MoS Episode Transcript – Strategy Session III

REID HOFFMAN: I'm Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. Welcome to our third strategy session, where we partner with a community of entrepreneurs to hear the questions that are keeping them up at night.

Our entrepreneurs on today's show are all part of **Endeavor**, an organization that helps create startup ecosystems around the world. This has actually been something of an "Endeavor month" on Masters of Scale. This is our **second strategy session** with Endeavor entrepreneurs, and next week, our episode is with the bitcoin pioneer Wences Caseras, who is an Endeavor poster child.

For this episode, the Endeavor team connected us with their fastest-growing, highest-performing entrepreneurs worldwide. They call this group the "Outliers," because they're just growing so much more quickly than other, very successful companies.

The questions themselves are really revealing – about what's happening in business and what's happening in the world. So I invited a guest co-host to join me, and bring some context to what we're hearing.

My co-host for today is **Bob Safian**. Many of you will know Bob from the 11 years he spent as Editor in Chief at ***Fast Company***. You might not know that for the last six months, he's been our Editor at Large here at Masters of Scale. Bob, we're lucky to have you. Welcome.

BOB SAFIAN: Thank you, Reid.

And hello everyone! You are in for a treat. As Reid mentioned, today's episode is a strategy session. And that means it's a bit different from a standard Masters of Scale episode. Instead of Reid asking questions, he'll be answering them, sharing his direct insight on a variety of challenges and opportunities.

It is rich stuff and, in usual Reid style, it's both refreshing and practical. It's worth noting that the seven questions Reid responds to in this episode aren't from startups per se; they are what we'd call "scale ups," already established, substantial businesses. A couple have even hit unicorn status, valued at over $1 billion.

The questions that follow are extremely global, which I love. So much U.S. business media tends to focus on American success stories. Because of that, we miss out on other models and the breadth of inspiration and activity underway around the world. Reid's answers illuminate how we can learn from a diversity of experiences, and how sound advice can apply to all of us, whatever the size of our organization or the location.

With our first question, we'll take a deep dive into scaling strategy: When and how should you scale beyond your core product and marketplace? This is a topic we'll return to a few times in this episode. As you'll see, Reid has a way of providing clarity despite the uncertainty.

This question comes from Mariano Nuñez. Mariano runs a cyber-security company out of Buenos Aires that is growing really fast. He hired a young team, it was everyone’s first startup, and it’s like they have the tiger by the tail. So now they’re asking: What do we do next? Here’s Mariano.

> **MARIANO NUÑEZ:** Hello Reid. My name is Mariano Nuñez and I'm the CEO and co-founder of Onapsis. Onapsis is a cyber security company that's focused on protecting business critical applications. We basically provide a software solution that helps these large organizations protect the systems from both outsider attacks, like malicious hackers, as well as insider threats. The founding team is all first time entrepreneurs.
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> Basically a month after releasing the first version of the product, we got our first customer, that ended up being the U.S. Army. And within nine months, we had about 10 Fortune 2000 organizations using the product. We had no experience on how to deal with this – both from an operational perspective, from a product, from a go-to-market – and we really had to learn how to scale very quickly to address and serve those very demanding customers.
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> Fast forward to today, I would consider our company a category leader in this space, in securing business critical applications. So my question to you is: How do we think about continuing to scale down the road? We are now in the middle of planning with the executive team, we have very interesting bets that we want to do, some have to do with product expansion, with geo expansion. There are some potential adjacencies from a market perspective.
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> I wanted to get your thoughts on: How do you think about balancing bets and maybe new initiatives with really protecting your core business and continuing to grow at a fast clip? How do you balance that? How do you know when it's too much, when you can do more? How do you run those discussions with your executive team to make sure that you're maximizing your chances without really spreading too thin?
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> **HOFFMAN:** Mariano, congratulations on the success with Onapsis. These kinds of security applications are particularly important and one of the things that, obviously, as you're demonstrating can be done in any area of the world with intelligence and talent.
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> The question you're asking, which is roughly speaking, “How do you balance the growth of the core business together with additional initiatives, geographic regions, product lines, et cetera?”, is a classic one that all startups face when they're in scaling or in

blitzscaling, either one. And the tendency tends to come down to analysis of a few variables.

So, one variable is, how much are you under competitive threat in the core area and need to establish that? If that tends to be high, then the most strategic reasoning is from your core area, depends on competition and market share.

The question is, how much is the organization straining just to keep up with the demands of the core area? Like if, for example, really critical things are kind of falling off the plate, then higher percentage of allocation within the core area. But on the flip side, sometimes you go, "Well, the core area will have a slowing growth rate, has a lower total addressable market, TAM. And so, therefore, it's more important to get kind of expansion," whether it's geographic, product line, investment.

