

# copycats

*how smart companies use imitation  
to gain a strategic edge*

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*To Miriam, Keshet, Josh,  
and Riki; inimitable*

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# Fat Copycats

*Imitation is not only more abundant than innovation,  
but actually a much more prevalent road to business  
growth and profits.*

—Theodore Levitt, 1966

A few years ago I approached an acquaintance, a senior executive with a large national retailer, to promote a new technology-enabled marketing tool developed by a foreign start-up. The tool, embedding voice recognition technology in a novel marketing application, seemed especially suitable for that retailer, which enjoyed a reputation as an industry trendsetter. My contact later returned with a question: was this a novel concept, or had it already been in use? I proudly confirmed that the tool was brand

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new and that his firm was the first to be approached. “In that case,” came the surprising response, “we are not interested.” When I asked why, my acquaintance explained, “Our policy is to never be the first to try something new; we will only consider the tried and true.”

My stunned reaction can be forgiven in light of the innovation imperative that is the rage in executive suites from New York to Sydney. Innovation is a powerful force, a significant factor in corporate survival, growth, and prosperity. It is a source of monopoly profits that flow and flow—until imitators show up. Inevitably, they do: White Castle founder Walter Anderson, who was first to come up with the concept and system for a standard-fare fast food chain in 1921, saw a slew of competitors descend on his restaurants, recording everything from store design to operational routines. It did not take long for some shrewd and efficient copiers to surpass the original, now a minor player in the vibrant industry it launched.<sup>1</sup>

Indeed, negative stereotyping notwithstanding, many imitators do so well that it is the innovator that is left in the dust. The systems of successful followers, such as McDonald’s, were replicated, in turn, by next-generation imitators such as Rally’s (e.g., the drive-through concept, itself borrowed from others). Then when McDonald’s shifted gear to offer healthier fare, Yum Brands quickly followed suit, introducing the same in its Taco Bell and Pizza Hut chains while also emulating McDonald’s in its hot pursuit of the breakfast and dinner crowd.<sup>2</sup>

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Other examples include EMI, which introduced the CAT scanner in 1973 but lost market leadership within six years. Two years later EMI exited the business, ceding the market to latecomers such as GE. A similar fate awaited RC Cola, whose innovative products, such as diet cola, were quickly appropriated by Coca-Cola and Pepsi.<sup>3</sup> Sony introduced digital photography in 1981 but was soon overtaken by Japanese manufacturers of traditional cameras and by late U.S. entrants such as Hewlett-Packard.

Examples abound. Diners Club was the first credit card issuer, but now it holds a minuscule share of a market ruled by Visa, MasterCard, and American Express, none of which was around when Diners fought an uphill battle to introduce the novel concept to banks, merchants, and the public.<sup>4</sup> When Sherwin-Williams created a new exterior paint that could be applied at 35 degrees Fahrenheit (hence extending the painting season), it took less than three years for all other paint companies to launch competing products.<sup>5</sup> Numerous other examples can be found.<sup>6</sup>

Thirty-four of forty-eight key innovations were imitated by the time they were studied, and the rate of brand imitation now exceeds 80 percent. It is even higher in certain product categories; for instance, all major cereal brands have been imitated.<sup>7</sup> The same is true of many of the services we use and our corporate practices and business models. They are imitated by small-time players (such as the hundreds of YouTube look-alikes) or by industry

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leaders such as Hertz, whose Connect car-sharing service bears an uncanny resemblance to the Zipcar model of the start-up by that name.

Hundreds of books tout the magic of innovation and tell you how to make it happen. Virtually all of them take the virtues of innovation for granted, and so their starting point, to borrow a phrase from a recent CNBC special, is that organizations must “innovate or die.”<sup>8</sup> It may rarely be stated explicitly, but the implication is that imitators, if they can survive at all, are sentenced to poverty, living off the crumbs left by ingenious innovators. Imitation is presented as a spontaneous and haphazard act of desperation, and to defend themselves, innovators need merely erect tall barriers and then move on to bigger and better things.

This book, in contrast, is not about the innovators but about the imitators. Its basic premise is that imitation is not only as critical as innovation to business survival and prosperity but also is vital to the effective exercise of innovation itself. Further, this book argues that imitation is a rare and complex strategic capability that must be carefully nurtured and properly deployed.

What I mean by *imitation* in this book is the copying, replication, or repetition of an innovation or a pioneering entry; however, a number of caveats apply to the treatment of the term in this book. First, what is imitated can be a product, a process, a practice, or a business model.



Second, the imitation can be “as is” or can represent a variation or an adaptation. Third, it can range from precise, blueprint copying to broad-brush inspiration, or anything in between. Fourth, the imitation can range from instinctive *imprinting* to *full-fledged* (or *true*) imitation (see chapter 2 for details). Fifth, illegal forms of imitation, such as piracy and counterfeiting—important and widespread as they are—are not part of our discussion. Finally, imitation is approached as a strategy that not only is consistent with innovation but also is essential to the focused and effective use of innovative capabilities.

