Masters of Scale, Ep. 21: The Ten Commandments of Startup Success with Guest Host Tim Ferriss - formatted transcript

REID HOFFMAN: I'm Reid Hoffman and you're listening to Masters of Scale. What follows is a special episode of the Tim Ferriss show that we produced with him. For those of you who aren't familiar with Tim, he shot to fame with his book, The 4-Hour Workweek. And he's an accomplished speaker who has given multiple TED talks. He also has a terrific podcast.

Tim studies the lives of high performing people and distills their practices and perspectives down to actionable lessons you can use in your own life and business. I've known Tim for years and have always been impressed by the caliber of the audience who faithfully listen to his show. For his audience and for you, we've created a special remix of Masters of Scale Season One, including a lot of previously unpublished recordings. It's the 10 commandments of startup success. I hope you enjoy it and perhaps even go subscribe to Tim's podcast as well on Apple podcasts, Stitcher, or wherever you listen.

Again, his podcast is The Tim Ferriss Show and you can read more at Tim Ferriss' blog at tim.blog.

[Theme Music]

TIM FERRISS: Commandment number one: expect rejection. But learn from every single "no." As a founder you have to be resilient, you have to learn to weather rejection as it is a universal experience. And this clip that you're about to hear brings that to life in full color.

> **KATHRYN MINSHEW**: I had been turned down 148 times.
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> **HOFFMAN**: That's Kathryn Minshew, co-founder and CEO of The Muse, a career development website that she pitched to investors 148 times—not that she was counting.

> **MINSHEW**: There were literally days where I had a “no” over breakfast, and “no” over a 10:30 AM coffee, a “no” over lunch. Disinterest at 2:00 PM, somebody who left a meeting early at 4:00. And then I would go to drinks and feel like I was being laughed out of the room.
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> And when we finally raised our seed round, I went back and counted. It was both painful and gratifying at the same time, looking at all those names, and thinking, “I remember that ‘no,’ I remember that ‘no,’ I remember that ‘no’”—and they sting; every one stings.
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> **HOFFMAN**: Today, the Muse serves users in the millions. Kathryn raised $16 million last year—and her tale is the origin story of most great startups. So, if you’re hearing a chorus of no’s, you should look for other signs that you’re onto something. I believe that the best ideas often appear laughable at first glance.

FERRISS: Most entrepreneurs hear a chorus of no’s as they get started and you have to expect it. In fact, it’s not just when you get started. Because in the beginning it could be a handful of perspective customers, then it’s venture capitalists, then it is maybe even private equity folks, and then investment bankers, and so on and so forth, potential suitors, and it goes on and on and on. So, you have to expect it and you have to condition yourself to deal with it.

Reid says that these no’s can actually be a very good thing. And particularly in the beginning, you don’t WANT everyone to say yes. And here’s why:

> **HOFFMAN:** The first truth of entrepreneurship and investing is that the very big ideas are contrarian, because the contrarian is part of the reason why a bunch of large companies and competitors haven't already done it, why a bunch of other entrepreneurs haven't already succeeded at it. And so that leaves the space for the creation of something—and to create something big, you have to have that initial space. For example, in the early stages of Google, search was a terrible way of making money in advertising, because advertising is time-on-site. And what does search do? It shuffles you off the site as fast as you can go. That’s not a good business model. So at Airbnb it’s like, “Someone’s going to rent a couch

or a room from someone else? Who are the freaks on both sides of that transaction?" So all of these things have a similar quality—very smart people will tell you, there's no there, there.

FERRIS: So it can be a good thing to hear a lot of no's, to get those rejections. But sometimes, your bad idea is just a bad idea. So how do you tell the two types of feedback apart? Or put it a different way: how do you interpret the no's?

Reid has a great way of describing the kind of "no" that you do want. Apparently, you want a, what he would call a "squirmy" no. And Reid explains this with the help from Tristan Walker. Tristan's company produces the Bevel razor, which is designed for men with coarse and curly hair.

> **HOFFMAN:** So how can you tell a *truly* bad idea from a bad-sounding idea? How can you be sure *your* ugly duckling could become a swan? This is the key: You have to pay attention to the quality, not the quantity of rejections. You want to see at least a teeny minority of investors *squirm*. You don't have to get them to a "yes," but you should detect some friction, as they reason their way to a "no."
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> Tristan has a keen ear for this quality in his conversations. He can pinpoint, down to the PowerPoint slide number, the moment his audience stops paying attention.
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> **TRISTAN WALKER:** I had a slide in there—I think it was like slide 14—where I talked about Proactiv—the acne system—as a good analogy to what we're trying to do. It's the difference between Gillette and Bevel, as Neutrogena and ProActiv—it's a system that solves a very important issue. And this VC looked at me—and I'll never forget this—he said, "Tristan, I'm not sure issues related to razor bumps, shaving or irritation are as profound and big an issue for people as acne."
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> At which point, I said, "I kind of understand what you're saying, but all you had to do was get on the phone with 10 black men, and eight of them would have said, 'This is a permanent thing I have to deal with.' All you had to do is get on the phone with 10 white men, four of them would have said the same thing. Could

have done it for women too, and you would get the same ratios.” So it wasn't that it was a bad idea, or not as important—it's just that that person was unwilling to acquire the context necessary to understand what we're working on. That's just laziness—and at that point, I can't fix that. So I just gotta move on until I find somebody who understood it.

HOFFMAN: Notice how quickly Tristan’s mind moves on to the next investor. When the quality of the questions drops, he knows, mid-pitch, that the conversation is over—the rest is noise. Those half-hearted questions are like the elevator music of the pitch process. It’s meant to pacify entrepreneurs. In fact, it grates at them. It also wastes their time. Tristan will tell you he prefers a hard “no” to a comforting “maybe.”

WALKER: Silicon Valley investors will tell you all the time, “We want to invest in people who can execute with some semblance of pedigree, chasing a significant white space and a big opportunity.” For us, it was like “Check, check, check, check”—and we heard 99 percent no’s. How much is bullshit, right? And you’re just trying to say something that I want to hear, as opposed to telling the truth. And I wish that Silicon Valley would tell the truth a little bit more.

HOFFMAN: Tristan raises a really interesting question here. How much of this investor hemming and hawing is, well, bullshit? What’s really going through their heads?

HOFFMAN: As a partner at Greylock, I want to share what happens after an entrepreneur leaves the room, and an investor is left to mull over a crazy idea. It begins with the debrief of the investor’s partners.

If I'm presenting an idea to my partners at Greylock, and they all go, “That's great! We should do that.” I'm like, “Shit. Here's a bunch of hyper-smart people and no one's saying, ‘Oh, watch out for this, or watch out for that.’” It’s too easy. The idea is so obviously good, I can already hear the stampede of competitors trampling over our hopeful little startup. On the other hand, you don’t want every person in the room to say, “Reid, you're out of your fucking mind,” because then you're wondering, “Hmmm, am I drinking the Kool-Aid in a very bad way?”

What you want is some people going, “You guys are out of your minds,” and some people going, “I see it.” You want a polarized reaction.

So take my decision to invest in Airbnb as an example. David Sze told me during the Airbnb de-brief:

ROBOTIC VOICE: David Sze is a partner at Greylock Investment.

HOFFMAN: “Well, every venture capitalist has to have a deal that doesn't work that they learn from. Airbnb can be yours.” And David Sze is a super smart VC; he invested in LinkedIn. He invested in Facebook. He invested in Pandora. He personally returned two-and-a-half billion dollars to Greylock’s funds. He’s as smart as smart money gets—and believe me, I weigh his objections carefully. If someone as smart as David disagrees with me, I worry.

But I also get excited—it’s an emotional roller coaster. And as this sort of emotional turmoil plays out in the background discussion, it’s hard to give an entrepreneur a hard “no.” The best ideas make you want to say “yes” and “no” in the same breath.

FERRISS: So you want to hear a “squirmy no.” The “squirmy no” refers to the kinds of no’s that mean you’re potentially on to something. But let’s be honest: it’s never easy to hear “no”. And sometimes it can be extremely excruciating, terrible. So Reid also asked a few entrepreneurs to talk about how they deal with rejection, and how they learn from rejection.

HOFFMAN: So you have to gird yourself for a string of rejections. Some entrepreneurs simply develop a thick skin. Others treat it like a normal part of their workday. You know, wake up, brush your teeth, listen to people crush your dreams. It’s a living.