Now roughly speaking, I'd say a default plan for Silicon Valley growth companies, tends to be 70% core, 20% easy expansion, and 10% venture bets. That's kind of roughly how resource allocation, planning, budgeting of the overall thing is a default.

It's 70% in the core because, unless you're in a situation where your core has a limited upside, slow growth, you tend to be kind of continuing the harvest of the core strength of your business,establishing it up. The 20% expansion tends to be easy adjuncts. Like for example, if you're LinkedIn, you say, "Well, we're doing recruiters but we're also going to do sales," or “Maybe we'd think about,” – and we haven't done this obviously” – “Video profiles” or something.

It adds to the product, but it's very understandable within the current customer experience, within the current organizational product development ethos. People would say "Yeah, yeah. That's still what your product is."

Now to continue the metaphor in venture, venture for LinkedIn is not, of course, opening up an ice cream store. Right? That's something totally different. Venture is when we launched LinkedIn Influencer saying, "Well, actually in fact, people won't just want to know how to connect with opportunity and use their networks in order to find people.” But, they will also want an information source, and they'll want to be following influencers and lead thinkers and business leaders and other folks in content focused around the business world.

And so, those, when they started, were venture bets. You get the natural progression where a venture bet may become an expansion bet, may become a core bet. One of the pieces of discipline when you're doing this kind of 70-20-10 structure is that you need to sometimes say, "Well, it's a venture bet. It didn't work out. We tried it, it didn't work." Right? Similar, sometimes, to expansion. Whereas, usually what's in the core, you more or less have a pretty good sense of what's going to work.

So in your particular case with Onapsis, I think that part of the way to look at this is to say, "Well, what's our strategic position?" Generally speaking, you should look further than a year. Although, most often, further than five years – in the tech industry – tends to be thinking that you overly know the future. There's a few cases – hardware, other kinds of things – where you have to be in that longer cycle.

But generally speaking, you don't know how competition is going to change. Sometimes market dynamics change, sometimes geopolitics change. So generally speaking, you're kind of looking at a kind of a three, three-to-five year characteristic. You say, "Well, what's our total addressable market? What are the places where we can grow, we increase our growth rate? What are the ways that we have kind of good business opportunities?" And then, "How do you balance that with core expansion and venture?"

And then, when do you know that it's too much? It's, roughly speaking, when really important things are dropping off the plate or there's more than a little collision in confusion, and re-prioritization, and key resources being overly taxed.

I'll give you an example. One of our core strategies in LinkedIn for Good was to enable people to seek out nonprofits to volunteer at, to work, to contribute to, and have nonprofits be another organization. That's a network node, just like people and just like companies, within the LinkedIn ecosystem.

But we found, what happened is that had a huge collision on the prioritization of the search team. The search team was really core to both LinkedIn consumer experience, and the LinkedIn prosumer experience, and the LinkedIn corporate experience. And so, we continued to do some of that stuff but it went to a much slower rate because of that collision of resources.

So a little bit of scraping and collision is probably you're pushing hard enough but too much is challenging. That always comes down to an analysis of your team, specific individuals, and kind of your executives, the team's capabilities, your market, your competition, and what things you see going forward.

So, one of the key things is knowing when your venture bet or when your expansion bets are actually working, so they, essentially, graduate, right? Venture bets might become expansion or core expansion may become core. Usually, that’s a question of customer momentum, a question of competitive effects, questions of synergies with your other core businesses. And those sets of things cannot be mathematically determined in all cases. It's possibly something really important to us offensively, or defensively, strategically. But it's at least, in a baseball metaphor, of getting on base.

And core should be genuinely, fairly predictable. If you're off in your predictions, one of the things that you should be thinking about is, how do you increase your ability to predict it well, where capital and effort will yield a certain return? The graduation is to say, "Hey, I actually think we can do this game now. We understand this well enough that it shifts up in the game," and then we make the decision and analysis based on that game.

SAFIAN: That was quite an answer! This is Bob Safian, back with you, and it's hard not to be impressed by the meatiness of Reid's answer to Mariano.

If I had to draw your attention to just one element of Reid's advice, I'd hark back to his 70/20/10 framework. Such a powerful and simple device for focusing your strategy: Separating out core business, expansion efforts and venture bets, as different buckets. Even if you end up allocating your resources at slightly different levels than Reid suggests, the framework is incredibly useful.

