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## When Second Really is the Best

Sometimes it pays to follow a good act.

By Mark Henricks | [Entrepreneur Magazine - June 2009](#)

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When Donna DeCunzo-Taddeo set out to launch a new high-end tequila in 2000, her plans were decidedly ambitious: take on market leader The Patrón Spirits Company of Las Vegas, which had dominated the ultra-premium tequila niche since creating it more than a decade earlier. Liquor retailers and distributors doubted she could lure consumers away from Patrón, but DeCunzo-Taddeo pressed ahead anyway, co-founding Voodoo Tiki Tequila in Lighthouse Point, Florida, with her husband, John Taddeo.

From DeCunzo-Taddeo's perspective, entering the market late actually allowed for some advantages. For instance, she felt she could improve upon Patrón's traditional Mexican-themed packaging. To counter that, Voodoo Tiki would be sold in hand-blown, numbered bottles featuring a glass-blown tiki inside. Patrón had also spent millions of dollars on marketing to convince people to shell out big bucks for a beverage generally associated with low pricing and spring-break parties. "Patrón had already educated consumers and even convinced vodka drinkers to try tequila, which was very difficult," says DeCunzo-Taddeo, 40.

Did the risk pay off? After hitting the market in 2006, DeCunzo-Taddeo's tequila has done better than expected, projecting \$1.2 million in sales this year in 23 states and six foreign countries. She's still happy to let Patrón do the heavy lifting in market education; that means a fatter bottom line for her. As DeCunzo-Taddeo explains, "We'll make a bigger profit because our costs are a lot lower."

### Second-Mover Status

In industry after industry, entrepreneur after entrepreneur is saying the same thing: Being first can surely be an advantage, but so can being second. Those who follow a market leader can actually be more successful in most cases, says Anne Marie Knott, an associate professor of strategy at Washington University in St. Louis, who discusses second-to-market advantages on the first day of her entrepreneurial studies class. In fact, she says, "I don't think I can name a first-mover who is a market leader." Indeed, while some perennially dominant first-movers--such as FedEx, which essentially invented overnight delivery and still rules the roost today--can be found, many prominent companies came second or even much later. Southwest, for instance, wasn't the first airline; Google wasn't the first search engine; and Starbucks wasn't the first coffee shop by a long shot.



Perhaps the biggest plus of being second to market is that entrepreneurs can avoid first-mover mistakes. Cornell University's Johnson School Berens professor of entrepreneurship David BenDaniel likes to quote Franklin D. Roosevelt: "I think we consider too much the good luck of the early bird and not enough the bad luck of the early worm." BenDaniel says letting someone else go first gives an entrepreneur an invaluable opportunity to see where the mines really lie.

That view finds ready acceptance at Ann Arbor, Mich., fuel-cell maker Adaptive Materials Inc., where husband-and-wife co-founders Aaron and Michelle Crumm carefully watched the missteps of early entrants in the field. While the first fuel-cell innovators employed hydrogen and other costly and hard-to-source fuels for their creations, Adaptive



developed cells fueled by cheap, readily available propane. “You can literally walk into a store in rural Dominican Republic and purchase a propane canister to power an Adaptive Materials fuel cell,” says Michelle, 39.

And they’ve veered away from predecessors when it comes to more than just fuel. Aaron, who began developing Adaptive’s technology after earning his Ph.D. at the University of Michigan, steered the company toward military customers who would pay a premium to replace the heavy battery packs weighing down unmanned vehicles, robots and human soldiers. “We also focused on a plan that would lead to fuel-cell production and manufacturing vs. simply R and D,” says Aaron, 37. All told, Adaptive’s second-mover advantage has paid off in the 9-year-old company’s growth to 63 full-time employees and 2008 sales of \$8 million.

Another significant advantage to being second is the benefit Voodoo Tiki experienced: piggybacking on the pioneer’s development spending. Patrón’s

**Sales of spirits grew by  
2.8% in 2008.**  
(Source: Distilled Spirits Council  
of the United States)

spending to persuade people to try pricey tequilas, in this respect, made it easier for Voodoo Tiki to enter the market. Similar second-mover advantages can come from leveraging first-mover investments in researching technology, refining products, developing markets, sourcing materials and even lobbying for regulatory changes.

And being second can be especially cost-effective internationally, says Usha C. V. Haley, an Asia fellow at Harvard University’s Kennedy School of Government. “There are huge startup costs for going into a country, understanding that country and getting reliable sources of information,” adds Haley, co-author of *New Asian Emperors: The Business Strategies of the Overseas Chinese*. In some countries, including China, market research is actually illegal, she says. One of the only ways to gather advance information about those kinds of markets is to watch while someone else goes first.

## Second Chances

Of course, entrepreneurs who follow the market leader do face some significant disadvantages. One disadvantage arises when the first-mover has already locked up critical resources. These resources may include patents, technologies, standards, locations, regulatory relationships and brand loyalties. In Voodoo Tiki’s case, Patrón’s marketing blitz worked so well it secured the loyalty of countless consumers. “Patrón really won them over,” DeCunzo-Taddeo points out. “So it made our job harder to convince them to just try us.”

<insert ad here>

Very small markets can also be unfriendly to second movers. When Wal-Mart enters a small town, Knott notes, little unserved demand may remain for latecomers. High switching costs, found when customers must jump financial or other hurdles before moving to a new supplier, can also factor in. For example, Microsoft’s legion of customers face daunting learning curves when considering alternatives such as Apple or Linux. Network effects also block second-movers by making products and services more valuable as more people use them. In that sense, having far more users than other online auctioneers is one factor keeping eBay atop its heap. “The unfortunate truth of the matter is that sometimes the best product doesn’t win,” says Lorien Gabel, a veteran of three successful second-to-market startups. “No matter how much better you create your product, some first-timers have already captured consumers through brand awareness and distribution. And people are sometimes hesitant to change their habits when something is tried and true.”

Still, with Gabel’s latest venture, Pingg, an online invitation service, he pitted himself against Evite.com, the undisputed leader in the space for the past decade. What was he thinking? Rather than seeing only obstacles, Gabel, 39, envisioned opportunity in Evite’s paucity of customization features, exclusive reliance on e-mail delivery and neglect of niche markets. Launched in 2008, Pingg offers millions of images and will send invites by electronic or regular mail. It appeals to charity events with tools such as online donation options and to ticket-required events with the ability to link to third-party ticketing services. For Pingg, starting 10 years after the first mover has produced monthly growth rates exceeding 20 percent. The New York City company has 11 employees and annual sales of more than \$2.5 million.

But it’s not enough to just be second. Second-movers must take the right steps; a later offering can resemble a first offering, for example, but it still must be different. “You copy with a twist,” BenDaniel says. That may be in packaging, pricing, features or any other component. Pingg, for instance, also came up with a business model that differed from its rival. Rather than being entirely advertising-supported and free to users, Pingg generates sales from add-on services such as print mailings of invitations. That allows Gabel to customize visitor experiences by, for instance, offering a paid option that doesn’t display ads.

There are fewer and fewer truly original ideas. It’s almost a requirement for entrepreneurs to contemplate being second to someone. But that’s OK if you can take a practical view. “If you expect to go into the market as a husband-and-wife tequila

company and take over the whole market from Patrón, you'd be kidding yourself," DeCunzo-Taddeo says. "But if you say you're going to come in and take a part of the market now that there's a tequila drinker who appreciates good tequila, you can."

*Mark Henricks writes on business and technology for leading publications and is the author of Not Just a Living.*

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