But there’s another, more hopeful approach. Our producer, Dan Kedmey, talked with a number of entrepreneurs who pitched seemingly laughable ideas in all kinds of industries. Like Abby Falik, founder and CEO of Global Citizen Year. Her not-for-profit sends students abroad for a year of international service between high school and college. Back in 2008, she was struggling to get funding, and she turned to a leadership coach for advice. We asked her to share that advice.

ABBY FALIK: The no's are actually a gift.

HOFFMAN: You heard that right, a *gift*.

FALIK: And he said between now and when we talk two weeks from now, I want you to go out into the world and gather as many no's as you possibly can. It is your homework to be rejected over and over and over and over and come back and report on it. And it ended up being the most important thing I could have ever done, and the most important advice I could have been given at that point.

HOFFMAN: The most successful entrepreneurs listen closely to the no's. They mine their rejections for clues. Kathryn Minshew, the founder of The Muse, got her share of rejections over the course of 148 no's she shared at the top of this episode. We asked her for the reasons that investors turned her down.

MINSHEW: "It's a bit too early for us but keep in touch." "Once you hit 100,000 monthly active users, give me a call." "This is a fool's errand. It's expensive. It doesn't scale." "That's not very tech, that's not a scalable platform." "Aren't you worried that you're going to lose all your users once they turn 30 and, you know, have babies?" Or, "I get that women in New York and San Francisco love this product, but I think you're going to really have a hard time finding women who care about their careers once you go outside of the coasts." And I just remember looking at these people and thinking, "Do you know a lot of women?"

HOFFMAN: Kathryn is right to ask this question. She knows more about women than most investors, and she also knows more about her business. Entrepreneurs have to learn how to hold on to what they know through the arduous pitch process.

FERRIS: Commandment number two: hire like your life depends on it because it does. Hiring the right people can make or break a company. And this is a theme that comes up again and again with successful founders.

Airbnb's Brian Chesky personally interviewed the company's first 500 employees, for instance. That was incredibly time-consuming, painstaking work, but Brian would not have had it any other way. Patience, he says, in this particular case, pays dividends.

> **BRIAN CHESKY**: And one of the most important decisions a startup can make is who they hire. Because who they hire becomes them. And so we interviewed people for core values. What this ended up, and that meant we spent like four or five months to hire our first engineer. Back then a lot of people thought we were crazy because time is of the essence when you're a startup. You've said it's like jumping off a cliff and assembling the airplane on the way down. Imagine jumping off the cliff, trying to assemble the airplane on the way down, and someone's there to help you with the airplane, and you spend five months debating whether they'll fit the culture.
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> Meanwhile the ground is coming. That takes like real patience and some courage. The reason we did that though was because we thought in the high-class event we are successful: do I want to work with 100 more people like this? Because if I hire someone, they are going to interview the new people. And so we thought of hiring as this mechanism where, do I want to, if I could hire anyone in the world, would I hire the person sitting across me, and do I want 10 or 100 more people like them?

FERRISS: But if you launch a truly successful company, eventually, the hiring process has to scale. Eric Schmidt had a lot to say about hiring quickly, but not hastily. It's one thing to do something quickly, quite another to do something in a rush. When he was CEO of Google, the company quadrupled in size each year, while maintaining super-high standards, which are famous even within Silicon Valley. He told Reid how he did it:

ERIC SCHMIDT: So the company was getting very large, very quickly. And I had suggested to Larry and Sergey that there was a problem with what I called “glue people.” And glue people are very nice people who sit between functions, and help either side, but don't themselves add a lot of value. And I thought, “These are nice people, but we don't really need them. We can have these groups talking directly.” And Larry looked at me and says, “We could solve this problem, if you would just review all the hiring.” And I said, “Larry, we can't look at all the hiring.” He said, “Sure we can.”

So the company, of course, invented a number of hiring algorithms, which are used throughout the industry today. Many of them include pretty aggressive hiring interviews from peers, asking people to do work, and so forth. Ultimately, the judgment has a lot to do with whether the person is interesting or not. And so we would, for example, take a position that we want to hire rocket scientists, because rocket scientists are inherently interesting. And in sales, we love to hire Olympians. Or Super Bowl winners, or football players—because the discipline that they had in their lives as young people—men and women—to get to that point indicated that an extra set of discipline.

HOFFMAN: I want to acknowledge that most companies don’t have the option of hiring rocket scientists, Olympic athletes, and Super Bowl winners. But Eric does have more pragmatic advice for companies that can’t set the bar at Himalayan heights.

SCHMIDT: So today I would suggest that—and this has since been confirmed by many studies—that persistence is the single biggest predictor of future success. And so we would look for persistence. And the second thing was curiosity. What do you care about? The combination of persistence and curiosity is a very good predictor of employee success in a knowledge economy.

FERRISS: So persistence plus curiosity is one formula for hiring success. Mark Zuckerberg, the CEO of Facebook has another. Here’s what he told Reid:

MARK ZUCKERBERG: So the single most important thing is to get the best people you can around you. When I look at my friends who were running other good companies, the single biggest difference that I see in whether the companies end up becoming really great and reaching their potential, or just pretty good, is whether they're comfortable and really self-confident enough to have people who are stronger than them around them. I've adopted this hiring rule, which is that you should never hire someone to work for you, unless you would work for them in an alternate universe.

Which doesn't mean that you should give them your job, but just if the tables were turned and you were looking for a job, would you be comfortable working for this person? I basically think that if the answer to that is "no," then you're doing something expedient by hiring them, but you're not doing as well as you can on that.

There are all these things that Sheryl, for example, is just much stronger than me at, and that makes me better and makes Facebook better. And I am not afraid or threatened by that—I value that. That's what makes Facebook good.

FERRIS: Of course, here Mark is talking about Sheryl Sandberg, COO of Facebook. And she has her own take on this rule ...

SHERYL SANDBERG: The lesson everyone talks about, but I really mean, is you really do want to hire people who are better than you are, and who are different than you are. This is where we talk about diversity. I don't just mean racial, national, age, gender. All of that diversity is super important. In addition to that cognitive diversity, which you get from all those backgrounds, but also just personality diversity.

If you are a white male who likes to code and sci-fi movies, you probably don't want your whole team to be that. I think about David Fischer. David Fischer and I have worked together at Treasury, at Google, and at Facebook. Personality types were just very different. I'm much more up and down. I will get nervous something's not moving fast enough. I will be exuberant, and I will be down. Not David. David is absolutely calm. Over decades of working together, that balance has really been important, because sometimes I'll look at David and say, "This is an emergency." He'll say, "No it's not Sheryl, calm down."

And sometimes I'll say, "David, you're not moving fast enough," and he'll say, "You're right." I think Mark and I have that too. We are very different. We are separated by—obviously gender, 15 years, he's my boss, he's 15 years younger. Completely different personalities, completely different working styles—and I think's that served Facebook well.

FERRISS: Commandment number three: in order to scale, you have to do things that don't scale. And this commandment came from the very first episode of Masters of Scale with Brian Chesky and that is what got me hooked on this podcast, because of how actionable the specific examples were. And it might sound counter-intuitive that you have to do things that don't scale in order to scale but it's really important that you get your hands dirty in the early days. And specifically handcraft the experience for your handful of first few customers. And to use a term the cool kids like, to finesse all of the touchpoints.

So every single separate interaction that your product or service has with your customer, if you were to look at it as say a slideshow or separate chapters, how can you optimize each of those? And to serve your customers one-by-one, you often take a concierge approach, and again, that is to perfect your prototype. At which point, then you can pour fuel on the fire to scale. But if you do it beforehand, you run into all sorts of problems. So, don't stop until you know exactly what your perspective customers want. That's what Airbnb CEO Brian Chesky did.

Brian took Reid back to his lean years, the early days when he went door-to-door, meeting Airbnb hosts in person. This clip we're going to hear starts with Brian recalling a conversation he had in 2009 with Paul Graham, of Y Combinator fame, who gave him some perplexing, it seemed at the time, advice….

CHESKY: And he asked us, "Where's your business?" And I go, "What do you mean?" "Like where's your traction?" And I go "We don't have a lot of traction." He goes, "Well people must be using it." I said, "There's a few people in New York using it." And he said something I'll never forget. He said, "So your users are in New York and you're still in Mountain View." I said, "Yeah." And he said, "What are you still doing here?" And I go, "What do you mean?" He said, "Go to your users. Get to know them. Get your customers one by one." And I said, "But that won't scale. If we're huge and we have millions of customers, we can't meet every customer." And he said, "That's exactly why you should do it now because this is the only time you'll ever be small enough that you can meet all your customers, get to know them, and make something directly for them."

