

Innovator, Immitator, and Renovator in Novelty-Intensive Market

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Abstract: Novelty-intensive market is the segmented population with intensive pursuit for newness and uniqueness in addition to the basic solution of product and service. “*The demand for novelty-intensive is the portion of demand not explained by practical utility or marketing effects-it is the demand for the new and unique*” (Todd and Scott 2007., p80-92). This research sets out to investigate the about the cyclical relationships between innovator, imitator and renovator in the novelty-intensive market. The findings of this research will have profound impacts on the market entry strategies of product innovators.

1. Introduction

Along with the ever-increasing innovative ability of modern enterprise and ever-increasingly demanding customer product experience requirement, companies are forced to constantly produce product and service of unique and new features to attract customers. Under this tendency, many traditional markets gradually evolved into having the new features of novelty-intensive market which is characterized as shorter product life span, shorter interval between the entrance of market-pioneer and follower, faster market growth and recession rate, and lower product switching cost (Golder & Tellis, 2004; Todd and Scott 2007).

Those new characteristics of novelty-intensive market would cause a much higher degree of strategic mutuality and competition between innovator (first mover), imitator (follower) and renovator (market-reentrant innovator) in the same market and thus intensify the cyclicity of product innovation, improvement, and renovation. On another side, first-mover advantage and follower advantage have been studied in a variety of contexts (Kalyanaram et al, 1995; Lieberman and Montgomery, 1998; Zhang and Markman, 1998).

However, most researchers were overly influenced by the internal resource-based view of developing innovation strategy and studied the problem from industry and company-specific perspectives, few of them looked beyond internal competence into external market characteristics as an causing factor on strategy formulation. Even some researchers tried to sum up the characteristics of novelty-intensive market and find the necessary competences to serve the market, but their summarization is not empirically evidenced, and the competences identified by them are not strategically robust, which makes their work hardly as a general or applicable tool by practitioners in the novelty-intensive market.

Therefore, this research will try to unveil the strategy-enable characteristics of novelty-intensive

market and identify the competences of serving the novelty-intensive market separately as innovator, imitator, and renovator. Additionally, this research will include a new concept termed **renovation** which indicates the process of using innovative techniques to explore the market previously explored by prior innovators. Finally, this research will also identify the characteristics of cyclic interactions between innovator, imitator and renovator, and find out the possible competences to explore that cyclicity.

2. Significant prior research

The first-mover advantage is identified by Kalyanaram et al (1995) as long-term market share advantage, and this advantage is diminishing over time. However, some research demonstrate that first-mover might encounter problems like immature market, few adoptions, and ambiguous development path, which will make the later mover (follower) at advantage (Schnaars, 1994; Berndt, Bui, Reiley & Urban, 1995). The proponents of first-mover advantage contend that first-mover is more likely to establish Industry Classification Codes (Lee et al, 2000) and underpin the market-leader impression in the minds of customers (Lieberman, M.B. and Montgomery, D.B. 1998). However, Todd and Scott (2007) argue that although the first-mover advantage can be established more quickly for the faster growth rate in the novelty-intensive market, it's hardly to maintain due to lower switching cost and weak chance of product standardization. Nevertheless, their research is purely based on the theoretical logic and is not back up by empirical evidence. Golder and Tellis (1993) proposed that market leader is normally not the first mover into a market but move into the market until the first-mover has educated new market to some extent while Kennedy (2002) argued that novelty-intensive market might be an exception. Previous research also looked into the knowledge innovation and learning ability of an organization in developing new product ideas (Moorman & Miner, 1998; Gronhaug & Haukedal, 1995), but few of them shed light on how those knowledge-based innovation and learning process contribute to the success in the novelty-intensive market. Therefore, this research will synthesize the previous knowledge on first mover and follower advantage, knowledge transfer, learning theory, innovative capability, market competition and novelty-intensive market so as to sort out the characteristics of novelty-intensive market and how to develop core competence as innovator, imitator and renovator inside the market.

