Investor's Cost of First Market Mover Advantage

Armando Castro

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Source: Crunchbase and Online Resources

Early Stage Investor Experience

- "First mover advantage" is not a type of defensibility. Entrepreneurs cite it all the time, but getting an actual advantage from being a first mover is really rare and really difficult to find
- Investors should look at it with a different set of optics:
  "There will always be a "copycat" that will take advantage
  of not having made the mistake that the first mover encounters"

Investor Evaluation

- Investors should focus on the following when assessing "first mover advantage"
  - Strong Management Team
    - Ability to adapt in the event the "first mover advantage" disappears
    - Has this team scaled effectively in the past?
    - Has this team had successful exists in the past?
  - Is the Market large enough to accommodate two players of size in the event we lose the advantage?
  - What has created this "first mover advantage"?
  - Why hasn't this been done before and why will it work now?
  - What happens to my investment in the event that first market mover advantage disappears?
    - Washout by another investor who takes advantage of the "hiccups" I paid for?
    - Examples: Lotus 123, Netscape, Inktomi, AltaVista, AOL

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Tale of Two Investments – Zenefits

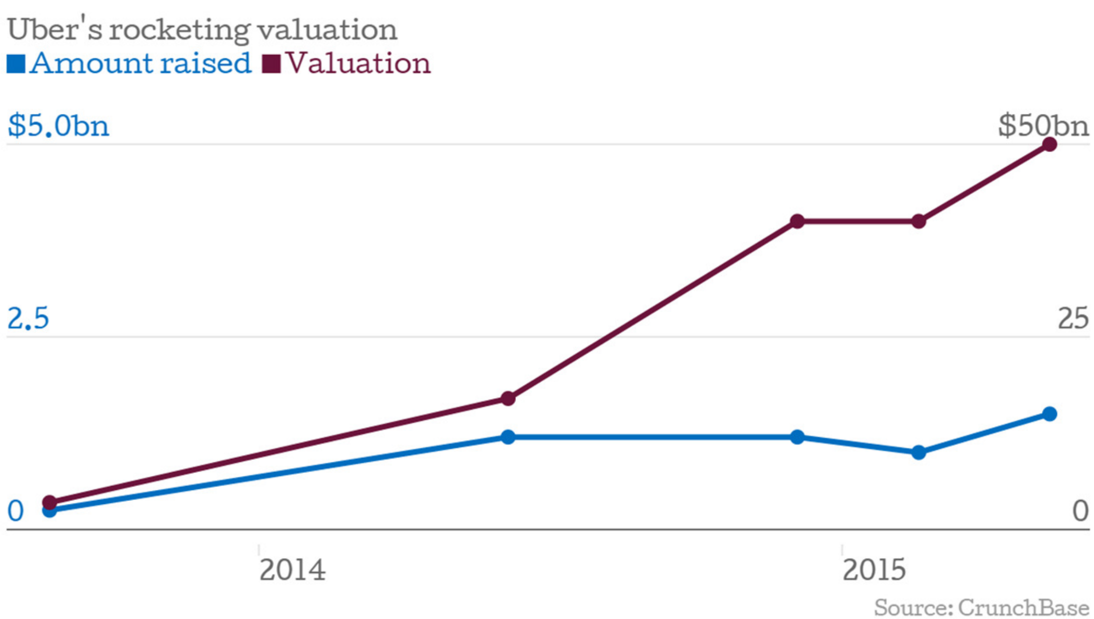
- They had first market mover advantage - Zenefits is a company based in Silicon Valley that offers cloud-based software as a service to companies for managing their human resources, with a particular focus on helping them with health insurance coverage.
- In 2014, Zenefits was identified as one of the fastest growing software as a service companies in history. Its revenue growth rate was compared favorably with such companies as Workday and Salesforce.com; Forbes reported that its valuation growth was among the highest of any company in 2014.
- On April 21, 2015, TechCrunch reported that Zenefits was raising somewhere between $300 million and $500 million at a valuation worth of $3 billion, and possibly as high as $4 billion.

Tale of Two Investments – Zenefits *(cont'd)*

- In 2016 an internal legal investigation found the company had created and used a browser extension to skirt training, licensing, and certification requirements around selling insurance across state lines. This revelation came amid other reports of internal misconduct and led the California Department of Insurance to begin its own investigation
- Then in February 2016, Zenefits laid off 17 percent of its employees, or 250 people, and closed its Arizona offices. In June 2016 the company laid off another 9 percent (106 additional people) and offered existing employees a two-month severance package

A Tale of Two Investments – Uber

- Uber is a mobile app connecting passengers with drivers for hire.
- Clear first market mover advantage
- Funding History (now a unicorn)



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A Tale of Two Investments – Uber *(cont'd)*

- Has maintained its "first market mover advantage" inspite of number of well funded competitors and significant regulatory issues
- KEY DRIVER- tremendous execution and ability to attract tier-1 management, advisors and investors

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Armando Castro
Partner/Corporate & Securities - Technology

Silicon Valley
2550 Hanover Street
Palo Alto, CA 94304-1115
Main: (650) 233-4500
Direct: (650) 233-4040
Fax: (650) 233-4545