HOFFMAN: Brian and his co-founders followed his advice to the letter.

CHESKY: We literally commuted to New York from Mountain View. So, we would be in Y Combinator for Tuesday night dinners and then Wednesday Joe and I would go to New York. We literally would knock on the doors of all of our hosts. We had their addresses and we say, "Knock, knock. Hello. Hey, this is Brian, Joe, we're founders, and we just want to meet you."

HOFFMAN: Now, it's a little creepy to just knock on the door unannounced.

CHESKY: We needed an excuse to get into their home.

HOFFMAN: So, they come up with an offer that host's couldn't refuse.

CHESKY: We'd send a professional photographer to your home and photograph your home. Of course, we didn't have any money and we couldn't employ photographers. So, Joe and I, we'd show up at their door and they're like "Wow. This company is pretty small."

HOFFMAN: These home visits became Airbnb's secret weapon. It's how they learned what people loved.

CHESKY: It's really hard to get even 10 people to love anything but it's not hard if you spend a ton of time with them. If I want to make something amazing, I just spend time with you. And I'm like, "Well what if I did this, what if I did this, what if I did this?"

HOFFMAN: From those questions, a handcrafted experience is born.

CHESKY: We'd find out "Hey, I don't feel comfortable with the guest. I don't know who they are." "Well what if we had profiles?" "Great!" "Well what do you want in your profile?" "Well I want a photo." "Great. What else?" "I want to know where they work, where they went to school." "OK." So you add that stuff. And then you literally start designing touchpoint by touchpoint. The creation of the peer review system, customer support, all these things came from us literally—we didn't just meet our users, we *lived* with them. And I used to joke that when you bought an iPhone Steve Jobs didn't come sleep on your couch, but I did.

HOFFMAN: [laughs] Yes. Was there a particular experience that has really stuck in your mind?

CHESKY: I remember we met with a couple hosts. It's winter. It's snowing outside and we're in snow boots. We walk up to the apartment and we went there to photograph the home. And we're like, "I'll upload your photos to the website. Do you have any other feedback?" He comes back with a book, it's a binder and he's got dozens of pages of notes. He ends up creating a product roadmap for us, we should have this, this, this, this and this, and we're like, "Oh my god this is our roadmap because he's the customer." I think that always stuck in our mind as, the roadmap often exists in the minds of the users you're designing things for.

FERRISS: As Airbnb grew, Brian never stopped handcrafting the user experience. At one point, to envision what Airbnb could become, he and his team imagined what he calls an "11-star check-in experience." And this was something I highlighted for myself as a thought exercise that I wanted to try with a number of companies I'm involved with and a few projects I'm working on myself.

Now only part of what follows was heard on Masters of Scale. For this particular episode, they gave me the complete, un-cut version of Brian's thought experiment. So, I hope you enjoy.

CHESKY: If you want to build something that's truly viral you have to create a total mindfuck experience that you tell everyone about. We basically took one part of our product and we extrapolated what would a five-star experience be. Then we went crazy. So a one, two, or three-star experience is you get to your Airbnb and no one's there. You knock on the door. They don't open. That's a one star. Maybe it's a three star if they don't open, you have to wait 20 minutes. If they never show up and you're pissed and you need to get your money back, that's a one-star experience. You're never using us again.

So, a five-star experience is you knock on the door, they open the door, they let you in. Great. That's not a big deal. You're not going tell every friend about it. You might say, "I used Airbnb. It worked." So, we thought, "What would a six-star experience be?" A six-star experience: You knock on the door, the host opens. "Hey, I'm Reid. Welcome to my house." You're the host in this case. You would show them around. On the table would be a welcome gift. It would be a bottle of wine, maybe some candy. You'd open the fridge. There's water. You go to the bathroom, there's toiletries. The whole thing is great. That's a six-star experience. You'd say, "Wow I love this more than a hotel. I'm definitely going to use Airbnb again. It worked. Better than I expected."

What's a seven-star experience? You knock on the door. Reid Hoffman opens. Get in. "Welcome. Here's my full kitchen. I know you like surfing. There's a surfboard waiting for you. I've booked lessons for you. It's going to be an amazing experience. By the way here's my car. You can use my car. And I also want to surprise you. There's this best restaurant in the city of San Francisco. I got you a table there." And you're like, "Whoa. This is way beyond."

So, what would an eight star start check in be. An eight-star check-in, I would land at the airport. I would show up and there would be a limousine waiting for me. The limousine would be like, know all my preferences. It would take me to the house and it would be like a total surprise. So, what would a nine-star check-in be? A nine-star check in, I would show up to the airport and there'd be a parade in my honor. And I would probably have an elephant you know waiting for me as the traditional Indian ceremony. I would ride on the elephant and there'd be this parade taking me to the to the house.

So, what would a ten-star check in be? A ten star check in would be The Beatles check in. In 1964. I'd get off the plane and there'd be 5,000 high school kids cheering my name with cars welcoming me to the country. I'd get to the front yard of your house and there'd be a press conference for me, and it would be just a mindfuck experience. So, what would an 11-star experience be? I would show up at the airport and you'd be there with Elon Musk and you're saying, “You're going to space.”

The point of the process is that maybe 9, 10, 11 are not feasible. But if you go through the crazy exercise of keep going, there’s some sweet spot between they showed up and they opened the door and I went to space. That's the sweet spot. You have to almost design the extreme to come backwards. Suddenly, doesn't knowing my preferences and having a surfboard in the house seem not crazy and reasonable? It's actually kind of crazy logistically, but this is the kind of stuff that creates great experience.

FERRIS: Sam Altman, President of Y Combinator, considers this so-called 11-star experience as a prerequisite to scale. Suppose you try to scale a sub-par experience — the sort of product that gets only lukewarm approval from users or just polite indifference – that four or five stars is a default? He offers a cautionary tale in this following clip.

SAM ALTMAN: The first thing you have to do is build a product that is so good, people spontaneously want to use it and tell their friends about it. And if you can do that you still have to blitz scale but it's the easy kind it's you have too much demand. The hard kind of blitz scaling is where you try to start scaling up before the product is really great. And then most of your effort in scaling is to generate demand.

So I think the number one most important insight about how to blitz scale is that the good kind of blitz scaling is when you are not having to generate demand as you go but that you first got the product right. And in many of these cases — Stripe, Dropbox, Airbnb — they took a long time to get their product right but they were obsessed with that. And then when they did all their effort is “Okay, we have so much demand that without much more effort, we know this is going to keep growing 20, 30 percent a month for years.” That’s a real problem. It’s a high-class problem, but it’s still a real problem. How do we build that? So that is the kind of scaling that works, and it has generated Facebook, Google I mean a lot of it. It’s the same playbook. I think the kind of blitz scaling that we have seen go badly is “We have a mediocre product. We have raised hundreds of millions of dollars and our VC is beating down our throats to hire more sales people to grow faster.”

HOFFMAN: Any particular examples?

ALTMAN: I don't want to name names. There’s so many to pick from. Thankfully most them are not YC. One thing that is pretty good and again a few exceptions to this, we try to beat that idea out of people at YC and thus most of the mistakes in Silicon Valley of that sort in the last decade have not been ours.

FERRIS: Commandment number four: raise more money than you think you need — potentially a LOT more. Now, this is a somewhat controversial point and some venture capitalists, VCs, argue the exact opposite, that you should try to be as lean as possible. I think, in fact, the top performing venture capitalists, of which Reid would certainly be one, even if they voice seemingly conflicting opinions, would agree that it’s largely a matter of what you have done before you raise the money. Much to Sam Altman’s point, which is a critical condition.

So for instance, when I’m personally getting involved in startups, and I have something like 70 different startup investments since 2007 (if you want to see them, you can check them out at angel.co/tim), you will notice that most of them are direct-to-consumer, many, because that’s where I can affect the outcome to the greatest extent. And some of the most successful to date have focused on product, exclusively, no marketing and PR in very early days, and have shunned PR in fact and business development opportunities and self-funded whenever possible to the point that they have a functional prototype. Meaning that they have identified some type of product market fit, as it’s called, and they have refined something that they feel that they can then pour gasoline on. And that is certainly true, for instance, in the case of a number of companies like Uber, just to take one.

