications, which require going public with the firm’s innovative ideas, (ii) through papers and presentations at professional and academic conferences attended by scientists and engineers, and (iii) when technical and marketing personnel switch jobs, taking with them inside information that, if not maliciously, then unintentionally, spreads knowledge.

(v) Relative Costs of Innovation versus copying

It is clearly cheaper to imitate than to innovate. The imitator avoids many of the costs incurred by the innovator. Mansfield, Schwartz, and Wagner examined forty-eight product innovations in the chemical, ethical drug, electronics and machinery industries and found that, on average, imitation costs were only 65% of innovation costs.

An imitator frequently can spend much less time and money or research than the innovator because the product’s existence and characteristics provide the imitator with a great deal of information that the innovator had to obtain through its own research, but there are odds as an example of the power of first mover advantages.

A strong first-mover advantage was observed for Antianginals, an ethical drug that relieves the pain of the blocked coronary arteries, Warner-Lambert introduced Peritrate in 1952. By 1956, Peritrate (and variations) held more than 70% of the market. Later entrants entered in droves. By 1971, ninety-seven firms were selling 229 brands of Antianginals. Still, Warner-Lambert, maintained a 30% share. Why did Peritrate succeed? Bond and Lean attribute success to two factors:

(i) Peritrate was the pioneer and as a result, (ii) doctors were reluctant to switch from the first brand with which they had become familiar.
But, this results doesn’t apply to other industries? The entire ethical drug industry is peculiar. It is characterized by conditions that favour pioneering first, it is doctors not consumers; who decide on the brand. Second price is less important because physicians, and in many cases the patients themselves, do not pay for the products. Third, patients have little knowledge of competitive products and even less opportunity for comparison-shopping. In essence, the consumer buys what the doctor orders. Finally, patents are more protective in ethical drugs than in most other industries. Overall, few other markets offer the peculiar combination of conditions found in ethical drugs. Thus, pioneering leads to clear advantage in some very selective instances.

(vi) **An opportunity to Gain Share with Heavy Promotion**

Later entrants may also be able to make up for their slow start by spending heavily on marketing. In other words, they may be able to trade up-front R&D expenditures for later promotional spending, thereby nurturing what they are unable to conceive. Robert Cooper in a study of the new product practices of two hundred firms support that contention. He found that heavy spending on R&D did not increase the likelihood of new product success. According to Robert Cooper, “Marketing resources appears to be the most critical in deciding a successful new product program”. The strength of the marketing areas- market research, advertising, promotion, sales force and distribution prowess-were far more influential than expertise in the technological areas- engineering, R&D and production. According to Cooper some firms relied more heavily on marketing to push their products than on R&D to gain a dominant position.

(vii) **Lower Costs of Educating Consumers**

By being first pioneers must spend heavily to inform and persuade consumers as to the merits of a new product. That is especially true for radical innovations with which consumers are unfamiliar. In such instances the innovator must spend heavily, over long period of time, to incubate a technology before it attracts large numbers of paying customers. During that incubation period, costs are high and revenues are low as the product prepares for life outside the pioneer’s womb. Once again, the merits of such heavy up-front expenditures to incubate the market are defendable only if the rewards accrue to the early spender. If the pioneer is forced to spend heavily to convince the public of the product’s promise only to lose its early lead, then waiting may be a preferable strategy to pioneering.
(viii) Technological Leapfrog

When a major new product is introduced, one that creates a huge growth market, it is never quite clear what the innovation will ultimately look like. Rarely do innovations spring forth from the laboratory fully formed. Instead, they are often crudely formed devices, based on first-generation technologies that evolve with markets they seek to serve. The question is: What happens when the first generation technology falls by the wayside?

Proponents claim technology leadership is a key benefit of pioneering. The pioneer is able to update its technology to stay current with the latest development. Later entrants are not so lucky. As a result of their later entry, they are perpetually one step behind the pioneer. Or are they?

In many cases, first-generation technology presents both a risk and an opportunity for pioneers. Typically, the pioneer picks the most modern technology available at the time of first entry. But that choice can quickly become dated. The pioneers may then find it difficult to switch technologies once they have invested so much in the first generation. The switch from 8-bit to 16-bit personal computers, Wordstar to WordPerfect in word processing software and CP/M to Ms-Dos in operating systems was anything but smooth. In each case, as well as in many others, the change in technology favoured later entrants over pioneers. The pioneers were worse off than those who entered later. As the technology evolved, later entrants had an opportunity to leapfrog pioneers.

(ix) Sticking the Pioneer with an Obsolete Standard

Proponents of pioneering argue that the very first entrant has the advantage when it comes to setting standards. By being first, the pioneer is able to impose its standard on the market, forcing followers into the subservient position of imitating its innovative design. Once again, practice is often at odds with the theory.

It is true that a product standard eventually emerges, which defines the entire product category. Many sellers then rally around that standard. In personal computers, for example there was competing and proprietary operating system until IBM largely standardized the design of a personal computer around the Ms-Dos standard in 1981. Matsushita likewise set the VHS standard for VCRs. Abernathy and Utterback refer to this process as the emergence of a “dominant design”.

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But standards are not necessarily set by first-generation technology. That, too, creates an opportunity for later entrants. In the case of VCRs and personal computer operating systems, as well as many others, later entrants were unencumbered by investments and reputation in first-generation designs. By adopting a wait-and-see attitude, they are able to enter at a point where the market has grown larger and more appealing with a product targeted specifically at the most attractive segments. As a result, standards are often set by larger, more powerful later entrants, who enter later but with a superior product.

One point is clear: It is nearly impossible for the pioneer to get everything right on the first try. To do so would require an ability to forecast changes in the market and technology that is simply not possible with today's tools. It is incorrect to assume that early market moves automatically bestow long-lived first-mover advantages on the pioneer. In fact, the exact opposite may be more likely.

(x) An Opportunity to Benefit from Market Changes

Not only are products not fully formed when they are first brought to market, but the market for those products is often poorly formed as well. The kinds of consumers who purchase at the beginning often differ in their needs from those who enter late in larger numbers. The earliest customers for personal computers and computer software, for example, were technically oriented hobbyists who needed little customer service and support. That changed when the market turned mainstream, attracting business users lacking technical skills. The distribution turned to high-service, high-cost computer stores, where the product could be demonstrated and skills taught. The final turn came when the product becomes so widespread as to be virtually generic. At that time, mail order sales boomed, price became the most important criterion and the power of prestigious brand names to command higher margins declined.

As a result of changes in the market served, the pioneer's product is often transformed from a mainstream design targeted to a small embryonic market to an obsolete design targeted to a small, fringe, segment of a much larger market. In large-screen projection television, for example, the pioneer's early design hurt rather than helped. Its crude design was shunted to the sidelines by mainstream entries targeted directly to a larger new market.

If pioneers are able to garner the best market position, it is a temporary reward at best. What may have been the premier product-positioning strategy at the beginning is often an
inferior market position later on. When the ultimate form of the market becomes clearer, the later entrant has an opportunity to design its product to fit that larger market more closely.

(xi) **An Opportunity to Use Shared Experience**

Once the potential of a market becomes clear, the later entrant has an opportunity to leap ahead of the pioneer by using “Shared experience”. Shared experience occurs when a firm has or does something closely related to what the pioneer claims as new. The later entrant may, for example, sell products that are similar, have experience with similar production methods or distribute its products through similar channels. In addition, the later entrant may possess the marketing skills to sell similar products, which can be used to develop the market created by the pioneer. In short, the pioneer may be moving into a market where a dominant market leader holds all the cards.

**IMITATORS WHO SURPASSED PIONEERS**

In order to examine the relative power of free-rider effects, twenty-eight detailed case histories, where imitators surpassed pioneers in emerging markets are available (Box 2.3).

<table>
<thead>
<tr>
<th>Imitators Who Surpassed Pioneers</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) 35 mm cameras</td>
</tr>
<tr>
<td>(2) Automated teller machines</td>
</tr>
<tr>
<td>(3) Ballpoint pens</td>
</tr>
<tr>
<td>(4) Caffeine-free soft drinks</td>
</tr>
<tr>
<td>(5) CAT scanners</td>
</tr>
<tr>
<td>(6) Commercial jet aircraft</td>
</tr>
<tr>
<td>(7) Computerized ticketing services</td>
</tr>
<tr>
<td>(8) Credit / charge cards</td>
</tr>
<tr>
<td>(9) Diet soft drinks</td>
</tr>
<tr>
<td>(10) Dry beer</td>
</tr>
<tr>
<td>(11) Food processors</td>
</tr>
<tr>
<td>(12) Light beer</td>
</tr>
<tr>
<td>(13) Mainframe computers</td>
</tr>
<tr>
<td>(14) Microwave ovens.</td>
</tr>
</tbody>
</table>

**Box 2.3**
Table 2.4 provides a detailed summary. The pioneers and the imitative later entrants, along with the dates they entered and the reasons for the imitator’s success are given in the table.