Our next question comes from Agustina Sartori, founder of a beauty company called GlamST, which was acquired by Ulta Beauty in 2019. Augustina is based in both Uruguay and San Francisco, and she has a really significant question about hiring.

It will be familiar to anyone who's expanded into a foreign market, but in truth, it resonates with any founder who's making key hires. What we're all trying to figure out: What can I hire someone else to do? And what work do I need to do myself? Here's the question.

AGUSTINA SARTORI: I am Agustina Sartori, founder and CEO at GlamST. We are an augmented reality company in the beauty space that enables virtual try on experiences. Are there times when the entrepreneur themselves is actually the best salesperson, even when in a foreign culture? Or is it always best to actually hire somebody local? As a non-native entrepreneur, how would I build trust with American companies faster?

I had just moved to the U.S. from Uruguay, and we were trying to target the U.S. market. There are new things you need to learn, right? Language is different, ways of talking is different, presentations, quotes, and budgets. Everything works differently.

The advice that I got was, why don't you hire an American salesperson that will bridge this gap," right, of actually being able to generate trust and really generate a relationship with the potential customer?

So I think that it might have not been the right advice for me because to generate trust, you need to deeply believe in what you're doing. You need to deeply believe that you're going to solve a problem, and people see that. It's hard to replace that passion. That is what makes you unique as a founder.

If we are self aware as foreign founders of our weaknesses, and we are self aware of what can generate trust, and what really generates value, and we put out there exactly who we are, why we're doing what we're doing, and are really making an effort to show that, and to be transparent and true, I think that is stronger than anything else.

HOFFMAN: Agustina, congratulations with the success in GlamST. Acquisitions to a large retailer is one of the ways that gets scale and leverage, and it's one of the successful entrepreneurial outcomes. And as I summarize your advice, it's kind of like, well you got a bunch of advice about how to connect with U.S. companies: hire Americans, hire people who are natives, hire people who understand the local market. And you’re not so sure anymore.

And so the right way to think about the answers to these questions is to kind of level up to the problem you're solving, whether or not you're outside the U.S., coming to the U.S., U.S. going outside, or any kind of international border crossings: What does the market look like? How do you do market entry? How do you partner well? How do you understand product market fit? How do you sell? How do you address all these questions?

And the most general answer is, well there's a bunch of things that are different, then you should hire people who know how to navigate that new market, know how to navigate that language, know how to navigate that culture, know how navigate those partners and that that's bringing that expertise in through hiring. Generally, hiring local is a very basic and good piece of advice. However, as part of leveling up on this, you think, "Well actually, in fact, as an entrepreneur I'm doing a new product, and I'm experiencing new product market fit, and I'm usually trying to do something that hasn't been done before."

Like a simple technological way of looking at it, as I look at these entrepreneurial product games, as it's either a version 0 or a version 1. There was nothing there before, and now there's something. A version 1, a version 1.1 which is, "Look, it's an improvement, it's different." And then there's a version 1 to version 2 – which is it's a known category – but this is a massive step forward, a game-changing way of looking at it.

And the entrepreneurial games are usually one of those kinds of games. And when you're doing that, the most central thing, of course, is you need to have people who help you play that game, even in the new market entry. Because that entrepreneurial awareness of that future product market fit, the passion and the belief in it, as you talk about, is really, really key. And so when you think about hiring that expertise to help you get into a new market, a foreign culture, established partnerships, it is good to think about who will be heard, who will be believed, who will be trusted.

But actually, in fact, that can be built only if they also have that helping you with that future product market fit, that either version zero to version 1, version 1 to version 1.1, version 1 to version 2, and that like, "Here is how this product can go to this market." This doesn't necessarily mean that they're the entrepreneur themselves, but they have to be entrepreneurial. They have to be measuring that kind of product market fit. They have to believe in that vision. They have to be adjusting, they have to have some judgment about when to come back to you and say, "Look, your vision doesn't work exactly that way for this market." Or, "Look, we need to do this to make your vision work," and to have that right kind of adjustment. And that's actually more fundamental.

So for example, if you said, "Well, I have someone who is learning," for example the U.S. market, "and they're a fast learner, and they're going to learn the U.S. market, and that will take some time, and that will be one of the costs but they're really great at the entrepreneurship, at the product market fit, at the kind of like, 'Here is how this product launches in this market. Here's how we establish partnerships of trust with other companies, in this market,'" then sometimes *that's* the right pick, because it's that future product market fit that you most need, and that the knowledge of that local market, the ability to operate in the local market, is only one component of.

