SUMMARY

BLITZSCALING

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Summary of “Blitzscaling” by Reid Hoffman

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How to build a valuable company at warp-speed.

Introduction

This is not your grandpa’s business market. You have only to take a quick look at the stock market to conclude that the world’s dominant tech giants have engineered a seismic shift in the status quo. Gone are the days of Coca-Cola, General Electric, and ExxonMobile’s reign; today, we’re ruled by the empires of Apple, Google, Amazon, and Facebook. It’s easy to look at this revolution and make a surface observation: that tech companies are dominating the market because the new generation prioritizes technology. But that doesn’t quite address the big picture. So, how can we explain the $3.5 trillion worth of the world’s most successful tech companies? And how did their success balloon so quickly? The author argues that there is only one explanation: blitzscaling. And over the course of this summary, we’ll find out what that means.

What is Blitzscaling?

If this book's title sounds like a made-up word, that's because it kind of is! Because language is an inherently fluid thing that constantly evolves to meet the needs of human communication, the word "blitzscaling" was invented to describe a phenomenon that we couldn't articulate with the words already available. And as you can see, it's comprised of two separate words: "blitz" and "scaling." You already know what "scaling" means; you probably think of it in mountain climbing terms, as in the phrase "scale the mountain." This, of course, means to soar quickly and skilfully to the top. But "scaling" is also short-hand in the business world. It's short for the phrase "scaling up," which means to grow or expand in a proportional and profitable way.

Achieving proportional success is important because it means that you're growing in an equal and sustainable way. When your growth is proportional, you're able to ensure that you have the resources and employees necessary to keep up with the expansion as you sell more goods or services. After all, that makes a lot of sense, right? Having a product that everyone wants is useless if you don't have the manpower necessary to manufacture and deliver that product. For example, let's imagine that you want to run a coffee shop. Maybe you started by operating out of your coffee truck in the city centre and you've been doing pretty well. You haven't had to worry about the cost of renting a building for your business or hiring employees; it's just you and your coffee truck and you're raking in profit hand over fist.

But what if you wanted to expand? What if your ultimate goal is to become the next-- better-- Starbucks? To accomplish that goal, you're going to have to relinquish the solo coffee truck model that's worked so well for you and invest in new forms of growth. For example, you'll now need to rent or buy a physical space for your business (or maybe even a fleet of coffee trucks!) You're going to have to hire employees and you'll need enough cups, beans, and coffee supplies to keep everybody busy. But what if you decided not to do this? Let's say you still wanted to maintain control of the business yourself for right now and avoid hiring anybody else. What would happen? Well, if your expansion generated the success you wanted and you were on your way to becoming the next Starbucks, your company would still collapse if you lacked the manpower to fill your orders!

It's physically impossible for one person to fill thousands of orders single-handedly, so even if you had a mountain of cups, coffee, and resources, you'd still lose business if you were unable to get customers their orders. So, if you don't have enough employees to help you fill orders and you don't have additional employees available to handle your finances, HR, and customer service needs, your company will still crash and burn before you know it. But if you aimed for proportional expansion instead, that would mean that you have enough supply to meet your demand, enough manpower to fill all the orders, and you could achieve the successful expansion you were hoping for. As a result, you could quickly grow to become the number-one coffee chain in your area, and you would be able to sustain that successful streak. So, that's why you want to scale up your business!

But what about the "blitz" part? Blitz is a German word meaning "lightning." To contextualize it in practice, you can think of it as what happens when you try to do something as fast as humanly possible or when you want to strike your target market with such a display of flash and force that you're like lightning. In short, to "blitz" means to do something very quickly and aggressively. So if you, as a company, attempt to "blitzscale" your business, that means that you're generating rapid, expansive, and sustainable growth at an aggressive and proportional pace. But now that we've looked at the definition of blitzscaling, it's time to take a closer look and consider how it functions in practice. Because although we've examined its basic definition, at its cote, blitzscaling is much more than rapid and proportional growth. And over the course of the next few chapters, we're going to learn more about those extra ingredients that characterize its success.

What Makes Blitzscaling Unique?

The definition of blitzscaling-- as we discussed in the previous chapter-- might sound overly simplistic. After all, the idea of proportional and sustainable growth sounds like a pretty basic business concept; shouldn't everybody have figured that out by now? And if so, why isn't every company succeeding at the same rate as Apple or Amazon? Well, that's because there's a little more to blitzscaling, and it starts with a significant amount of risk. Most people who launch new start-ups aren't big fans of risk; as a general rule, everybody wants stable, successful companies that can chart a surefire path to profit. Risk implies the possibility of losing your funding, failing to sell your product, or the chance that you won't succeed with your target market. And none of those sound like fun possibilities!