### The Twenty Eight Cases Where Imitators Surpassed Pioneers

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Product</th>
<th>Pioneer(s)</th>
<th>Imitator/later Entrant(s)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>35 mm cameras</td>
<td>Leica (1925)</td>
<td>Canon (1934)</td>
<td>The pioneer was the technology and market leader for decades until the Japanese copied German technology, improved upon it, and lowered prices. The pioneer then failed to react and ended up as an incidental player.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contrax (1932)</td>
<td>Nikon (1946)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exacta (1936)</td>
<td>Nikon SLR (1959)</td>
<td></td>
</tr>
<tr>
<td>02.</td>
<td>Automated teller machines (ATMs)</td>
<td>Britain’s De La Rue (1967)</td>
<td>Diebold (1971)</td>
<td>The pioneer was a small, entrepreneurial upstart that faced two types of competitors: (i) larger firms with experience selling to banks and (ii) the computer giants. The pioneer did not survive.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Docutel (1969)</td>
<td>IBM (1973)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>NCR (1974)</td>
<td></td>
</tr>
<tr>
<td>03.</td>
<td>Ball point pens</td>
<td>Reynolds (1945)</td>
<td>Parker “Jotter” (1954)</td>
<td>The pioneer disappeared when the fad first ended in the late 1940s. Parker entered eight years later. Bic entered last and sold pens as cheap disposables.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Eversharp (1946)</td>
<td>Bic (1960)</td>
<td></td>
</tr>
<tr>
<td>04.</td>
<td>Caffeine free Soft drinks</td>
<td>Canada Dry’s “sport” (1967)</td>
<td>Pepsi free (1982)</td>
<td>The pioneer had a three-year head start on Coke but could not hope to match the distribution and promotional advantages of the giants.</td>
</tr>
<tr>
<td>05.</td>
<td>CAT scanners [Computed Axial Tomography]</td>
<td>EMI (1972)</td>
<td>Pfizer (1974)</td>
<td>The Pioneer had no experience in the medical equipment industry. Copycats ignored its patents and drove the pioneer out of business with marketing, distribution and financial advantages as well as extensive industry experience.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Technicare (1975)</td>
<td></td>
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<td></td>
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<td></td>
<td>GE (1976)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Johnson &amp; Johnson (1978)</td>
<td></td>
</tr>
<tr>
<td>06.</td>
<td>Commercial jet aircraft</td>
<td>deHavilland Comet I (1952)</td>
<td>Boeing 707 (1958)</td>
<td>The British pioneer rushed to market with a jet that crashed frequently. Boeing followed with safer, larger and more powerful jets unsullied by tragic crashes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Douglas DC-8</td>
<td></td>
</tr>
<tr>
<td>07.</td>
<td>Computerized ticketing services</td>
<td>Ticketron (1968)</td>
<td>Ticketmaster (1982)</td>
<td>A small, aggressive upstart with a better product displaced the arrogant pioneer whose parent was in deep financial trouble.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>08.</td>
<td>Credit/charge cards</td>
<td>Diners club (1950)</td>
<td>Visa /MasterCard (1966)</td>
<td>The pioneer was undercapitalized in a business where money is the key resource. AMEX entered last with funds from traveler’s checks.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>American Express (1958)</td>
<td></td>
</tr>
<tr>
<td>S.No.</td>
<td>Product</td>
<td>Pioneer(s)</td>
<td>Imitator/later Entrant(s)</td>
<td>Comments</td>
</tr>
<tr>
<td>------</td>
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<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>09.</td>
<td>Diet soft drinks</td>
<td>Kirsch’s No-Cal (1952) Royal</td>
<td>Pepsi’s Patio Cola (1963)</td>
<td>The pioneer could not match the distribution advantages of Coke and Pepsi. Nor did it have the money needed for massive promotional campaigns.</td>
</tr>
<tr>
<td>13.</td>
<td>Main frame computers.</td>
<td>Astanasoft’s ABC computer (1939), Eckert-Mauchly’s ENIAC/UNIVAC (1946)</td>
<td>IBM (1953)</td>
<td>The marketing muscle of IBM, in particular its powerful sales force, proved no match for the tiny upstart. When the giant entered, it moved quickly to the forefront.</td>
</tr>
<tr>
<td>16.</td>
<td>MRI</td>
<td>Fonar (1978) magnetic resonance imaging</td>
<td>Johnson &amp; Johnson’s Technicare (1981), General Electric (1982)</td>
<td>The tiny pioneer faced the huge medical equipment suppliers, which easily expanded into MRIs. The pioneer could not hope to match their tremendous market power.</td>
</tr>
<tr>
<td>S.No.</td>
<td>Product</td>
<td>Pioneer(s)</td>
<td>Imitator/later Entrants</td>
<td>Comments</td>
</tr>
<tr>
<td>------</td>
<td>---------------------------------</td>
<td>-----------------------------</td>
<td>----------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>17.</td>
<td>Nonalcoholic, beer</td>
<td>G. Heilemon's Kingsbuy (early 1980s)</td>
<td>Miller’s sharp’s (1989) Anheuser-Busch's O’Doull’s (1989) Coor’s Cutter (1991)</td>
<td>The innovators had a six-year head start but first-mover advantages were no match for the marketing and distribution advantages of the later entrants. Heileman was in bankruptcy by the time the imitator’s entered. The pioneer created the early standard but did not upgrade for the IBM-PC. Microsoft bought an imitative upgrade and became the new standard. Windows entered later and borrowed heavily from predecessors, then emerged as the leading interface.</td>
</tr>
<tr>
<td>19.</td>
<td>Paperback books</td>
<td>Penguin (1935 in England, 1939 in the U.S) Modern Age Books (1937), Pocket Books (1939)</td>
<td>Avon (1941) Popular Library (1942), Dell (1943), Bantam (1946)</td>
<td>The first successful American entrant learned much from its predecessors. Although it remains a paperback powerhouse, the last major entrant is generally considered to be the mass-market leader. It had rich corporate parents and easy access to titles. The pioneers created computers for hobbyists, but when the market turned to business uses, IBM entered and quickly dominated, using its reputation and its marketing and distribution skills. The cloners, then copied IBM’s standard and sold at lower price. The pioneer assembled calculators using TI’s integrated circuits. TI controlled Bowmar’s costs, which rose as calculator’s prices fell. Vertical integration was the key.</td>
</tr>
<tr>
<td>20.</td>
<td>Personal computer</td>
<td>MITS Altair 8800 (1975), Apple II (1977), Radio shack (1977)</td>
<td>IBM-PC (1981), Compaq (1982), Dell (1984), Gateway (1985)</td>
<td>Everything seemed to be arrayed against the pioneer. It had no money and was beset by internal strife. It also faced Japanese giants who lowered prices and introduced a new design that rendered the pioneer’s product obsolete. The pioneer went bankrupt.</td>
</tr>
<tr>
<td>21.</td>
<td>Pocket calculators</td>
<td>Bowmar (1971)</td>
<td>Texas Instruments (1972)</td>
<td>The pioneer entered with a simple spreadsheet for primitive personal computers. Internal strife tore the firm apart while the imitator, who had developed part of VisiCalc’s program, introduced a superior product for the IBM-PC.</td>
</tr>
<tr>
<td>S.No.</td>
<td>Product</td>
<td>Pioneer(s)</td>
<td>Imitator/later Entrant(s)</td>
<td>Comments</td>
</tr>
<tr>
<td>------</td>
<td>-------------------------------</td>
<td>---------------------------------</td>
<td>---------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The pioneer focused on selling to broadcasters while Sony pursued the home market for more than a decade. Financial problems killed the pioneer. Sony Betamax was the first successful home VCR but was quickly supplanted by VHS, a late follower, which recorded for twice as long.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CBS-EVR (1970)</td>
<td>RCA Selecta Vision (1977)</td>
<td>The pioneer stuck to the Southern California market and could not match the financial resources of Wal-Mart’s Sam’s Club when it came to national expansion. The pioneer was stuck with an obsolete standard when it failed to update. When it did update WordStar abandoned loyal users, offered no technical support and fought internally. The follower took advantage.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sony U-matic (1971) Cartivision (1972) Sony Betamax (1975)</td>
<td>Matsushita</td>
<td>The pioneer was late to move production overseas. It could not match the low-cost production of the later entrants with shared experience in related products.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The pioneer focused on selling to broadcasters while Sony pursued the home market for more than a decade. Financial problems killed the pioneer. Sony Betamax was the first successful home VCR but was quickly supplanted by VHS, a late follower, which recorded for twice as long.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the first home game. Atari’s pong (1972), the first coin-operated arcade game</td>
<td></td>
<td>The pioneer stuck to the Southern California market and could not match the financial resources of Wal-Mart’s Sam’s Club when it came to national expansion. The pioneer was stuck with an obsolete standard when it failed to update. When it did update WordStar abandoned loyal users, offered no technical support and fought internally. The follower took advantage.</td>
</tr>
<tr>
<td>27.</td>
<td>Warehouse Clubs</td>
<td>Price Club (1976)</td>
<td>Sam’s Club Costco, Pace and BJ’s Wholesale Club (all entered in 1983)</td>
<td>The pioneer was late to move production overseas. It could not match the low-cost production of the later entrants with shared experience in related products.</td>
</tr>
</tbody>
</table>

Table 2.4


Most of the cases focus on major new products. In some instances they are the kinds of innovations that have changed the way we live. The intent was to avoid minor brand extensions of the type typically found on supermarket shelves. New cake and cookie preparations, for example, which change the size of the item or use a new flavoured filling, were not considered. For the most part, the goal was to study competitive behavior in markets for important innovations that make a significant economic impact.
More than half of the products listed qualify as high-technology products. Some are now so common place that they are no longer considered hi-tech, although they were when first introduced.

Thus the focus is on products with which consumers have some direct experience. For e.g., 35-mm cameras and telephone answering machines, are items that consumers purchase directly for their own use. Commercial jet aircraft and CAT scanners, on the other hand, are examples of products that consumers do not purchase themselves but use through intermediaries.

**Measuring the success of Imitative Later Entries**

There are different ways to measure the success of imitative later entries. Assessing whether the later entrant was able to gain a viable share of the market would be one way or whether the imitator earned a profit. In every one of the cases listed in the Table 2.4, the imitator has replaced the pioneer as the market leader. Not only did the imitator, gain a foothold in the market, it dominated the pioneer. In many cases, the pioneer was forced out of existence after the competitive battle had ended.

Certain such cases are discussed here:

**Case I: Ballpoint Pens**

The invention and commercialization of the ballpoint pens is a classic case of product copying and the success of later entrants. In fact there is almost a perfect correlation between order of entry and market success- albeit a negative correlation. Neither of the first round innovators remains in business today. The earlier copycats, who bettered the product after many years of watchful waiting, were forced into a minor role as sellers of pens as gift items and expensive special purchases by the very latest entrants. As the product category evolved, it was the very latest entrants that gained the greatest benefit. They succeeded by selling bags and boxes of low-priced throwaway ballpoint to the masses. It was an idea that horrified the industry leader and did not mesh with historical patterns of selling in the industry.

