

FAST SECOND

How Smart Companies Bypass Radical Innovation to Enter and Dominate New Markets

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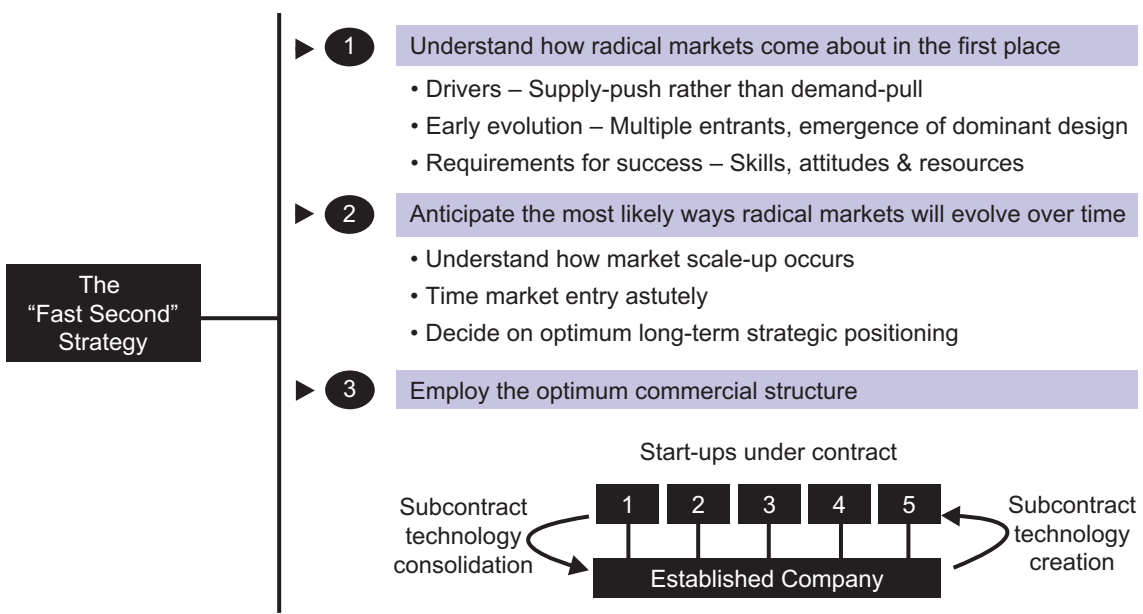
MAIN IDEA

The economic benefits of the first-mover advantage have been grossly exaggerated. The companies which develop and pioneer radical innovations are rarely the ones which ultimately end up dominating the markets they create. Instead, the major profits in any market tend to accrue to the established corporations which have the skills, resources and mind-set to take niche products and scale them up into mass markets.

With this in mind, established corporations should not even try to develop radical innovations. Instead, corporations should subcontract the creation of new and radical products to start-up firms, and concentrate instead on consolidating the results generated by these start-ups. This is the strategic model already widely used in creative industries to great effect. This same business model should also be picked up on and used in many more industries.

“Henry Ford did not create the car market but the Ford company ended up capturing a lot of the value in that market in its first hundred years of existence; Procter & Gamble did not create the market for disposable diapers but it is P&G that ended up harvesting most of the value out of the mass market for disposable diapers that blossomed in the last fifty years; and General Electric did not create the CAT scanner market, yet it was GE that made most of the money out of this market. It turns out that when it comes to radical, new-to-the-world markets, the pioneers almost always lose out to latecomers.”

– Constantinos Markides and Paul Geroski



1. Understand how radical markets come about in the first place Pages 2 - 3

Radical markets are new-to-the-world consumer markets which are created by the availability of new technologies or innovations. Over the past fifty years, a number of radical markets have been created and that trend is certain to continue in the future. To benefit from that knowledge, you need to first understand where new markets come from, what they look like and what it takes to succeed in them.

2. Anticipate the most likely ways radical markets will evolve over time Pages 4 - 6

New-to-the-world radical markets evolve and scale up into mass markets using a well understood development path. By understanding these developments, firms can position themselves advantageously. In most if not all cases, the optimum profits will accrue to those firms who use a fast-second strategy. That is, instead of attempting to be pioneers, they wait for the dominant design to begin to emerge and then aggressively compete on costs and low prices.

3. Employ the optimum commercial structure Pages 7 - 8

To take full advantage of the innovation opportunities of the twenty-first century, established companies should not attempt to innovate themselves. It's not where their genuine strengths lie. Instead, the established firms should leave the task of new technology creation to the start-ups. They could even develop a network of feeder firms, who will do the pioneering work. Then, when the time is right, the established firms can move to take the niche markets created by the start-ups and grow them into mass markets. By separating the pioneering and consolidation activities in this manner, much better results can be obtained.

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