# Blitzscaling

MJK Finvestment
Simplicity Trumps Complexity

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**What is Blitzscaling?**

'Blitzscaling' refers to quickly expanding products and services as the product becomes extremely popular. In other words, Blitzscaling is increasing the capacity of a system by a large magnitude in a short amount of time.

Blitzscaling drives "lightning" growth by *prioritizing* speed over efficiency, even in an environment of uncertainty. In this summary, we will argue the key to rapidly building massive businesses in today's environment is the aggressive growth strategy of Blitzscaling: a set of technique that allows both start-ups and established companies to build dominant world-leading businesses in record time.

Blitz-scaling requires hypergrowth but goes beyond the blunt strategy of "get big fast" because It involves *purposefully* and *intentionally* doing things that don't make sense according to traditional business thinking. In the Blitz-scaling Era, you have a tough call:

- Take on the additional risk and discomfort of blitzscaling your company.
- Or accept what might be the even greater risk of losing if your competition blitzscales before you do.

In this summary, we will draw lessons to explain the nuts and bolts of how to blitzscale, why to blitzscale and when to blitzscale.

**Is disruption bad?**

Blitzscaling disrupts entire industries, such as music, video, and telephony, with both new technologies and new business models… and those are examples from just a single company (iPod, iPhone, iTunes and the iPad to new a few). Disruption on its own is neither good or bad, but it always involves change. Replacing a $10 product with a $1 product of equal or better quality looks like a disaster to someone whose product is being disrupted, but for society as a whole, it means greater productivity. Netflix is one example of such. Bad news for broadcast and cable networks, but great news for fans.

**What are different types of blitz-scaling?**

Blitz-scaling isn't simply a matter of rapid growth. Every company is obsessed with growth. Rather, *blitz-scaling is prioritizing speed over efficiency in the face of uncertainty*.

| | *Efficiency* | *Speed* |
|---|---|---|
| *Uncertainty* | Classic Start-up Growth | Blitz-scaling |
| *Certainty* | Classic Scale-up Growth | Fast-scaling |

We will look at each of them:

**Classic Start-up Growth:**

- Prioritizing efficiency in the face of uncertainty.
- Being resource efficient lets one glide to *minimize* the damage giving time to learn things about the market, technology, and team before hitting the ground.
- Product satisfies a strong demand for the solution to a specific problem or need.

**Classic Scale-up Growth:**

- Focuses on growing efficiently once the company has achieved certainty about the environment.
- Maximize returns in an established market.

**Fast-scaling:**

- Willing to sacrifice efficiency for the sake of increasing growth rate.
- Costs are well understood and predictable.
- Strategy used to gain market share or hit revenue targets.

**Blitz-scaling:**

- Willing to sacrifice efficiency for speed without waiting to sacrifice efficiency.
- Usually need more money to blitzscale than to fastscale, because of capital in reserve to recover from the many mistakes you're likely to make along the way.

**What are the three basics of Blitz-scaling?**

Blitzscaling requires to move at a pace that is almost certainly uncomfortable for your team. Expect many mistakes while navigating in an environment full of uncertainty; the art lies in developing the skill to learn quickly from those mistakes and return to a relentlessly rapid advance. Here are the three basics:

- Blitzscaling is both offensive and defensive strategy:

  **Offensive:** Build long term advantage

  Take market by surprise

  **Defensive:** Keep your competitors gasping simply to keep, affording them little time and space to counter attack.

- Blitzscaling thrives on positive feedback loops. Company that grows to scale first reaps significant competitive advantages:

  Companies whose growth was greater than 60% when they reached 100 million in revenues – were eight times more likely to reach $1 billion in revenues than those growing less than 20 percent.

- Despite its incredible advantages, blitzscaling also comes with massive risks:

  At Facebook, it took more time to fix bugs and issues than the speed that they were gaining by growing faster. A summer intern introduced a bug that brought down the entire Facebook site for thirty minutes. Blitzscaling came with massive risks.

