BLITZSCALING EXECUTIVE SUMMARY

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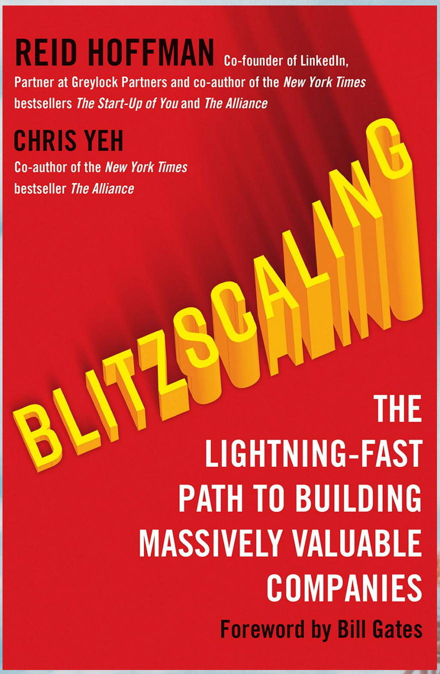

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PART 1
WHAT IS BLITZSCALING

Blitzscaling isn't simply a matter of rapid growth. Every company is obsessed with growth. In any industry, you live and die by the numbers—user acquisition, margins, growth rate, and so on. Yet growth alone is not blitzscaling. Rather, blitzscaling is prioritizing speed over efficiency in the face of uncertainty.

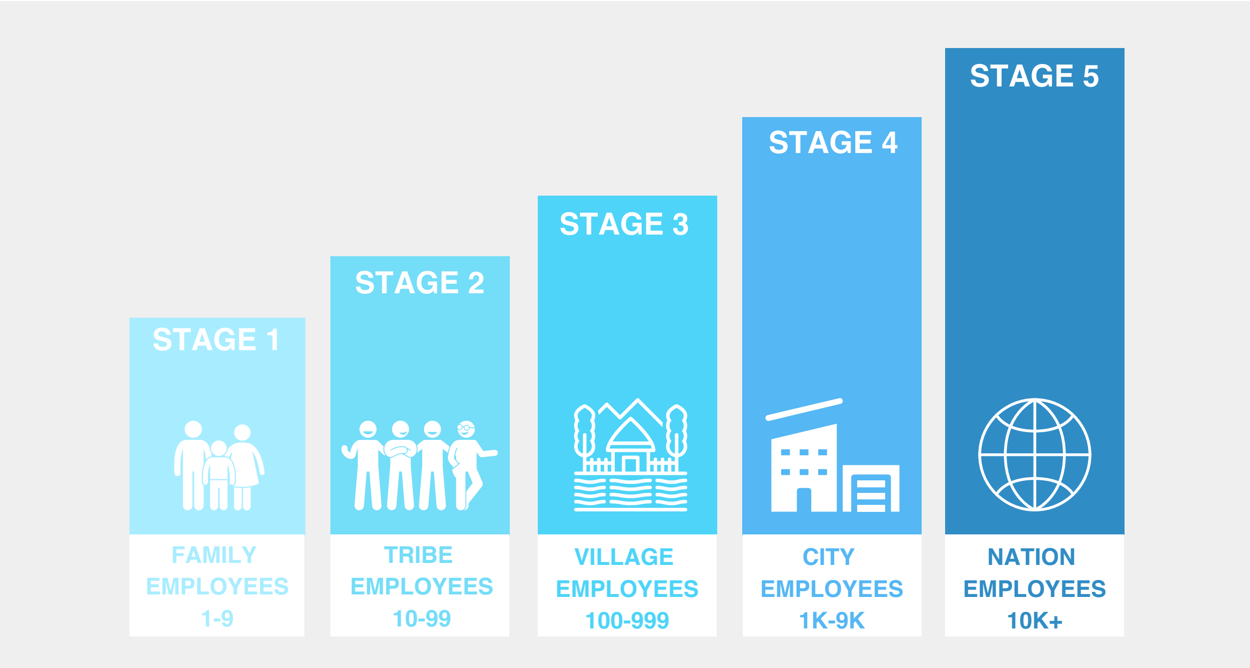
You might wonder why anyone would ever pursue blitzscaling. After all, it combines gut-wrenching uncertainty with the potential for a much bigger, more embarrassing, more consequential failure. Blitzscaling is also hard to implement. Unless you're like Microsoft or Google and can finance your growth from an exponentially growing revenue stream, you'll need to convince investors to give you money. To make matters worse, you have to keep enough capital in reserve to recover from the many mistakes you're likely to make along the way.