SAFIAN: Reid's perspective here is that hiring choices have to be in sync with your company's stage. What jumps out to me is Reid's focus on what sort of next-stage leap you're planning for your business. Are you at stage zero, inventing something totally new? Are you at version 1.0 and heading to version 1.1? Or, are you going 1.0 to 2.0? This insight can extend well-beyond hiring to all kinds of decisions. Too few business leaders and entrepreneurs crystalize their plan with such focus. But once you do, your decision tree gets so much more clear.

For our next question, we go back to the topic of deep scaling. Reid's answer here touches on a concept that I love, what Reid calls "paper testing." Here's the question, from André Ferraz.

ANDRÉ FERRAZ: I'm André Ferraz, the co-founder and CEO of In Loco, a location based authentication and engagement technology platform for mobile apps. I am from a city in the northeast of Brazil called Recife. I think that the loss of privacy in an 100% connected world might become one of the biggest societal problems of the next generations. After 10 years working on this, I firmly believe that physical behavior can serve as an anonymous authentication and authorization tool.

At In Loco, we use a five factor sensor fusion to create a behavioral fingerprint allowing us to engage and authenticate app users anonymously. Our proprietary location technology is 30 times more precise and 2,000 times more efficient than GPS. We now have 200 people in Brazil with 70% of them being software engineers and I just moved to Silicon Valley to start our expansion into the U.S. In Brazil, we are the dominant player and we grew by selling to enterprise customers and providing very close customer support. In the U.S., our competitors have adopted a completely different approach, relying on existing technologies like GPS and collecting personally identifiable information from consumers.

Given that context of global expansion, which growth strategy would you adopt first: Channel partnerships, partnering with existing cybersecurity and Martech platforms to scale on top of their existing customer base, enterprise sales, selling to large B2C tech companies directly, or long tail, providing a self serve solution for independent app developers growing from bottom up?

SAFIAN: This is Bob again, just to quickly sum up André's question. He has three strategic options: He can partner with existing cybersecurity platforms and scale on top of their customer base; he can pursue enterprise sales, which means selling directly to large consumer tech companies; or he can go after what he calls the long tail, independent app developers.

Let's listen to Reid.

HOFFMAN: André, congrats with all the success with In Loco. It sounds like really great technology, and also of course welcome to Silicon Valley. Now the detail of actually knowing which kinds of growth strategy to adopt first actually have a lot to do with the details of the business, natural demand cycles, where you're seeing a good product market fit per channel. There's a bunch of things that have the more detailed set of decisioning for you that I hesitate to give detailed and structured advice because it may be wrong, given certain details of your business. Now, that being said, the probably, "principle" is what gets your distribution off the ground and moving in kind of an order of magnitude of months is probably where to focus the time frame on which of these successful things could work.

Is it channel partnerships, is it a B2B sales force, is it a partner with B2C companies, is it a set of APIs for developers? You kind of say, "Okay, which thing would get me most naturally towards the market I want to be, or close to the market I want to be, and I would get traction and a cycle going within month?" Because longer than months is probably too long for figuring out if there's troubles with the product market fit. You might also think about how you can test the channels and how you could measure which one will actually in fact yield that kind of a beginning, fast dividend, and winning cycle within months. Obviously the one that's structurally least likely is the independent app developers and a set of APIs, unless that demand is already there. That's part of what I was referring to is it depends a lot on where there's demand.

So for example, if you've got a bunch of well understood, kind of a go-to-market B2B, hire a sales force, then you would tend to adopt that first rather than trying to go pitch B2C tech companies – because the B2C tech companies, sometimes if you're not in their priorities, can be a long set of cycles going nowhere. On the other hand, of course, if B2C companies are already knocking at your door and saying, "Hey, you got something that's interesting to us", you might say, "Well okay, we'll focus on that because they're already here and we can get progress on that in months."

One of the things that frequently happens in experimenting with go-to-market strategies within B2C companies, within direct internet companies, is to paper test things. So you might take out advertising on Facebook and say, "Hey, are you interested in this kind of product or service?" And people click through and they say – you get to the buy button, the buy button leads to a, "Give me your email address and I'll tell you when it's there," as a way of testing before you build your particular feature or your particular product or particular service that people might want it. There's versions of that in the enterprise too.

Well for example, in the very early days of LinkedIn we thought we were going to be an individual subscriptions business for the first X years that we're going to be expense to the company. But we had companies to start coming and knocking on our door. And so we said, "Well, is this a real signal or not?"

