

Tech startups live by the rule that speed is paramount. Houseparty, creator of a hot video app, has an extra reason for urgency.

[Facebook](#) Inc., [FB 0.41%](#) a dominant force in Silicon Valley, is stalking the company, part of the social network's aggressive [mimicking of smaller rivals](#). Facebook is being aided by an internal "early bird" warning system that identifies potential threats, according to people familiar with the technology.

This fall, Facebook plans to launch an app similar to Houseparty, internally called Bonfire, say people familiar with the project. Both apps let groups of people hang out over live video on a smartphone.

"They see we're having traction," says Sima Sistani, co-founder of Houseparty, which is based in San Francisco. "That's why we're pushing so hard."

Silicon Valley is dominated by a few titans, a development that's fundamentally altering the nature of America's startup culture. While it's as easy as ever to start a company, it is getting harder to grow fast enough and big enough to avoid getting either acquired or squashed by one of the behemoths.

For months, Houseparty could see Facebook in the rearview mirror. Last year, Facebook executives approached it for meetings the startup interpreted as exploring an acquisition. Then, two months after Houseparty publicly introduced itself as "the internet's living room" in November, Facebook's Messenger app said it would become a "virtual living room."

Facebook in February launched a study of Houseparty, wooing its teenage users in a post that began: "Hi everyone!! Do you use Houseparty?"

The deep pockets of giants such as Facebook, [Alphabet](#) Inc.'s [GOOGL 0.70%](#) Google, [Apple](#) Inc. and [Amazon.com](#) Inc. make it increasingly difficult for startups to compete and stay independent. The four firms have a combined market capitalization of almost \$2.5 trillion, a rough equivalent to the annual gross domestic product of France.

Facebook acquired photo-sharing app Instagram in 2012 for \$1 billion and messaging service WhatsApp in 2014 for \$22 billion. Google in 2013 bought Waze, a rival to Google Maps. Amazon in 2010 bought Quidsi, the online retailing company behind diapers.com and other sites, after trying to copy it.

Lately, the titans also appear to be imitating smaller rivals more aggressively. In July, a week after the initial public offering of [Blue Apron Holdings](#) Inc., an Amazon subsidiary [filed to trademark a meal-delivery kit](#) with a tagline that echoed Blue Apron's offering. [Both Google and Facebook have taken aim at](#) features on Snap. Inc.'s Snapchat platform. Amazon declined to comment. Google didn't respond to requests for comment.

At an all-hands meeting last summer, Facebook Chief Executive Mark Zuckerberg told employees they shouldn't let pride get in the way of serving users, another way of saying they shouldn't be afraid to copy rivals, according to someone who was at the meeting. The message became an informal internal slogan: "Don't be too proud to copy."

Facebook executives have said publicly it is common in tech for companies to build on technologies pioneered by others.

Regulators, politicians and academics are increasingly questioning how tech giants use their considerable clout. In June, the European Union's [antitrust regulators fined Google](#) \$2.71 billion, saying its search engine favored its own comparison-shopping service over others. Google has said it disagrees with the conclusions and will consider an appeal.

“If you’re an app, are you better off getting acquired or competing against one of the big platforms?” says Scott Stern, management professor at Massachusetts Institute of Technology. While getting acquired can be “a very good win for the founders, that might be at the expense of a more competitive landscape.”

Houseparty, formally known as Life on Air Inc., was one of the first startups to go all-in on video chat, with an app that lets small groups of friends drop into a video conversation as if hanging out in a dorm room. It has tapped a coveted audience: teens who love Snapchat but not necessarily Facebook.

The odds are already stacked against it. The average smartphone user has about 89 apps on a device but uses only seven or eight daily, according to Verto Analytics. Facebook, Apple and Google dominate, commanding about 60% of the time and 80% of the ad dollars spent on mobile, the market-research firm says.

Houseparty “is one of the cool new apps—a good example of somebody who is challenging the status quo and may have success in a certain age group,” says Verto CEO Hannu Verkasalo. But Facebook, Google and Apple “are extremely monopolistic,” he says. “It’s very difficult to break in.”

Two of Houseparty’s founders—Ms. Sistani, 38, and Ben Rubin, 29—have been on the verge of success before. They previously led one of the first live-video-streaming apps, Meerkat, but its downloads tumbled after [Twitter](#) Inc. booted the app off its platform in favor of its own live-streaming app.

Facebook delivered the death blow to Meerkat by deciding to go full force into live video. “We couldn’t go head to head,” recalls one of Meerkat’s investors, Josh Elman, a former Facebook manager who is a partner at the venture-capital firm Greylock Partners and a Houseparty investor and board member.

Later that summer, Mr. Rubin, Ms. Sistani and several others including the third co-founder, Itai Danino, sequestered themselves for several days to brainstorm. What users loved about Meerkat, they decided, was a feature that let them share the screen for 60 seconds with a friend. That type of video interaction was more private than the live video broadcasts on Meerkat, they concluded, and more spontaneous than a phone call.

