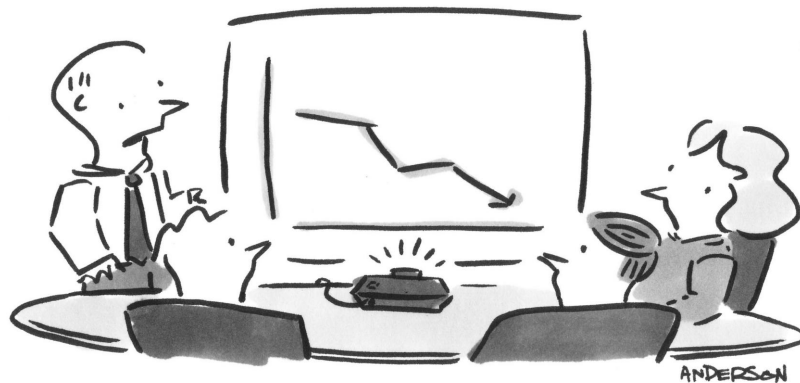# Real Unfair Advantages

"I do have a solution, but it means moving to Santa's naughty list."

What if someone copies your awesome business idea?

The question you know you're going to get:

> When I meet an angel investor, he may ask: "What if a big company copies your idea and develops the same website as yours after your website goes public?"
>
> How can I answer this question?

No, the question is: What are you doing *now* knowing that a big company *will* copy your idea?

No, wait, the real question is: What are you going to do when another smart, scrappy startup copies it, and gets $10m in funding, and is thrice featured on TechCrunch?

No, wait, I'm sorry, the *real* question is: What are you going to do when there are four totally free, open-source competitors?

No wait, I forgot, actually the question is: What happens when employee #2 makes off with your code and roadmap and marketing data and customer list, moves to Bolivia, and starts selling your stuff world-wide at one-tenth the price?

The good news: **There *are* good answers to these questions!**

The bad news: Almost no one I talk to has good answers, *but they think they do*. And that's fatal, because it means they're not working towards remedying that situation. Which means when one of the above scenarios happens, it will be too late.

The first step is admitting you have a problem.

Anything that *can* be copied *will* be copied, including features, marketing copy, and pricing. Anything you read on popular blogs is also read by everyone else. You don't have an "edge" just because you're passionate, hard-working, or "lean."

The only real competitive advantage is that which cannot be copied and cannot be bought.

Like what?

Insider information

They say the only way to consistently make money on Wall Street is to have insider information. Unfortunately it's not a joke, and although it's illegal (and people occasionally go to jail for it), those in the know will tell you it's the norm.

Fortunately, using intimate knowledge of an industry and the specific pain points within an industry is a perfectly legal unfair advantage for a startup.

Here's a real-world example of how this advantage manifests. Adriana has been a psychiatrist for 10 years; she understands the ins and outs of that business. During a lull in her practice she got a serendipitous opportunity to shift gears completely and ended up leading software product development teams. (Turns out that for big-business project management it's more valuable to be a sensible thinker and counselor than to be an expert in debugging legacy C++ code.)

Now Adriana has an epiphany: Traditional practice-management software for psychiatrists totally sucks; she knows both the pain points and the existing software first-hand. But now she has the vision and ability to design her own software, capitalizing on modern trends (e.g. a web application instead of cumbersome installed applications) and new interpretations of HIPPA regulation (which allows web-based applications to store medical records like patient histories).

Adriana holds a unique position: Expert in the industry, able to "geek out" with her target customer, yet capable of leading a product team. Even if someone else saw Adriana's product after the fact, it's almost impossible to find a person—or even assemble a team—who has more integrated knowledge. At best, they could copy. Of course by then Adriana has moved on to version two.

Single-minded, uncompromising obsession with One Thing

A popular comment on the previous post[3] was that a "Unique Feature" *could* be a competitive advantage in some circumstances. Some examples of a feature being a company's primary advantage are:

- Apple compromises everything in the name of design. Their products are over-priced (magically being profitable at half the price 12 months after release), buggy (how many iOS debacles have there been?), and every experience I've had with their tech support has been atrocious, but man their stuff looks and feels nice! (I'm typing this on an Air and there's an iPhone in my pocket, so no Apple fanboy mail please.)
- Google's search algorithm was just better, therefore they won the eyeballs, therefore they were able to monetize. Sure Bing and Yahoo are good *now*, but the advantage lasted long enough.

credit[2]

"What happens to the stock when I do *this*?"

ANDERSON

- Photodex is a little company you've never heard of I worked for in Austin in the 90's. We made an image browser with thumbnail previews so you didn't have to open each file individually to see what it was. (In the 90's, y'all, before that was built into all the operating systems!) Our advantage was speed. Not the best, not the most stable, didn't read the most formats, didn't have the most features, just "fastest." For many users of that product, speed wins; Photodex now makes tens of millions of dollars a year, and "speed" is still the only point on which they will not compromise.