Yet despite all of these potential pitfalls, blitzscaling remains a powerful tool for entrepreneurs and other business leaders. If you are willing to accept the risks of blitzscaling when others aren't, you'll be able to move faster than they will. If the prize to be won is big enough, and the competition to win it is intense enough, blitzscaling becomes a rational, even optimal strategy.

The Five Stages of Blitzscaling

Throughout this book, we will refer to the five key stages of blitzscaling using the metaphor of a community. Since the most obvious, visible, and impactful change in a scaleup is the number of people it employs, we'll define the stages based on the number of employees in the company, or its organizational scale.

It's important to remember that while these powers of ten provide a clear and consistent set of categories, real life is often messier. For example, a start-up with a tight-knit team might feel and act like a Family even if it has nearly twenty employees. So these definitions are meant simply to offer a useful set of guidelines.



The Three Key Techniques of Blitzscaling

The three key techniques are:

- Business Model Innovation
- Strategy Innovation
- Management Innovation

First, you design a business model that can and should be blitzscaled, then you execute a blitzscaling strategy in which you prioritize speed over efficiency in the face of uncertainty, and finally, you apply innovative management techniques to manage the strains and challenges of rapid growth and massive scale.

PART 2
BUSINESS MODEL INNOVATION

Of the three core techniques of blitzscaling, the first and most foundational is to design an innovative business model capable of exponential growth.

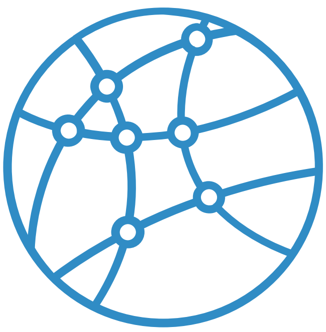
The real value creation comes when innovative technology enables innovative products and services with innovative business models. Even though the business models of Google, Alibaba, and Facebook might seem obvious—even inevitable—after the fact, they weren't widely appreciated at the time they launched. How many people in 1999 would have realized that running tiny text ads next to the equivalent of an electronic card catalog would lead to the world's most valuable software company? Or that setting up an online shopping mall for China's emerging middle class would lead to a $100 billion business? Which of you in 2004 would have predicted that letting people see what their friends are talking about by staring at a tiny screen on a handheld computer would become the dominant form of media?

Great companies and great businesses often seem to be bad ideas when they first appear because business model innovations—by their very definition—can't point to a proven business model to demonstrate why they'll work.

Growth Factors

Growth Enhancer 1 Network Effects

In this highly connected world, more companies than ever are able to tap into network effects to generate outsize growth and profits.



We'll use the simple layman's definition of network effects in this book:

"A product or service is subject to positive network effects when increased usage by any user increases the value of the product or service for other users."

Economists refer to these effects as "demand-side economies of scale" or more generally, "positive externalities."

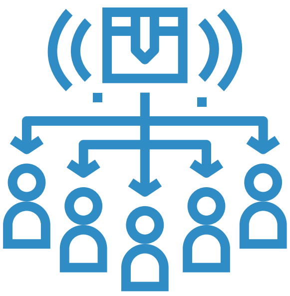
The magic of network effects is that they generate a positive feedback loop that results in superlinear growth and value creation.