When I was initially interacting with Garrett and Travis, both the co-founders, this was before Uber was Uber. It had a different name, it was an LLC, so prior to raising money, looking at prototypes, looking at the market research that they did, looking at how they tested it, looking at how they interviewed potential users but especially potential drivers, to really come up with a, let's call it, a version zero, that got traction before they went out and then looked for external validation and financing, meaning through venture capitalists. And that I think is a common characteristic among all of my best investments, at least the early stage investments.

So, back to the commandment. In this particular case: raise more money than you think you need, potentially a lot more. So, you'll notice Uber, at least in one case, raised initial money after they had satisfied a lot of conditions and product refinement. And then after they saw the opportunity to scale, raised more money than they thought they would need.

And the logic for this, Reid would argue, is that entrepreneurs are always going to run into a minefield of unexpected problems and expenses. He explains this particular point with a story. One that involves Mariam Naficy, CEO of Minted and then the CEO of EVE.com.

> **HOFFMAN:** Silicon Valley is on fire, nothing bad could happen. My friend, Mariam Naficy, is CEO of a startup called Eve. And she had to have the domain name oEve.com. The only problem? She has to convince the owner to sell it to her and was facing a negotiation that I do not envy.
>
> **YOUNG GIRL**: Hello? Who is this?
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> **MARIAM NAFICY**: It is a five-year-old girl, Eve Rogers.
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> **YOUNG GIRL**: This is Eve.
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> **NAFICY**: ...who gets on the phone. And so, I think, "What on earth am I going to

say to this 5-year-old?" So, I said, "Hello."

YOUNG GIRL: Hi.

NAFICY: "Could I buy your domain name?" And she was just saying to me, "What? I don't really understand."

YOUNG GIRL: Um, what?

NAFICY: And I'm sure Eve's mom, on the other line, was laughing her head off. I mean, this is a great joke to play on this silly entrepreneur from California who's calling. "I'm just going to watch her be tortured by my five-year-old for a while."

HOFFMAN: Mariam then turns this risky negotiation over to her lead investor, the legendary start-up whisperer, Bill Gross.

NAFICY: So, he gets on the phone with her mom, and he negotiated the purchase. And it was equity in the company, a board seat for her daughter—an observer board seat—trips to Idealab to see Bill several times a year.

HOFFMAN: You had a five-year-old observer on your board? [Laughing]

NAFICY: Yes. She didn't actually show up for the board meetings, but she did occasionally come by and visit. Disneyland, software, educational software—it was a very large package that was negotiated.

HOFFMAN: If you were going to call your younger self, how would you have handled this negotiation differently?

NAFICY: I would probably throw in the Disneyland almost immediately, because now I know what a five-year-old girl wants. I have a daughter. And I would have said, "How many times a year do you want to go to Disneyland?"

HOFFMAN: Once a year? Twice a year?

YOUNG GIRL: Maybe about 100 times a year.

NAFICY: Exactly.

HOFFMAN: [Amused] $50,000 plus Disneyland trips may seem like *crazy* expenses. But in my experience? *Every* successful founder has a story like that.

Ferriss: Reid is totally right in this case and in many cases of course. You need enough capital to cover unexpected expenses, as we've already covered, sure. But you also need to be prepared for unexpected opportunities and you might need some type of resources to exploit those.

We'll fast forward here to Mariam's new company, Minted, which she originally thought would be an online stationery store with cards from brand-name companies. But she also side experiment where unknown artists could submit designs to an online competition. She told Reid what happened next:

NAFICY: I open the doors. There's not a sale for an entire month. Nobody wants the branded stationery products that we'd spent most of our two-and-a-half million launching—because again, being conservative, I'd said, "I know, I'll do an Eve.com, I'll put all these brands online, sign them up exclusively." We had exclusive distribution rights. Nobody wanted to buy them at all.

Instead, the teeny-weeny assortment that I had sourced through this one competition I had run, one transaction a week. Then the next week, there were two. We had sourced 60 designs through our competition, and I'd saved a tiny bit of money to build what I *really* wanted to build.

Out of the two-and-a-half million, I probably spent like $100,000 on what really became Minted. It was like this little side thing, and there was a programmer up in Oregon, and he and I were working at night on building the first competition. And that is the only place where we saw any sales movement.

HOFFMAN: Mariam stumbled onto the power of crowdsourcing—the idea that ordinary people, when they come together in large numbers, can do work once reserved only for experts. Etsy is an example of this. Kickstarter as well. But at this point, in 2008, it wasn't understood very well. It was something Silicon Valley was just getting its head around.

NAFICY: I realized that this crowdsourcing thing was way different, and I'd uncovered something that was more of a massive social, cultural change going on in the US—and maybe in the world—versus just some small-business idea. Because what was happening, that I didn't realize, was that who's considered a creative out there is actually changing a lot right now, due to technology and exposure. And so, people are emerging as creatives who haven't gone to school. They haven't gone to design school, they haven't gone to art school, and they're massively disrupting art and design right now. And there is a true meritocracy that you can actually build and unleash.

HOFFMAN: Here, Mariam runs into another reason you need to raise more money than you think you need: unexpected opportunities. Mariam's plan to start a lifestyle business just didn't pan out. She didn't have enough funding to cover her Plan B—or her "Plans B" as I like to say. Opportunities may arise later than you hoped, and you want the capital to carry you in new directions. So, she reluctantly pitched her idea and secured another round of funding. And if that weren't risky enough, she's about to encounter one more familiar source of uncertainty… a stock market crash.

NAFICY: And we raised our venture around two weeks before Lehman failed, because this investor of mine had said to me, "I feel something really bad is going to happen, you should go raise." So, we just went out in August—"Who's in town? Anybody? Is anyone in town in August?" So, we went and raised money, and closed it literally right before Lehman [Brothers] failed.

HOFFMAN: Believe it or not, Mariam launched her wildly risky, experimental business idea into the heart of the worst economic crisis since the Great Depression: the collapse of the U.S. housing market in 2008. Suppose she had

> waited until, say, September to raise that money. Lehman collapses, panic grips investors and no one in their right mind gives cash to a bold little experiment in crowdsourcing. Like that, Minted closes for business. Which is another reason you should always take the money whenever and wherever you can get it. You know never know when it will dry up.

FERRISS: Commandment number five: release your products early enough that they can still embarrass you. Imperfect *is* perfect, in this case. The fifth commandment is actually one of Reid's more famous recommendations. He believes that if you're not embarrassed by your first product release, you've released too late.

And there are certain subtleties to this of course. And I should note that, this is just one example of how Reid thinks of speed. And I've become fascinated by how he prioritizes speed in all areas. And to that point, I would love to read something from a piece called Ten Thousand Hours with Reid Hoffman, written by Ben Casnocha, you can find him as casnocha.com.

And one of the core tenets, one of the lessons learned, is speed. And so the words that are going to follow are Ben's:

"His first principle is speed. His most tweeted quote ever is, "If you aren't embarrassed by the first version of your product, you shipped too late." His second most tweeted quote ever is, "In founding a startup, you throw yourself off a cliff and build an airplane on the way down." Practically, he employs several decision-making hacks to prioritize speed as a factor for which option is best—and to speed up the process of making the decision itself. When faced with a set of options, he frequently will make a provisional decision instinctually based on the current information. Then he will note what additional information he would need to disprove his provisional decision and go get that. What many do instead – at their own peril – is encounter a situation in which they have limited information, punt on the decision until they gather more information, and endure an information-gathering process that takes longer than expected. Meanwhile, the world changes."

Just a quick note from me: this is very similar to how good military strategists think of making decisions. Back to Ben:

“If you move quickly, there’ll be mistakes borne of haste. If you’re a manager and care seriously about speed, you’ll need to tell your people you’re willing to accept the tradeoffs. Reid did this with me. We agreed I was going to make judgment calls on a range of issues on his behalf without checking with him. He told me, [**FERRISS:** This is the part I highlighted for myself in Evernote.]

“In order to move fast, I expect you’ll make some foot faults. I’m okay with an error rate of 10-20% — times when I would have made a different decision in a given situation – if it means you can move fast.”

FERRISS: I’m going to reread that. And just for people who don’t know, foot faults, I had to look it up, is an expression used in tennis, where if they serve and their foot goes over a line, that’s a foot fault. That is an error. So again, here’s the quote from Reid to Ben, who was his chief of staff, and handling a lot.

“In order to move fast, I expect you’ll make some foot faults. I’m okay with an error rate of 10-20% — times when I would have made a different decision in a given situation – if it means you can move fast.”
And then Ben closes with: “I felt empowered to make decisions with this ratio in mind—and it was incredibly liberating.”