But where most strategies eschew or try to avoid risk altogether, blitzscaling embraces it. And that's exactly what distinguishes blitzscaling from other business models. So, what does it look like in action? Well, let's return to our earlier example of the coffee shop. Let's say that you're based in Canada and you are thriving in your hometown of Ontario. Since your coffee shop opened, you've established multiple chains throughout Ontario and through Canada as a whole. And now that you have a chain of thriving businesses, you want to expand your empire and set up shop in different countries like the US and UK. A more traditional model might suggest that you start off with one coffee shop in one country and wait a year or two to see how it performs before you go from there. But a blitzscaling model operates in precisely the opposite fashion.

To consider how that works in practice, let's take a look at the business model of Airbnb. Airbnb is one of those companies that falls in the same category as Amazon, Apple, and Google in that it skyrocketed to rapid and unprecedented success. And they faced a situation exactly like the one depicted in our hypothetical coffee shop example. Originally based in the US, Airbnb was thriving when it began to consider expanding to an international market. And rather than following a more traditional model, within just a year of their decision to expand, they had soared to a record breaking nine international offices between 2011-and 2012! The inherent risk of this choice is plain to see and most people wouldn't advise it. But that's exactly what makes blitzscaling so effective: the tremendous reward that comes with the danger of taking a risk. And in Airbnb's case, it paid off! By rushing ahead, they were able to beat a German competitor called Wimdu, which was rapidly trying to eclipse their success. In this case, taking a risk made all the difference because it allowed them to beat Wimdu to the punch. If they'd waited and taken the sensible option, they would have been too late! But by setting up in Wimdu's home turf and capitalizing on the appeal of an international expansion, Airbnb was able to put Wimdu out of business and reclaim their unparalleled hold on the hospitality industry.

Risky Business Pays Off

As a business owner, what's the number one thing you don't want to do? No matter what industry you're in, pretty much every business can agree that you never want to drop your prices too low. Why? Because if your prices are too low, you won't even be able to cover your own costs, let alone turn a profit. Of course, for any business owner, that sounds like the worst possible scenario. But what if you did it intentionally? What if you deliberately set your prices so low that there was no way they would ever cover your costs? That's exactly what the wildly profitable Uber does and in so doing, they've created a service that most of us use on a daily basis! So, how does it work for them? And why is it viable?

One reason Uber is so successful is that they've internalized the most important aspect of blitzscaling: speed. They understand that if you want to strike fast and generate rapid growth, doing it quickly is key. So, by swooping in with prices so low that it's impossible to undercut them, Uber is able to take its market by storm and rake in profit hand over fist. But as you've probably already noticed, blitzscaling isn't a simplistic "one size fits all" model that can be applied to any company anywhere. Instead, it's about making blitzscaling work for you, and in Uber's case, that means coming in and hard fast with insanely low prices… and the knowledge that they have a backup stash of startup capital behind them. They can afford to undercut their competitors (and maybe even lose money in the process) because at the end of the day, they know they'll still be able to cover costs. Obviously, that isn't true for every startup. So, if you want to employ Uber's business model, there's nothing stopping you… as long as you have that kind of investment capital to fall back on.

And if you are able to recreate this strategy, then you should know that it can be highly profitable in two ways. For starters, blitzscaling in this fashion allows you to dominate a new market at hyper-speed. To put this in the context of our earlier coffee shop example, let's imagine that you were trying to expand to the US and the UK and you decided to apply this business model. So, you start by striking quickly and opening stores in both countries. But you don't just open new stores-- you open with prices so low that there's no way another coffee shop can undercut you.

For the sake of corporate suicide, let's imagine that you decide to sell every latte on the menu for just $1.00. Every single drink on your menu-- even (or perhaps especially)-- the super fancy stuff that runs closer to $7 at Starbucks is now only $1 if customers buy from you. Now, even if you sell a million lattes in your first week, that kind of growth isn't sustainable and you won't be able to survive financially. Eventually, you're going to struggle to divide that profit between supplies and payroll and overhead. But if you have a few million dollars in investment capital to rely on, then you can go full steam ahead with this model, knowing that you might lose a bit here and there… but you'll also conquer the market in a new country. Is that risky? No doubt. But is it worth it? Most people would say, "No doubt" to this question as well. The trick, of course, is getting investors to see that!