The resulting phenomenon of "increasing returns to scale" often results in an ultimate equilibrium in which a single product or company dominates the market and collects the majority of its industry's profits. So it's no surprise that smart entrepreneurs strive to create (and smart investors want to invest in) these network effects start-ups.

A key element of leveraging network effects is the aggressive pursuit of network growth and adoption. Because the impact of network effects increases in a superlinear fashion, at lower levels of scale network effects actually exert downward pressure on user adoption. Once all your friends are on Facebook, you have to be on Facebook too. But conversely, why would you join Facebook if none of your friends had joined yet? The same is true for the first user of marketplaces like eBay and Airbnb.

With network effects businesses, you can't start small and hope to grow slowly; until your product is widely adopted in a particular market, it offers little value to potential users. Economists would say that the business has to get past the "tipping point" where the demand curve intersects with the supply curve. Companies like Uber subsidize their customers in an attempt to manipulate the demand curve to reach that tipping point faster; the bet is that losing money in the short term may allow you to make money in the long term, once you're past the tipping point.

Growth Enhancer 2 Distribution



Many people in Silicon Valley like to focus on building products that are, in the famous words of the late Steve Jobs, "insanely great." Great products are certainly a positive—we'll discuss the lack of product quality as a growth limiter later on—but the cold and unromantic fact is that a good product with great distribution will almost always beat a great product with poor distribution.

Distribution is an essential growth factor for blitzscaling because if the goal is to claim enduring market leadership in a winner-take-most market, distribution determines how quickly and at what cost you can achieve that leadership.

Distribution techniques fall into two general categories: leveraging existing networks and virality.

Growth Enhancer 3 Market Size

It's not easy to judge the size of a market, or what pitch decks and venture capitalists often refer to as TAM (total available market). Predicting TAM and how it will grow in the future is one of the main sources of uncertainty in blitzscaling. But predicting it correctly and investing accordingly when others are still paralyzed by fear is also one of the main opportunities for unexpectedly high returns, as we'll see in the cases of Airbnb and Uber.

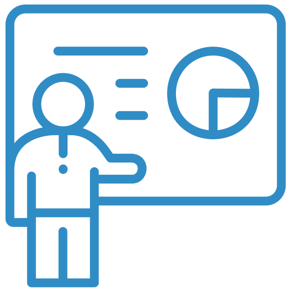
Growth Enhancer 4 High Gross Margins

Most of the valuable companies we're focusing on in this book have gross margins of over 60, 70, or even 80 percent. In 2016, Alphabet had gross income of $54.6 billion on sales of $89.7 billion, for a gross margin of 61 percent. Facebook's gross income was $23.9 billion on sales of $27.6 billion, for a gross margin of 87 percent. In 2015, LinkedIn's gross margin was 86 percent.

High gross margins are a powerful growth factor because, as noted above, not all revenue is created equal. High-gross-margin businesses are attractive to investors, who will often pay a premium for the cash-generating power of such a business. Most of a company's operational challenges scale based on revenues or unit sales volume, not gross margin.

Growth Limiter 1 Lack of Product/Market Fit

The only way to truly prove product/market fit is to get the product into the hands of real users. But entrepreneurs can and should do their research, and try to design their business model to maximize their chances of achieving product/market fit as quickly as possible.



Growth Limiter 2 Organizational Scalability

To truly be a world-changing company, you invariably need to build a large organization. But organizations that scale linearly with revenue are nearly impossible to blitzscale. How many law firms or management consultancies prioritize speed over efficiency? Your organization needs to be able to scale its people processes, from recruiting, to onboarding, to management if you are to successfully blitzscale.

Growth Limiter 3 Operational Scalability

Designing a scalable economic model isn't enough if you can't scale up your operations to meet demand. Too often, entrepreneurs dismiss the challenges of operational scalability by saying, "Managing explosive growth is a high-class problem." High-class problems are still problems; it may feel better for your ego to be wrestling with the issues of growth rather than simply trying to avoid missing payroll, but both can still kill your company. Rather than dismiss these challenges, the wisest innovators design operational scalability into their models.