For nearly two thousand years writing was a cumbersome chore accomplished by dipping a goose quill into a dark liquid. For centuries innovation in the pen business took the form of figuring out how to lengthen the time between dips. It was very slow going. Not until the
1800s were various patents issued for designs of pens that could hold their own ink. A break through came in 1884, when L.E. Waterman a New York City insurance salesman, designed the first workable fountain pen. His invention ensured that the fountain pen would become the dominant writing instrument for the first half of the twentieth century. Throughout those years the performance and styling of fountain pens improved incrementally. Four firms emerged as the dominant sellers’ Parker, Sheaffer, Waterman and Wahl-Eversharp.

The ballpoint pen made its first commercial appearance just after World War II. It came not from the “big four” fountain pen companies but from two Hungarian inventors, Ladislao and George Biro. Both brothers worked on the pen and applied for patents in 1938. When the war broke out they moved to Buenos Aires, Argentina, where the newly formed Eterpen Co. commercialized their Biro Pen.

How did a pen invented by two Hungarians living in South America end up in American department stores? It took two routes. In may 1945 Ever-sharp, a sort of “Chrysler” of fountain pens in that it was one of the major sellers but clearly the weakest player, teamed up with another firm, Eberhard Faber, to acquire the exclusive rights to manufacture and sell the Argentine Biro ballpoint in the United States. Eversharp’s pen was branded the “Ever-Sharp CA,” which stood for capillary action. Its innovative design was shown to the press months before being sold to the public. The press hailed Ever-sharps pen as a major technological break through that could write for a year without refilling. Ever-sharp, it seemed at first, had pulled a tremendous coup on the rest of the industry. By acquiring the rights to the Biro pen before anyone else, Ever-sharp was sure to reap the economic benefits of being first to market.

But that did not happen. Instead, events took an unexpected turn. In June 1945, less than a month after Eversharp/Eberhard had closed the deal with Eterpen, a Chicago businessman named Milton Reynolds just happened to be visiting Buenos Aires on a business trip unrelated to the pen trade. While there, he saw the Biro-pen for sale in retail stores. He instantly discerned its potential and bought a few as samples. When he turned home he immediately started the Reynolds International Pen Company. Milton Reynolds was unconcerned with Ever-sharp’s formal deal. He copied the product in only four months and on October 29, 1945, had his pen for sale in Gimbel’s department store in New York City. Reynolds, pen was an overnight success. Priced
at $12.50, it sold a stunning $100,000 worth its first day on the market. Reynolds the copier had beaten Ever-sharp the innovator, to market. The ballpoint made Milton Reynolds a wealthy man almost overnight.

Reynolds strategy was based on moving quickly and advertising heavily. His ads stressed the advantages of ballpoint technology over old-fashioned fountain pens. Unlike fountain pens, his ball points would not smear and were guaranteed to write for two years without refilling. A subsequent model, which was introduced in 1946, featured the now common but then innovative retractable point that clicked in and out of the barrel with the press of a button. Ads crowed that the Reynolds pens would write for five years without a refill. The advantage over fountain pens was clear and incontestable. The public was bitten by the buy of a new gadget.

Ever-sharp was furious at Reynold’s first entry and sought redress in the courts. Ever-sharp sued Reynolds for copying a design that it had acquired legally but the suit was doomed. There was no patent protection for the Biro pen. The rotating writing ball that was the essence of the ball point had been previously patented by John Loud all the way back in 1888, and his rights had expired long ago.

Despite its legal losses, Ever-sharp’s sales also skyrocketed with the new found popularity of the ball point pen. Furthermore Eversharp’s pen was of higher quality than Reynold’s quick copy. Consumers soon discovered that Reynold’s pen leaked, skipped and often failed to write altogether.

Ever-sharp’s pen may have been better than Reynold’s but it too was an inefficient writing device that did not live up to the hype surrounding it. It soon became apparent that ballpoint pen technology had not really been perfected. Both products had been brought to market too quickly. As a result of poor product quality and overly generous guarantees, returns of defective pens soared at both Ever-sharp and Reynolds.

In the long run the competitive battle between Eversharp and Reynolds hurt both parties badly. The frequent price wars, unrealistic guarantees and heavy spending to expand production capacity in response to exploding demand exacerbated quality problems and sapped both firms.
At the same time, consumers lost interest in the poor quality product. The ballpoint pen turned out to be the classic short-lived fad. Sales of ballpoints surpassed those of fountain pens in 1946, their first year on the market, then climbed again in 1947. But sales started downward in 1948, then collapsed. By 1951 it was all over. The ballpoint pen was all but dead and the fountain pen once again reigned supreme.

Table 2.5 shows the share of market for fountain pens versus ballpoints during the first faddish years of the ballpoint.

<table>
<thead>
<tr>
<th>Year</th>
<th>Fountain pens share of Market</th>
<th>Ballpoint pens share of Market</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-1945</td>
<td>100%</td>
<td>0%</td>
<td>ballpoints surpass fountain pens for the first time.</td>
</tr>
<tr>
<td>1945</td>
<td>64%</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>1946</td>
<td>46%</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>41%</td>
<td>59%</td>
<td>ballpoints peak sales collapse</td>
</tr>
<tr>
<td>1948</td>
<td>43%</td>
<td>57%</td>
<td>the decline begins</td>
</tr>
<tr>
<td>1949</td>
<td>62%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>67%</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>77%</td>
<td>23%</td>
<td>the low point</td>
</tr>
</tbody>
</table>

Source: Lawrence, Cliff and Lawrence, Judy, "An Illustrated Fountain Pen History, 1875-1960".

The decline hit Reynolds hardest. His firm quickly disappeared with the precipitous decline of sales. Eversharp, an old-line fountain pen seller, was hit almost as hard. Its weak position in the industry had prompted its bold move into ballpoints, but that bold move backfired. By 1948 Eversharp was in deep financial trouble and tried to switch back to fountain pens. By then it was too late. Eversharp’s chairman observed that Eversharp had “expanded so great a portion of its time and attention in solving the problems of the ballpoint pen that certain development in its conventional pen and mechanical [pencil] business, were perhaps underemphasized.” The firm hung on, barely, until 1957, when its pen division was sold to Parker Pen. Parker repositioned, Eversharp’s products as low-end entries with mediocre results. Eversharp’s assets were liquidated in the 1960s.

The actual takeoff of the ballpoint pen came in the mid-1950s, almost a decade after the demise of the innovators. In January 1954, more than eight years after the first failed ballpoints had made their market debut, Parker introduced its first ballpoint, the Jotter. Parker was a major
fountain pen player that entered the market for ballpoints later than the innovators but with a clearly superior product and a brand name that signified excellence to consumers. The Jotter wrote five times longer than the Eversharp or Reynolds entries. With the introduction of the Jotter, ballpoint sales took off again. Once again, ballpoints were a raging success. In its first (less than a full) year on the market Parker sold 3.5 million Jotter at prices ranging from $2.95 to $8.75.

In 1957, Parker introduced its next technological advance - the T-Ball Jotter, which was also a resounding success. Ballpoints had finally arrived. Parker, the later entrant, was an innovative company in its own right, but it had learned plenty from its predecessor’s mistakes. The other fountain pen sellers followed Parker’s lead, each introducing its own line of ballpoints.

Table 2.6 shows the growth in sales for Ballpoints vis-à-vis fountain pens.

<table>
<thead>
<tr>
<th>Year</th>
<th>Fountain pens share of Market</th>
<th>Ballpoint pens share of Market</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>70%</td>
<td>30%</td>
<td>start of the second rise</td>
</tr>
<tr>
<td>1953</td>
<td>52%</td>
<td>48%</td>
<td>ballpoints surpass</td>
</tr>
<tr>
<td>1954</td>
<td>46%</td>
<td>54%</td>
<td>fountain pens for ever</td>
</tr>
<tr>
<td>1955</td>
<td>44%</td>
<td>56%</td>
<td>fountain pens begin to</td>
</tr>
<tr>
<td>Post-1960</td>
<td>25%</td>
<td>75%</td>
<td>become obsolete</td>
</tr>
</tbody>
</table>

Table 2.6

Source: Lawrence, Cliff and Lawrence, Judy, "An Illustrated Fountain Pen History, 1875-1960".

By the early 1960s the fountain pen was all but obsolete. Although all the major fountain pen Sellers—Waterman, Sheaffer and to a lesser extent Parker—had introduced ballpoint pens, they were basically committed to fountain pens. That had been their historic mission. Furthermore, the initial experiences of the innovators with Ballpoints—Eversharp and Reynolds—suggested the possibility that ballpoints would once again be a short-lived fad. Throughout the 1950s and 1960s many of the major fountain pen sellers introduced gimmicky fountain pens to compete with ballpoints. What they did not do was foresee and foreclose entry by the next group of later entrants.
Ballpoints became so successful that the product eventually became a commodity. The newest competitors flooded the market with a never-ending series of cheap and highly reliable disposable ballpoints that consumers bought by the dozen. There was no more talk of refilling. Pens were either lost or disposed of long before they ever ran out of ink. The low-priced pens forever changed the pen industry. They reconfigured the product from an expensive, almost jewelry-like, purchase to an incidental disposable. None of the Ballpoint innovators, nor the fountain pen giants, led the way into this latest market turn.

In 1958, Societe Bic a French firm acquired 60% of the venerable New York-based Waterman Company. By 1960 it owned 100 percent. Bic started selling inexpensive, highly reliable ballpoint pens in France in 1950. It then blitzed Europe with hard-hitting ads that dramatized the pen’s durability. By the late 1950s Bic held an astonishing 70% of the European ballpoint market. Its success in Europe persuaded Marcel Bich, the firm’s founder, to repeat those moves overseas. In 1960, Bic entered the American market with pens priced at an incredibly low 29 cents to 69 cents and more hard-hitting ads. In one ad the Bic pen was fired from crossbow into wallboard. In another it was used as a drill bit to drill through hardened wallboard. In each instance, the tag line was “writes first time-every time”.