**What are the three key techniques of Blitzscaling?**

**Business model innovation**

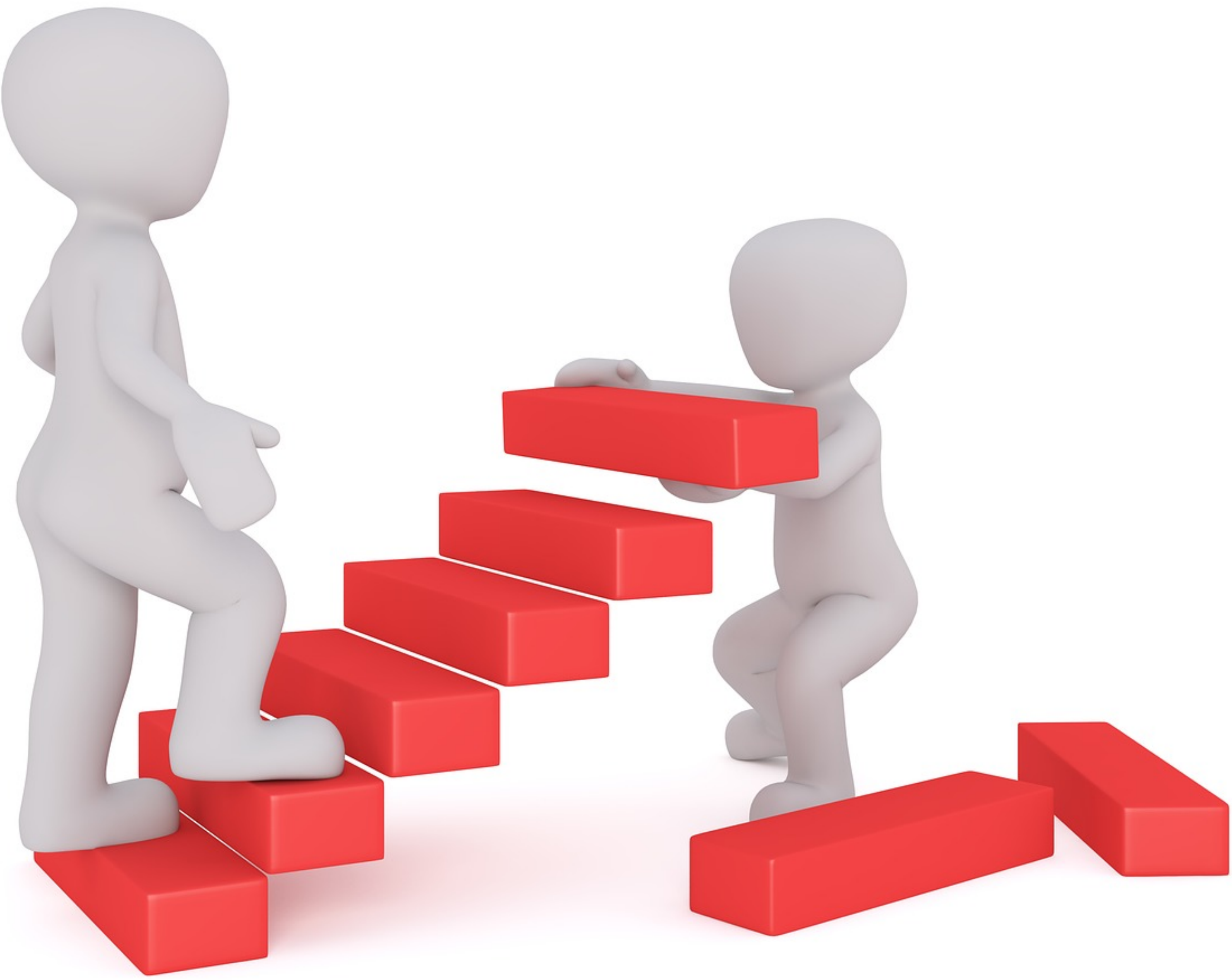
A major mistake made by many start-ups around the world is focusing on the technology, the software, the product, and the design, but neglecting to ever figure out the business. And by 'business' it simply means how the company makes money by acquiring and serving its customers.