And here’s a condition that I want to emphasize that Ben also brings up, here we go:

“Big companies are different. Reid once reflected to me that the key for big companies like LinkedIn is not to pursue strategies where being fastest is critical—big companies that adopt strategies that depend on pure speed battles will always lose. Instead, they need to devise strategies where their slowness can become a strength.”

Thank you, Ben. So back to Reid’s commandment, so to speak. Release your products early enough that they might still embarrass you. This is the classic Silicon Valley approach of pushing imperfect things out, testing them and improving them with user feedback — iterate, iterate, iterate. We’ve all heard about this, instead of waiting until you *think* you have something perfect.

Now, I should know. As someone who writes books, as someone who has podcasts, that I don't think this is always interpreted very well and people think it's an excuse to put out really haphazard products or services. And it works best for products and services that can be iterated and pushed out to the initial recipients very easily, like certain types of software or certain types of apps.

In the case of a book, you don't have that option. You put out a book, unless it is a Kindle version, and people are going to go back and reread what they already read, you're not able to say, immediately update the user experience for the first hundred thousand people who buy your book. So you think about this, or at least I think about this, slightly differently.

If you're putting out a book chapter by chapter, on the other hand, perhaps, I would use a slightly more fast and loose approach, which I certainly see implemented with dozens of the startups that I work with like Shopify, whose offices I'm sitting in right now.

Alright, so, who is the person that epitomizes this? Mark Zuckerberg of Facebook is probably the person who most embodies this commandment in many people's minds and Reid talked to him about it. Here's some audio.

> **HOFFMAN**: My friend Mark Zuckerberg is the perfect person to talk to about this. He has no qualms about rushing out an imperfect product. In fact, his famous mantra is "Move fast and break things"—and I'd argue that it's the foundation of Facebook's success. If Mark cares about anything, it's making sure his team moves with the swiftness of a teen hacker, releasing products that are anything but perfect, so their audience can improve them.
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> **ZUCKERBERG:** I think the strategy of Facebook is to learn as quickly as possible what our community wants us to do—and that requires a culture that encourages people to try things and test things and fail.
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> **HOFFMAN:** But how did he get Facebook's 17,000-plus employees to shed their perfectionist streaks? You're about to find out. We'll start Mark's story when he was an undergraduate at Harvard. By this time, he was in the habit of slapping

together programs on the fly. He couldn’t help himself.

ZUCKERBERG: I took this class, “Rome of Augustus.” And the final exam—they were going to show some piece of art from the Augustan period in Rome, and you had to write an essay on the historical significance. And I was actually coding the first version of Facebook when I should have been studying for that, so a couple of days before the exam, I was like, "Alright, I’m kind of screwed." This isn't something like math, where you could just show up, and figure out how to do the problem on the exam. You actually need to know the context of this, or else you can't write these essays.

HOFFMAN: Wait a second, rewind.

ZUCKERBERG: This isn't something like math, where you could just show up, and figure out how to do the problem on the exam.

HOFFMAN: Who does that? In any case, with the exam fast approaching, you might expect Mark to cut back on the coding. Instead, he doubled down on it.

ZUCKERBERG: I built this service where basically anyone in the class could go to it, and it showed you a random piece of art, and you could type in whatever context you thought was important. And then after that, it would show you everything that everyone else in the class had put in. So, it was a study tool, but it kind of crowd-sourced exactly what people needed to know for each piece of art. And the professor ended up telling me after that, that the grades on the final were higher than they'd ever been before. And I ended up passing that class.

HOFFMAN: Imagine, for a moment, what would have happened if Mark was a little less hacker and a little more perfectionist. What if he took his time to get the “Random Piece of Art” program just-so? It might have looked nicer. It might have had more features. But he would have missed the opportunity to put it in front of his classmates when they needed it, and more importantly, would have missed the learning about *how* they used it.

But many of us—and I'm guessing most of Mark's Harvard classmates—have a tough time rushing things out. High-achieving people have a tendency to be perfectionists. And the same instincts that make us good students, can make us lousy entrepreneurs.

FERRISS: So, you have to un-learn how to be a perfectionist. And you also have to un-learn the habit of listening to everything your users tell you because that will drive you crazy and destroy your business. Reid will also tell you: You have to be selective in the user feedback that you take into account and incorporate.

HOFFMAN: Success has a funny way of sneaking up on the best entrepreneurs. They devote themselves to understanding and serving a teeny cohort of users. They don't always recognize that this intimate link is precisely what enables their product to evolve for the mass market. That's one reason I encourage entrepreneurs to release a product earlier than they'd like. Release, observe, react—over and over again.

It isn't just about speed, and it certainly isn't about sloppiness, but rather a precise dance between Facebook's tiny team and its growing user base. The users normally take the lead—but not always. Sometimes Mark had to break the choreography and give the users a twirl.

That's because you have to discern what users actually want. And Mark received an early education in the gap between what users say and what they do—particularly as he expanded the social network to new campuses.

ZUCKERBERG: We'd seen this funny dynamic where—we talked about how we started it at Harvard, and then we'd launch at Yale, and then all the people at Harvard would be like, "Oh, come on. Them?" And then it's at every step along the way. You go from Yale, and you launch at Columbia, and the people at Yale are like, "Aw really? Those guys?" We're at Indiana University, and Indiana State launches, and the people at Indiana University are like, "Come on." So, we were used to this this dynamic of people assuming that a change is like, "Why are you doing this?" but then coming around pretty quickly.

HOFFMAN: Notice the lesson Mark is learning here—he's learning how to listen. Each college said they didn't want another college to join—and then, as each new college joined, the network got stronger, and people liked it more. This is a great example of how entrepreneurs need to both listen to what users say, and selectively ignore them. People can't always accurately predict their own tastes or even their own interests.

For example, a baseline for Facebook is: other people are going to upload pictures about you, other people are going to tag them, and when those other people tag them, your friends are going to see them, possibly before you. Do you want that product, yes or no? Most people, described that way, would say "I don't want that product! No, no, no! I don't want that product." And yet everyone's super happy with that product. People systemically are very poor at predicting their own reactions to new things.

FERRIS: The core idea here is that you have to experiment if you're going to effectively innovate. And this gets harder and harder as you grow, of course. Mark shared some details on exactly how Facebook succeeds on a massive scale, how do you innovate as a larger company, and how do you change your mantra over time. Reid Explains:

HOFFMAN: For Mark and his growing team at Facebook, the mantra of "move fast and break things" served as a rallying cry, and the philosophy made a lot of sense when they were a fledgling startup. But when you have thousands of employees moving fast and breaking things, someone has to clean up their messes. As Facebook grew, Mark became aware of a growing tension between his hacker ethos—to move fast—and his responsibility as CEO to avoid breaking things on such a massive scale. Thus, a new mantra was born: "Move fast…with stable infrastructure."

ZUCKERBERG: Well, it's less catchy.

HOFFMAN: But the best mantras do more than just sound good. They give you the resolve to make tough decisions.

ZUCKERBERG: So "move fast," I think, is interesting, because you actually have to be willing to give something up to get it. And the question is, "What are you willing to give up?" And early on, the trade was, "Move fast and break things." The idea was, we will tolerate some amount of bugs and flaws in the service of moving faster and learning what our community wants faster. But we got to a point where it was taking us more time to go back and fix the bugs and issues that we were creating than the speed that we were gaining by going faster.

So we're like, "OK, we need a new strategy to enable us to move fast." And what we came up with was: we're going to do this by building the best infrastructure. So an engineer who comes from any company is going to be able to ship their product faster here—and test it better, and move faster, and all these things—at Facebook, than anywhere else in the world. So that's what we mean by "Move fast with stable infrastructure." But again, we don't get it for free—we invest a huge amount in building infrastructure. So I think these values always come down to, what are you willing to give up to get something? Because they're not free—nothing is.

HOFFMAN: Mark concedes that “Move fast with stable infrastructure” is a clunky mantra. It doesn’t have the snappy appeal of “Move fast and break things,” but it adds guardrails to protect the company in its new phase. You can still release something bold and half-baked. You can still break things. Just don’t break the infrastructure. Because the infrastructure is too slow to repair, and if you break the infrastructure, it will ultimately slow you down.

And with that new rule in mind, Mark laid the groundwork for mass experimentation on Facebook. How does it work exactly? One thing you should know about Facebook: it has many faces.

