REAL WORLD CASE 2 Entellium, Digg, Peerflix, Zappos, and Jigsaw: Success for Second Movers in e-Commerce

Anyone who has watched short-track speed skating during the Winter Olympics knows that skating with the lead is no easy task. The No. 2 skater gets to conserve precious energy by drafting behind the leader. No. 2 watches the frontrunner's every move, gauging when and where to make a bid for the gold. Now corporate America and speed skating have much in common. There are no safe leads.

For companies that use the Internet as the home base for their businesses, the second-mover advantage seems even more substantial. That's why Paul Johnston is deeply grateful to Marc Benioff. Johnston's Seattle-based start-up, Entellium, has won hundreds of contracts against Benioff's Salesforce.com and other competitors since it moved from Malaysia in 2004, 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.

What makes fast-following the hot strategy of the moment is the relative ease with which founders can get a start-up out on the track and send it chasing the competition. Cheap open-source tools can help you deploy new business software quickly. 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.

FIGURE 8.8

Entellium is an example of a company that successfully implemented a second mover strategy on the Web.

Number 1: Be better, faster, cheaper, easier

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 xxxx-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. Who wants to put their job on the line for a start-up 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 2: Trip up incumbents with tactics from other fields

Common wisdom would say that the last thing the world needs is another technology news Web site. 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 cofounder 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 a 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 notes. "But when you stop doing that, that's when you get lapped."

Number 3: 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 Web site on which 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 claims. Since launching in September, Peerflix has helped trade nearly 200,000 DVDs, and the founders are now talking about extending the idea to video games and other items.

Number 4: Follow the biggest leader you can find

When he hatched Zappos six years ago, Nick Swinmum put other online shoe sellers in his cross-hairs. 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, Swinmum 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," Swinmum says.

So Zappos began cozying up to suppliers. Contrary to industry practice, Swinmum shared data with manufacturers on exactly how well their shoes were selling. "Traditionally the vendor-retail relationship was adversarial," he recognizes. "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 5: 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. According to Fowler, "It's never too late if you are smarter and better than everyone else."

Source: Adapted from Jon Birger, "Second-Mover Advantage," *Fortune*, March 20, 2006; Michael V. Copeland, "Start Last, Finish First," *Business 2.0*, February 2, 2006; Sidra Durst, "Shoe In," *Business 2.0*, December 2006.

CASE STUDY QUESTIONS

1. Is the second-mover advantage always a good business strategy? Defend your answer with examples of the companies in this case.
2. What can a front-runner business do to foil the assaults of second movers? Defend your answer using the examples of the front-runner companies in the case.
3. Do second movers always have the advantage in Web-based business success? Why or why not? Evaluate the five strategies given in the case and the companies that used them to help defend your answer.

REAL WORLD ACTIVITIES

1. Use the Internet to research the current business status of all of the many companies in this case. Are the second movers still successfully using their strategies, or have the first movers foiled their attempts? Have new strong players entered the markets of the first and second movers, or have business, economic, or societal developments occurred to change the nature of competition in these markets?
2. Assume you will start an Internet-based business similar to one of those mentioned in this case or another one of your choice. Would you be a first, second, or later mover in the market you select? How would you differentiate yourself from other competitors or prospective new entrants? Break into small groups to share your ideas and attempt to agree on the best Web-based business opportunity of the group.