**Strategy innovation**

The most obvious element of blitzscaling is the pursuit of extreme growth, which, when combined with an innovative business model, can generate massive value and long-term competitive advantage. Many start-ups believe they are pursuing a strategy of extreme growth, which in fact they have the *goal* and *wish* for extreme growth but no understanding of an actual strategy that will get them there.

**Management innovation**

Companies that Blitzscale have to rapidly navigate a set of *key transitions* as their organizations grow, and have to embrace counterintuitive rules like hiring "good enough" people, launching fraud and imperfect products and ignoring angry customers.



## 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. With circumstances might require to change with time.

- What sets companies like Amazon, Google, and Facebook apart, even from other successful high-tech companies, is that they have consistently been able to design and execute business models with characteristics that allow them to quickly achieve massive scale and sustainable competitive advantage.

## Designing to maximize growth: Four growth factors

**1) Market size:**

The most basic growth factor to consider for your business model is market size. A big market has both a large number of potential customers and a variety of efficient channels for reaching those customers.

**2) Distribution:**

Cold and unromantic fact is that a good product with great distribution will almost always beat a great product with poor distribution.

- *Leveraging existing networks:*
  New companies rarely have the reach or resources to simply pour money into advertising campaigns. Instead, they have to find creative ways to tap into existing networks to distribute their products.
- *Virality:*
  "Viral" distribution occurs when the users of a product bring more users, and those users bring additional users, and so on, much like an infectious virus spreads from host to host.
  Virality almost always requires a product that is either free or freemium.

**3) High Gross Margins:**

Are probably the best measure of long-term unit economies. The higher the gross margin, the more valuable each dollar of sales is to the company because it means that for each dollar of sales, the company has more cash available to fund growth and expansion.

Investors love companies where, all things equal, higher revenues create higher profit margins. Selling more copies of the same piece of software is a business that scales nicely. Designing a high-gross margin business model makes your chance of success greater and the rewards of success even greater.

**4) Network effects:**

Market size, distribution, and gross margins are important factors in growing a company, but the final growth factor plays the key role in *sustaining* that growth line enough to build a massively valuable and lasting franchise.

**Five categories of network effects:**

- *Direct network effects:* Increase in usage lead to direct increases in value. (Example: Facebook, Whatsapp)
- *Indirect network effects:* Increase in usage encourage consumption of complementary goods, which increases the value of the original product. (Example: Adoption of android or iOS)
- *Two-sided network effects:* Increase in usage by one set of users increases the value to a different set of complementary users and vice-versa.
- *Local network effects:* Increase in usage by a small subset of users increases the value for a connected user
- *Compatibilty and Standards:* The use of technology product encourages the use of compatible products.

## Designing to maximize: Two growth limiters

1) **Lack of product/market fit:**

   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.

2) **Operational scalability:**

   Designing a scalable economic model isn't enough if you can't scale up your operations to meet demand. One approach is to design business model that requires a few human beings as possible

   - Infrastructure limitations on operational scalability:

The other main challenge of operational scalability comes from the strain of scaling up the nonhuman infrastructure of the business. Tesla motors has seen its growth held by infrastructure limitations. Tesla’s production rates have lagged behind those of other automakers. Demand generation is not a problem for tesla; meeting that demand is.

**Proven Business model patterns:**

1) **Platforms:**

   Amazon’s merchant platform, Facebook’s social graph, and, of course, Apple’s iOS ecosystem are great examples of the power of platforms.

2) **Bits rather than atoms:**

   Bits-based businesses have much easier time serving a global market, which in turn makes it easier to achieve a large market size.

   Bits are far easier to move around than atoms, so bits-based businesses can more easily tap into distribution techniques like virality, and to leverage network effects.

3) **Free or freemium:**

   The incredible power of free makes it a valuable tool for distribution and virality.

4) **Marketplaces:**

   Marketplaces represent one of the most successful business model patterns, with the dot-com era’s Google and eBay and today’s Alibaba and AirBnB standing out as examples of important, valuable companies that follow this pattern. One reason market places are powerful is because they often tap into two-sided network effects.