Bic was more than successful. In fact its entry relegated the industry giants-Parker, Sheaffer and especially Waterman- to the now much smaller high end of the market. Fountain pens were made obsolete and expensive ballpoints were transformed largely into gift and graduation presents.

Fountain pens made somewhat of a comeback in the 1980s as status symbols but they never again challenged ballpoints. The brand names Parker, Sheaffer and Waterman still hold an upscale allure. Parker and Waterman are now owned by Gillette, which intends to capitalize on them.

**Conclusion:** The history of market entries in ballpoint pens illustrates clearly that all is not lost if a firm is not “first to market”. In fact, in ballpoints, moving quickly to market proved
detrimental to the earliest innovators. The earliest entrants disappeared entirely, while the latest ended up virtually owing a much-changed market. It is a powerful lesson of the benefits of later entry, and the risks of pioneering, in a rapidly changing market.

**Case II: Diet Soft Drinks**

Royal Crown Cola has been responsible for most of the major soft drink innovations of the past three decades. It was Royal Crown, not Coke or Pepsi that introduced the first diet cola and decaffeinated colas. Unfortunately, Royal Crown has been unable to profit fully from its innovations. The historical pattern in the soft drink industry has been that Royal Crown comes up with, and then popularizes, a new product idea only to have it snatched away by larger rivals. While its innovations have benefited both the industry and the consuming public, the innovator itself has been unable to retain more than a tiny share of the diet soft drink market it created. The later entrants, mean while, have steadfastly maintained their market leadership.

Actually, Royal Crown did not invent diet soft drinks. It followed smaller regional rivals to market. It is difficult to state with certainly which firm was the very to sell “diet” soft drinks. The seller of Orange Crush claims that they began marketing sugar-free soft drinks in the early 1940s. Their entry was way ahead of its time, however and was not specifically targeted at the calorie-conscious consumer. In 1947 Cott Beverage introduced a line of sugar free soft drinks but it too met with only limited success.

In 1952 Kirsch Beverage, a Brooklyn-based bottler, introduced its No-Calline, which was aimed primarily at diabetics who could not consume sugar and teenagers afflicted with acne. But something unexpected happened, it was discovered that more than half of those who bought No-Cal were not diabetics at all, but calorie-conscious consumers, trying to lose weight. As a result, the brand was repositioned to target dieters and increased promotional expenditures to pioneer the market in dietetic soft drinks. Sales took off and soon Kirsch became the number one seller of dietetic soft drinks. In 1957, the industry sold 7.5 million cases of sugar-free soft drinks, a record amount for what had previously been considered only a small market segment based on consumers with a chronic illness.

The Co. was in the right place at the right time. Its success was due largely to the emergence of a trend toward calorie consciousness among (mostly female) consumers. In the 1950s things began to be in creating a growing market for dietetic products. That trend accelerated throughout the 1960s and 1970s. It made the market attractive to firms with a keen eye for changes in consumer behaviour and the resources to exploit those changes.
The Royal Crown Cola pounced on that opportunity in early 1962, when it introduced Diet Rite Cola. Diet Rite was not Royal Crown’s first sugar-free soft drink entry. According to the company, it has first entered the market in 1954, just after Kirsch, with a product backed by little promotional support that was also targeted at diabetics. Diet Rite was more a marketing innovation than a technologically superior product. Unlike previous sugar-free entries, Diet Rite Cola was clearly positioned and promoted at consumers with a new found interest in losing unwanted weight. Basically, Diet Rite brought diet soft drinks into the mainstream. The Co. did it in the following way.

- **First**, Royal crown reduced the price of Diet Rite to match that of regular soft drinks. That made the dietetic product a readily accessible alternative to regular cola soft drinks.
- **Second**, it placed Diet Rite in returnable bottles, as were regular soft drinks. Previously, sugar-free soft drinks came in non-returnable bottles, because they were not considered a mainstream product.
- **Third** and probably most important, Diet Rite was the first sugar-free cola to be featured on the same supermarket shelves as regular soft drinks. That removed the stigma attached to consuming a product meant for the medically afflicted. Previously, sugar-free soft drinks were sold in the dietetic section of the supermarket, a special category distant from the regular soft drink aisle.
- **Fourth**, Royal Crown boosted promotion to push the trend toward calorie-consciousness by spending $11 million on advertising Diet Rite Cola in 1964, up from $7.5 million in 1963.

Basically, Royal Crown Cola figured out how to sell diet soft drinks to the mass market. Following closely in Kirsch’s footsteps, it successfully educated consumers as to the merits of diet soft drink with heavy promotion, by putting the product in the right form and by making it widely available. As a result of Royal Crown’s efforts, sugar-free soft drinks became less an oddity and more a mainstream consumer product.

Royal crown pushed a growing trend further upward. Sales exploded in the years directly following its entry. In 1961, before Royal Crown entered diet soft drinks made up 1.5 percent of total soft drink sales. By 1962 sales of diet soft drinks doubled to 50 million cases, and their share of all soft drinks rocketed to 4 percent. By 1963, 7 percent of all soft drinks sold
were dietetic. Forecasts called for their share to climb to 15 to 20 percent and may be even 30 percent, of the entire market.

Competitors jumped into the market with abandon for fear of being left out. Canada Dry and Dr. Peeper quickly introduced parity cola products, as did regional seller but Royal Crown ruled supreme. First-mover advantages seemed to ensure its successful hold on the newly created market.

According to published reports at the time Diet Rite was introduced, Royal Crown Cola’s strategy aimed squarely at Coke and Pepsi drinkers. Diet Rite tried to get regular cola drinkers to switch to diet colas. Since Royal Crown held only a minuscule share of the regular cola business, it had little to lose if consumers switched. Coke and Pepsi had plenty to fear, however, since most of their sales came from regular colas. They had little to gain by introducing a diet soft drink and a lot to lose. The market leaders seemed to be trapped in a lose-lose situation. If diet soft drinks turned out to be a fad, then spending heavily on new product development would be wasteful and unwarranted. If diet soft drinks succeeded, however, Coke, and Pepsi would spend heavily only to switch their loyal regular cola drinkers to their new and unproved, “diet” versions. It was a classic case of fear of cannibalizing sales of existing product.

Coke and Pepsi were forced to follow Royal Crown’s lead in order to thwart Diet Rite’s impressive gains. As per Business Week at that time “Coca Cola and its biggest rival, Pepsi-Cola Co. were slow to notice how Royal Crown was carving out a new market”. In February 1963, both Coke and Pepsi had just entered limited test markets. Both firms were reluctant to put their flagship brand names on the new unproved products. Coke entered with Tab, which was introduced by its Fanta division. Tab was test-marketed in Springfield, Massachusetts. Pepsi entered with Patio Diet Cola, which was introduced in Greenville, South Carolina.

Pepsi entered faster than Coke. In June 1963, about a year and a half after Diet Rite’s entry Pepsi was selling in sixty key markets, while Coke was selling in only twenty-five, with no estimate as to when it would achieve national distribution.

In the beginning, Coke’s Tab and Pepsi’s Patio Diet Cola were defensive entries. They sought to protect their regular soft drink business from the disruptive actions of a reckless renegade.
As per one Pepsi executive, “we don’t want Royal Crown taking our market”. Instead, both firms tried to attract “new consumers-those people who because of health or weight problems never have consumed for soft drinks”. But the trend toward diet soft drinks was bigger than either of the industry giants. They had no choice but to compete for customers that preferred a sugar-free product.

Royal Crown Cola dominated the fast growing market for diet soft drinks through the mid-1960s. Although it was only one-twentieth the size of Coca-Cola, it owned a 50 percent share of the fast-growing diet soft drink market. Until the late 1960s Royal Crown held roughly double the share of either Coke or Pepsi in the growing diet soft drink segment.

Sales of Pepsi’s Patio Diet Cola were disappointing, so it was quickly replaced with Diet Pepsi, a risky decision that entailed using the company’s coveted flagship brand name on an unproven product. Like most sellers, Pepsi targeted calorie conscious women. Its early ads featured “Debbie Drake,” a well-known exercise maven with a stunning figure.

Coke’s Tab sole well from the start, mostly among women, and was not supplemented until 1982, fully twenty years age after Royal Crown’s entry, when the firm introduced Diet Coke. Diet Coke represented only the second time in its nearly hundred year history that Coca-Cola used its flagship brand name on a soft drink. The stakes were deemed high enough to warrant that action. Diet Coke initially appealed to a growing market for men wishing to limit caloric intake.

Royal Crown’s dominance started to erode once Coke and Pepsi entered. It was not a question of clear product superiority. Diet Rite Cola was as tasty as Tab or Diet Pepsi. Basically, Coke and Pepsi entered with parity a product that had no overwhelming sensory advantages. Their success was due to other factors.

- Coke and Pepsi dominated soft drink distribution channels and it is no secret that distribution advantages often decide the outcome of marketing battles in the industry. Royal crown was at a disadvantage when it came to distribution. In 1964 coca-cola had 1,120 franchised bottlers, Pepsi was distant second with only 530 bottlers and Royal Crown’s total was a pitiful 370. A similar imbalance
existed when it came to the power to command supermarket shelf space. Coke and Pepsi used their superior distribution to win market share in diet soft drinks.

Both Coke and Pepsi had the financial resources to run massive promotional programs that Royal Crown could not match throughout the second half of the 1960s, while Royal Crown held double the market share of Coke and Pepsi, the two soft drink giants spent three to four times as much as Royal Crown on advertising. Innovation gave Royal Crown an early lead, but in the long run first-mover advantages proved relatively unimportant in deciding the competitive outcome.