## The Accelerating Pace of Imitation

Humans, as well as other species, have always relied on imitation to survive in a hostile environment, make tools, and outdo rivals and protagonists. They have learned not to reinvent the wheel—even before there was one. As communication and transportation have advanced, opportunities for imitation have burgeoned: globalization and technological advances have expanded the ranks of imitators and have made imitation more feasible, more cost effective, and much faster.

It took one hundred years for nineteenth-century innovations to be exploited by less-developed nations, but inventions made in the second half of the twentieth

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century were copied, on average, within two.<sup>9</sup> The average time to widespread imitation declined from 23.1 years between 1877 and 1930, to 9.6 years for products introduced between 1930 and 1939, and 4.9 years for those introduced after 1940; the time before imitator entry declined by 2.93 percent.<sup>10</sup> An imitation lag that was twenty years in 1961 was down to four years in 1981, and down to twelve to eighteen months by 1985.<sup>11</sup>

The accelerated pace of imitation is evident for almost any product. Imitations of the phonograph showed up in thirty years, whereas compact disc players were imitated in three. It took a decade before the first imitation of the Chrysler minivan appeared; QQ, a Chinese copy of GM's minicar, showed up within a year. In 1982 generics constituted a mere 2 percent of the U.S. prescription drug market, but by 2007 they made up 63 percent. In the early 1990s Cardizem lost 80 percent of the market to generic substitutes within five years of patent expiration; a decade later, Cardura lost a similar share in nine months; and Prozac, an Eli Lilly blockbuster drug, lost the same market share in only two months.<sup>12</sup>

## The Imitator's Edge

When Boeing President Bill Allen saw the Comet at the Farnborough Air Show in 1950, he realized that the

future of civil aviation rested with jet propulsion.<sup>13</sup> In the wake of a number of Comet crashes, Boeing (with its 707) and McDonnell Douglas (with its DC-8) have come to dominate the market.

IBM, which Peter Drucker called “the world’s foremost creative imitator,” trailed Remington Rand in introducing a commercial mainframe computer but claimed market leadership within four years of the original’s entry.<sup>14</sup> IBM repeated the feat with a personal computer that took the best of the Apple and Commodore machines, among others, and combined them to create the first commercially viable product, only to lose out to clones led by Compaq and Dell.

Many examples of this phenomenon can be found. Nintendo was one of seventy-five imitators of Atari’s 1975 Pong video game but became the industry standard bearer. Conner Peripherals’ 1989 version of Prairietek’s 2.5-inch disk drive captured 95 percent of a market the pioneer had dominated; Netscape did the same to Spry before succumbing to Microsoft’s Explorer. Honda and Toyota waited for Ford and GM to be the first followers of Chrysler’s minivan but pushed them out of the market with their own versions of the vehicle. These are not merely anecdotes: many studies confirm that fast second movers, and even latecomers, do very well.<sup>15</sup>

Why are many imitators successful? With the innovator and pioneer paving the way (and paying for it), the

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imitator enjoys a free ride. It saves not only on research and development but also on marketing, because customers have already been primed to use the novel product or service. The imitator avoids dead ends, whether a losing bet on a dominant design, such as Sony's Betamax VCR format, or an innovative prescription drug that proves not to work.

With almost 90 percent of drugs under development failing in the trial phase after a billion-dollar investment, the potential savings are enormous. And even though the innovator is granted a monopoly period during which it can try to recoup its investment, a fast follower enjoys a monopoly of its own: the first generic maker to challenge a branded patent is granted a six-month window of exclusivity during which its product may sell for as much as 80 percent of the branded equivalent. In the case of a blockbuster drug like Lipitor, this means a \$1 billion return on a \$13 million investment.<sup>16</sup> That's not bad under any circumstances, but it's an especially lucrative deal given the low risk involved in following a route shown to work scientifically and marketwise. If this sounds extreme, consider a large study covering 1948 to 2001: it found that innovators captured only 2.2 percent of the present value of their innovations; the rest, we can conclude, went to the imitators.<sup>17</sup>

With the benefit of hindsight, imitators capitalize on the shortcomings of early offerings. Disney, for example,

not only leveraged the technical and organizational innovations of the early animation studios but also was in a position “to discern the limitations of existing cartoon animation with its excessive reliance on cartoon strip characters, the weak or even non-existent stories, their over reliance on recycled formulas such as chases, the lack of characterization of central figures, and their poor visual quality.”<sup>18</sup>

Because imitators do not incur the investment made by the pioneer incumbent, imitators can tweak the original to fit shifting consumer tastes, or they can leapfrog into the next technological generation. Samsung, like other South Korean manufacturers, serves as an example. Samsung was hopelessly behind in analog technologies when it leapfrogged into the digital age. Having observed market reaction, imitators can better calibrate a product, positioning it where returns appear more secure and promising.