From another angle, the cyclicity of demand for innovation in the novelty-intensive market has been noticed by some researchers (Todd and Scott 2007). However, scarce description has been given to the cyclical relationship between innovator, imitator and renovator who underpinned the cyclicity demand of innovation in the novelty-intensive demand and nor even the role of renovator be conceptualized. Academically, **cyclical innovation model** has ever been conceptualized by Berkhout, A. J., Hartmann, Dap., van der Duin, Patrick., and Ortt, Roland (2006, p390-404) as *“the innovation regime by a ‘circle of change’*. It links changes in scientific insights, technological capabilities, product design and manufacturing, and markets. The model replaces the traditional chain concept by a circle with four ‘nodes of change’, connected by four interacting ‘cycles of change’. The weight of their model is on the continuous innovation process across different disciplinary functions and to elicit innovation from the cyclicity of cross-disciplinary knowledge. While continuous innovation is appreciated by many scholars, continuous innovation is by no means necessary to be kept at the same pace all the time and omit of the cyclical innovation model is the rhythm of the innovation. Where the rhythm of innovation is concerned, Jaideep Prabhu et al (2006) suggest that too frequent and speedy product development will hurt firms by lowering their ability of converting ideas into launched products in pharmaceutical industry. Meanwhile, Todd and Scott (2007) refute that firms are less likely to be successful with their innovation strategy in the novelty-intensive market if their new product development is intermittent rather than frequent. More importantly, the rhythm of

innovation is not only decided by the internal ability of converting ideas into product, but also by the cyclicity of innovative demand underpinned by innovator, imitator, and renovator. As all of the three roles thrive on the same market, they constitute an ecological system. This study will investigate into the mutuality of the three roles from an ecological perspective and try to find the maximized exploration of the market served by the innovative efforts of the three roles.

3. Research Methods

3.1 What questions

The nature of the research is to answer *what* and *how* questions. For those *what* questions, aims are set up to discover the attributes of an object and to make sure the discovered attributes are reliable and ready for generalization. This research will start with a comprehensive literature review towards novelty-intensive market, strategy for first-mover and follower, product innovation, knowledge learning, cyclicity of innovative demand, and innovation for market re-entry. A series of assumptions will be developed based on the initial understanding of the basic attributes of cyclic novelty-intensive demand, comparative advantage for first-mover, follower, and renovator, and competences required to serve novelty-intensive market (like the assumptions proposed before). The reliability of assumptions will be tested through a survey including questionnaire disseminated to novelty-intensive industry.

3.2 Assumption testing process

Taking the assumptions listed before as example, the assumptions contains 11 explanatory variables and dependent variables which are first-mover advantage, duration of first-mover advantage, novelty intensive demand, customer input in product design, capability of learning, performance for innovator, imitator and renovator, time after entrance, density of imitation, renovation possibility and entrant interval. As cyclicity is studied in this research, some of the independent and dependent variables are exchangeable throughout the 13 assumptions. Research method will apply stratified random sampling to secure samples from five novelty-intensive product categories in high novelty-intensive market: music CDs, computer games, toys, fashion, and motion pictures. The five product categories will be assessed and ranked according to the propensity of customers in pursuing innovation inside each product market. Pearson correlation will be applied to evaluate the correlation of each independent variable to dependent variable in each product category, and then the cross-sectional comparison will be used to compare the Pearson correlation value of each product category to the degree of novelty-intensive demand of each product category to see if there is variations upon the novelty-intensive demand for the relationships as stated in each assumptions. A self-administrated questionnaire will be sent out to the managers of companies serving novelty-intensive market to secure data from the five product categories mentioned before. The content of questionnaire will be about Market share, Duration of first-mover advantage, pricing, interval of market entrance between first-mover and follower, percentage of customer input in product design, R&D expenses, and timing of market entrance, company performance and learning capability. Financial report review and interview will be conducted to achieve triangulation of perceptions so as to ensure reliability (Yin 1994). The Likert Scaling will be used to assess the learning capability, customer input and density of imitation. Beside the two measures, the other contents of data can be easily codified for they are normally concerning with time, performance (financially quantifiable), and market share.