Proven Business Model Patterns

Whether by design or not, the business models of rapidly growing companies often follow proven patterns that tap into growth factors and bypass growth limiters.

#1 Bits Rather Than Atoms

2 Platforms

3 Free or Freemium

4 Marketplaces

5 Subscriptions

6 Digital Goods

7 Feeds

Underlying Principles of Business Model Innovation

Underlying the proven patterns of business model innovation are larger principles that can help refine those patterns or even create new ones. These principles aren't themselves business models, but they often power the technological innovation that enables business model innovation.

- Underlying Principle #1: Moore's Law
- Underlying Principle #2: Automation
- Underlying Principle #3: Adaptation, Not Optimization
- Underlying Principle #4: The Contrarian Principle

PART 3
STRATEGY INNOVATION

To blitzscale or not to blitzscale is a strategic (and difficult) choice, and because of this we want to take a look at when and how founders and CEOs approach that decision, and how it changes their companies and even their own roles in their businesses.

When Should I Start to Blitzscale?

Here are a few factors to look for if you are wondering whether the time is right for your company to blitzscale:

- A Big New Opportunity
- First-Scaler Advantage
- Learning Curve
- Competition

When Should I Stop Blitzscaling?

While blitzscaling is a powerful strategy, it is not a permanent one. No business can grow forever, simply because no market is infinite. You blitzscale when your market is big or growing fast—or preferably both. If your market stops growing or reaches its upper limit, you should stop blitzscaling.

Because blitzscaling is—by definition—an inefficient use of capital, it only makes sense when speed and momentum are important. Blitzscaling is like the afterburners on a fighter jet that allow you to fly at double or triple normal speed but consume fuel at a shockingly high rate. You don't just switch on the afterburners and never turn them off.

Can I Choose Not to Blitzscale?

Blitzscaling requires capital—whether from investors or from cash flow—to fund relatively inefficient growth. If investors are willing to act quickly and provide large amounts of capital, the risk that a competitor decides to blitzscale is higher.

The same is true when a business model provides a lot of high-margin revenue to fund growth. So the safest time to choose not to blitzscale is when you're pursuing a relatively low-margin business model that investors are unwilling to fund. Many small or "lifestyle" businesses fall into this category, which makes their decision to avoid blitzscaling perfectly rational. However, markets can change quickly.

Blitzscaling Is Iterative

Successful blitzscaling is an exercise in serial problem solving. Each of the five stages requires different solutions to the same basic problems of people, product, finance, and so on. Each time you manage to solve a problem, the problem is never solved forever, it's only solved for now. As the company continues to grow, you have to solve the same problem again, under a new and potentially radically different set of circumstances.

How Blitzscaling Strategy Changes in Each Stage?

As we saw in our discussion of blitzscaling in different economic environments, speed is always relative. What represents hypergrowth speed at one stage might be only average during another.

At the Village (hundreds of employees) and City (thousands of employees) stages, the speeds of competing organizations become much more varied. Some will be content with focusing on optimizing for efficiency, while others will focus on speed. At this stage, blitzscaling is less about raw aggression and more about pursuing a differentiated (but still aggressive) strategy.

How the Role of the Founder Changes with Each Stage?

The role a founder plays in the blitzscaling process will change with each stage (and an employee's role relative to the founder will likely also change). As the organization grows, the specific skills required to lead it evolve as well.

- Stage 1 (Family): The Founder Personally Pulls the Levers of Hypergrowth
- Stage 2 (Tribe): The Founder Manages the People Who Are Pulling the Levers
- Stage 3 (Village): The Founder Designs an Organization That Pulls the Levers
- Stage 4 (City): The Founder Makes High Level Decisions About Goals and Strategies
- Stage 5 (Nation): The Founder Figures Out How to Pull the Organization Back from Blitzscaling and Start Blitzscaling New Product Lines and Business Units

PART 4
MANAGEMENT INNOVATION

One of the key features that sets global giants apart from those companies that flame out or implode before they can reach market dominance is an ability to evolve and optimize their management practices at each stage of growth. The proven techniques we'll describe in this part fall into two main categories: eight key transitions, which help guide the company through the stages of blitzscaling, and nine counterintuitive rules, which turn the conventional wisdom of traditional management on its head in order to cope with blitzscaling's frenzied pace of growth.