So we hired a sales guy, generated a PowerPoint paper deck of, "Here's the product we're working on", which of course it's a product we conceived of, but we were not working on. And we sent the sales guy out to go talk to some companies, saying, "Oh, here's the product we're working on, we're looking for feedback. Would you like this product? Would you buy it?" And we got some details of “change this” or “change that”, or “this is more interesting”, or “this is a higher priority”. But we also got a measurement – this is our fundamental thing, of buy, demand – and we realized that we should immediately scale up an enterprise product and an enterprise Salesforce, and that should be added to the corpus of work that we were doing with LinkedIn, and that was a version of doing essentially the paper testing within an enterprise context.

But I think the most helpful thing I can say to you and to companies that are in your type of position is “How do I have an order of magnitude of months” – could be two, could be six, could be nine, shouldn't be 12 – “that I'm beginning to get a feedback path that this is the right path, that I got the data for it, that it's going to compound, that it's going to be a healthy channel and I should really build around that, even as I might build around other things?”

And of course just like any great entrepreneur, you're always measuring to “Are there other signals that suggest other ones are better?” And sometimes you have to make a hard call. You started experimenting with partnering with existing cybersecurity and Martech platforms, and then all of a sudden the B2C companies say, knocking at your door, and you went, "Okay? We're going to put the other one on slow boat and we're going to move this one on fast boat” because that's the hard call.

It's like sailing – we had a bit of that within our first **Masters of Scale Live episode** – and you're reading the signals and you're trying to figure out which signals would give you an answer within months. Good luck.

SAFIAN: Our next question comes from Davide Dattoli, the CEO of Talent Garden, a European company that empowers entrepreneurs through coworking spaces, and educational platforms. They're based in Italy, with locations in eight countries.

I love the question you're about to hear from Davide because it's one that often sits kind of silently behind other strategic questions. And it's this: As your business grows – and especially when it grows quickly – how do you keep growing, as a leader? Here's the heart of Davide's question.

DAVIDE DATTOLI: There are a lot of entrepreneurs like myself, we're in the middle scaling phases. The real question for myself is how you can adapt your skills and your abilities in order to grow the company in a phase in which every six months the skills that are required are totally different and changing?

Today I manage a company of 200 people. Just one years ago we were 80. My level of delegation and leadership has to be totally different, and probably will be different again in one year when we will be 300 people. So how can an entrepreneur that is 100% focused on the business development adapt himself to this big challenge? And how you can quickly evolve into your role of entrepreneur?

HOFFMAN: Davide, congratulations with all the success with Talent Garden and it sounds like you're doing a lot of the right things, which is to have a learning mindset, to be a learn-it-all versus a know-it-all, and to be realizing that what you learn will be changing and what you've learned so far, what got you here won't get you there. And so you need to learn the new things as well, and that is absolutely critical as a mindset.

And part of my first book, ***The Start-up of You***, I talked about being in "permanent beta", and that means you're always evolving anywhere you are as an individual and that's the right mindset to this kind of challenge. Now as you know, part of the reason why I wrote ***Blitzscaling*** and do Masters of Scale is to precisely deal with these kinds of scaling challenges.

And moving from 80 to 200 in a year is classically that kind of chaotic scaling. Now, the good news for you is if you're moving from 200 to 300 that's actually easier than 80 to 200, because the patterns of management, as we described in *Blitzscaling*, won't change that much. You won't necessarily have to change over your executive staff. You won't necessarily have to change over your communications, you're onboarding, a bunch of different ways that you're operating internally – because the way that you operate at 200 and 300 is roughly the same usually.

But you've already referenced some of the really key things that entrepreneurs should be doing in order to always be learning here. Some of it is reading and knowledge, some of it is consulting with other CEOs and because your business is creating a co-working space, you have a natural connection with that.

Sometimes you join CEO groups, whether it's CEO Alliance or **Young Entrepreneurs Forum** or **Young President's Forum** or any of these other organizations. Some things where you're structurally talking to CEOs in similar positions is also very helpful. Sometimes you look for a coach that you can reflect on and move at a faster cycle, and be there reliably and be doing that week by week or every two weeks or whatnot.

It's actually something that's also frequently very helpful is to get the right investors. Because if the investors have worked with other CEOs who've gone through this process, if they themselves have gone through this process, if they know what are the things to look for, who are the people to connect you with in specific things. That's also very helpful in a learning curve. And obviously it's always good to find mentors or a network of mentors that help you with it. and as long as you are really thinking about the question of “Look, I know the game will be changing. I know the things I've learned before, only some of which will apply when the game changes.” And so I think your question is excellent from a viewpoint of all entrepreneurs, of always be learning, and be a learn-it-all not a know-it-all.

