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Author: Chakravarthi Narasimhan - Z. John Zhang

e-mail:
MktgSci@notes.cba.ufl.edu

Market Entry Strategy Under Firm Heterogeneity and Asymmetric Payoffs

Chakravarthi Narasimhan • Z. John Zhang
John M. Olin School of Business, Washington University in St. Louis, St. Louis, Missouri 63130-4899, narasimhan@olin.wustl.edu
Columbia Business School, Columbia University, 513 Uris, 3022 Broadway, New York, New York 10027, zz25@columbia.edu

Abstract

How should a firm decide whether or not to enter an untested market when a competing firm is vying for the same market? Should a firm always speed to the market in an effort to capitalize on pioneering advantages? We address those questions by developing a simple game-theoretical model that captures the most essential factors in a firm's market entry decision, such as market uncertainty, firm heterogeneity, competition, cannibalization, and order-of-entry effects.

Our analysis shows that in a competitive context, both pioneering advantages and laggard's disadvantages can motivate a firm to speed to an untested market. Therefore, pioneering advantages alone are not an adequate guide for a firm to formulate its market entry strategy. The optimal decision may call for a firm to be a prudent laggard when pioneering advantages to the firm are substantial, or to become a market pioneer when facing pioneering disadvantages. We characterize different patterns of market entry as equilibrium outcomes for different configurations of the market reward structure and offer a conceptual framework for formulating market entry strategies that go beyond the conventional dichotomy: *speed* or *wait.* We show that the paradoxical phenomenon of "disadvantaged pioneers" can arise in a competitive context as the outcome of rational firms making rational choices.

To show that pioneering advantages alone are not the right litmus test for market entry decisions, we apply our general framework to a concrete case where consumer preference or the premium that consumers are willing to pay for the pioneering brand gives rise to pioneering advantages and laggard's disadvantages. We conclude that the firm with a larger pioneering premium may choose to wait, while a firm with a smaller pioneering premium speeds to the market.

Our analysis also sheds light on empirical research on pioneering advantages. Because firms may race into a market solely to avoid laggard's disadvantages rather than to capture pioneering advantages, pioneers are not necessarily the firms best positioned to establish, exploit, and maintain pioneering advantages. Therefore, it is not surprising that a significant percentage of pioneers fail, as documented by recent empirical research. Our normative investigation further suggests that this predicament in empirical research will not disappear even if we have complete data, use the right measurements, and employ perfect statistical techniques. Therefore, it is perhaps more fruitful to redirect our research effort in the search for pioneering advantages.

Finally, we extend our analysis to incorporate the effect of cannibalization on an incumbent firm's market entry strategy. We conclude that cannibalization can motivate an incumbent firm to wait, as the conventional wisdom suggests, but it can also be an impetus for a firm to become a market pioneer. We offer supporting evidence for our analysis and discuss managerial implications of our conclusions.
(*New Product Entry*; *Competitive Strategy*)

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