Because most productivity gains come not from the original innovation but from subsequent improvements, imitators are often better positioned to offer the customer something that is not only potentially better but also considerably cheaper. With the need to retrace many, though not all, of the innovator’s steps, imitation entails nontrivial costs; however, overall costs in most instances are markedly lower, typically 60 to 75 percent of the costs borne by the innovator.<sup>19</sup> In an era of thin margins, a gap of

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that magnitude has huge repercussions. It enables the imitator to make competitive moves, ranging from substantially lower pricing (thus passing the cost saving to the consumer) to the offering of superior product (or service) features, better distribution and service, or a longer and better warranty (to compensate for a lesser-known brand). Or the savings can be channeled toward, well, innovation.

Imitators are also less likely to become complacent, a significant problem for innovators and pioneers who are taken with their success to the point of underestimating the dangers lurking in the rearview mirror. Imitators, which come from behind, tend to be paranoid about others following in their footsteps and are better prepared to repel the attack. As Jonney Shih, Asustek's chairman, notes, "We can't forget that there are people running after us."<sup>20</sup> Because imitators often differentiate themselves from the original, they are often more attentive to game-changing technologies. The pioneer animation studios were reluctant to adopt sound and color when they became available, but Disney was quick to realize their promise and used them to emerge as the leader.

Finally, because imitators often work from more than one model, they are constantly reminded that there is more than one way to go forward, a precursor to further imitation as well as to focused innovation. It should not come as a surprise that the most profitable innovations often are those containing a strong dose of imitation.<sup>21</sup>

## The Changing Face of Imitation

In the past, imitation was more often than not a product of pure chance: Ray Krok stumbled on the original McDonald's restaurant while making sales calls for milkshake machines. On a cursory visit to U.S. supermarkets, Japanese automobile executives noticed how merchandise was automatically replenished and were inspired to introduce a just-in-time production system.

These happy coincidences were anything but a thought-out, planned process, and, not surprisingly, in other cases opportunities were missed. When Theodore Levitt surveyed leading firms he found that "not a single one had any kind of policy to guide its responses to innovations of others."<sup>22</sup> As a result, even when imitation is initiated, it often falls short, as happened to Remington and L.C. Smith, two companies that failed to wrestle a substantial share from market leader Underwood, whose revolutionary typewriter design they copied.<sup>23</sup>

Many imitators arrive after pioneers or early followers have established an insurmountable lead or have flooded the market. Others stumble as they blindly follow the formula of a competitor whose capabilities they cannot match. Explaining why Merrill Lynch and Citigroup suffered huge losses in the subprime loan market while Goldman Sachs and J.P. Morgan avoided much of the

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carnage, the *Wall Street Journal* suggested that it was because Merrill and Citi wanted to imitate Goldman's success—but lacked Goldman's skills and experience. Other imitators fail to unearth the intricacies of a model, producing imitations that are not up to par, as happened to Delta in its twice-failed attempts to clone a variant of Southwest Airlines.

The promise, as well as the challenge, of imitation can be illustrated via a quick look at the PC industry and its two leaders: Hewlett-Packard (HP) and Dell. HP, an innovation-driven company, often was criticized for not taking full advantage of its innovation prowess. When competitive pressures mounted, it put a lid on R&D expenditures, leveraged partner technology, switched from proprietary to industry-standard components, and extracted supply chain savings. It moved to harvest technology from other parts of the business and merged with Compaq, reducing innovation expenditures. HP turned away from innovation to “focused innovation,” with a goal “to invent technologies and services that drive business value.”<sup>24</sup> Although the firm did not say as much, this meant that innovation was to be chosen over imitation only when it could produce better business results.

Dell also sought focused innovation, but for opposite reasons. Lacking a competitive advantage in technology, it chose to “innovate in time to market” by using direct sales and lowering product innovation expenditures. Its R&D



spending came to one-quarter that of HP, with Dell's then CEO, Kevin Rollins, wondering aloud, "If innovation is such a competitive weapon, why doesn't it translate into profitability?"<sup>25</sup> To compensate, Dell relied heavily on imitating product design and technology, or, as one analyst commented, "They innovate where creativity will buttress their core advantages, and they imitate elsewhere."<sup>26</sup>

Dell's strategy unraveled when competitors replicated its direct sales model without giving up retail channels and when they started outsourcing production to factories in Asia, undercutting Dell's cost advantage. Dell then turned to the retail channels favored by HP, but, as one analyst lamented, "the problem is that they are taking on the king of the sales channel and their cost and capabilities are out of whack."<sup>27</sup>

This story tells us that imitation is, or at least should be, part of any overarching strategy. It must be weighed in terms of underlying context and capabilities, and it is closely intertwined with innovation.

Establishing the balance between innovation and imitation is challenging, because this kind of balance is a moving target. It was not until the early twentieth century, for example, that the pharmaceutical industry split between innovators and imitators, and decades passed before a regulatory change created a generic category that eventually captured more than half the U.S. prescription drug market. This change frayed the innovators' business