SAFIAN: In this answer, I’m not sure which line of Reid’s I loved more, the one he started with, which is classic for all entrepreneurs: “What got you here, won’t get you there.” Or the line he ended on, which *should* be a classic: “Be a ‘learn-it-all.’ Not a ‘know-it-all.’”

That frame work, from know-it-all to learn-it-all, has actually been a core part of the resurgence at Microsoft that **Satya Nadella** has engineered as CEO since 2014. Nadella said he wanted to make the company into a learn-it-all one instead of a know-it-all one, and that journey has sparked Microsoft to become a trillion-dollar enterprise. Pretty good stuff.

This next question comes from Verónica Pascual, who’s CEO of a robotics company with locations across Spain, Germany, France, and recently, the U.S. She has a question about blitzscaling. And important to note: She’s not coming at this as a startup, but as an established company with hundreds of employees and significant market share.

Let’s hear from Veronica.

VERÓNICA PASCUAL: Hello Reid. I am Verónica Pascual, CEO of Asti Mobile Robotics. I acquired the company 15 years ago. That was me working doing conveyors and traditional material handling systems and transformed the company into the engineering and production integration of automated vehicles. We produce around 200 vehicles per year that we sell in 17 countries worldwide. We are 300 people company, mainly engineers based in Spain, France, Berlin, and recently U.S., North Carolina.

The challenge we have now is how to go to the next level of scale, knowing that selling a few robots in different companies could be somehow easy, but when you go into deep transformation of processes or for big retailers in their, for example, e-commerce processes, basically marks an important change in the processes themselves and also in the behavior of the humans using the technology. Thanks a lot Reid, your help will be very much welcomed.

HOFFMAN: Verónica, congratulations with all of the success with Asti Robotics and these are a set of very important questions around blitzscaling. It actually, in fact, is never too late to blitzscale. You have anything from existing companies that blitzscale an internal component, like Amazon did with AWS, you know the Amazon Web Services, to sometimes that's the pattern that you just end up in. Now the challenge when you're not just doing it from a pure startup into a blitzscaling company where it's to some degree easier, you have your capital focus on it. You have all of your team focused on blitzscaling versus preserving the current customers, the current platform, the current business while also blitzscaling. You're usually driven to blitzscaling by competition or prospective competition or sometimes dynamics of getting to a enough of a critical mass to be doing the business and all of those things make the startup to blitzscaling simpler and an easier focused effort.

When you have an existing 300-person business, global business, a set of customers, a set of working process, the blitzscaling questions come down to more difficult questions. So for example, are you going to risk the entire business? Are you just going to say, “Okay, we're now going to get over our skis? We're going to push for getting to scale in a risky way where we're putting all our chips on the table and we may risk our existing business because that's the simplest thing for the whole company to blitzscale in order to do, but also maybe inappropriate for the business, maybe inappropriate for employees, inappropriate for your customers, inappropriate for the best return for your shareholders?” Maybe competition doesn't require that you do that. Now sometimes by the way you just say, “Well actually, in fact I'm not looking at blitzscaling, but I'm looking at fast scaling.” Like, “I just need to take some real risks and capital. But I'd have to retrench and I'd have to like I, I'd stumble some and it would take me some extra years to kind of reset if it doesn't work.”

And I’m doing something that Chris and I described in *Blitzscaling* as fast scaling, which is, “Look, we understand some of the risk coefficients, customer acquisition costs, long term value, but we're just trying to pick up the pace. We're just trying to move faster and we're taking risks and scale, not necessarily risk and business model risks and in customer acquisition costs and we're picking up the pace and sometimes that's what you would end up doing.” And almost always when you're an established company and you're not just simply moving the entire company into this high risk table stakes, you have to kind of get the company to buy into it.

You have to set up some specific group or organization that the company understands this subgroup is going to behave differently. They're going to take some risks of the rest of the company's not going to take. They may be in separate space to do that.
It's like the scout group, the platform enablement group, the new product group that does that transformation and then brings the rest of the company along. And that subgroup has to be empowered by the CEO. The CEO's brain has to be wrapped around it and the company has to be thinking, “This is good for us.” So good luck with the decisioning and analysis and good luck with the work to figure these questions out.

SAFIAN: Our next question comes from Thomaz Srougi in Brazil. It provides a window into how markets are merging and being created internationally. In this case, it’s a tech-forward company called Dr. Consulta that runs medical centers in Brazil. Notice how Reid’s answer brings together several of the concepts he’s mentioned earlier. Here’s Thomaz.

THOMAZ SROUGI: Hi there. My name is Thomaz Srougi. I founded a healthcare/tech company in Brazil to eliminate medical homelessness. Eighty percent of the population in Brazil don't have access to healthcare. So I've decided to redesign a care model to provide access at very, very affordable prices. We currently run 60 medical centers in three states. We began collecting lots of data, to become extremely efficient to the point we broke even. And we began also helping people to spend less in healthcare.