3.3 How questions

After the sorting out of *what* questions regarding the characteristics of novelty-intensive market and cyclicity, the ensuing questions will be about how to develop competence and process key techniques for exploring those characteristics. Where those *how* questions are concerned, the case study method is considered as appropriate for answering *how* questions (Yin 1994). Exploratory and detailed case study will be conducted to figure out the how the competences underpinning first-mover, follower and market reentrant innovator advantage developed, how innovator, imitator and renovator cyclically relate to each other, and how competence developed to explore the cyclicity. As multiple-case design will enhance validity (Voss et al., 2002), investigation will include three cases with innovator, imitator, and renovator separately involved in each case. Case will be enriched through company reports, external publicity, empirical observation and interviews with R&D staff, marketing manager, factory supervisor, engineer, and customer. A certain length of period of participation into the daily operation of cased companies and interaction with staff will be necessary, because a single-day data collection may import in distortion. The collected data will go through a repetitive inductive and deductive process so as to work out a complete and in-depth descriptive picture of the targeted companies.

4. Discussion

This research work on the strategy for exploring the cyclicity of innovation demand in the novelty-intensive market which includes four main strands:

- The attributes of Novelty-intensive market to clarify the call for the new competences required to serve the market.
- Characteristics of innovator, imitator and renovator in the novelty-intensive market, the three roles' cyclical interaction and the strategic opportunity associated with the cyclicity.
- Resources and capabilities required to develop first-mover, follower and reentrant innovator advantage based on the cyclicity of innovation in the novelty-intensive market.
- Robustness of the resources and capabilities to keep the competence of cyclical innovation sustainable and the potential disruptive forces likely to erode the cyclicity of innovation demand.

The four strands of the research can be illustrated as the four interrelated layers in the figure below:

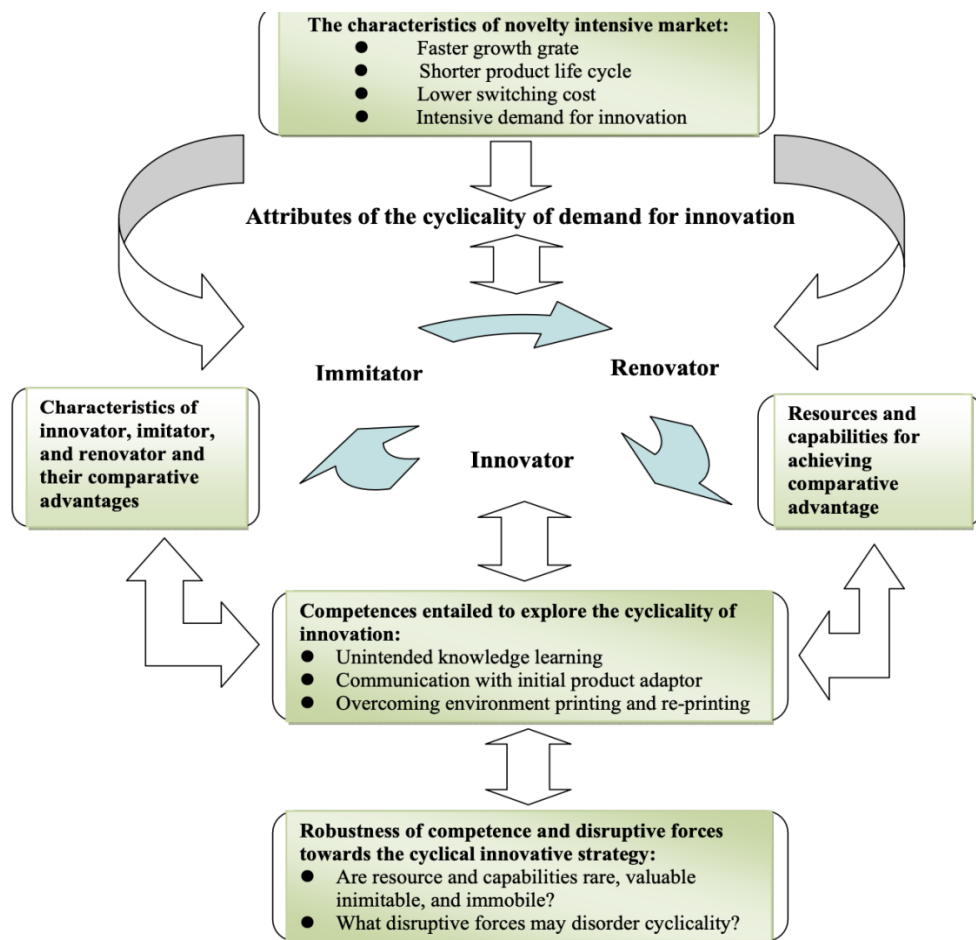


Figure 1: The Cyclicity of Innovation

The purchasing motive of customer derives from the attractiveness of products and services in the novelty-intensive market. The novelty-intensive market includes music, CDs, television program, game, toys, books, fashion, and motion pictures segments, which account for quite a large proportion of global economy. Maslow's Hierarchy of Needs(1943) predicted that the customers' need will constantly develop into a more demanding stage and finally transcend basic physiological and safety needs to the need of more creative and self-actualized problem solution. Novelty-intensive products can satisfy the customer's pursuits towards creative and self-actualized solution by providing exclusive, innovative surprising and distinctive products and service experience. Therefore, novelty-intensive market will develop as the reflection to the newly evolved customer demand stage which will be the tendency of consuming behavior in the coming future.

Innovator, imitator and renovator are the three dominant roles in the novelty-intensive market and the cyclicity of demand for novelty in the novelty-intensive market will give strategic implication for the innovative nature of the three roles (Todd and Scott 2007). The study into the features of the cyclical demand for novelty and the strategies of innovator, imitator and renovator inside novelty market will enlighten industrial practitioners as to the exploration towards the cyclicity of demand for novelty and hasten enterprises to create comparative advantage based on that cyclicity. Additionally, the cyclicity for innovation is not only a feature exclusive to novelty-intensive market but also a general law that untapped in many other markets that in the need of innovation.

For the sake of sorting out the attributes regarding the novelty-intensive market and the cyclicity between innovator, imitator and renovator, the following assumptions would be possibly tested.

However, the assumptions listed below are by no means conclusive and are changeable after broader literature review and data collection.

1. The first-mover advantage is positively related to novelty-intensive demand
2. The duration of first-mover advantage is negatively related to novelty-intensive demand
3. The capability of learning is positively related to novelty-intensive demand
4. The market growth rate is positively related to novelty-intensive demand
5. The customer input in product design is negatively related to the performance of innovator
6. The customer input in product design is positively related to the performance of imitator
7. The length of interval between the entrance of innovator and imitator is negatively related imitator performance
8. The offering premium of imitator over innovator is positively related to the time between innovator and imitator market entrance
9. The R&D expense of innovator is negatively related to that of imitator
10. The non-R&D expense of innovator is positively related to the R&D expense of imitator
11. The length of interval between the entrance of innovator and renovator is positively related to the renovator performance when renovation is based on the lost of memory.
12. The length of interval between the entrance of innovator and renovator is positively related to the renovator performance when renovation is based on the awake of memory
13. The density of imitation is positively related to renovation possibility upon memory

5. Conclusion

This research proposes to study the interrelationship between first-moving innovator, imitator, and renovator. The findings of this research are largely deductive and are based on prior literatures. The proposed hypotheses of this research should be tested to a large population to prove their internal validity and external reliability. The readership of this research should take this paper as inspiration but confirmation about the relationship between innovator, imitator and renovator.

Along with the constantly upgraded customer taste to the innovativeness, newness, and exclusiveness of product and service, and the pervasiveness of individualism in the modern society, the study into novelty-intensive market will be of paramount importance. The outcome of study will help companies in terms of developing core competence to stand up to the fierce competition in the novelty-intensive market and providing insight into previously untapped resources like the cyclicity of innovative demand and cyclic relationship between innovator, imitator and renovator. By following the suggestion of the research, company will maintain competitive throughout product lifespan and live out product lifespan in harmony with other competitors.

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