

## Defending the Copycat

From Bing to Lyft, a copycat is a business model that legitimizes the established firm while making it easier for the copier to launch. Not the same as a true competitor, the genius of it is that the existing provider actually pays for the copycat's growth.

In startups and business there has always been copycats. Those sudo competitors that mimic a successful business in hopes of earning a percent of market share. This occurs in tech, pharmaceuticals, fast food, and probably every other industry. The basic premise is to create a company almost identical to the one that is dominating a space.

Not the same as a competitive alternative, the copycat delivers a product almost exactly the same as the established firm. Not really a generic either since the copycat usually charges a similar price. So is this a profitable business model? For the most part yes.

The key for the copycat is to find a market with one main provider. For Lyft this was Uber. For Coke this was Pepsi. For McDonald's this was Burger King. Sure, Lyft has a mustache, Pepsi tastes different than Coke, and Burger King has flamed broiled. However, they are essentially the same offering by two different companies.

When one company is dominating a market, a percent of customers become hungry for choice. It does not matter if it is nearly identical, it is still different. This second option will take a percent of market share from the established firm. Sometimes it is only temporarily as in the case when a copycat is unable to deliver, but often it is permanent. This is the point.

Being a copycat takes away much of the startup risk. The business model is proven, the customer base already exists, and investors who missed the first opportunity will be more open to getting in on the alternative.

In the old days of Coke and Pepsi, the copycat became a legitimate competitor. In the startup world, the copycat can ride the coattails of its more successful rival with easier funding, a greater probability of early exit, and easier access to media coverage. For example, see if you can find a writeup on Uber that does not include Lyft.

On the downside, the copycat rarely, if ever, overtakes the established company. This is fine since the goal is to be able to grow at the expense of the existing firm. The genius of it is that the existing provider actually pays for the copycat's growth. However, the original firm benefits too.

The benefit to the established provider is they become the leading company. Before the copycat, they were the only one in the market. Now they are the top choice. It may seem small but it can actually matter to their growth. This is because the act of having a copycat legitimizes

their business model. This is due to the fact that the copycat will always compare itself to the original.

A true competitor is dangerous to business success. That is a company that enters a market with the goal of dominating. This company will look for weakness in the established business and exploit them for gain. Think Google and Yahoo. However, a copycat is good for both the one doing the copying and the one being copied.

To illustrate this point, consider the following. Many years ago, there was a CRM (Customer Relationship Management) provider called Siebel Sales. Started in 1993, it quickly became a billion dollar company complete with Super Bowl Commercial. In 1999, an unknown called SalesForce.com began offering CRM software on demand. This was not a copycat but a competitor.

Before SalesForce.com, corporations spent millions implementing software. Instead of building another software application for CRM, they offered a competing product, the first software as a service, that was hosted online. Now, companies could begin using CRM without the heavy initial time and expense. The end result is that SalesForce.com (NYSE:CRM) is now the leading provider of CRM and Siebel Sales is no longer in business (purchased by Oracle).

In 2004, with \$86 million in funding, a company called SugarCRM began offering it's open source CRM software as a service. It quickly obtained customers as it provided an alternative to SalesForce.com. This is the copycat. It is still around and doing well with hundreds of employees.

The point is that the copycat is like a bicycle rider drafting behind a large truck. The truck is spending the money on fuel while the bicycle is benefiting from the removal of wind resistance provided by it. The bicycle will never pass the truck but it can easily stay behind it for a very long time.

An interesting example of copying came from Microsoft's Bing. It is essentially a copy of Google. Coming not from a savvy startup but an established corporation. Why? Most probably because Google had recently launched a copy on Microsoft's core offering with the introduction of Google Docs. Both now take market share from each other's main products.

Ever consider why Uber does not acquire Lyft or McDonalds buy Burger King? The reason is that the act of having a copycat lessens the threat of having true competitors. A copycat will never defeat the one it is copying. However, the nature of having a copycat makes it harder for a third choice to compete.

With that being said, it is important to note that if a company does not have a copycat, it may indicate a problem in their business model or core offering. That is because if a company is

successful then it offers motivation for a copycat. If no opportunity to profitably copy exists then the business itself may not have a viable opportunity.

Then there are those companies that are impossible to copy. Consider Facebook. This companies created a new market, gained millions of users, and from a technology standpoint - could be easily copied. However, it never had a viable copycat.

Sure there were some would be competitors, but none were able to survive. This is because of the nature of the product. If someone used a competitor to Facebook they would not be able to share content with their friends. Unlike search, sales software. or ride sharing, one must be on the same network as everyone else for the whole social thing to work.

In closing, if a company can be viable copied, it is beneficial to both the one being copied and the one doing the copying. Being a copycat lessens the resistance of start while providing an easier means of establishing a future. For the established company, having a copycat both legitimizes the firm and provides less opportunity for true competition.