So now that we've serviced 2 million people, we feel confident to start new technology projects that will enable us to grow faster and to get to 20 million people. But we need to be very careful because it took us so long, so much time to perfect and become efficient to our core business that our biggest challenge will be how do we execute the new technology projects to continue to disrupt the sector here, but also make sure that we continue to execute with a lot of discipline and focus the core business.

HOFFMAN: Thomaz, congrats with all the success with Dr. Consulta. And it's obviously an awesome mission, because getting people healthcare is one of the most fundamental things which creates happy lives, longevity, prospers with children and family, and has knock on effects in economy. So it's a super important mission, and congratulations on it again.

And the question you're asking is really one of these classic entrepreneurial questions, which is, “We've established a product market fit, we've gotten on base. And now what are the things that we do to scale to a massive size? Is it doubling down on what we have? Is it adding new things?” And just like any kind of entrepreneurial effort, you have limited timeframes, limited capital, limited management bandwidth, and have to be very choiceful about opportunity.

And so the decision algorithm on this frequently is, okay, on your core business, is there ways that you can amplify and move a lot faster? Before you factor out to other businesses, you really look at, as a startup, by really focusing on “I get this thing to scale and I really go big, and this is the thing that I should put all of our time and energy in, even though there's all these other interesting opportunities.” And that's because it's proven, it's there. Your company has, already, a platform for it. You know how to do it.

Now as you look at it, you may go, “Well, actually, in fact, it's pretty hard to accelerate the growth rate. It has a very natural growth rate, but it's hard to accelerate it. We have a total adjustable market that has certain limitations on it. This establishment of this platform of this business has really given us a lens that this other business is super interesting. And while we don't want to give up the thing that we've got, it's good, moving towards that other businesses is really important.”

And sometimes that's all. I'll say, “Look, we have a fixed growth rate. It's great. We don't really know what we fully need to do but we'll do some experimentation.” I've talked about paper testing or other ways to get data about what might be fruitful in terms of future product market fit, where there might be an interesting market or adjacency to what you're doing. Frequently, scale companies invest their resources at 70% to their core business, 20% at adjacent businesses, and 10% is experimental venture bets. You may be on path to that.

And so that's the framework for thinking about how you invest in new technology products in your current business. And then the details of it depend a lot on what signals you're getting on product market fit, which things you might be able to, because of your market position, because of your product or service, because you're a management team, because of your capital, because of the way the market looks, because of the way the competition looks. All of these things come into your analysis.

And obviously, this is also one of the reasons why you're part of a network like Endeavor, which is to also get network expertise on all of those things. Your organizational readiness, the competitors, the product market fit, the expansion, in order to help you come to your own decision, which will always be a risky decision, will always be potentially a bold decision, about where you'll be allocating your resources and what you'll be trying.

SAFIAN: And now to complete this episode’s master class on deep scaling strategy, we have a question from Ahmed Hamdan, the CEO of Unifonic. Unifonic is a cloud communication platform in the MIddle East which just raised a $21 million Series A round. Ahmed’s question, essentially, is: “What comes next?” Does Unifonic stay focused on their core? Do they add new markets or new verticals?

These can be existential questions, and to answer them Reid taps into his own personal experience with taking LinkedIn global. Here’s Ahmed.

AHMED HAMDAN: I'm excited to have this opportunity to speak to you. I'm a big fan. I always listen to the podcast. The challenge is about the growth strategy. Three years ago we focused to serve the enterprise accounts, and this gave us a high growth rate in the last three years – which is an average of more than 85% in one core market, which is the Middle East, mainly Saudi Arabia and UAE.

Now, moving forward. The challenge: We're going to continue growing sustainably and at higher rates in the next three to five years. To continue this growth, we should consider different dimensions? One clearly is the product: what other problems that we could solve and products that we could offer. The second dimension is the verticals. We do specialize in serving certain verticals like e-businesses, financial services, e-government, and logistics and retail. Then moving forward, important question, should we keep that focus as we expand beyond the current geography or market?

So every option, or set of options, is associated with risk and opportunity. We are trying to figure out what is the right question that we should ask and factors to consider while deciding the way forward in order to maintain this growth in a sustainable way.

HOFFMAN: Ahmed, congratulations with all of your success with Unifonic. These growth rate questions are kind of classic, where to focus on the growth. And it's great that you have predictable growth ahead of you. Part of what you may be trading off in your decisions is, in our core market, we have so much head room that we could just continue to invest in that. And should we divert to anything else?