In sum, first mover advantages seemed to count for little in diet soft drinks. Royal Crown picked a fight with much stronger opponents and got beaten up pretty badly. Those advantages provided no more than a temporary benefit. Furthermore they instilled in managers a false sense of the product’s ultimate potential. In the end, it was distribution and marketing strengths that determined the outcome of diet soft drinks leadership, not order of market entry. There seemed to be no need for Coke and Pepsi to hurry up and rush to market as they could displace the weak innovator with heavy promotional spending and distribution advantages.

The history of the soft drink industry is filled with instance in which order of entry counted for little, even in competition between the two largest player’s. Pepsi Team, for example, had preceded Coke’s Sprite to market but coke ended up in the lead position.

The evolution of diet soft drinks is a classic case of a well-heeled firm entering a market after the pioneer and then being able to buy what it was unable to obtain first. The meager resources of the pioneer proved no match for the marketing clout of larger, later entrants. When the market blossomed there was no other firm that could match the marketing prowess of Coke and Pepsi, not by a mile.

**PATTERNS OF SUCCESSFUL IMITATION**

Innovations exhibit many common patterns as they make their way from lab to market. The same is true for imitation.

In 1935 S.C. Gilfillan concluded that innovations typically get stuck in a long, long useless stage. Once a major new product idea is conceived, it typically takes years, sometimes
decades, for the idea to transform itself into a commercially successful product. After more than half a century Gilfillan’s findings still ring true. Many innovations still spend years incubating in laboratories and in the marketplace at great expense to a long string of pioneers. Often the pioneer spends heavily only to find that consumer prefers the wares of a later entrant.

The Long, Long Useless Stage

There are really two phases to the long, long useless stage. First there is the lag between the time a product is first conceived and the time it first reaches the market. Second, there is the lag between when it is first placed on the market and when it achieves commercial success.

In both instances the problem with pioneering is that it takes enormous staying power to shepherd new product over the long, long useless stage. That provides an advantage for imitators and later entrants, who are able to enter after the pioneer has exhausted himself. The imitator starts fresh, just as the pioneer ends wasted.

Gilfillan conducted a series of studies on the subject. He quotes another researcher, H.S. Hatfield, when referring to the problems presented to pioneers by the long, long useless stage:

“[The pioneer] conceives of a fundamentally new idea, which he feels is assured of startling and immediate success. It is a notorious fact that many if not most of the pioneer inventors to whom the edifice of modern technology owes some of its chief pillars have died in poverty, or if alive, are receiving absolutely no reward at all for the incalculable benefits conferred upon industry by their labours.”

More relevant to the topic of pioneering versus imitation is the time lag between first entry and the time a product reaches commercial acceptance. That lag gives an indication of how long the pioneer has to wait (and the imitator has to enter) before demand for the product materializes.

Of the twenty-eight innovations listed in Table 2.4 (drawn earlier), about half spent more than five years floundering in the market before attracting much consumer interest. Those products are listed in Table 2.7.
## Products Stuck in a Long, Long Useless Stage

<table>
<thead>
<tr>
<th>Product</th>
<th>Time Between First Appearance and Commercial Acceptance</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>35 mm cameras</td>
<td>40 Years</td>
<td>The product was introduced in the 1920s, but demand stayed small until the 1960s, when the Japanese reduced prices and brought the product into the mainstream.</td>
</tr>
<tr>
<td>Ballpoint pens</td>
<td>8 Years</td>
<td>The idea was patented in the late 1800s, the first commercial success occurred in the late 1940s, but not until eight years later did the product overcome its fad status.</td>
</tr>
<tr>
<td>Credit/charge cards</td>
<td>8 Years</td>
<td>The first charge and credit cards appeared in the 1930s, but dinner's club started in 1950. It was not until the late 1950s, however, that the product gained widespread acceptance.</td>
</tr>
<tr>
<td>Diet soft drinks</td>
<td>10 Years</td>
<td>It was not until Royal Crown promoted the product that it gained widespread acceptance.</td>
</tr>
<tr>
<td>Light beer</td>
<td>9 Years</td>
<td>The pioneers spent nearly a decade trying to figure out how to position the product to consumers.</td>
</tr>
<tr>
<td>Mainframe computers</td>
<td>10 Years</td>
<td>First introduced in 1946, there were only slightly more than 100 computers sold by 1956, the year IBM surpassed Univac.</td>
</tr>
<tr>
<td>Microwave ovens</td>
<td>20 Years</td>
<td>Discovered in 1946, the first commercial microwave was not introduced until 10 Years later. After numerous false starts, it was not until the mid-1970s that microwaves gained widespread acceptance.</td>
</tr>
<tr>
<td>Nonalcoholic beer</td>
<td>6 Years</td>
<td>Imports lingered on the market for at least six years until consumers valued the benefits offered by the new product.</td>
</tr>
<tr>
<td>Paperback books</td>
<td>5 Years</td>
<td>Paperbacks have really been around since several years but in their modern format they started in the 1940s. A number of pioneers failed before consumers become interested.</td>
</tr>
<tr>
<td>Personal computers</td>
<td>6 Years</td>
<td>The market started with hobbyists, but demand did not explode until IBM entered.</td>
</tr>
<tr>
<td>Telephone answering</td>
<td>15 Years</td>
<td>The market evolved slowly, starting in the late 1950s. Demand did not explode until the mid-1980s.</td>
</tr>
<tr>
<td>VCRs</td>
<td>20 Years</td>
<td>The First commercial model was introduced in 1956. It was not until 1975 that the home market took off.</td>
</tr>
<tr>
<td>Video-games</td>
<td>13 Years</td>
<td>Started in 1972, the market boomed, then went bust. Not until 1985, when Nintendo entered, did demand materialize for the long term.</td>
</tr>
<tr>
<td>Warehouse clubs</td>
<td>7 Years</td>
<td>Sam's club did not enter until seven years after the Price Club.</td>
</tr>
</tbody>
</table>

Table-2.7

Some specific cases of products that spent time in the long useless stage

In light beer, there was a nine-year gap between Rheingolds pioneering entry and the stunning commercial success of Miller’s lite beer. That allowed plenty of time for the pioneer to stumble and the later entrants to learn.

A similar pattern was observed for diet soft drinks. There was at least a ten-year gap between the first commercial entry and the first sustained commercial success. It took even longer for the latest entrants to prevail.

Microwave Ovens took even longer to attract large number of customers. First invented in 1946, it took ten years to get to market, then twenty years more to gain commercial success. By the time the product became a commonplace fixture in America, it was low-cost Asian producers, who had entered last, that dominated the product category - at the expense of the pioneers.

The Long, long useless stage tends to work against pioneers and in favour of later entrants. In many cases, either the product is not ready for the market or the market is not ready for the product. Either way, entry turns out to be premature and uneconomic. The pioneer ends up trapped by those products instead of enjoying sustainable competitive advantages. That disadvantage was recognized many years ago, and is still holds true today.

A Start with “Oddball” Products

In hindsight, many pioneering entries turn out to be “Oddball” products, which means they are not fully formed when first brought to market. Often they are technically crude devices based on first generation technologies. Being little more than first attempts to move a product from the lab to the market, they wear their weaknesses on their sleeve.

E.g. Ball point pens were rushed to market in the mid-1940s by the Reynolds pen company, a small entrepreneurial upstart and Eversharp, a Perennial second tier player in the then dominant fountain pen industry. The first commercially successful (if short-lived) ball points were crude devices that leaked, skipped, smudged and generally failed to write the way they were supposed to. At a minimum price of $12.50, they were expensive as well as inefficient writing instruments. They were the first and the worst.
The same pattern was observed with video-games. Magnavox Odyssey, the first attempt at a home entry, had extremely crude graphics and required users to hang an acetate sheet on the TV set as a background playing field. Odyssey was odd in comparison with today's games.

Early entry seemed not to help the early entrants. Weaknesses in their products conveyed an "Oddball" image that hobbled their efforts instead of providing an early advantage in terms of product positioning. The pioneers paid a heavy price for being first and reaped few benefits beyond a footnote in industry history.

A start with "Oddball" innovations points up the incremental nature of innovation. Rarely do inventions spring forth from the lab fully formed without close ties to what has gone before. Instead, technological progress usually takes a series of small steps forward, each step pushing the innovation a little farther ahead and a little closer to market acceptance.

For e.g., consider the case of credit and charge cards. Neither innovation burst upon the scene without precedent. Each evolved slowly from the nineteenth century practice of informally extending credit to valued retail customers whom the merchant knew personally. Throughout the twentieth century, that basic idea evolved slowly into the third-party charge/credit card.

The idea of innovation as an incremental process contrasts with the general tendency to portray innovation as a series of astonishing breakthroughs driven by genius inventors and bold entrepreneurs who dream of radical new product ideas and shepherd them from concept to commercial success. That sometimes happens, but it is rare.

The myth of the genius inventor first became popular during the early years of the twentieth century, when memories of inventors like Eli Whitney and the cotton gin, James Watt and the steam engine and Thomas Edison and the light bulb coloured the popular view of how breakthrough innovations made their way to market. But that view is misleading. It attributes to individual inventors a mythical genius they rarely deserve. Few innovations appear out of nowhere. Almost always there is a long history of small steps that precede, and then follow, the pioneers products. Products evolve slowly. They don't burst upon the scene without precedent.

The pioneer's product, being the first to enter the market is almost always ill formed and flawed. It pays a price for first entry. It almost always enters with one foot still in the lab.
Those flaws often allow later entrants to take the next step, leapfrogging the pioneer’s “Oddball” product with a more workable design.

*E.g.* consider the case of diet soft drinks. Kirsch entered first with a product targeted to diabetics and teenagers with acne. Kirsch then repositioned the product for women dieters but was quickly followed by Royal crown, which entered with a mainstream product.