Their new app idea: “We want to remind people how nice it is to catch up with your friends. Or how easy it is to say hi to your mom,” says Mr. Rubin. “It doesn’t need to be this heavy thing.”



Houseparty co-founders Ben Rubin and Sima Sistani. Photo: Jason Henry for The Wall Street Journal

In February 2016, Mr. Rubin and Ms. Sistani launched Houseparty and began to demo it on college campuses. In May 2016, it briefly became the top social-networking app for the iPhone, according to app-research firm Sensor Tower.

Houseparty downloads went from 10,000 to 100,000 in one day and then crashed, unable to handle the load. The app was down for several hours and then glitchy through July, when the team decided it needed a major overhaul.

When Houseparty was at its most vulnerable, Facebook came knocking. Fidji Simo, head of Facebook's video efforts, contacted Mr. Rubin, according to people familiar with the contact. She wanted to talk about live video, the people say. It was the first sign Facebook was scrutinizing Houseparty.

Mr. Zuckerberg is sensitive to anything that might disrupt Facebook, even the teeniest startup, say current and former executives and employees.

Facebook uses an internal database to track rivals, including young startups performing unusually well, people familiar with the system say. The database stems from Facebook's 2013 acquisition of a Tel Aviv-based startup, Onavo, which had built an app that secures users' privacy by routing their traffic through private servers. The app gives Facebook an unusually detailed look at what users collectively do on their phones, these people say.

The tool shaped Facebook's decision to buy WhatsApp and informed its live-video strategy, they say. Facebook used Onavo to build its early-bird tool that tips it off to promising services and that helped Facebook home in on Houseparty.



Themed meeting rooms at Houseparty. Photo: Jason Henry for The Wall Street Journal

Houseparty says its growth had been stymied by the app's crash, which slowed its ability to introduce new features and attract new users. The calls from Facebook's Ms. Simo led to "natural conversations," says Mr. Elman, the Houseparty investor and director, in which Facebook was exploring whether Houseparty would be a good fit for an acquisition.

Mr. Rubin didn't want to sell but was under pressure from his board to keep Houseparty's options open, Mr. Elman says. "If a company like Facebook or Snapchat needs your team's expertise, that might be a better return for shareholders than the risk of going big," Mr. Elman says he told Mr. Rubin.

Mr. Rubin says in general he isn't against getting acquired as long as the opportunity would allow him "to continue to work on the mission on a larger scale."

Mr. Rubin communicated with Ms. Simo and others over email and phone and then met with Facebook executives at Facebook's offices, says a person familiar with the contacts. Messrs. Rubin and Elman declined to discuss details of the conversations.

Later, Ms. Simo informed Houseparty the talks wouldn't go further, the person says. Facebook said Ms. Simo declined to comment.

In December, Facebook began its group-video-chat offensive. Its Messenger app introduced the feature with the ability to see up to six people in a conversation, compared with the eight-person rooms on Houseparty.

In February, Facebook invited Houseparty users between the ages of 13 and 17 to come to its offices in Menlo Park, Calif., to participate in a study and keep a diary for a week afterward that they would share with Facebook, offering as an inducement \$275 Amazon gift cards.

Meanwhile, Houseparty readied for battle with \$50 million in fresh funding in December from a group led by Sequoia Capital, a venture-capital firm that invested in WhatsApp and Instagram. Mike Vernal, a former Facebook executive, a Sequoia partner and Houseparty director, says Facebook's interest in Houseparty and live video chat is to be expected because "Facebook has a mission that is fundamentally about helping people connect with each other." He says he is optimistic about Houseparty's growth potential.

Houseparty rebuilt its app so it could expand reliably without crashing. It added 25 employees, increasing its staff by 30%. Last month, it recruited a vice president of engineering, Kinshuk Mishra, who had helped Spotify AB, the music-streaming service, fend off Apple Music. It introduced a new chat feature called "passing notes" to attract more users.



A work area Houseparty calls ‘backyard.’ Photo: Jason Henry for The Wall Street Journal

In Houseparty’s office in an unmarked warehouse in San Francisco’s trendy Soma neighborhood, the startup’s leaders huddled in a tense meeting in May to discuss plans to beef up the app. When Ms. Sistani heard the company’s lawyer had delayed some minor changes to the terms of service, the latest in a series of delays, she jumped in and said: “No. No. No. No! Just update the policy.”

The pressure increased later that month when Houseparty learned of Bonfire, Facebook’s planned live group-chat app. (Tech news site [The Verge reported on Bonfire in July.](#)) “I have no problem with the copying,” Mr. Rubin says. “It’s just business. It’s just a distraction.”

Houseparty, which has one-million-plus daily users, compared with Facebook’s 1.32 billion, is determined to beat Bonfire, he says.

Mr. Elman says he is encouraged that Bonfire is a stand-alone app and that Facebook hasn’t been particularly successful with those. But, he says, if Facebook figures out how to integrate the power of Houseparty “into a property that I’m already using 10 times a day, that would scare the crap out of me.”

**Corrections & Amplifications**

Houseparty has more than a million daily users. An earlier version of this article incorrectly referred to them as monthly users. (Aug. 11)

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