5) **Subscription:**

   Subscription Internet services have been successful because the sales and delivery model provides a larger market size and better distribution than traditional packaged software.

6) **Feeds:**

   The power of news feed comes from its ability to drive user engagement, which in turn drives both advertising revenue and long-term retention. As Facebook has demonstrated, a news feed with sponsored updates is the most effective to monetize proverbial Internet “eyeballs”.

## Underlying principles of Business model Innovation

**Automation:**

Blitzscaling companies use *automation*. If they have the ability to perform a task, computers are always faster, cheaper, and more reliable than human beings. Furthermore, computers continue to get faster and cheaper, as opposed to human beings.

**Adaptation not optimization:**

Consider how Amazon expanded into new markets like AWS rather than simply honing its retail capabilities, or how Facebook has been able to adapt to the shift from a text-based social network accessed via desktop Web browsers to an image- and video-based social network accessed via smartphones.

**The contrarian principle:**

Amazon pursued e-commerce when most people didn't think consumers would feel comfortable using credit cards online. Google launched its search engine when most people thought search was mature commodity, And Facebook built its social network when most people believed social networking to be either useless, a market dominated by MySpace.

*"After designing a business model that can support massive growth and value creation the next step is to decide on your strategy. That's where strategy innovation comes in"*


## Strategy innovation

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

- **A big opportunity:**

To achieve massive success, you need to have a big new opportunity – one where the market size and gross margins intersect to create enormous potential value, and there isn't a dominant market leader or oligopoly.

- **First scaler advantage:**

  Blitzscaling is unlikely to prove successful if another company has already achieved first-scaler advantage. Sometimes there is no first-scaler advantage to be won. If you can't identify any network effects or customer lock-in scaling might not confer sufficient advantage to warrant Blitzscaling.

- **Learning curve:**

Another way to use Blitzscaling to create a lasting competitive advantage is to be the first to climb a steep learning curve. Some opportunities such as self-driving cars, require to solve hard, complex problems. The more rapidly one scale's, the more data there is to drive learning, which improves product, making it easier to scale further in the market while competitors who have just begun to learn lag far behind.

- **Competition:**

Despite offensive reasons to scale, the most common driver of Blitzscaling is the threat of competition. Even without competition, first scaler advantage and climb the learning curve are desirable, but one might prefer less risky fastscaling approach to growth.

- **Good times, Bad times:**

In a rapidly growing market, a company that grows 100 percent per year might be losing market share; during turbulent times, a company that grows 50 percent per year might be gaining enough share to achieve market dominance. One can successfully Blitzscale in good times, and also Blitzscale in bad times though market conditions can and should affect your strategy.

**When should blitzscaling be stopped?**

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

**How the role of the founder changes in each stage?**

Stage 1: The founder personally pulls the levers of hypergrowth

Stage 2: The founder manages the people who are pulling the levers

Stage 3: The founder designs an organization that pulls the levers

Stage 4: The founder makes high-level decisions about goals and strategies

Stage 5: The founder figures out how to pull the organization back from Blitzscaling and start Blizscaling new products new product lines and business units.

# Management Innovation

One of the key features that sets global giants apart from those companies that flames out or implode before they can reach market dominance is an ability to evolve and optimize their management practices at each stage of growth.

**Eight Key transitions:**

- **Small teams to large teams**

  The ideal solution is to retain early employees in new roles that advance their careers and help the company, but If you have to choose between losing a cherished employee and allowing him to flounder in a role for which he isn't suited, it is better to have an honest conversation and an amicable parting than it is to allow both the employee and ultimately the company to fail.

- **Generalists to specialists**

  Think of generalists as the 'stem cells' of organization. Your body has a small number of stem cells that have the capability to morph into various other types of cells as needed. In a large organization, you may need a small number of people who can perform various functions as needed, whether exploring new products and technologies or tackling issues that lack a well-defined solution.

- **Contributors to managers to executives**

  Managers are frontline leaders who worry about day-to-day tactics: they create, implement, and execute detailed plans that allow the organization to either do new things or do existing things more efficiently.