Eight Key Transitions

- Transition #1: Small Teams to Large Teams
- Transition #2: Generalists to Specialists
- Transition #3: Contributors to Managers to Executives
- Transition #4: Dialogue to Broadcasting
- Transition #5: Inspiration to Data
- Transition #6: Single Focus to Multithreading
- Transition #7: Pirate to Navy
- Transition #8: Scaling Yourself: Founder to Leader

Nine Counterintuitive Rules of Blitzscaling

Blitzscaling a company isn't easy; if it were everyone would do it. Like most things of value in this world, blitzscaling is contrarian, and unique. To succeed, you'll have to violate many of the management "rules" that are designed for efficiency and risk minimization. In fact, to achieve your aggressive growth goals in the face of uncertainty and change, you need to follow a new set of rules that fly in the face of what is taught in business schools and are completely counterintuitive to accepted "best practices" of either early-stage start-ups or classic corporate management.

- Rule #1: Embrace Chaos
- Rule #2: Hire Ms. Right Now, Not Ms. Right
- Rule #3: Practice "Bad" Management
- Rule #4: Launch a Product That Embarrasses You
- Rule #5: Let Fires Burn
- Rule #6: Do Things That Don't Scale (Throwaway Work)
- Rule #7: Ignore Your Customers
- Rule #8: Raise Too Much Money
- Rule #9: Evolve Your Culture

PART 5
THE BROADER LANDSCAPE OF BLITZSCALING

Blitzscaling Beyond High Tech

While blitzscaling is probably most applicable to high tech, its techniques can benefit any industry in which opportunities can demonstrate strong growth factors (market size, distribution, gross margins, and network effects) and overcome the growth limiters (lack of product/market fit and operational scalability).

Blitzscaling Within a Larger Organization

While the hypergrowth of blitzscaling is often synonymous with scrappy start-ups, blitzscaling can take place within larger, established organizations as well. None of the growth factors or limiters, and none of the proven patterns or business models, require a business to be an independently owned, privately held, venture-backed corporation. Even if your organization can't offer stock options that will make your employees rich if your blitzscaling is successful, you can and should adopt and adapt the lessons of blitzscaling to help you achieve rapid growth and first-scaler advantage.

Trying to blitzscale within a larger organization has both advantages and disadvantages over doing so within a start-up. It's critical to be realistic—start-ups have some inherent advantages when it comes to blitzscaling. Blitzscaling is all about speed and risk taking, and with far less to lose, start-ups are much more nimble. Established companies that want to blitzscale need to find major advantages to overcome their inherent disadvantages in speed and risk taking.

Blitzscaling Beyond Business

While we've focused on the application of blitzscaling in the world of business, the basic principle of sacrificing efficiency for speed in the face of uncertainty can be applied in just about any context. Let's consider how the growth factors and growth limiters of blitzscaling translate to nonbusiness settings.

In the nonprofit world, we need to find new measures of market size, since we can't rely on financial metrics like revenue. Often, the best measure might simply be the number of people whose lives are improved, but other measures such as "years of healthy life" or "metric tons of carbon sequestered" could also serve this role. While the metrics might change, the principle of market size still applies–without a large market, it makes little sense to blitzscale.

Distribution is just as critical outside of the business context as it is for profit-seeking companies. No matter how potentially effective your "product"—whether that product is a social service or a political candidate or anything else—is at improving the lives of those who adopt it, its impact is directly proportional to your ability to execute an effective distribution strategy.

