Silicon Valley Tech Giants Rob and Rape Every Start-Up: The Technology Mobsters

Silicon Valley Oligarchs pretty much copy and steal anything they want to in Silicon Valley. Are you an entrepreneur who thought the “American Dream” of inventing a great product and becoming rich is still alive? Forget about it!

If you make something great Eric Schmidt at Google or Mark Zuckerberg at Facebook are just going to steal it and copy it and never pay you a dime.

As tech companies get richer, is it 'game over' for startups?

Young firms struggle to compete as deep-pocketed companies like Facebook and Amazon clone products and consolidate their power

The leading tech companies are making it harder for startups to attract investment. Photograph: Alvarez/Getty Images

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Facebook has been breathing down the neck of the group video-chat app Houseparty for over a year. The app, developed by the San Francisco startup Life On Air, has been a hit with teenagers – an audience Facebook is desperate to woo.

After months of sniffing around its tiny competitor and even inviting the team to its headquarters last summer, Facebook launched its own group video chat tool within Messenger in December 2016. In February, it invited teens to its headquarters to quiz them, in return for $275 Amazon cards, on how and why they used video-chat apps. By July, Facebook was demonstrating a Houseparty clone, Bonfire, to employees and by early September the app launched in Denmark.

Franklin Foer: 'Big tech has been rattled. The conversation has changed'

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“They see we’re having traction,” Sima Sistani, co-founder of Houseparty, told the Wall Street Journal in August. “That’s why we’re pushing so hard.”

Pushing hard might not be enough when you’re going up against some of the world’s most powerful companies keen to cling to their empires.

Startups drive job creation and innovation, but the number of new business launches is at a 30-year low and some economists, investors and entrepreneurs are pointing their fingers at big tech.

For one thing, the deep pockets and resources of companies like Facebook, Google, Amazon and Apple – with a combined value of almost $2.5tn – make it increasingly difficult for startups to compete or attract investment.

“People are not getting funded because Amazon might one day compete with them,” said one founder, who wished to remain anonymous. “If it was startup versus startup, it would have been a fair fight, but startup versus Amazon and it’s game over.”

Even multibillion-dollar startups like Snap, Snapchat’s parent company, struggle to compete against these tech titans.

Like Houseparty, Snap was nipping at the heels of Facebook. At first, Facebook played nicely, making an offer to buy Snapchat – a strategy that worked with Instagram and WhatsApp. When that failed, Facebook cloned all of Snapchat’s features, awkwardly at first but relentlessly and with the resources of a $510bn company, until Snap’s potential slice of the advertising market shriveled to a sliver.

While there’s a clear correlation, it’s hard to say for sure whether concentration of money is the cause or effect of the startup decline. On one hand, the existence of fewer new startups makes it easier for incumbent firms to accumulate more power. However, as industries become more concentrated, it also raises the barriers to new entrepreneurship, choking off innovation elsewhere in the marketplace.

“They are financing the next generation research at a scale that no one else can afford,” said Tomasz Tunguz, a venture capitalist, citing Google’s experimental projects Loon (balloon-powered internet), Fiber (high-speed internet) and Waymo (self-driving cars). “They are playing in big markets, making big bets. Historically, that’s been the domain of startups.”

As those companies get more powerful and staff salaries get higher, there’s even less of an incentive for workers to leave and set up on their own, which used to be a common pathway for entrepreneurs. If they do leave, the endgame is often to be acquired by their previous employer rather than grow large enough to compete with it.

“If your strategy from the outset is to be acquired by Google, that’s just fueling consolidation,” said Ian Hathaway, an economist at the Brookings Institution.

Jonathan Frankel was thrilled when Amazon’s investment arm funneled $5.6m into his startup Nucleus after a year of discussions. He was less thrilled when, a year later, Amazon launched its latest voice-controlled device, the Echo Show: an almost perfect clone of the Nucleus product.

Nucleus was an Alexa-powered tablet computer that focused on video conferencing and communication, with a plan – that Amazon’s investment arm would have seen – to move into other areas. When the Echo Show launched, it too focused on communication, the core of Nucleus’s vision, instead of other key features like e-commerce or connected home elements.

Frankel, who declined to comment for this piece, was furious, telling Recode earlier this year: “Their thesis is what our thesis was: communication is that Trojan horse to get those devices throughout the home and throughout the extended family’s home.

“The difference is, they want to sell more detergent; we actually want to help families communicate easier.”

These kinds of tactics have rattled investors, some founders said, making it harder for startups to raise money even if they’re in an adjacent market – particularly those skirting Amazon and Facebook.

A venture capitalist confirms this, describing Amazon’s launch of an almost identical product as a “very, very strange coincidence”.

“At the end of the day, Amazon could be theoretically in nearly any consumer business in the world,” he said, adding that he was frequently in meetings where investment decisions are informed by the question: “Can Amazon do that?”

“Amazon can do anything,” he noted.

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It’s not just a problem within the tech industry. Since 1980, the share of companies less than a year old has almost halved – from 15% of companies to just 8.1%, according to Census Bureau data. The total number of startups formed in 2015 (the last year surveyed) was 414,000 – a huge drop from the pre-recession figure of 558,000 in 2006.

“It’s been a persistent and fairly precipitous decline,” said John Dearie, the founder of the Center for American Entrepreneurship, an organization set up to address the decline. “The reason why this is so troubling is that new businesses account for virtually all new job creation and account disproportionately for disruptive innovations.”

“It’s not a coincidence that at a time when the startup rate is in a long-term decline, the economy has not grown at 3% or better,” said Dearie. “We are in a growth emergency.”