ZUCKERBERG: At any given point in time, there isn't just one version of Facebook running, there are probably 10,000. Any engineer at the company can basically decide that they want to test something. There are some rules on sensitive things, but in general, an engineer can test something, and they can launch a version of Facebook not to the whole community, but maybe to 10,000 people or 50,000 people—whatever is necessary to get a good test of an experience. And then, they get a readout of how that affected all of the different metrics and things that we care about. How were people connecting? How were people sharing? Do people have more friends in this version? Of course, business metrics, like how does this cost the efficiency of running the service, how much revenue are we making?

It can even kick off qualitative studies and ask people how happy they are with this version. And then at the end of that, the engineer can come to their manager, and say, "Hey, here's what I built, these are the results. Do we want to explore this further and do this?" And giving people the tools to be able to go get that data without having to argue whether their idea's good through layers of management before testing something, frees people up to move quicker. If the thing doesn't work, then we add that to our documentation of all the lessons that we've learned over time. If it does work, then we can incorporate those small changes into the base of what Facebook is—that now everyone else who is trying to build an improvement, that's the new baseline that they need to get against.

FERRISS: But when is it ok to experiment? Is it always ok? Is it possible that the risk or cost could be too high? Mark sets a pretty high bar for this.

ZUCKERBERG: On a day-to-day basis, a lot of the decisions that I'm making are like, "Ok, is this going to destroy the company?" Because if not, then let them test it. If the cost of the test isn't going to be super high, then in general we're going to learn a lot more by experimenting and by letting the teams go and explore the things that they think are worth exploring than by having a heavy hand in that.

FERRIS: And Reid holds — more or less — to his theory that you should be embarrassed by your first product release.

HOFFMAN: The word "embarrassment" plays a key role here. Over the years, some people have interpreted my theory as permission to cut corners, act recklessly, or proceed without a clear plan.

But notice: I said, “If you’re not *embarrassed* by your product.” I *didn’*t say "If you're not *indicted*" or "If you're not *deeply ashamed* by your product." Indeed, if you launched so fast that your product generates lawsuits, alienates users, or burns through capital without any apparent gain, you did in fact launch too soon.

FERRISS: Commandment six: Decide. Decide. Decide. Every founder has to learn how to make decisions. It is often times better to make a wrong decision, usually correctable, than no decision. And we actually alluded to this earlier with my story about Ben and Reid. This is something Eric Schmidt, former CEO of Google, learned when he was taking flying lessons:

ERIC SCHMIDT: In aviation, they teach you to make rapid decisions, and they, over and over again: “Decide, decide, decide.” It's better to make a decision and just accept the consequences. And that discipline helped me in the hard times when I was at Novell in a real hardcore turnaround.

FERRISS: It’s also served him well in the free-wheeling, idea-generating climate he cultivated at Google. In fact, he might argue it was the secret to their success and continues to be the secret to their continued success: you must have disciplined decision making in order to survive let alone thrive.

SCHMIDT: The most important thing to do is to have quick decisions—and you’ll make some mistakes, but you need decision-making. We ultimately adopted a model of a staff meeting on Monday, a business meeting on Wednesday, and a product meeting on Friday, and this was organized so that people could travel in the right ways. And the agenda was, everybody knew which meeting the decisions were made at—and so as long as you could wait a week, you knew you would get a hearing on your deal.

I cannot tell you how many people have told me that at Google, decisions are made today quickly, in almost every case, even at our current scale. And that's a legacy of that decision. Most large corporations have too many lawyers, too many decision-makers, unclear owners, and things congeal—they occur very slowly. But some of the greatest things happen very quickly. We made the decision to purchase YouTube in about 10 days—incredibly historic decision—because we were ready, people were focused, we had a board meeting—we wanted to get it done.

HOFFMAN: We have a word for these kinds of evasive maneuvers here in Silicon Valley. We call it an OODA loop. That's a fighter pilot term. It stands for observe, orient, decide, act. The fighter pilot who has the fastest OODA loop wins. The other one dies. If you've ever watched the movie Top Gun, you'll have a basic understanding of how an OODA loop works.

Tom Cruise's character, Maverick, has a few bad guys on his tail. In a split second, he orients himself to the enemy's formation. Then he decides to perform a crazy aerial maneuver—he acts, and he confounds everyone. Score one for the free world. Now I'm not suggesting that tech executives secretly want to blast each other out of the sky. What they do want is to perform slightly crazy, super-fast maneuvers, again and again.

You'll often hear founders asking: What is the OODA loop of an organization or an individual? Because speed matters in combat, and also in fast-moving industries.

FERRISS: Commandment number seven: be prepared to both make *and* break plans. In a fast-growing organization, leaders have to be ready to pivot. Even though pivot is sometimes used as a word that can be a cover up for anything. And I think it was Marc Andreessen, in my podcast episode with him who said, "When I was getting started, we didn't have a fancy word for it, we just called it a fuck up."

Nonetheless, you have new competitors, new threats, new opportunities on an ongoing basis. So you have to be adaptable. Nearly everything can be subject to change, so that much I think, we can agree on. Reid talks about this concept with Facebook's Sheryl Sandberg.

HOFFMAN: The path to scale always, unfortunately, includes some broken promises, as Sheryl would soon find out. Everything—from interviews to office space—changes as you grow. And even a small take-back can matter to a team.

SANDBERG: I'll give you another silly example that I don't think is silly—birthdays. We celebrated everyone's birthday that day. Then it became that week. Eventually we had a huge sheet cake with quarterly birthdays. My team was 4,000 when I left, and everyone's name is on it. Now it sounds like that wouldn't matter, but it did—because if you started out and we celebrated everyone's birthday, and we took that away, that was a problem. Now I'm not saying, "Be mean and don't celebrate birthdays." I'm saying, "Figure out what your systems are going to look like later and do it now."

FERRISS: Sandberg's ability to recognize when a once-functional system has stopped serving the team's culture and productivity keeps Facebook on track. Founders have to be able to cut their losses when programs or projects no longer make sense, and this very frequently happens, and I think this is something the founder of Softbank might have mentioned at one point, but that company's systems and processes often need to be replaced when companies triple in size or hit multiples of ten. So say, if you go from three to nine to 27 then at a 100 people or a thousand people or so on, systems need to be replaced or updated. And Zynga's Founder Mark Pincus is excellent at stopping things when they're not working.

HOFFMAN: By the time Mark launched Zynga, he was acutely aware of the dangers of stubbornly sticking to his ideas. He started to draw the distinction between his usually-great instincts and his not-always-great ideas.

PINCUS: I'll try anything, and I'll kill anything, and I'll kill it quickly. And I'm not going to let killing an idea kill a winning instinct. And so that was a really core idea that I'm still thinking about and learning as an entrepreneur. And I can see it playing out so often in people's companies.

HOFFMAN: Mark separates specific ideas—which must be killed when they don't work—from underlying instincts. And this willingness to kill ideas is essential to making innovation work.

FERRISS: So, you have to be willing to pivot, and you have to make firm decisions. But there's one more thing (there are many other things of course, but one in particular): you have to keep your team together, through the twists and turns. Margaret Heffernan, former CEO of 5 tech companies, shared a story with Reid about a company that got this right.

> **MARGARET HEFFERNAN:** I think the most sensational example of this I've ever come across—I've spent a lot of time hanging out with and writing about Ocean Spray, the cranberry company. They're one of the biggest cooperatives in the United States, an extraordinary business.
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> At one point, Pepsi tried very hard to buy them. And of course, the company is owned by the cranberry farmers. So this was a really passionate, passionate debate, you could never have resolved it by who cared most, because everybody cared totally. It ended up the vote was 49.9% in favor of selling, 50.1% in favor of staying an independent cooperative.
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> What made the company what it is today, which is very successful, global, multi-billion-dollar business, is that after the vote, everybody got behind it. There was no question. That's the vote. That's the outcome. Now we all work together to make it successful.

FERRISS: Commandment number eight: don't tell your employees how to innovate. And there are certainly people who would disagree with or have a different tack but what does that mean? That means manage the chaos, which might seem to be a contradiction. Many creative people find that leading an innovative company actually means a lot less of producing your own great ideas, and a lot more of shepherding your employees' great ideas to fruition. And they often come from unexpected places. Eric Schmidt thought a lot about this when he was the CEO of Google.

> **SCHMIDT**: I think a fair statement is that the founders built the company in the image of what they saw at Stanford graduate school. So the offices for example, if you had them, would have four people in them—which is the number of

graduate students that are in an office. And of course, everyone's very crowded, and it's very casual. And of course, there's free food, and everyone is sort of hanging out all day. And that graduate student culture—that sense that somehow, we're about to discover something new—permeated the decision making, so they were able to invent a new ideas. So the culture of food and benefits and being quirky came from the founders trying to recreate that feeling.

