

Start Last, Finish First

**Have an idea for a startup that could challenge an industry leader?
There's never been a better time to come late to the race.**

By Michael V. Copeland
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BUSINESS 2.0

(Business 2.0) – Paul Johnston is deeply grateful to Marc Benioff. Johnston's Seattle-based startup, Entellium, has won hundreds of contracts against Benioff's Salesforce.com and other competitors since it moved from Malaysia 18 months ago, and its revenues grew fivefold in 2005. But what Johnston really likes is not having to sell companies on the concept of letting an outsider host their customer-relationship management software: Benioff, the software-as-a-service pioneer, has already evangelized the idea for him. "I sometimes joke that 10 percent of Salesforce.com's marketing budget goes to us," Entellium's CEO says. "We strongly believe that the second mouse gets the cheese."

To some degree, that's always been true in tech. After all, Microsoft's entire business was built on fast-following. Even today's hottest Internet companies were started on the heels of like-minded competitors: Google followed Overture in paid search, for example, and MySpace came late to the social-networking party.

But what makes fast-following the strategy of the moment is the relative ease with which founders can get a startup out on the track and send it chasing the competition like a Balco-fueled sprinter. Cheap open-source tools mean you can deploy new software almost instantaneously. Offshore manufacturers can quickly churn out anything from semiconductors to engine parts. The Web connects marketers to a vast pool of beta testers, while angel investors and venture capitalists, flush with new funds, stand at the ready.

Of course, fast-following isn't as simple as saying "Me too." To battle established leaders, you need the right product and strategy, and a big dose of savvy. Here's how to show up after the starting gun and still come out on top.

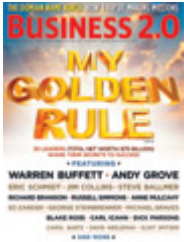
NUMBER 001 Be better, faster, cheaper, easier.

In order to steal business from Benioff, Johnston knew that Entellium had to offer something different. "This is true for any follower," he says. It's what Johnston calls the "awesome, awesome, not totally f--ed up" approach. The first "awesome" is how Entellium's software works. Johnston, formerly an Apple sales exec, aims to bring to the stodgy world of enterprise software the ease of use of consumer-directed offerings like Google Maps and the role-playing game Everquest. He even hired developers from the gaming industry to borrow interface tricks.

After appealing to customers on usability, Johnston hits them with the price: about 40 percent less than the competition. That's the second "awesome."

The last part is making Entellium a less risky decision. No one gets fired for picking Salesforce.com or Siebel on-demand, but who wants to put his job on the line for a startup the boss has never heard of? Johnston offers free 24/7 service to make it easier for new customers to stick their necks out.

NUMBER 002 Trip up incumbents with tactics from other fields.



Common wisdom would say that the last thing the world needs is another technology news website. But Digg founders Jay Adelson and Kevin Rose are uncommonly wise. A year ago, inspired by social-networking sites like MySpace--whose users rank everything from people to music--Adelson and Rose decided to use the same approach to build a better version of tech news site Slashdot. Digg lets readers submit news stories and vote for the ones they think are most important. The top 15 vote-getters make it to the front page.

The formula is working: Between May and November, the number of monthly unique visitors to Digg surged 284 percent to 404,000, eclipsing Slashdot's 367,000, according to ComScore Media Metrix. And Adelson and Rose recently landed \$2.8 million from investors including eBay founder Pierre Omidyar and Netscape co-founder Marc Andreessen.

Moving forward, Adelson and Rose won't be shy about borrowing even more from seemingly unrelated companies: Soon they'll start tracking what members read and offer story recommendations à la Amazon. Digg is also set to branch out into nontechnology stories, which readers will be able to categorize with Del.icio.us-style tags. "A lot of companies are afraid to touch their original technology, to reconsider the premise on which they started the business," Adelson says. "But when you stop doing that, that's when you get lapped."

NUMBER 003 Swipe their business models and start your own race.

When Billy McNair and Danny Robinson were hatching the idea for a new DVD company, Netflix handed them part of their business plan: Consumers had already learned that renting by mail was easy. But McNair and Robinson believed they could do better than rentals. After all, eBay had shown them how.

By mixing together the best of two worlds, the founders came up with Peerflix, a website where people exchange DVDs for a 99-cent transaction fee. Like eBay, Peerflix sits in the middle, linking movie fans and taking a piece of the action. Eager to avoid going head-to-head with eBay, however, McNair and Robinson are starting with lower-ticket items--those that sell for less than \$25--for which auctions may not be worth the hassle.