However it's not enough for a feature to merely be unique (like my mini-browser[4]) because it's still easily duplicated. Indeed, most of the innovations we've made at Smart Bear[5] in the art of code review have already been duplicated by both commercial and open-source competitors.

Rather, this requires **unwavering devotion to the One Thing that is (a) hard, and (b) you refuse to lose, no matter what.**

Google has spent hundreds of millions of dollars on their search algorithm, the single biggest focus of the company even today, a decade after they decided that was their One Thing. They refuse to be beaten by competitors or black-hat hackers, whatever it takes.

37signals can build simple—almost trivial—software and earn three million customers because they absolutely will not compromise on their philosophy of simplicity, transparency, and owning their own company, and that's something millions of people respect and support. Competitors could build trivial web applications too (as Joel Spolsky[6] is fond of saying, "Their software is just a bunch of text fields!"), but without the single-minded obsession it's just software with no features.

To remain un-copyable, your One Thing needs to be not just central to your existence, but also difficult to achieve. Google's algorithm, combined with the hardware and software to implement a search of trillions of websites in 0.2 seconds, is hard to replicate; it took hundreds (thousands?) of really smart people at Microsoft and Yahoo years to catch up. 37signals' ranting platform—a blog[7] with 131k followers and a best-selling book[8]—is nearly impossible to build even with a full-time army of insightful writers.

"Being hard to do" is still a true advantage, particularly when you devote your primary energy to it.

P.S. For more, here are detailed examples[9] of how this mindset also sets up your sales pitch.

Personal authority

Chris Brogan commands $22,000 for a single day of consulting in an industry (social media marketing) where all the information you need is already online and free. Joel Spolsky makes millions of dollars off bug tracking—an industry with hundreds of competitors and little innovation. My company Smart Bear sells the most expensive tool of its kind. How did we earn this powerful authority, and how can you earn this overwhelming advantage?

I'm a great example of someone who wasn't an authority on anything, but built that authority over time to the point where now my company (Smart Bear) is untouchable as the leader in both revenue and ideas in the area of peer code review.

Not only was I not an expert on code review prior to building a code review tool, I wasn't even an expert on software development processes generally! I didn't give lectures, I didn't have a blog, I didn't have a column in Dr. Dobbs magazine, and most interesting of all, I didn't even know "code review" was going to be what made the company successful![10]

Unfortunately all this "authority" crap takes years of expensive effort,[11] and even then success is probably due as much to luck[12] as anything
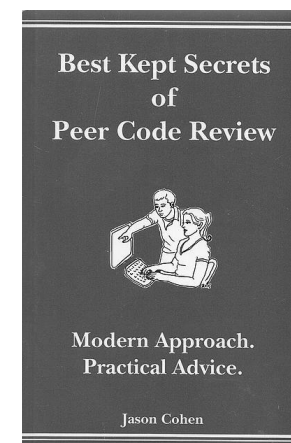
else, so is it worthwhile? Yes, exactly *because* it takes years of effort and a little luck.

Authority cannot be purchased. You can't raise VC money and then "have authority" in a year. A big company cannot just decide they want to be the thought-leaders in their field. Even a pack of hyper-intelligent geeks cannot automatically become authorities because it's not about how well you can code.

But how does authority convert to revenue? Here's one tiny example:

> I give talks on peer code review at conferences.[13] My competition pays thousands of dollars for a booth, then spends thousands advertising to attendees begging them to come to that booth, then gives sales pitches at the booth to uninterested passersby who are also being bombarded by other pitches and distracted by the general hubbub.
>
> Whereas, because I'm a known authority on code review and software development, I get to talk for an *entire hour* to a captive group of 100 people, self-selected as interested in code review. After the talk typically 5-20 people want to chat one-on-one. Some head straight to the booth to get a demo; for many I give a private demo of the product on sofas in the hallway. **It's not unusual to get $10,000-$50,000 in sales** over the next three months from people who saw me at that talk.

That's just one example! Now add to that: What's the effect of a blog that tens of thousands of people read? What's the effect on sales of my writing the book that's the modern authority of code review?[14]

Authority is expensive and time-consuming to earn, no doubt. But it's also an overwhelming, untouchable competitive advantage.

(P.S. I'm hoping that the authority I'm slowly earning from this blog will help when I launch my next venture. That's not *why* I blog, but I certainly will leverage it when the time comes!)

(P.P.S. I apologize for blatantly abusing the word "authority," considering I just lambasted everyone who does[15] things like that.)

The Dream Team

The tech startup world is littered with famous killer teams: Gates & Allen, Steve & Steve, Page & Brin, Fried & DHH.

In each case, the founders were super-smart, had complimentary skill sets, worked together well (or well enough to get to important success milestones), and as a team represented a unique, powerful, and (in retrospect) unstoppable force.

Of course that's easy to see in retrospect, and retrospect is a terrible teacher,[16] but the principle can work for any startup, especially when your goals are more modest than being the next Google.