  By contrast, the role of the executive is to lead managers. For the most part, executives don't manage individual contributors. Instead, they focus on vision and strategy.

  1) *Hire someone who is already a known quantity to at least one member of the team.*
  2) *Bring the new executive in at a lower level initially and let the executive power himself or herself.*
  3) *Once the executive has earned the team's trust and credibility consider promoting him or her*

  Blitzscaling organizations need organization, not just to coordinate their many resources and activities, but in order to maximize speed. The organization's collective learning rate—especially within its leadership team—determines its ability to anticipate future trends, while the strength of its internal structure— especially in terms of its frontline teams—determines its ability to act quickly on those key insights and seize the competitive advantage.

- **Dialogues to broadcasting**

  One area that undergoes the most change during blitzscaling is the internal communications process. As the company grows, you have to shift from informal, in-person, individual conversations to formal, electronic, "push" broadcasting and online "pull" resources. You also have to shift from sharing all information by default to deciding on what is secret and what is shareable.

- **Inspiration to data**

  Data is the lifeblood of decision making for any company, but it is particularly fundamental if it informs the design of your product, or if acquisition marketing is key distribution strategy. Data beats opinion.

One of the challenges faced as you build up your data capabilities is that your strategy can disappear behind the numbers. The numbers might not measure the real health of the business or reveal the real major threats you face.

- **Single focus to multithreading**

As the company grows, the product focus will also undergo a major change, from a single-threading to a multithreading approach. What we mean by this is that start-ups in the early stages of Blitzscaling are generally single-product companies that focus on doing one thing extremely well. But to keep the company growing in the later stages, scale-ups need to manage multiple product lines or even business units. Most successful companies dominate one channel.

Multithreading comes with a definite cost. Some people are eager to jump to multithreading as quickly as possible because they think it increases their competitive bandwidth. In reality, one should be thoughtful and careful about making this decision.

- **Pirate to navy**

This key transition is the shift from playing offense to playing offense *and* defense at the same time. More poetically, it's the shift from being a pirate to being part of the navy. It requires an evolution in strategy as well as an evolution in company culture.

Early-stage start-ups are also on the full offensive, waging guerrilla warfare on bigger, established competitors. They are used to striking quickly, using surprise as a weapon, and taking on risks that established companies can't or won't. During the early stages of blitzscaling—Family and Tribe—it's easier to take risks because you don't have much to lose.

- **Founder to leader**

There are only three ways to scale yourself: delegation, amplification, and just plain making yourself better.

Delegation:

Many founders are so talented that they have a hard time letting go of tasks once they start performing them.

One of the most important aspects of delegation, and often the most challenging for a founder, is to hire an executive and hand off functional leadership. For example, a lot of great founders are product people. Initial product/market fit and success are achieved because of their product instincts. But as the company grows, these founders will almost always need to hire an executive to take over leadership of the product organization—it's too important to be a founder's part-time job.

Amplification:

Rather than delegate work you're doing to others, can you hire people who *amplify* the work you do? The goal here isn't to free you up from your work so that you can do other things; it's to make the things you do much more impactful.

Making yourself better

Because the company grows and changes so quickly as one blitzscale, it's crucial to figure out how to make oneself better just as quickly so that he/she does't become the bottleneck that holds company back. "There are no job descriptions for founders. If the role doesn't change, there's something wrong

## Nine counterintuitive rules of Blitzscaling

1) Remember chaos

When blitzscaling, efficiency is sacrified for speed, which means that the traditional focus on order and regularity needs to be replaced with a unique willingness to embrace a level of chaos that would horrify most Harvard MBAs and their professors. Passively succumbing to chaos is not a winning strategy. *Embracing* chaos, on the other hand, means accepting that uncertainty exists and therefore taking steps to manage it.

2) Hire MS. Right now, not MS right

Need managers and executives who are "just right" for the current phase of growth; after all, you won't have to worry about that next phase if your team can't actually get you there. Hiring someone who has been managing a thousand people to run a ten-person company is actually counterproductive, because the skills needed to succeed during those two phases are very different.