HOFFMAN: Amid this creative ferment, his job was simple. He just had to give employees a slight nudge to deliver on their promising ideas.

SCHMIDT: The first thing I did was I went to the staff meeting. And the staff meetings were long, and they were like being in graduate school. “What do you think of this? What do you think of that?” But a real lack of business procedures, and that kind of thing, which were easily remedied.

HOFFMAN: When you’re surrounded by bright young minds, you don’t have to push too hard for interesting ideas. They tend to tumble out of conversations or shared challenges and take you in unpredictable directions. But not every manager is comfortable with this type of chaos. It requires a particular kind of leader who can embrace both *humility*—the uncomfortable notion that you don’t have all of the best ideas yourself—and *uncertainty*—because you can’t always schedule innovation on a predictable timeline. I’m going to come right out and say it: if you’re a control freak, you’re going to have a hard time with this.

FERRISS: Google is certainly not the first organization to embrace contained chaos, if we want to call it that, but they do lean into it in a way that’s rare, especially for big companies and even within Silicon Valley.

HOFFMAN: Eric took some radical steps to keep ideas flowing in the organization. This meant empowering engineers and keeping management in check. For instance, product leaders can draw in as many engineers as they’d like on any given project, so long as they can convince engineers to join their team.

I've talked to other managers at Google who are frustrated with this because they argue: “We agree that my project is strategic. Why don't you just assign some engineers to me?” And the answer is “No, no you have to persuade the engineers that your project’s a good one to work on. And then, by the way, you can have all of the engineers that you can persuade to work on that project.” And that's central to Google’s culture for making progress.

Eric took this idea one step further. He granted employees the freedom not only to choose their projects, but openly defy their managers along the way. Google famously instituted a rule that any employee could devote 20% of their work week to any project they’d like.

Twenty percent time was in some ways a logical extension of Google’s graduate school culture. Managers, like research advisors, can set timetables and budgets for experimentation. But the staff, like the “students,” pick the research agenda.

SCHMIDT: Many, many initiatives in the company have come out of 20 percent time ideas. Much of the mapping work, many of the search ideas, many of the advertising, many of now the AI work, have come from people working and practicing in new areas.

HOFFMAN: As Eric says, many of the products people know best — Gmail, Google Maps, Google News, AdSense — grew out of ideas generated by employees, during this 20% time. But WHY exactly, does it work?

SCHMIDT: And while the rule says you can do anything you want to with your 20 percent time, these people are computer scientists and engineers, they’re not going to veer too far away from their core business and that is the genius of 20 percent time.

HOFFMAN: The tendency of high-performing employees to use their 20% time productively is the *well-documented* genius of the program. But there’s also a *hidden* genius of 20 percent time. It allows reasonable employees to defy *unreasonable* managers. And this institutionalized defiance can help balance the power and keep high-performing employees engaged during challenging times.

> **SCHMIDT**: So the interesting thing about 20 percent time is although it's reported as you get to spend one day doing whatever you want, what it really served was a check and balance on the power of the engineering management over the subject. So if an employee is under pressure, the manager says you've got to work harder you've got to give me everything you have. That employee can legitimately look that boss in the eye and say I'll give you 100 percent of my 80 percent time. And that simple principle, which never really happens in practice, but it's understood, empowers the employee with both dignity but also some choices.

FERRISS: Commandment number nine: to create a winning company culture, make sure every employee owns it. This commandment is very often overlooked, especially at the startup stage and I’ve been guilty of this, I know many people who have. Many founders, especially inexperienced ones, downplay the role of culture in their success, or simply don’t know where to start.

And many of the founders, co-founders that I’ve worked with are in the latter category. They recognize how it can be important and a critical, cohesive factor but they don’t know where to start.

Reed Hastings, the founder & CEO of Netflix has strong feelings about company culture. His first startup, Pure Software, sold for $750 million, so it was successful from an objective standpoint. But he shared with Reed Hoffman that it failed when it came to company culture. And when he started Netflix he wanted to correct that mistake and we get to some of the concrete corrections and where you can find a lot more about the specifics of that but here first, how Reid would sum it up.

> **HOFFMAN:** So Reed made a very typical mistake in his first company. He thought he could solve his company’s problems just by working harder. But hard work isn’t enough; and more work is never the real answer. To succeed as you scale, you have to leverage every person in the organization. And to do that, you

have to be very intentional about how you craft the culture. This was exactly the lesson Reed took from Pure Software. Their management decisions had created a culture that rewarded the wrong behavior and retained the wrong employees.

REED HASTINGS: Well the mistakes in Pure was that every time we had a significant error, sales call didn't go well, a bug in the code, we tried to think about in terms of what process could we put in place to ensure that this doesn't happen again and thereby improving the company. And what we failed to understand is by dummy proofing all the systems that we would have a system where only dummies wanted to work there, which was exactly what happened. And so the average intellectual level fell and then the market changed as it inevitably does in that case it was C++ to Java but it could be anything. And we were unable to adapt to it because we had a bunch of people who valued following the process rather than the first principle thinking.

HOFFMAN: Notice Reed's double insight here. Pure software couldn't adapt because they had the wrong employees. And they had the wrong employees because of management decisions that explicitly selected for those employees. It was an insight that catapulted him.

FERRISS: What Reed learned from his first company was that culture directly impacted both who worked in a company, and how well they performed. At Netflix, he knew he'd need people who could adapt with the times as technology changed, as it very often, and I should say, always does, and they went from a company that mailed DVDs to a company with streaming video and original content.

The whole story is definitely worth hearing in the entire unedited version that is found on the Masters of Scale podcast, but here we'll stay focused on how this realization affected Netflix's culture and hiring practices. When Reed thought about growing the Netflix team, he already had a very clear idea of who he needed. Here's Reid Hoffman to explain what Reed Hastings did next:

HOFFMAN: Reed's knowledge of history, the changing nature of technology and the historical moment he was in, led to the understanding that he would need people to change with the times. People who can rip up a process and return to the first principles of delivering entertainment by any means necessary, whether it's horseback, mail, fiber optic cable — or maybe in the future Elon Musk's neural lace. Regardless, you need people who can change the business model, fast.

So how did Reed identify those candidates? It started with a now legendary document at Netflix: a collection of more than 100 slides known as the "culture deck." These slides defined exactly what the Netflix culture stands for, and who they're trying to hire, and what they can expect.

HASTINGS: The culture deck started about 10 years ago. So first couple of years we were just focused on survival and then we got public in 2002. Cash flow positive and it was clear we were going to survive. So we then started really thinking about the culture, what we wanted to be, how we wanted to operate. And so over successive years I improved this deck which I would go through with new employees. And sometimes those new employees would love it, sometimes they were like oh my god why didn't you tell me this before I started. That doesn't make sense to me. And so we realized we should give it to every candidate. And so then about 2007, 2008 we did that by posting it on SlideShare but again it was really just to be able to send a link to the candidates and then you know and it's not very pretty, it's not very highly designed, doesn't look like it's an external marketing piece but that authenticity really people liked in the outside world and now it's you know over you know 10 million views on SlideShare and continues to be studied around the world.

HOFFMAN: And what were the unexpected benefits of having published it?

HASTINGS: Well let's see the core benefit which we did expect was that candidates were very aware of the culture. The unexpected benefit was many people became candidates for us because they loved that what we described in terms of freedom and responsibility that might not have otherwise thought about us.

FERRISS: Now when you read Netflix culture deck, which many people have, you'll see they have a very specific way of describing themselves — as a "sports team", not a "family", which I love. They use internal collaboration to drive external competitiveness.

> **HASTINGS:** In team sports that really succeed there often is a lot of warmth between the players. And so it's emphasizing those aspects and demonstrating that when people come in everyone tries to help them but ultimately it is about performance. Unlike a family which is really about unconditional love you know even if your brother you know does something awful and goes to jail your love doesn't stop ok and that's it just a different and important part of society. But that's not what we're about. What we're about is collectively changing the world in the areas of Internet television and that takes incredible performance at every level. We're also about really honest feedback all the time. So you can learn and be the best that you can be.