Since many nonprofits don't charge the people they serve, gross margin doesn't apply. However, we can use metrics that align with the spirit of gross margin, such as economic impact. At a high level, gross margin is a measure of impact per dollar, and the greater the impact per dollar, the more amenable a not-for-profit business should be to blitzscaling.

Network effects are relatively rare in the nonprofit world. While there are mega-NGOs such as the Red Cross and the United Way, their market position is largely due to economies of scale rather than true network effects. But it is still worth considering whether or not it is possible to tap into network effects, since doing so can have such a major impact.

Blitzscaling in Greater Silicon Vallley

For most of the twentieth century, Seattle, Los Angeles, and Silicon Valley were very different and differentiated industry hubs. While Silicon Valley specialized in computers, Seattle and Los Angeles both had strong aerospace and defense industries, and each ecosystem also boasted its own market leadership positions in coffee (Seattle) and the entertainment industry (Los Angeles). But in the twenty-first century, Seattle and Los Angeles have also become home to high-tech ecosystems that are increasingly tied to Silicon Valley.

Other Blitzscaling Regions to Watch

Blitzscaling in emerging ecosystems poses both different challenges and different opportunities. Emerging ecosystems lack many of the platforms that established ecosystems like Silicon Valley or, more broadly, the US market provide—for example, payment systems and shipping vendors, let alone professional service providers (lawyers, accountants, etc.), experienced executives, and aggressive venture capitalists. This makes blitzscaling more difficult and leads to slower rates of growth. It’s far easier to leverage existing platforms than to build your own.

On the other hand, once you are successful, having built your own platforms represents a major competitive advantage, which often compounds over time, resulting in faster long-term growth.

China: The Land of Blitzscaling

China may very well be an even better ecosystem for blitzscaling than Silicon Valley. Like Silicon Valley, China has an entrepreneurial culture that encourages risk taking, a highly developed financial sector that is willing to fund aggressive growth, and a plentiful supply of high-value technology talent. But thanks to its incredible recent growth, China’s market is both massive and open to disruption.

Overall, we think China's technology industry leaders are doing a good job of learning from Silicon Valley. When I travel and speak in China, I find that my audiences are familiar with what is happening in Silicon Valley. Most Chinese executives speak and read English, and are reading the latest English-language news on a daily basis. How many American or European executives read Chinese and are staying abreast of developments in China? If you wait for an innovation to make its way into the English-language press, perhaps because a Silicon Valley company is now doing it, you might be giving China's blitzscalers a one-year head start on the global market.

The biggest opportunity is for Silicon Valley and China to work together and combine their respective strengths. There is no telling what kind of wealth and progress might emerge out of future collaboration between the leading innovators in these two ecosystems.

Defending Against Blitzscaling

If you find yourself in a position where competitors are trying to blitzscale your existing business out of existence, you have three basic options to defend yourself: beat them, join them, or avoid them.

#1 Beat Them

The first option to defend against blitzscaling is to beat them by continuing to play your traditional game. As we've discussed, many attempts to blitzscale are doomed to failure. You should assess the growth factors and growth limiters of the business model, and if they seem ill-suited to blitzscaling, not overreacting is probably your best strategy.

Fans of the late Muhammad Ali may recall his "rope-a-dope" strategy from his Rumble in the Jungle boxing match against George Foreman. The rope-a-dope calls for allowing an opponent to punch himself out; when that opponent is exhausted, you can beat him with a counterattack.

#2 Join Them

If your market does seem ripe for blitzscaling, one obvious response is to launch your own blitzscaling effort. The problem with doing so, especially if you're an established company, is that you might not have the technology or expertise to win a head-to-head competition. You might be able to buy the technology or expertise, but this brings its own set of risks.

#3 Avoid Them

The final and perhaps most often "successful" option is to cede the current market to blitzscalers and use your current assets to migrate to a new, less vulnerable market. Finding yourself in the crosshairs of a blitzscaling competitor can and should be frightening, but it is not a death sentence if you choose the right response. But decide quickly; the speed of blitzscaling means that taking your time is the same as doing nothing.