The very earliest entrants are often gone from the scene by the time the latest entrants prevail. Their “oddball” products quickly fail, and the firm’s contributions recede quickly back into obscurity. That means the true innovators are often forgotten, giving unearned glory to subsequent entrants, who, in a revisionist view of history, are deemed the creators of something they actually copied.

Even in brand-new industries where change is rapid and innovation is frequent, the earliest entrants are often stuck with “Oddball” products that hurt rather than help. In word processors and personal computer spreadsheets, for example, the earliest entrants were stuck with crude packages designed for small-memory machines, which faded in popularity with the obsolete machines for which they were designed.

**Timing is everything for later Entrants**

Many times, the most successful entrant is not the very first firm to enter but the first to enter when demand explodes. Pioneers may simply be too early. They enter before demand materializes, risking what Francisco-Javier-Olleros calls “burnout.” Francisco contends that “again and again we see industries emerge over the dead bodies of early pioneers”. It is easy to enter a nascent market- entry barriers are low to nonexistent- but difficult to survive the long, long useless stage until demand explodes.

Successful imitators have superb timing when it comes to later entry. That timing can be affected by many factors. Some imitators wait until a change occurs in the market- a change that is sure to boost growth- before entering.

*For e.g.*, throughout the early 1950s social mores held that buying on credit was somehow immoral. For nearly a decade Diner’s club was forced to bear single-handedly the entire burden of persuading consumers to use its new service product. It faced two bad choices:
either to change existing attitudes or wait until they changed on their own. The change took eight years. By 1958 consumers had become comfortable with and even attracted to the idea of easy credit. That change corresponded almost perfectly with American Express’s entry. Its product carried the gloss of modern sophistication, while Diner’s Club was reeling from its eight-year ordeal.

Timing can also be based on changes in the underlying technology. Firms that enter first frequently do so with first generation technologies that quickly become obsolete. That happened in early personal computers. Few of the pioneers who sold computers based on the Z-80 chip were able to make the switch to the more advanced chip used in the IBM-PC. Those pioneers performed a valuable market function—they created and promoted a new technological product—but they were stuck with the small sales and even smaller profits that come with nascent markets. Their timing was off they were too early.

Some imitators enter very late in the game. They wait until the potential exists to create a huge market to which they can apply very low-cost production. In microwave ovens, 35 mm cameras and food processors, for example, the imitators did not enter until market growth was well under way. They then entered with lower-priced products that drew in additional customers and expanded the market further.

That brings the issue of intent. It is too easy to argue that imitators hold back and deliberately wait for a market to form before entering at exactly the right time. That happens sometimes, but not always. To suggest that it does gives the later entrant’s credit for a talent they often do not possess. In many cases, later entrants just happen to be in the right place at the right time with the right product. By sheer chance, they enter just as demand explodes.

Scores of later entrants have benefited from such fortunate circumstances. Nike, for example, was formed on a shoestring in 1964 to sell running shoes to a tiny market of dedicated track athletes. Ten year later, in 1974, sales had climbed only to a paltry $4.8 Million. Then the market exploded. Weekend athletes and non-athletes in search of comfortable, casual footwear entered the market in droves. The trend toward health and fitness, which had started in the 1960s, accelerated in the 1970s. Nike found itself in an enviable position. It had the right
product in the right place at the right time. By 1976 sales had reached only $14 Millions. By the early 1990s they had soared to an astounding $3 billion.

A similar pattern explains the rapid growth of diet soft drinks and low calorie beer. Demand for both products accelerated when consumers exhibited a newfound interest in a lower caloric diet and the beauty of a slender figure. At that point the large sellers entered just as demand exploded. Their entry was simultaneously a reaction to an emerging trend and an action that fueled that trend.

The same trend affected sales of caffeine-free soft drinks. Sales languished for years, and early brands failed, but demand soared once caffeine was perceived to run counter to the trend toward health and fitness. Once again, the major soft drink sellers entered later but benefited economically from that innovation when the timing was right.

In every one of these cases, the imitator benefited from a rapidly growing market but also caused additional growth. They caused that growth by legitimizing the market.

**Large firms replace small firms**

One of the most prominent patterns in the battle between innovators and imitators is for large firms to replace small firms once the market becomes more attractive. Industry giants, whose current product are challenged by the pioneer’s innovative entry, introduced imitative designs and use their market power to push the pioneer to the sidelines.

Size clearly counted as a competitive advantage when it came to market dominance. Smaller firms may be more entrepreneurial, faster-moving, and more insightful- and they are typically the first to spot emerging trends and product opportunities- but it is the large industry leaders who possess the power to muscle their way into emerging markets, which they then quickly dominate.

That happened in both diet and caffeine free soft drinks, where Coke and Pepsi dominated a market that was pioneered by Royal crown, which incidentally, had “borrowed” its innovative idea from even smaller earlier rivals. The incumbent’s power ensured that outcome.

An identical pattern was observed with three innovations in the beer industry- light beer, dry beer and nonalcoholic beer. In each case, the innovation was pioneered by a succession
of weak competitors. But when the market showed it true potential the industry giants, especially Anheuser-Busch, jumped in and quickly crushed the innovative pioneers, in some cases pushing them into oblivion. Size proved crucial in beer brewing.

The only cases where that pattern did not hold up were in brand-new industries where there were really no entrenched market leaders to react to the pioneer’s entry. In word processors, spreadsheets and operating systems for personal computers, for example, small firms supplanted other small firms for reasons that had nothing to do with size-based advantages. Since all of the competitors were small entrepreneurial startups, relative market power did not appreciably affect the outcome.

But those cases are more peculiar than they are representative of most markets. A more typical pattern is for a small entrepreneurial startup to invade the turf of a powerful incumbent. The giant is then awakened to an opportunity that it did not initially see. It counterattacks with an imitative entry and uses its vast market power to fight back. The pioneer is at a disadvantage. It is somewhat like the war with Iraq. The outcome was never in doubt, only the timing and other tactical issues were uncertain.

Table 2.8 illustrates, nineteen of the twenty-eight cases (see table 2.4 for cases) examined resulted in a large firms replacing a small entrepreneurial startup. Not a single case was observed where a small firm entered an emerging market with an imitative product after a large pioneering industry leader. The table 2.8 shows that:

- Large firms most frequently replace small firms,
- Small firms sometimes replace other small firms,
- Large firms sometimes replace other large firms and
- Small firms rarely (Or never) supplant a large market leader.
Large Firms Tend to Replace Small Firms

<table>
<thead>
<tr>
<th>IMITATOR</th>
<th>Small Firm</th>
<th>Large Firm</th>
</tr>
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<tbody>
<tr>
<td>5 Cases</td>
<td>19 Cases</td>
<td></td>
</tr>
<tr>
<td>Computerized ticketing services</td>
<td>ATMs</td>
<td></td>
</tr>
<tr>
<td>Operating systems</td>
<td>Ballpoint Pens</td>
<td></td>
</tr>
<tr>
<td>Paperback books</td>
<td>Caffeine-free soft drinks</td>
<td></td>
</tr>
<tr>
<td>Spreadsheets</td>
<td>CAT scanners</td>
<td></td>
</tr>
<tr>
<td>Word processors</td>
<td>Credit cards</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PIONEER</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Cases</td>
<td>No Cases</td>
</tr>
<tr>
<td>19 Cases</td>
<td>4 Cases</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Large Firm</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No Cases</td>
<td>35 mm cameras</td>
</tr>
<tr>
<td></td>
<td>Commercial jet aircraft</td>
</tr>
<tr>
<td></td>
<td>Microwave ovens</td>
</tr>
<tr>
<td></td>
<td>Videogames</td>
</tr>
</tbody>
</table>

Table 2.8

IMITATION STRATEGIES

Imitators and later entrants succeed by using one or a combination of three strategies (Box No. 2.4).

Imitation Strategies

- Offer lower prices than the pioneers.
- Sell a superior product, or Imitate and Improve.
- Use their market power to overwhelm the weaker pioneer.

Box 2.4

I Lower Prices

One of the most popular and successful imitative strategies is to sell knock-off of a pioneer’s product at bargain basement prices. Typically, there are two ways to peruse that strategy:
By selling an exact duplicate of the pioneer's product at a reduced price, or
• Selling a trimmed-down, barebones version at a much lower price.

What both strategies have in common is that they attempt to expand the market into the mainstream, attracting consumers who would otherwise be unwilling to pay the high prices demanded by the pioneer.

(i) Lower costs equal lower prices

The essence of a lower price imitation is to keep costs low, passing those savings along to consumers. The imitator sometimes has an advantage when it comes to lower costs, being able to avoid the heavy up-front costs associated with research and development. The imitator merely copies a product that already exists. The innovator has had to create that product from scratch.

Lower price point imitators also save on promotional expenditures. In many cases they are able to catch a free ride on the pioneer’s ads and positioning. The pioneer may have created interest in the product category—VCRs, microwave ovens and food processors, for example—but when the consumer visits a retailer to make a purchase, he or she is often drawn to lower priced imitations, which are perceived to be of acceptable if not equal quality.

Some imitators create the impression that they sell the same product or service as the innovator, but at lower prices. That practice infuriates competitors. For e.g., the case of Helene Curtis, whose Suave shampoo built its name in the 1970s by bootstrapping on the ads of the leading brands. At that time, Helene Curtis sought to gain market share by advertising Suave as follows: “We do what they does for less than half the price.” Competitors were livid. Their response: “It’s parasitic to leech off the reputations and advertising of established brands.” That may be so, but it is often an effective entry strategy. Suave’s sales rocketed skyward as a result of lower prices.

(ii) Timing entry to Match Market Growth

Timing is an essential ingredient in the success of price point imitations. Successful imitations have had the good fortune of entering—either by chance or by design—just as the market has growth larger and more price sensitive. Price-point imitations often succeed because they match their less expensive wares to the needs of an expanded mass market, which is less
enamored of top-of-the-line models and is unwilling to pay the high prices demanded by the pioneer.

