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Capitalism and Competitive Advantage

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Floodgate's Mike Maples Jr. discusses how startups in the bustling tech sector do best when they have a "structural competitive advantage," rather than just proving they are better than others. A unique advantage at the core of a business will scale as it grows and ensure it retains a dominant position, according to Maples, an early investor in Twitter, Lyft, TwitchTV and other successful startups.



Transcript

So when I was in business school, if you'd ask the typical MBA student at the time, what is capitalism, they would have said something like, it is a system characterized by multiple firms competing for the preference of empowered customers in a free market, or something like that. And I guess I would assert that that's actually not true, that true capitalism and capitalists are opposites. I like to say that a capitalist is a person who aggregates capital based on an unfair advantage. And so those are the best capitalists I know. And so why is that important? Well what I find is that too many people in Silicon Valley, too many entrepreneurs, too many companies, engage in what I like to call mindless competition. And you've probably seen pictures like this before where one of the slides in the deck has the company presenting, and then five other companies, and we check all the boxes, and the other companies check a fraction of the boxes. And when I see that slide, I almost always pass on the investment. And the reason is, it bugs me when somebody doesn't realize that being different is more important than being better. And that the best competitive strategy is to choose not to compete. We talked about this already.

Sometimes I get in trouble for using the word "monopoly." That word offends people sometimes in other places. So let me just use a more benign word or term. Do you have a structural competitive advantage? And so first mover advantage, when you think about it, isn't a very durable advantage. There's a lot of smart people in this world. But if you have a structural competitive advantage, what that means is that even at scale, your competitors can't attack you effectively. So you think about it, for example, Bing has now spent over \$10 billion in search trying to dislodge Google, and has gotten nowhere trying. And that's because Google has a structural competitive advantage. We won't use the term monopoly to describe Google's search position.