



Stanford eCorner

Surviving Competition

Jeff Housenbold, *Shutterfly*

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Figure out what you're good at and where you can make money, and focus. This is a critical strategy in a competitive marketplace, says Shutterfly CEO Jeff Housenbold, who claims that business always makes the mistake of trying to be too many things to too many people. Winning means differentiating yourself on the cluttered product shelf, and providing real innovation where products are most similar. And in this clip, Housenbold outlines the numerous facets of his services and products and the decisions that put them into place.



Transcript

How do you continue to innovate and make sure that you have a sustainable business model as competitors are trying to encroach? And let me apply that in a Shutterfly context and then maybe bring in some other experiences. There are very few businesses that are inherently unique and have sustainable competitive advantage. Over time, things become imitable. People copy it. Toyota figures out how to make a better car than General Motors. Google figures out how to make a better search engine than AltaVista. Right. Things change over time. And I think great businesses and success, and then I'll talk about how we're doing at Shutterfly, is figure out what you're good at, figure out where you can make money, and focus. And so too often, I've been in companies or invested in companies where they try to be everything to everybody.

In fact, I think part of what created eBay's slow down was we just kept putting feature after feature after feature onto the main eBay website. There were some people who wanted to do auctions and they tended to be more male. There are people who wanted to do fixed price, buy it now. Some people want to buy in quantities. Some people wanted different experiences and buyer, sellers and we just kept putting it on to the platform making it more and more and more complex. And the time to produce new innovations got longer and longer and longer because the code base got larger and larger in a key way and the UE and the complexity of it. And so when I first came to Shutterfly, we didn't really have points of differentiation. We didn't have a mission. We didn't have a vision. We didn't have a strategy.

We didn't have the right management team. We didn't have the right corporate governance. What we had was a bunch of passionate people with the kernel of the right idea that needed to change the perceptual map from being a four-by-six company, which you can't necessarily win against Wal-Mart over time with their scale, and change that perceptual map. And so we're focused on knowing our demographic, which is again 75% females. They tend to have children. They're 25 to 55 years old. And they tend to be what we call the 'CMO,' the Chief Memory Officer of the family. They're the ones responsible for capturing and sharing and telling the stories. And so we set out on a path of how do we win and how do we differentiate, and we're doing it in a couple of ways. First of all, through what we call 'customer centricity.' So unlike all of our competitors, we don't downsample or compress your images.

So if you take an image with a 5-megapixel camera, it's about a 1.4 megabyte size of the file. We actually upload and take that high-res original. Our competitors will downsample it to - like on Facebooks like a 200k. So you can't really make enlargements or crop. And if your computer crashes, your original resolution image isn't there. We also don't force delete. So at Snapfish, if you don't come back every six months and purchase, they'll delete your memories. We call them 'memories.' They

call them 'photos.' They're people's memories and there has been Kodak and Snapfish have deleted people's wedding pictures, the birth of their kids because they change from Hotmail to Yahoo! Mail and they didn't have a bounce back service. And there was a big New York Times article about it. We don't force people to register, so you go to Snapfish.

If you want to share pictures of kids at the soccer game, everyone has to register. So they talk about registered users. We talk about paying customers. So we have a 1-800 phone number as well as live chat plus email. Go try to find the phone number on our competitors' sites. We also have a 100% satisfaction guarantee. So we said we're going to be the premium player. And to do that, you've got to deliver a premium service and experience. That costs more, but you could charge more for doing that. In talking to our customers, they're fashion forward.

They want to stand out from the crowd, and so they care about designs. So we have over 60 million combinations of fonts, layouts, backgrounds, designs, and book sizes, and so we're trying to diversify. Now, we don't overwhelm and tell our customers we have 60 million because they would be overwhelmed. But we allow for progressive discovery based upon us knowing something about them and them telling us something more about them. We've created a new form factor. By owning manufacturing, we're the only ones in the industry to own manufacturing. And when I first got there, I said, "Hey, we've got to get this manufacturing off the books." That's called 'hard assets'. I've come from six Internet companies where you don't own any assets and your return equity and your return on assets are even better. And we went out, we talk to people, and everyone was willing to outsource for us. They didn't have the quality, they didn't have the customer centricity, they didn't have the innovation, and they couldn't provide the service levels that I thought was important to support our premium brand.

So we said, "Let's take manufacturing and turn it into a strategic weapon." So we have the lowest cost in the industry because we own manufacturing. There's no middleman. I went out and hired a bunch of PhD scientists in Image Science and we hired away people from Xerox and from HP, to people who make the machines we use. Right. And we've driven the cost down. We're the lowest cost-producer in the industry. We're also the premium player, so we have the highest prices. So we make a profit between those two where our competitors, to the best of our knowledge, have never made a profit and we've been profitable since 2003. The other thing is our focus on innovation. We've been the first in the market with many things.

We launched on December 11th in 1999 and there has been over a thousand venture-backed companies in the space. Some from folks like Kliener, Sutherhill and Sequoia, name it. But they've come and gone because they haven't created a business model. So we were the first to market. We were the first with different sharing paradigms. We're the first with different form factors. We were the first with going to change in the user experience to use drag-and-drop and Ajax and making the user environment more friendly. And so in customer centricity, quality, design sensibility, innovation, I think those are some of the key ways that we continue to compete. Now, parts of the business is an arms race. For example, the four-by-six print, you could get a four-by-six print on your home printer, which is pretty good.

Not as great as what we do or if you go to in store. It's a little more expensive. The quality is not as good. It's time-consuming, but you can't really win on the quality of a four-by-six print. You could lose. And so we see that as kind of parody and the industry grew about 15% last year on four-by-six prints. And even though we have the highest price by above 14%, we grew 34% our print business and it's because we wrapped it into that customer centric quality. So we used cardboard packaging, we then wrap it again. Our competitors are using paper and saving on shipping stuff. So we said we're going to be the Nordstrums in the industry.

Snapfish has come out and said, "We're going to be the Wal-Mart." And Kodak is kind of stuck in the middle like Macy's. Servicing a broader range of customers selling a large SKU set and not really having a unique tone. So the brand that we're building through all those touch points is the fifth way we're differentiating ourselves because it's an arms race. People who had the same designs will copy our formats. They'll copy our form factors. They'll copy our new features and functionality. But we're constantly innovating and the way we do it is by involving the customers into the design process and doing iterative feedbacks.