Stanford eCorner

Facing Competition through Innovation

Reid Hoffman, *LinkedIn*

February 07, 2007

Video URL: http://ecorner.stanford.edu/videos/1688/Facing-Competition-through-Innovation

Hoffman believes an entrepreneurial venture will face competition by either innovating against no competitors or against slow competitors. If a startup faces a smart, aggressive competitor, they must be really sure of what they are doing. He elaborates on this point with the example of 'Friendster' losing its first mover advantage to 'MySpace,' due to a lack of marketing strategy.

Transcript

But one of the things that is actually a central thing about entrepreneurship is thinking about competition. Ideally, you have no competition. I actually prefer to invest in things and to do things where there, in fact, isn't anybody who is really, truly competition because it gives you the freedom--if you're right about your 2 or 3, maybe 1, hypotheses to make the thing go--to expand and take the territory and set up here like, "This is my market," before a competition starts. Now, second-best is slothful, decadent, stupid competition. And the flip side of the banking regulation, which was barren nastiness for us to get through, is banks, if you can compete with them without being a bank, are great to compete against because banks by definition are slothful and very slow and terrible competitors. Now, part of that is because of the structure of how they work. So one of the things that we almost did during PayPal is, part of the reason we emerged with a company called X.com is we thought, 'Oh, OK. Actually being a bank might be a good business model. Let's go become a bank.' And so we started on that road. And then we realized, what does new product launch at banking institutions look like? Well, basically it works like this: you propose your new product to the regulators, and you give them 12 months to digest it before you start building at launching it.

Twelve months. Think about internet time. Twelve months is a complete product cycle, where the whole world changes, on the internet in a year. Banks are great to compete against because by definition the way that they all operate is, for them to launch a product, they've got to go talk to these people called regulators who do not care about upside, they care about risk only, they care about FDIC insurance. They're great to compete against. So when you're looking at where to innovate, innovating either against no competitors --that's good-- or against bad competitors -- that's almost as good. Not quite, but almost. Now, if you're going up against an aggressive, smart competitor who is already in the market, you've either got to be really sure about what you're doing or kind of foolhardy or don't really care if it all blows up. Let's see. So I am an investor in Friendster.

The question is, Friendster was a first mover. MySpace came soon after, but after. The great granddaddy in the category is MySpace rather than Friendster. What happened? Usually first mover has enough advantage that if close the door behind you, you have a successful platform. Good interpretation? OK. Basically, it was Friendster's game to lose. Friendster, through a variety of internal conflicts and internal politicking, couldn't coherently agree on a strategy to resolve its problems, which had serious scaling problems. One of the principles on the Web is, there is a really direct measurement between the time of speed that your page loads and your customer happiness and your customer willingness to go somewhere else. So actually, for example, I'll give you an example that Marissa Mayer talked about at Google. They tested doing 30 answers rather than 10, and they went, "Wow, people hate this! They don't click on links and it doesn't work.

Let's go back to 10." And then what they did is they tested 10 and 30 with the same time of page load, and they liked them both. It was time of page load. Friendster was getting up to, on its peak times when it wasn't down, up to page load times of minutes. Minutes. And it says how strong that first mover advantage was that it kept growing and people kept using it, despite the fact that when you came in during a peak time, load page, go get a cup of coffee, come back. And so one of the sad things is, if Friendster had been able to both deal with its technical problems and then start addressing markets, there wouldn't have been room, I don't think, in my view, for MySpace, even Facebook, which I'm also invested in and so forth, because it wouldn't have been able to take that first mover advantage and do it. And part of that, it's a lesson in start-ups, I think one of the reasons--I wasn't privy to the internal politicking and discussions, but I think what the problem is everyone had a different idea and they were trying to do it all at once. And one of the things you do in start-up is you're always taking risks. You do this now, then that, and then that, I mean, just do them. And sometimes you guess wrong and you're dead.

It happens.