Another advantage of this model is something called "first-scaler advantage." This is another perk of swooping in and dominating your market and you can think of it in terms of that old adage "the early bird gets the worm" or even as "survival of the fittest."

First-scaler advantage comes into play when you've conquered your market and made yourself an almost impenetrable force. If we think about our coffee shop example, you can see that even Starbucks-- with its history of established success-- would struggle to compete with someone who's selling the best lattes in town for $1.00. And if you were able to sustain this type of growth over a period of a few years, it's possible that you might even drive the Starbucks in your area out of business because they simply can't compete. That's the beauty of first-scaler advantage: once you effectively dominate the market and plant your flag, everything naturally flows in your favor.

The Symbiotic Relationship of Blitzscaling and Networking

This also explains the success of companies like Facebook, who obliterated their competitors, MySpace, LiveJournal, and Friendster. Today, we think of MySpace, LiveJournal and Friendster as laughable relics of the past, nerdy stuff your parents probably used. But when Facebook appeared on the scene in 2004, MySpace was the dominant social platform of the day and had more than a million users. In that day, beating MySpace was comparable to trying to beat Starbucks now. In fact, in its heyday, MySpace actually topped Google as the most visited website! So, what made the difference? And how was Facebook able to blitzscale its way to domination? Well, in Facebook's case, it was less about being able to undercut the current prices and more about the power of undercutting their competitor's customer service model.

That's because MySpace was sold to NewCorp in 2005. MySpace's 25 million users were included in the buyout and they were suddenly faced with the prospect of their social media platform changing hands. They had neither asked for nor consented to this fundamental shift and many users were dissatisfied, especially when the new owner decided to prioritize the potential ad revenue he could milk from MySpace. Rather than concentrating on the development of a high quality social media platform, the new team maximized MySpace's role as a media outlet. And as bugs increased and customer service was slower to respond, user dissatisfaction soared to new heights as well. And while MySpace was disregarding its users, the budding Facebook was watching, making careful note of all the mistakes to avoid.

As you can imagine, capitalizing on your competitors' mistakes is an awesome business strategy as well. And Facebook took full advantage of that opportunity. Noticing that MySpace only put out improvements on demand (usually only after significant outcry from its users), Facebook learned what not to do. Where MySpace was inattentive, they would be proactive. Where MySpace focused its efforts on financial profit, Facebook would invest in the desires of its users. And when they noticed that users were concerned about the toxicity, danger, and unverifiability of the platform, Facebook decided to brand itself as a safe space. In contrast to MySpace's uncensored membership, they would verify email addresses and make their community safe by keeping vulnerable kids away from predators. As a result, Facebook's policy requires users to be 13 or older, have a parent's approval, and use a verified email address and phone number-- all the security features that MySpace lacked!

So, by copying their competitors' selling points and capitalizing on their weaknesses, Facebook was able to market itself to a vast and unsatisfied demographic of users who were eager to gobble up their improvements. And even though Facebook didn't participate in blitzscaling in quite the same way as Uber or Airbnb, they did put their own spin on it. For example, they didn't immediately seek to expand at warp speed by doing the social network equivalent of setting up multiple offices in different countries. Instead, they started slowly: first limiting their user base exclusively to Harvard students, then test-driving the network with friends at other universities, and slowly expanding to high-school students, businessmen, and corporations around the United States. But although they differed in this respect, rapid and sustainable growth was still their core focus. That's because they recognized that growing too quickly is the major pitfall of most budding social networks. But if they started small and applied strategies that would allow them to undercut the dominant social networks, they knew they could still rise to the top. And that's exactly what they did.

Final Summary

Variability is perhaps the definitive feature of blitzscaling. As a business model, blitzscaling is neither simple nor generic; above all, it's adaptable, and the beauty of the system is that you can tailor it to work for you. As you can see from the examples of Airbnb, Uber, and Facebook, each of these companies put their own twist on the blitzscaling process and were wildly successful in doing so. The key is simply to remember the core tenets of blitzscaling--rapid and sustainable growth-- and learn how to make that process work for you.

Maybe that means undercutting yourself and all your competitors in order to strike quickly and cultivate that sweet first-scaler advantage. Maybe it means making bold and risky business moves like setting up nine international offices in just a year. Or maybe it means growing slowly while you curate a product that capitalizes on your competitors' strengths and compensates for their weaknesses. No matter how you execute your blitzscaling process, if you're willing to embrace risks with a hefty dose of ambition, and strike quickly instead of perfecting every little detail, you'll be able to launch a successful company that's grounded in rapid and sustainable growth.