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Missing the starting gun? Rationality beyond incumbent entry timing decisions into new market niches

Abstract

The paper is focused on the interactions between first comers and followers in new markets. We analyze this issue in the case of Encryption Software Industry (ESI), a market niche in the software industry. Empirical evidence collected from several sources shows how in ESI first innovators could not be able to exploit all the technological competencies they created and they could to some respect lose their initial advantage to the benefit of new startups. In this industry first technological movers were slow or late to enter into the downstream market, leaving newcomers the opportunity to dominate the industry. With a formal model and an econometric analysis, we test the hypothesis that incumbent adoption of a wait-and-see strategy was a rational and optimal choice against the assumption of inertia and not full rationality myopia in the decision process of potential entrants in ESI. We find that firm entry timing decision in ESI is not the direct outcome of a process of rational decision on timing, but a sub-product of an entry-vs-no entry algorithm that each time firms repeat.