"We've married the best of online rental services and online secondary markets," McNair says. Since launching in September, Peerflix has helped trade nearly 200,000 DVDs, and the founders are now talking about extending the idea to videogames and other items.

NUMBER 004 Follow the biggest leader you can find.

When he hatched Zappos six years ago, Nick Swinmurn put other online shoe sellers in his crosshairs. Web-based competitors typically carried a limited number of brands and catered to small niches--say, women's dress shoes or men's outdoor boots. Zappos would crush them, Swinmurn reasoned, with an online store that offered every conceivable make and model.

That was the right idea, but it focused on the wrong competitors. The online shoe market was so tiny that even if Zappos dominated it, there wouldn't be enough business for the company to thrive. To grow, it had to steal customers from bricks-and-mortar stores. Before 2001, Zappos didn't carry inventory; rather, the company asked distributors to "drop-ship" directly to consumers. It was an easy, cheap arrangement, but the problem was that Zappos couldn't guarantee service: Eight percent of the time customers tried to buy shoes, the desired pair was out of stock. In other words, the experience was nothing like walking into a shoe store. "We realized then who our real competition was, and that we had to find a way to make an inventory model work," Swinmurn says.

So Zappos began cozying up to suppliers. Contrary to industry practice, Swinmurn shared data with manufacturers on exactly how well their shoes were selling. "Traditionally the vendor-retail relationship was adversarial," he says. "We thought, 'Instead of trying to hide this information from the brands, let's open everything up. They can help us build the business.'" Did they ever. Grateful shoe reps helped Zappos craft promotions to goose sales.

Since targeting traditional shoe stores, Zappos has thrived. In 2001 the company did \$8.6 million in sales; the next year it did \$32 million. In 2005, Zappos posted more than \$300 million in revenues from an expanding line of shoes, handbags, and other leather goods.

NUMBER 005 Aim for the leader's Achilles' heel.

When he was VP for sales at online marketing shop Digital Impact, Jim Fowler watched his field reps fail with a growing sense of frustration. Their problem? The leading online databases of corporate information, such as Dun & Bradstreet subsidiary Hoover's, didn't offer the deep, up-to-date contact lists that salespeople need to close deals. But rather than complain about those vendors, Fowler decided to improve on them.

His company, Jigsaw, is a new kind of contact subscription service: All of the names and addresses in Jigsaw's database come from its users. Sales reps pay a minimum of \$25 per month to access contacts at thousands of companies--or pay nothing if they contribute 25 contacts per month themselves. Users police the listings to ensure they're current.

Since Jigsaw's launch in December 2004, its database has surged from 200,000 contacts to more than 2 million; some 38,000 subscribers are adding 10,000 new contacts a day. Through Jigsaw you can find more than 16,000 contacts at Medtronic, for example; Hoover's, meanwhile, offers extensive research on the company but only about 30 contacts. "Look at where the problems are, and where the dollars are flowing through an industry," Fowler says. "It's never too late if you are smarter and better than everyone else."

Especially these days. Latecomers, go forth. Following has never been faster.

Coming Up Fast on the Outside

PAUL JOHNSTON

CEO, Entellium

To compete with Salesforce.com, Johnston cut prices, added features, and borrowed tricks from videogamers.

BILLY MCNAIR

Co-founder, Peerflix

McNair married the concepts behind Netflix and eBay, but avoids competing directly with either.

JAY ADELSON

Co-founder and CEO, Digg

Few thought the world needed another Slashdot--until Adelson merged tech news with social networking.

A Brief History of Late Starters

Some of the biggest successes in business are new takes on old ideas.

1966

ROBERT MONDAVI brings French and Italian expertise to Napa Valley, Calif., and helps establish the U.S. wine industry.

1973

FEDERAL EXPRESS swipes the jet idea from DHL and trumps UPS by starting overnight deliveries in the United States.

1981

IBM launches its PC, made from off-the-shelf parts and an OS from Bill Gates, to beat Apple and Atari.

1985

BEST BUY deploys the \$8 million proceeds of its IPO to initiate a rapid expansion of superstores based on the Circuit City model.

1990

TARGET opens its first Greatland, jumping on the megastore trend that worked so well for Kmart and Wal-Mart.

2000

GOOGLE begins to capitalize on paid search with AdWords, now a \$6 billion moneymaker--but Overture was there first, in 1998.

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