3) Tolerate bad management

"I think a building over there would be a good idea. Let's start digging!" Then once the cement is poured and the walls go up you realize, "It should be a hotel, and therefore we need to do this kind of a floor plan."

Is that "bad" management? Maybe. But if bad management saves you from building a warehouse in the wrong part of town and lets you quickly turn that structure into a successful hotel (or saves you from losing money on mobile cash and lets you quickly capture the market for global payments), then it might be the best approach you can take.

4) Launch a product that embarrasses you

Not that you should strive to produce a bad product. Rather, if you need to choose between getting to market quickly with an imperfect product or getting to market slowly with a "perfect" product, choose the imperfect product nearly every time. The original Mac didn't come with a hard drive. The original iPhone didn't come with an App Store.

5) Let fires burn

At every stage of blitzscaling, there are always far more problems and issues clamoring for your attention than you have the resources to address. You might feel like a firefighter, except instead of trying to extinguish a blaze in one contained spot, you can see separate fires all around you—and you don't have time to put out all of them. One of the ways that blitzscaling entrepreneurs can stay alive is by deciding to let certain fires burn so that they can focus on the fires that if allowed to rage unchecked really will destroy the company.

6) Do things that don't scale (throwaway work)

They are firm believers in the conventional wisdom that says it's better to build your product right the first time, so you only have to build it once. But when you're Blitzscaling, inefficiency is the rule, not the exception.

7) Ignore your customers

But for many Blitzscaling companies, the key rule is "Provide whatever customer service you can as long as it doesn't slow you down.

8) Raise too much money

Having "extra" capital gives you a cushion for when outcomes do not in fact follow your plan. Moreover, it increases your optionality—if you need to invest in growth, you can do much more without having to go through the time- consuming process of raising another round. But while it may make sense to burn cash in order to grow (and finance the difference with capital you raise from investors), you should make this investment with long-term profitability in mind. If the unit economics are positive in the long run, and capital is available at low cost, then it makes sense to take in investment capital to fuel rapid growth.