PART 6
RESPONSIBLE BLITZSCALING

In an ideal world, blitzscaling organizations would embody all the virtues that society might desire from its businesses—a diverse and inclusive workforce, a strong sense of responsibility to shareholders and stakeholders, an ample supply of well-paying middle-class jobs, and executives who serve as moral role models and leaders of society. The unfortunate truth is that for all the good that blitzscaling produces, blitzscaling organizations can be guilty of the sins that afflict other types of companies, and actually face some inherent challenges even when trying to behave responsibly.

Blitzscaling companies almost always operate in fiercely competitive markets where in order to survive and thrive, they need to outgrow their rivals. In the best case, they focus relentlessly on the business, making it difficult to achieve broader social goals. In the worst case, they try to get big fast by any means necessary.

Blitzscaling in Society

We believe that the responsibilities of a blitzscaler go beyond simply maximizing shareholder value while obeying the law. Society provides the framework in which you live, and in which your businesses operate, which means that it can rightly claim some responsibility for your success.

But even beyond the moral imperatives, responsible blitzscaling is good business strategy. Regulation typically arises when government believes that an industry isn't behaving responsibly. Smart blitzscalers realize that behaving responsibly and self-regulating can delay or pre-empt government regulation.

Framework for Responsible Blitzscaling

The key to responsible blitzscaling is the ability to distinguish between various forms of risk. Blitzscaling always involves risks, but all risks aren't equal. Our suggested framework for risk evaluation is to consider two separate axes: Known vs. Unknown and Systemic vs. Non-systemic.

Uncertainty by itself isn't risk; it simply produces unknowns, and unknowns aren't inherently negative.

However, when you combine uncertainty with the possibility of a negative outcome, you produce risk. The magnitude of the risk is a function of the probability and magnitude of that potential negative outcome. This is why you need to distinguish between systemic and non-systemic risk.

When you face a Known/Systemic risk, you should invest heavily to reduce or ameliorate the risk. Even an Unknown/Systemic risk calls for a strong response—you should vigorously investigate the risk to try to move it from Unknown to Known, while simultaneously taking any obvious steps that seem likely to reduce it. In contrast, when you are facing a Known/Non-systemic risk, you can apply a simple cost-benefit or prioritization analysis to decide on a course of action, and when you are facing an Unknown/Non-systemic risk, it may not even be worth expending the effort to analyze it —it's probably a small fire that you should let burn.

The Response Spectrum

Once you have decided that a risk warrants a response, you need to decide on the nature of that response. We believe that potential responses blitzscalers can employ fall into three broad categories.

Building Responsibility and Velocity as the Organization Grows

Early on, during the Family and Tribe stages, responsible blitzscaling means clearly defining the company's mission and laying the foundation for a culture that values being a responsible part of a larger society. You should imagine a future in which the company has succeeded in becoming a global giant and then evaluate the likely impact of that success.

As the company achieves success and grows into the Village stage, it's time to ask yourself, "What things, if I don't fix them now, will be functionally impossible to fix at scale?" It's especially difficult to find the balance between morality and velocity during this stage, because the company is probably pursuing all-out growth, and if you pause to fix things, you might end up slowing down enough to let someone else grab the first-scaler advantage. That's why the question asks what is "impossible," not just what is "difficult." Even if it's difficult to take action immediately, you can still make specific commitments to fix issues in the future, and be explicit about what triggers those actions.

If a company is successful and grows into the City or Nation stage, it now needs to take on the societal responsibilities of an incumbent, which are very different from the societal responsibilities of a challenger. Remember when you asked yourself which problems you could fix later? Well, later just arrived. If you previously ignored issues such as social, criminal, and economic justice, you need to understand that you are now a role model and will be expected to iterate and improve on those issues. If you don't tackle these responsibilities proactively, you'll have to tackle them reactively—after new laws and regulations are passed to change your behavior. Like it or not, when your company is a City or a Nation, you need to start thinking like a mayor or a president.

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