And as you mentioned in your question, there's kind of three areas. There's the product lines, which may be additional products, expansions to your product. There's geography areas. So whether it's Middle East, going to Europe, going to Africa, going to Asia, going to the U.S., going to other places. And then there's also verticals.

So one question is, okay, is there a highly valuable market that's open but will become less open when anticipated in the next few years? And if you start later, your competitive disadvantage would be such that it would be difficult for you to leverage into a valuable place. That additional market could be an additional product line. That additional market could be in additional geography. And sometimes you make that decision either way. Like, "Oh my gosh, it's really important. It's highly valuable. We need to get into it." We realize that this will under-invest in our core business, which will be growing great anyway.

And that's important because it's a market we couldn't take later. It's because it's really available now and we will get much harder. And so you want to get started. On the other hand, sometimes you will make the decision to say, "Look, it's an important market. It's stuff that we will do more later." But actually in fact as we expand our core business and as we strengthen that, we actually think we'll have a better chance at that market – even if competition comes in, even as the market may be changing some. Some of that may be strength of position of your business, some of that may be information.

So for example, in the early days of LinkedIn we had a number of competitors across Europe, all of whom were focused on their specific country, their specific language and we went looked at it. I, specifically, I flew over there and looked at it. And the way that I do these analysis quickly is go around and talk to entrepreneurs because entrepreneurs are the professional category that most often tries to predict. Kind of what is the future product market fit? Where are things changing? Where is the product changing? Where might my customer demand be changing? Where might a new product get some fit?

And so went around and talked to a bunch of them about the kind of preferences between kind of local products and LinkedIn. And what I realized was that in each market there was a demand for a local product that was above the demand for a global product, but the next demand was for a global product. And so it's like, "Okay, well, actually, in fact we continue to focus primarily on English for a while," we did localization later than many of our brethren.

We focused on our feature set. We focused on making it very good for the individual and for the company. Then as we began to focus on Europe, which we have been for years now we're bringing a much stronger network effect, much stronger set of product that as we go much deeper and accurate and localization – which all of us international product people know is not just language but also the question of how this product fits within kind of culture and customer demand and expectations of interactions, especially in networking products like LinkedIn. We made the decision that way. So the decision was to go later because of this particular kind of analysis about what does that future opportunity look like?

Now sometimes, you expand new product because it's super important to be defensive. You might say, "Well we may have moderate ability to actually take the leading the dominant product in this region or in this product line area. But if we don't have this offering then we might actually start having our core business more challenged. It is a product feature that they actually really want. And so our current product needs to be there in order for our current customers to continue to re-up.

There's unfortunately no simple formula because you're making a decision about the future. The classic kind of poetic phrase is: You're looking through a glass darkly. And what are your competitors doing? What is the market doing? What is going to be the response to new things that you are doing? Or, just response to things in the future. None of what you can have a perfect prediction of. And so you're blending in a set of learnings and hypotheses and theoretical constructs to actual data that you can sometimes measure. And sometimes using start up like techniques – paper product testing, market research, other kinds of things – are good ways to help give evidence in this question. But you're still balancing data-driven models together with your theories and your understandings about how customers use your product.

SAFIAN: Don't you love Reid's description of the future of business as being seen through a glass darkly? So evocative. And yet after listening to him, it's hard not to feel more clear about how to approach everything.

Whether its paper testing or LinkedIn's experience, the 70/20/10 framework or identifying if your company's next move is from version 1.0 to 1.1 or 2.0, Reid has given us a variety of tools in this strategy session to crystalize our thinking as we move forward.

Starting a business, scaling a business: It isn't easy and it never fits a formula. But the perspective that others bring can open our eyes to new solutions, and that can drive performance.

I hope Reid's answers have been as thought provoking for you as they've been for me.

And with that, I'll pass it back to Reid. Reid? All yours.

HOFFMAN: Thanks Bob. It's been a pleasure to have you as our guest co-host today, and I appreciate all of your contributions to the show.

Thanks also to **Linda Rottenberg**, Carmen Feliz-Taveras, and Gabrielle Wilkerson-Melnick from the Endeavor team for their partnership. And to all the founders from Endeavor who submitted their questions.

If you want to learn more about Endeavor – or any of these extraordinary, fast-growing companies – head to **Endeavor.Org**.

And if you're a startup incubator or accelerator and you'd like to work with us on a future Strategy Session for your entrepreneurs, email us at Hello@MastersofScale.com.

I'm Reid Hoffman. Thank you for listening.