Take the success of ITWatchDogs,[17] the company I helped bootstrap and eventually sell (before Smart Bear). The elements of our Dream Team were obvious from the start:

* **Varied skill sets.** One experienced startup/business/salesman (Gerry), one proven software developer (me), one proven hardware developer (Michael).
* **Common vision.** We agreed what the product ought to be and that the ultimate goal of the company was to sell it.
* **Insider knowledge.** Gerry had done another successful startup in the same space, I had deep experience with the language and tools for embedded software, and Michael had decades of experience building inexpensive circuits and processors.

Of course a Dream Team doesn't guarantee success but it **significantly reduces the risk** of the startup, and furthermore is difficult for the competition to duplicate.

This is especially true when someone on the team is already successful in their field, e.g. with a massively successful blog or a big startup success under their belt or a ridiculous Rolodex. Since those are the kinds of competitive advantages that can't be bought or consistently created, having that person on the team is by proxy a killer advantage.

P.S. This is the primary competitive advantage in a new startup I'm working on right now (to be announced soon), so shortly you'll see another example of this theory and—better yet!—you and I both will witness over the subsequent months whether or not this really resulted in a killer advantage! (Yes of *course* I'll share details!)

(The right) Celebrity endorsement

Hiten Shah'[18]s third company is KISSMetrics.[19] On the surface, it's yet another "marketing metrics" company. This is a crowded, mature market with *hundreds* of competitors in every combination of large/small, expensive/mid/cheap/free, and product/service/hybrid.

But Hiten has something none of those competitors has: Investors and mentors who are celebrities in exactly the market he's targeting. Folks like Dave McClure,[20] Sean Ellis,[21] and Eric Ries,[22] all of whom not only help via conference call but actively promote KISSMetrics on their blogs, Twitter, and personal appearances.

How much advertising will it take for competitors to overcome Hiten's endorsements and exposure? Even if a competitor also wanted celebrity endorsement, *these guys are taken*, and in any field there's a limited number of widely-known and respected authorities.

Many competitors have more features than KISSMetrics has. I can see the sales pitch now…

> The customer objects: "Gee it would be nice to have all those features," and Hiten responds "Well not really, because Dave, Sean, and Eric all say that those features are actually distractions and don't add to your bottom line. Our features are the right ones, as evidenced by these 20 companies that have shown increases in revenue."

Just on the basis of these advisors, Hiten will get hundreds if not thousands of customers. You can't buy that kind of jump-start, not even for millions of dollars, because it's not about faceless leads who saw KISS-Metrics in an ad, it's people who *trust* Hiten because of his association with other people they already trust.

P.S. If you're raising money, investors love to see a co-founder or even just an advisor who has been successful before. The VC game is more lemming-like than most care to admit.

Existing customers

…or as Frank Rizzo says:[23] Open your ears, jackass!

Everyone you've ever sold to (and those who trialed but abandoned[24]) possess the most valuable market research imaginable, and it's the one thing a new competitor absolutely will not have.

This is kind of a cheat, because everyone says "I listen to my customers," which (nowadays) is just as bullshit as "We're passionate," but it's true that if you're actively learning from your customers *and* you never stop moving, creating, innovating, and learning, that puts you ahead of most companies in the world.

As a company becomes successful it gains momentum, which means that it's going in one direction with one philosophy. Like physical momentum, change becomes harder to affect. It's logical; for example at Smart Bear we have 35,000 users, so making a drastic change to the user interface or typical workflow would mean too much retraining, even if the end result is better.

Even "cool, agile" companies like 37signals are trapped. They've been so clear and confident in their philosophy of "do less," they cannot go after markets where "less" is not more but, actually, just less. For example, with more than a few sales people in a traditional sales organization it's impossible to use Highrise—the folks-of-many-signal believe pipeline reports and geographic domains and integrated campaign management are unnecessary complications, but actually it's Highrise that is unnecessary.

Of course the world *is* changing, and in particular your customers are changing. Normally this leaves room for the next competitor, but if you're

already entrenched you can leverage your existing status, insider knowledge, and revenue stream as long as you're willing to change too.

You have more money, you're better known, you have existing happy customers to help spread the word, you have employees to build new things, and you have more experience with what customers actually do and actually need, which means you should have the best insight.

Any new competitor would kill for just one of these advantages. If *you're* **not using them, how silly is that?**

Zoho made exactly this argument[25] to explain why they're not terribly worried that Microsoft is now a direct competitor:

> **Companies don't get killed by competition, they usually find creative ways to commit suicide.** Office 2010 will be the end of Zoho, if we stop innovating, stop being nimble and flexible in our business model. Then again,if we stop all that, Zoho will die*anyway*, no Office 2010 needed to do the job.

37signals is trapped inside their self-imposed philosophy, but you don't have to be.

Go git 'em

Imitation might be the sincerest form of flattery, but it's still sucks when someone does it to you.

Of course you can still battle it out in the marketplace, but you need *something* that can't be duplicated, something they could never beat you on, then hang your hat on that[9] and don't look back.

Don't despair if you don't have an unfair advantage *yet.* I didn't either when I started Smart Bear! Almost no one does, at the beginning.[26] But I built toward having some, and eventually earned it.

You will too, if you're intentional about it.

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