9) Evolve your culture

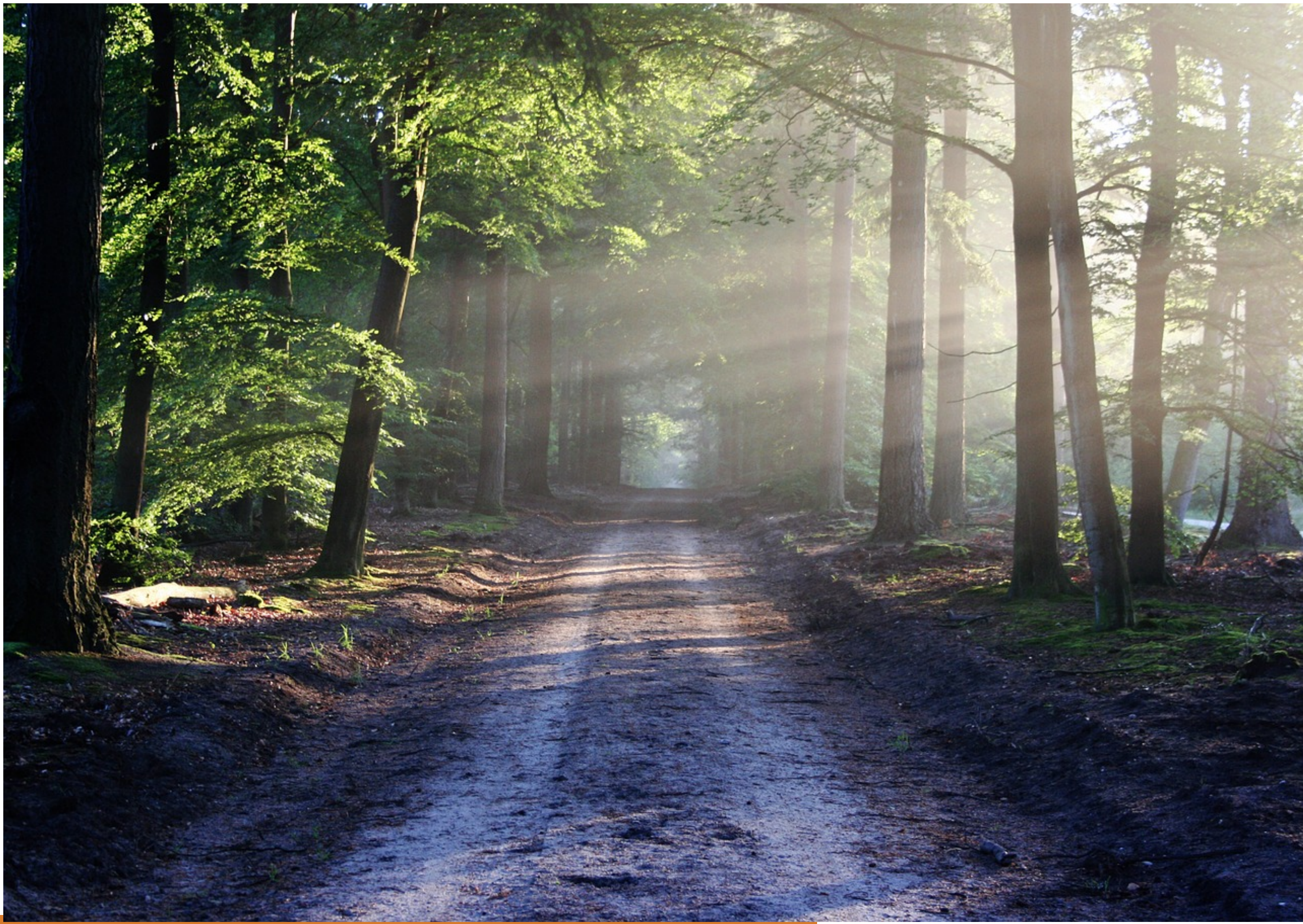
It could be best explained with an example, If southwest doesn't finds a qualified candidate who doesn't have the right values, it will keep looking until it finds someone who does—no matter how long the job has gone unfilled.

Southwest's development and promotion practices are also explicitly tied to company values. In performance reviews, employees are assessed not just on results but also on how they got those results; in fact, people are actually rated on things like their "warrior spirit," "servant's heart," and "fun-LUVing attitude."

Most cultures begin to form organically. As seen above, the founders of the organization have a major influence on the culture, simply because of who they are. If a founder believes that certain beliefs and practices are fundamental keys to winning, those beliefs and practices tend to be transmitted to the people who work closely with him or her.

In blitzscaling companies, culture becomes increasingly important—and increasingly difficult to maintain—as the organization grows. In the beginning, the bond that employees form in the early days of the company can be a powerful force in shaping the culture, but this gets more challenging as more people come on board and spontaneous interactions give way to more formalized structures.

The stronger you make your culture, the less you'll have to bind people's behavior with rigid directives. New hires are an opportunity to refine your culture and add to its capabilities. They should be compatible with your current culture but also bring elements that help change it for the better.



## Broader landscape of Blitzscaling

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.

**Advantage 1: Scale**

This might sound obvious, but there are some opportunities that you can only tackle if you already have the scale that comes with being a large, established player. For example, Amazon couldn't have launched Amazon Web Services (AWS) without achieving massive scale in its data centers, and becoming the world leader in managing those data centers. Trying to build that product from scratch, without being able to leverage Amazon's economies of scale and reputation for operational excellence, would have been nearly impossible.

**Advantage 2: Iteration**

Another advantage that established companies have is the ability to make multiple, iterative blitzscaling attempts. Blitzscaling is a risky strategy, and you might not achieve success on the first try. You need to have enough capital to stay in the game. Microsoft was famed for its ability to iterate its way from knockoff products to market dominance. The first and second versions of Microsoft Windows were unsuccessful attempts to copy Apple's Macintosh operating system; the third version, while still inferior to its inspiration, was good enough, and Microsoft unleashed a marketing blitz for follow-up versions such as Windows 95 and Windows NT that carried them to dominance. Microsoft later repeated this strategy with its Xbox business, which evolved from the Xbox, to the Xbox 360, to today's Xbox One.