This type of pattern occurred in microwave ovens, VCR’s and a host of other product categories, where price-point imitators succeed by serving a larger group of mainstream customers who were not aficionados and were put off by high prices. In every instance, the pioneer found itself stuck at the high end of the market as a result of actions taken by an imitator who offered lower priced, generic goods. Time played a key role. The later entrant’s product both benefited and caused the emergence of a mass market.

Telephone answering machines were pioneered by code-A-Phone in 1958. When the product caught fire in the 1980s, nearly twenty-five years after it was first created, the later entrants moved production overseas, lowered prices and pushed their way to the forefront with imitations of equal, if not superior, quality. Code-A-Phone was the last major seller to move production overseas. By the time it reacted, it was too late. The pioneer was a shadow of its former self.

(iii) **A Two Step Imitation Process**

Often a two step imitation process, as illustrated in figure 2.4 can be observed.

**A Two Step Imitation Process**

![Figure 2.4](image)

In the first step of the imitation process, the pioneer is challenged by either knockoff artists selling at lower prices or later entrants who follow the pioneer to market with a superior product. Either strategy can work.
The second step occurs much later, sometimes years later, when a second group of imitators enters the market with still lower-priced knockoff, which then go onto dominate a much larger market. Often, but not always, this group of later entrants comprises low-cost Asian producers with an eye toward export markets.

Many examples of the two-step imitation process can be cited. Pocket calculators were pioneered by a number of small assemblers who spotted a market opportunity before the electronics giants who made the integrated circuits used in early calculators. Second into the market were those integrated circuit manufacturers, who observed the success of the early pioneers and then quickly entered with products of their own, a move that crushed the pioneers. But as calculators moved from a speciality product used by engineering students and other small market segments willing to pay the high prices charged, low-cost Asian copycats mobilized their manufacturing muscle and sold millions of cheap, highly reliable calculators to the masses for a few dollars each.

A nearly identical two-step imitation process occurred in digital watches. The small pioneers were driven from the market by a second group of entrants. Then, as the market expanded, low-cost Asian copycats combined much later entry with much lower prices to dominate a much larger market.

The same pattern was also observed in microwave ovens, which were pioneered by American firms, then challenged by Japanese sellers using lower prices soon after the product became popular with consumers. Eventually, however, the market was dominated by even lower-cost producers from Korea, who sold strictly on the basis of lower prices.

Ballpoint pens also experienced a two step imitation process. The two initial pioneers were an entrepreneurial startup and a weak industry incumbent. Both were replaced by the industry leaders in the related fountain pen business, particularly Parker Pen. Then, nearly fifteen years after the pioneers first entered, Bic transformed the market by once again selling low-priced generics, essentially disposable pens, which were sold by the bagful strictly on the basis of price.

II Sell a Superior Product - Imitate-and-Improve

Some imitators succeed by being “second but better.” Such later entrants do not seek to clone the pioneer’s product. Nor do they seek to compete on the basis of lower prices.
Instead their strategy is to improve upon the pioneer’s design and to hope that consumers will prefer a superior design to early entry. Table 2.9 illustrates that in thirteen of the twenty-eight case histories later entrants succeeded by using an imitate-and-improve strategy.

(i) Technological leapfrog

When technological products are involved an imitate-and-improve entry strategy typically takes the form of a “technological leapfrog”. In such cases the imitator enters with a second-generation technology that eclipses the pioneer’s product rendering it obsolete.

In projection television, the innovation was created in 1973 by Henry Kloss, an American inventor and industry pioneer. In the early 1970s his front-projection systems sold well, but by the 1980s the tables had turned. Later entrants introduced rear-projection designs that eliminated the need for bulky projection units sitting in the middle of a customer’s living room. By the mid-1980s rear-projection units outsold front projection units six to one. But the pioneer did not make rear projection units. Kloss was stuck on an obsolete standard that served a shrinking market.

The case of projection televisions illustrates that the setting of early standards sometimes offers an opportunity for a technological leapfrog. The pioneer, by virtue of first entry may have bet on an inferior standard, which proves difficult to switch away from once the technology advances. Sunk assets and experience in the first-generation technology may hold the pioneer back.

Two other cases in which later entrants leapfrogged pioneers stuck on an inferior standard are word processors and spreadsheets. Later entrants were able to surpass pioneers because they did not enter until the memory capacity of personal computers had grown large enough to support full-featured programs. In the end, the pioneers were caught with crude programs purposely designed to match the limited capacity of early computers. As a result, Word Perfect and Lotus moved ahead while Word Star and VisiCalc were stuck on an old standard into which they had sunk considerable assets. They were forced to rejigger their products, while the imitators had a fresh start.

Aside from the purely economic reasons, a pioneer is often reluctant to adopt the latest standard because of emotional ties as well. To switch to another standard, especially a standard
set by a later entrant, is implicitly to admit defeat. At the very least, it is an affront to the pioneer’s pride. Pride and sheer stubbornness often keep pioneers loyal to the old design long after they should.

In the case of Sony’s Betamax VCR versus JVC’s VHS format. After the vast majority of the world’s sellers had switched to the VHS standard, Sony stayed loyal to its own offspring. Sony argued that the picture quality of the Beta was better.

(ii) Is Fast Second Entry Important?

Implicit in an imitate-and-improve strategy is the belief that later entrants should react quickly to the pioneer’s first move. Time is of the essence, advocates argue. Instead of trying to replace a standard set by the pioneer, a fast second entry tries to gain share before the pioneer has had a chance to impose its standard on the marketplace.

In VCRs, for example Sony’s early success with the Beta format was quickly countered by Matsushita’s VHS format, which played longer and was priced lower. The fast second entry of VHS occurred before the Beta standard could be established. That is one reason why it was successful.

The case of VCRs however, is unique. While widely touted as the essential ingredient of later market entry, only a few examples of “fast second” imitations were observed in the twenty-eight cases examined in this study. More often than not, a fast second century did not seem to be that important for the success of an imitate-and-improve strategy. Time was not of the essence.

The most important success factor seemed to be the extent to which changes in the product, its underlying technology or the market presented an opportunity for imitators to improve. In other words, it was not how quickly the imitator followed that mattered but whether there was an opportunity to enter with a better product. It also helped if the pioneer made errors.

In ballpoint pens, while the pioneers rushed to market with flawed, premature products, the later entrants waited years until they could perfect the technology and offer customers a
superior product. The pioneers were long gone by the time the imitators entered—victims of a
technological leapfrog.

The opportunity to imitate and improve upon the pioneer’s product is frequently available
to the later entrant. It is well documented that pioneers rarely get everything right on the first try.
In their rush to enter first, pioneers often make what in hindsight turn out to be mistakes in
product design, segments served or promotional appeals. By definition, most nascent markets
are poorly formed and not well understood. It is virtually impossible for the pioneer to foresee
clearly and in detail how the market and product technology will unfold. That suggests that
imitators often have an opportunity to learn from mistake made by the pioneer and to correct
them.

(iii) The Importance of Staying Technologically Current

Another important success factor in an imitate-and-improve strategy is the presence of
an ongoing research and development program. Later entrants should not have to start from
scratch. In personal computers, projection television and VCRs to name but a few of the products
examined, every one of the later entrants had extensive research efforts under way at the time of
the pioneer’s initial entry. Their work on technology had paralleled the pioneer’s efforts. They
simply were not the first to enter.

III Market Power

In theory, pioneers erect impenetrable barriers to entry that keep copycats at bay. In
practice, however, those barriers are weak to non-existent when matched against the sheer
market power held by well-heeled industry giants whose existing products are challenged by the
pioneer’s innovative entry. The incumbents may not have the foresight of their smaller but quicker-
moving challengers, but when they decide to move into a market they do so with unparalleled
strengths that many times overwhelm the pioneer.

Market power was the most frequent reason why imitators were able to supplant
pioneers. Industry leaders possess three potent strengths that they can use to fight back against
the pioneer:
• Large industry leaders have the marketing clout to promote their imitative products. They can also have the respected brand names, coveted reputation and existing customers to help their products gain share.
• Incumbents have existing distribution channels into which they can place their imitative products.
• Finally, incumbents have the financial resources to make the business grow, an advantage smaller pioneers often cannot match.

Consumers also benefit from the incumbent’s entry. When brand-new technological products are involved, customers can rest assured that industry giants are likely to survive the shakeout that will occur once the market matures. Buying early entries from unknown pioneers entails a high degree of consumer risk.

(i) Moving In from an Allied Area

Sales of new products almost always impinge upon sales of existing products. The problem for pioneers begins when their new product steals sales from the wares of an industry giant with expertise in marketing and the money to fight back. The industry giant may have missed the new product opportunity created by the pioneer, but once the potential of the pioneer’s product becomes apparent, the incumbent will rely on its expertise in selling and distributing similar products to push the pioneer out of the way and dominate the new category. There is an advantage to “bigness” in imitative later entries. The pioneer may have made a large leap forward by creating a brand-new product, but the powerful incumbent has only to make a short leap sideways from its current products to the new related ones.

Telephone answering machines were pioneered in the late 1950s by Code-A-Phone, anything but an industry giant. For years the small firm toiled to perfect its pioneering product. But by the 1980s, when the market had grown huge and attractive, its efforts counted for little. Its barriers to entry were virtually nonexistent against the AT & T and Panasonic, which moved in and dominated the market.
(ii) Most Effective where Advertising and Distribution Are Key

Not unexpectedly, the imitator’s advantage is greatest in those product categories where advertising and distribution are most important. Small pioneers who rush to market with innovative entries face the worst odds of all in such circumstances. Two industries in particular, beer and soft drinks, have a long history of new market opportunities opened up by small producers while the biggest sellers stood by. Then, when the market proved attractive, the industry giants muscled their way in with superior advantages in promotion, distribution and money to push the pioneers to the sidelines. The pattern has been repeated time and time again. It is a depressing picture for dedicated pioneers who enthusiastically pursue new product opportunities but have little real chance of success once the market grows larger.

