Playing to Win

Pros and cons of entering an existing marketplace or building a new one

BY DAVID SHUBS

Steve Wozniak and Steve Jobs (Apple) are credited with inventing the first computer for home use. They created massive personal wealth for themselves as well as a more than trillion-dollar-per-year industry. Michael Dell (Dell Computers), Bill Gates (Microsoft), Mark Cuban (Broadcast.com) and Mark Zuckerberg (Facebook) are a few of the billionaires created directly as a result of the advent of personal computers.

In the 1940s, Meyer Lansky had a vision of an oasis in the desert. In 2004, 60 years later, spending in Las Vegas reached $33.7 billion. Kirk Kerkorian (MGM-Mirage), Sheldon Adelson (Venetian) and Steve Wynn (Wynn/Encore Complex) are among the billionaires who now own Las Vegas property and are reaping the rewards of the Las Vegas that Lansky envisioned. So, is it better to work in a marketplace that already exists, or to create a new one? This is a risk/reward question and a matter of first-mover advantage.

For a company to have a successful first-mover advantage, it needs to be well capitalized.

First-mover advantage refers to the first significant company to move into a market (not necessarily the first company). In order for a company to have a successful first-mover advantage, it needs to be well capitalized and understand both the risks and rewards of that marketplace. If the risks are misjudged or the funding is not sufficient, it will likely fail. In a capital-intensive arena like building, this can have the power to cripple a business.

When the first mover is not able to capitalize on its advantage, this may create an opportunity for competitors to gain a second-mover advantage.

They can learn from the mistakes made before them and potentially buy quality assets, with pieces of an already-built infrastructure at bargain prices.

The stakes for building a marketplace are high, as are the rewards. If you want to create this market, there will be many watching and willing to pay up for a piece of the success. They will also be very happy to pay down in the case of a misjudgment.

The billionaires mentioned earlier can attest that the return from working in a marketplace that already exists can be quite lucrative. What they have avoided are the dollars, time and effort required to create a new market. Someone else has aleady taken on that cost. The revolutionaries who successfully built a market are world changers, but history may show that visionaries who participate in these already established markets have fared better. **OHB**

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