**Advantage 3: Longevity**

While the ability to undertake multiple attempts at blitzscaling is an advantage, so is the ability to be patient with a single attempt. Large companies can (if they have patient shareholders) have longer time horizons than start-ups, whichneed to show immediate results to continue raising money.

**Advantage 4: Mergers and Acquisitions**

One final advantage that established players have is the ability to use acquisitions to drive blitzscaling. Acquiring a business that is already blitzscaling or has the potential to blitzscale can transform an existing company.

**Disadvantage 1: Incentives**

A major issue faced by *established* players is that the incentives tend to favor *cautious* expansion rather than *aggressive* blitzscaling. Successful companies generally assume that they already have something valuable, which means risk taking tends to be penalized. If you make the play and fail, you've destroyed a valuable thing. That's not something a start-up faces—a start-up is dead by default, so there is nothing to lose.

**Disadvantage 2: Unstaged commitment**

Another (largely self-inflicted) disadvantage for large companies is the inability or unwillingness to stage their investments. This results from internal incentives, which tend to reward managers based on the revenues that they oversee, while penalizing failure and undervaluing growth opportunities.

**Disadvantage 3: Public Market Pressure**

Finally, established companies that are publicly traded face an additional set of pressures to deliver short-term (i.e., quarterly) financial results. Blitzscaling generally requires sacrificing short-term efficiency (and thus financial results) to achieve long-term value creation.

Blitzscaling's increased pace and decreased efficiency can seem reckless and wasteful when evaluated against conventional initiatives that are designed to provide steady growth. As a result, a blitzscaling project needs to be insulated from the rest of the company so that the executive in charge can run it effectively.

**Is Blitzscaling bad?**

Companies like Apple and Amazon have to win their customers every day, and if they fail to do so, those consumers can simply buy Dell laptops and order books from Barnes & Noble.

We believe that while big can sometimes be bad, big can also be great. Scale creates dominant companies, but scale also creates enormous value. The smartphones we love, for example, are mass-market consumer electronics that depend on economies of scale. While it is right that society needs to prevent monopolies that block technology or business innovation in the way that the old AT&T monopoly suppressed the progress of telecommunications, today's largest companies have actually enabled innovation and the creation of even more value by providing a platform for everything from business productivity software (Slack) to entertainment (Netflix). Even the concentration of capital that scale has produced isn't all bad; it has allowed blitzscalers to tackle “moonshots” like space travel (SpaceX) and autonomous vehicles (Google’s Waymo) that may dramatically improve ourlives.

It’s true that, as with anything in life, blitzscaling produces winners and losers. Start-ups can and will fail, and all entrepreneurial enterprises create risk for founders, employees, and investors. At the same time, they also create the possibility for new businesses, new innovations, and new jobs. But the most successful modern societies err on the side of freedom rather than trying to outlaw all risks, and on the whole we are all better off because we allow entrepreneurs to take those risks.

**Conclusion**

Over the past few decades, blitzscaling has redefined countless industries and helped shape nearly every part of our lives. Each waking hour, you probably use multiple products from companies that blitzscaled in the past or are in the process of blitzscaling today.

But what if the Blitzscaling Era is just getting started? So far, blitzscaling has been concentrated in software and the Internet, but it’s likely to reshape our physical infrastructure or even our bodies in the future. Artificial intelligence will soon be ubiquitous, thanks to self-driving vehicles and better machine learning. Technology innovations in the life sciences, such as CRISPR gene editing, may change the fabric of life itself. Cryptocurrencies and blockchain technology may change the role of governments and corporations in global finance and commerce.

New technologies are emerging rapidly and promise to change everything— again. These new technologies will enable new business models, which in turn will create new industries. In the history of high tech, platform shifts, such as the move from mainframes to client-server or the move from the Web to mobile, have represented huge opportunities. Today, multiple platforms are emerging or shifting simultaneously, bringing greater complexity—and even greater rewards for speed.