The undisputed innovator in soft drinks over the past thirty years has been Royal Crown, which introduced (or at least popularized) Diet cola, Caffeine-free cola and Cherry cola. In every case, its success attracted Pepsi and then Coke (typically in that order), which were able to dominate those markets quickly and decisively once they decided to do so. There was never really any doubt about the outcome. Royal Crown’s resources were minuscule compared with those of the industry giants. The idea that this tiny firm could erect entry barriers or concoct some conceptual competitive advantages solely on the basis of first-mover advantages is pure fantasy.

Table 2.9 Summarizes the strategies used in various cases. It shows that in ten cases lower prices played a role in successful later entry, in thirteen cases imitators won with an imitate-and-improve strategy and in sixteen cases market power was a factor. There was considerable overlap. More than one strategy was used, by either a single later entrant or a sequence of later entrants, to gain the dominant market position in nine of the cases. In one instance, projection television, the later entrants used all three strategies to surpass the pioneer.
How Imitators Surpasses Pioneers

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Product</th>
<th>Lower Prices</th>
<th>Imitate-and-Improve</th>
<th>Market power</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>35mm cameras</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>2.</td>
<td>Automated Teller Machines (ATMs)</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>3.</td>
<td>Ballpoint Pens</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
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<td>4.</td>
<td>Caffeine free soft drinks</td>
<td>X</td>
<td>X</td>
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<td>5.</td>
<td>CAT scanners (Computed axial tomography)</td>
<td>X</td>
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<td>6.</td>
<td>Commercial jet aircraft</td>
<td>X</td>
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<td>7.</td>
<td>Computerized ticketing services</td>
<td>X</td>
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<td>8.</td>
<td>Credit/charge cards</td>
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<td>9.</td>
<td>Diet soft drinks</td>
<td></td>
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<td>10.</td>
<td>Dry beer</td>
<td>X</td>
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<td>11.</td>
<td>Food processors</td>
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<td>12.</td>
<td>Light Beer</td>
<td>X</td>
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<td>13.</td>
<td>Mainframe computers</td>
<td>X</td>
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<td>14.</td>
<td>Microwave ovens</td>
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<td>15.</td>
<td>Money market mutual funds</td>
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<td>16.</td>
<td>MRI (Magnetic resonance imaging)</td>
<td>X</td>
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<td>17.</td>
<td>Nonalcoholic beer</td>
<td>X</td>
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<td>18.</td>
<td>Operating systems for personal computer</td>
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<td>Pocket calculators</td>
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<td>22.</td>
<td>Projection television</td>
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<td>Spreadsheets</td>
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<td>VCRs</td>
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<td>26.</td>
<td>Videogames</td>
<td>X</td>
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<td>27.</td>
<td>Warehouse clubs</td>
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<td>28.</td>
<td>Word processing software</td>
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Table 2.9


ASSESSING THE BRAND IMITATION

Some economists like Schumpeter and Galbraith have argued in favour of monopolies and big companies, respectively, as being the locomotives of innovation. Big companies often
have the capacity to maintain specialized R & D departments. They have routines regarding innovative structures and competencies, which is by definition a catalyst of innovation.

When lot of innovative ideas are generated in small firms, the firms often lack the resources to support such marketing activities as distribution and branding. Therefore, the companies like Microsoft finds success in buying small firms with innovative products and bundling those products with it existing ones (and existing channels).

There is a difference between innovation as a strategically planned process and innovation as an outcome or product. When imitation supports small companies eager to attain capital by imitating the innovation and they consequently discover something new and make improvements in the innovation, then imitation is good for society, Therefore, imitation is good if learning results or if it is serendipitous in nature.

Figure 2.5 presents a framework to assess when imitation benefits society and at what costs. Competition is the heart of a healthy marketplace, when imitation is a form of competition, then the market may become more efficient. When imitation misguides misleads or confuses consumers, there is deception in the marketplace that can destroy the language of brands and devalue whole product categories.

**Assessment of Brand Imitation**

<table>
<thead>
<tr>
<th>QUALITY OF IMITATOR COMPARED TO ORIGINAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>BETTER</td>
</tr>
<tr>
<td>Society better off</td>
</tr>
<tr>
<td>Destroys the language of brands</td>
</tr>
</tbody>
</table>

Figure 2.5

Good quality imitators are a boon. They can be defined as adding value by producing goods of equal value at lower prices and /or producing goods with additional functional attributes that enhance the performance of the original brand or product, which is readily perceived by the
consumer. With this interpretation, economic efficiency is promoted by greater customer utility through lower costs, better value or a better product.

However, the argument against this is that firms will less likely to spend resources on developing a new product if competing firms with no investment can duplicate the product and produce it at the same marginal cost as the innovator. Thus, imitation will inhibit innovation and consumers will be worse off.

I Does Imitation destroy the language of brands?

There are two issues, which affect the damage to brands and their equity by those who imitate. The first is whether the consumer is knowledgeable or confused about copying; the second is the quality and the value of the imitated brand (figure 2.5)

(i) Misguided or confused consumers

Consumers’ always have the right to be informed about their purchases. It is rare for imitators, which misguide consumers about their origin, to be of better or even equal quality to the original good. This is because those who produce better or equal copies want consumers to know exactly who did so and to reward them for their efforts, now and in the future.

There is also the potential of destroying the whole product category through experiences with poor imitation products. This is especially so when the original defines the product category and there are many product substitutes. A customer who buys a Parle-G biscuit expects a certain level of quality. When a customer unknowingly purchases an imitator of Parle-G, such as Parag-G, and tries to join the new piece with the original without getting a perfect fit, then not only is the language of Parle-G damaged, but perhaps the whole product category of Parle-Foods. A poor image of the brand that defines the product category could then mean a poor image of the whole product category and thus paved to other similar products.

Consumers who do not know the true origin of goods and are unable to link the brand to the actual manufacturer will not be able to use the language of brands successfully for communication. Over time, the growth of imitators, which confuse consumers, may eventually destroy the language of brands as the trust, risk reduction and communication properties of the brands become invalid.
(ii) Knowledgeable Consumers

When consumers are knowledgeable about the sources of goods, then there is little harm and perhaps some benefit to the consumers. Consumers are not seen as being cheated because they use their own free will to buy the lower-priced but usually lower-quality goods. They might be disappointed in the quality but then they would lose trust in the imitated goods.

When the good is of better quality, then it will be a contribution to the welfare of society, giving consumers more and better products to choose from. However, at present there is not even a single example available to quote. There are perhaps many examples of goods of equal quality, in content, that follow an imitation strategy. They help the social welfare if they are of better value or priced much lower than the original. E.g. is acceptance of generic drugs. Society is given the option of purchasing a substitute brand at a lower price.

If a consumer perceives the poor-quality imitator to be an unsuitable substitute, then the imitating brand may quickly die in the marketplace. The problem scenario, from a broad marketing point of view, is when the selling price is very low. Then the price-sensitive consumer may still buy the imitator and its poor quality may destroy the equity of the original brand just by its presence on the market.

II Destruction of Brand Equity

The destruction of brand equity is somewhat different than that of the language of brands. Brand equity is something owned by an individual brand that captures consumer response to its marketing efforts. The components of brand equity build on consumer’s knowledge of the brand derived from their brand awareness and its image. Whereas brand awareness can be defined and measured in terms of simple recognition and recall, brand image is a more complex construct derived from different types, favourability, strength and uniqueness of brand associations. The types of associations are: attitudes toward the brand, both functional and experiential; benefits derived from use of the brand and perceived product attributes, which are product-and non-product-related.

The demise of a brand’s equity as a result of others imitating it can be traced back to the weakening of the brand’s perceived uniqueness and possible unfavourable associations. Poor-quality imitators or pirated goods may lead to an association effect weighted by negative
information. It is like judging one’s worth by the company one keeps. If luxury brands are copied using inferior materials and workmanship and are then knowingly purchased by the masses, the original is seen as losing its exclusivity.

Some consumer’s want goods simply because they are exclusive. The proliferation of look-alikes would mean the original brand would no longer be exclusive, an inherent attribute of the brand. If exclusivity is the desired important characteristic, then the brand’s equity will be destroyed. Overtime, no one would want either the imitator or the original, since it was the image of exclusivity that motivated the purchase. The brand would no longer provide the benefit of the elevated feeling of prestige to those who could afford the original.

The problem is that rich people, who own the original, no longer are privy to the image of publicly consumed luxury goods. People wearing a real Rolex watch can be asked about the genuinity of the watch. A question, that does not enhance the experience of owning the real thing. Once the brand loses its appeal to the affluent segment, the imitator will also lose its market because it no longer represents a brand that communicates wealth.

The question of whether imitation helps or harms society must be answered from figure 2.5, which outlines a combination of the consumer’s perspective and the quality of the imitator good. High-quality imitators are not a problem to society and may even benefit the marketplace by providing good competition and more choices for consumers. Equal-quality imitators are only beneficial if they are sold at a lower price. Poor-quality imitators may not be a problem to society when consumers can easily judge for themselves that the imitation is inferior. Poor-quality imitators, which are easily identifiable, will probably not have a long market life.

In general, there may be a benefit to society or to marketing when imitations are uniquely identified, are knowingly purchased by consumers and are of better quality and/or value to the consumer. Under these circumstances, original manufacturer may be motivated to further improve their market offerings. To be effective competitors, imitators need to advertise in order to signal to the consumer their existence as a superior substitute for the original brand. Through advertising or word of mouth, the consumer is likely to be informed as to the source of the substitute good. If the imitator is of poorer quality and/or represents less value than the original, than there will probably be no effort to communicate product attributes. Therefore, a
key in determining whether the imitator is benefiting society is its level of advertising; that is what leads to knowledgeable consumers.

The most serious problems arise when consumers are misguided or misled about the origin of the good, regardless of the quality. In all cases, no matter the value or quality, the language of brands is in danger of being destroyed.
REFERENCES


69) www.fake-busters.com


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