FERRISS: Most CEOs would agree that a successful company culture is one that that lets team members be the best that they can be. And as you consider the best way to do that for your company and your team, you'll want to pay particular attention to how people compete. This is where a lot of company cultures go sideways. Margaret Heffernan, former CEO of five tech companies, says this:

> **HEFFERNAN:** There is often a belief among very successful, very competitive, people that the thing you want to do in a company is get everybody to compete with each other, that if it's everybody is racing against everybody you'll have this kind of a white heat of brilliance and creativity. And I think pretty much everything about that's wrong. And that's not to say that I'm not competitive, I'm deeply competitive with myself in the sense that I really want to do a better job today than I did yesterday. But I don't want you to fail.
>
> And I have seen more companies and organizations go wrong. Because of what I think of as negative competitiveness. I do want you to fail or I want your department to fail or I want your product to fail because that will make me shine. I've seen more damage and destruction and waste from that mentality than probably from any other misunderstanding.

We all grow up in education systems that are very individualistic: my grades, my college place, so there’s always a tendency to think, “I have to get ahead.” But actually, what makes people successful is each other. It’s you coming to me with an idea and my thinking, “that’s interesting” or “what about this” or “I know somebody you should talk to” or “Oh, go and look at this product, that might give you some ideas”.

If you can build an environment in which people really want to help each other, full of people who are generous you will do infinitely better than creating something kind of Olympic sport within the company. And quite where this idea that if we all competed against each other we’d all do better came from, I don’t know. It’s definitely not Darwin.

But I see it especially I have to say among young men and this belief that at one level you know if everybody's is competing everybody will get faster. I think it's a catastrophe. And I see it bring down really tremendous companies that get so lost in the fight they forgot why they were there in the first place.

HOFFMAN: I totally agree and I actually think one of the key things that companies do at scale in order to try to set against this because there's always that kind of the “how do I win” this kind of a culture is to say that part of the dialogue in performance reviews and culture and compensation is: how did you help other people and in particular how did you help other people outside of the specific team you're in. And I think that's actually I'm really glad to I asked you that question because I think that what you just said is super critical.

HEFFERNAN: Well it's really interesting. I remember speaking at a conference and on this subject in the Q&A someone said well you know how would you find people like that when you're interviewing them for jobs. And I said, well I'd ask them who helped them in their career because you know if they can't remember anybody. That's a pretty bad sign you know. Anyway, the next person speaking at this conference was the chief technology officer from somewhere. And in his Q&A somebody asked him who helped you in the course of your career. And he couldn't think of anybody. And there was this sort of stunned, horrified silence. You know, and the truth is that all of us I'm sure this is true of you too, all of us got help from so many people. And you can't remember one of them? And of course, actually, singing the praises of people who've helped you is absolutely joyous task.

FERRISS: Commandment number 10: have grit and stick with your hero's journey. So the other commandments from Masters of Scale cover just about everything in first principles, basic concepts, that you need to succeed as a startup founder: hiring and funding, managing and innovating, making decisions fast and testing products early. This tenth commandment makes all the rest possible. To succeed, entrepreneurs need a good idea, sufficient resources, good timing, tough to always make that one work or guess it, and of course that means, a certain amount of luck. But they also need to follow this commandment: have grit and stay on your hero's journey.

REID: Some people mistake grit for sheer persistence. Charging up the same hill, again and again. But that's not quite what I mean by the word "grit." The sort of grit you need to scale a business is less reliant on brute force. It's actually one part determination, one part ingenuity, and one part laziness. Yes, laziness.

You want to conserve your energy. You want to minimize friction and find the most effective, most efficient way forward. You might actually have more grit if you treat your energy as a precious commodity. So forget the tired cliché of running a marathon. You want to be more like Indiana Jones, somersaulting under blades, racing a few steps ahead of a rolling boulder and swinging your whip until you reach your holy grail.

FERRISS: Of course, the hardest time to show grit is when you need it the most. When the situation seems dire, when the odds are against you. Reid sees these life-and-death moments a lot in the companies he's built and advised. Here's what he thinks you should do when you find yourself in such a position:

HOFFMAN: These are the critical junctures that determine whether you fold or scale your business. You might win big, and you might lose big. And grit is the stick-to-it-ness that kicks in when you actually understand the risks — and know you might die — but move ahead anyway. In fact, I have a prepared speech for these pivotal moments.

I have a given a version of this speech at some point on every single board that I've been on, which is the heroic possibility. That the road in front of you is super fucking hard, that is not a given that you're going to win it. But if you win it you're going to be a hero. And so, the question for you is: Are you a hero? And most people then they kind of hear that speech they go, “Yeah,” because that's what they want to be. That's why they're doing this. They want to be a hero. So you're giving them a frame to do it. And you might lose, right? You might be dead on the battlefield. This is why it's a hero's journey. This is why you will be heroes if you do this. And by the way the people who don't resonate with that? You want them off the boat.

FERRISS: Bonus commandment number 11: pay it forward. What does that mean? Well, the other commandments from Masters of Scale covered just about everything you need to succeed as a startup founder. The final commandment kicks in after you succeed or reach some type of certainty that you'll survive or just have a little bit of extra cash on hand in some cases.

Because Reid will tell you, the long-term success of any company, anywhere in the world — depends on the ecosystem around it. To create an ecosystem like Silicon Valley, and many places have tried, where startups thrive, and scale-ups are possible — successful entrepreneurs have to follow this commandment and pay it forward. That means they invest in the other companies around them, the little guys.

In this next clip, Linda Rottenberg explains how she sees this. She's the CEO of Endeavor and her passion is in supporting entrepreneurs around the world. And Linda is awesome, I haven't seen her in years. Hi Linda! She says the willingness of successful entrepreneurs to pay it forward is THE determining factor in whether a startup scene, ecosystem, or city, thrives or not.

LINDA ROTTENBERG: Many cultures have one or two or three successful business people that create companies. But if they don't pay it forward and if they don't reinvest in the ecosystem becoming mentors becoming angel investors inspiring their employees to start companies then it stops. Right. And so what Endeavor tries to do is create that that ecosystem foundation where the successful entrepreneurs go on and pay it forward. And then that's when you see a multiplier effect.

FERRISS: Linda has a great story about this...

ROTTENBERG: It was really in 2000 when I got called into a room by Pedro Aspe, the former finance minister of Mexico who was then leading the largest private equity firm. And he had gathered a group of about 12 individuals. And before I walked in the room someone said to me Linda, do you know what percentage of Mexico's GDP is in this room? And I said no, and I don't think I want to. So I was asked by it was Lorenzo Zambrano of Cemex, Carlos Slim of you know all the telecom, Emilio Azcarraga of the media, etc.

And one of the people in the room said well why are all these entrepreneurs coming out of Chile and Argentina and Brazil even Uruguay, like what's wrong with Mexico. So, in my oh politically astute way, chica loca says to this group of men, “well here in Mexico, you're the big fish. And think of entrepreneurs as the little fish. And here the big fish tend to eat the little fish. So, if you want something like Endeavor. Think of us like an aquarium where you learn to feed the little fish.”

And the fact that they actually didn't throw me out of the room, my life is about not being thrown out of rooms I guess, and they all signed up. And in fact, a decade later Emilio Azarraga’s, one of his magazines had a study on, survey on entrepreneurship in the country and the headline was big fish feeding the little fish.

FERRISS: If you follow these 10 commandments you’ll be on your way to startup success, life success, as well as your own hero’s journey. And this episode isn’t quite over though, because I promised I would have some new questions that were burning in my head for Reid that I wanted to get to him. And so let us jump right into that.

If you could have one gigantic billboard anywhere with anything on it, so metaphorically speaking, getting a message to millions or billions of people, what would it say? It could be a few words or a paragraph.

HOFFMAN: One of the quotes that I most love is this simple almost-haiku: If I am only for myself, what am I? If I am not for myself, who will be for me? If not now, then when?

FERRISS: What is the book or books that you have given most as a gift?

HOFFMAN: Obviously, I give out my own books, fairly often: The Start-Up of You, The Alliance. Recently, I've been giving out another book by a friend of mine, Joshua Cooper Ramo, The Seventh Sense.

FERRIS: What fiction books have you reread or recommended the most?

HOFFMAN: Obviously, this is one of the places where my inner nerd, my geek shows. The books I've most often read are Tolkien's The Lord of the Rings, because it's so important to show this journey, these hobbits, these little people in a hero's journey about how you can change the world within a context where Tolkien is fairly sophisticated around the questions of the corruption of power, the intersection of races, and the needs for us to all to work together.

FERRIS: Is there a book that has most impacted your life?

HOFFMAN: Well, I'm enough of a reader that many books have impacted my life. I would say most recently, Sapiens has had me thinking a lot about what the evolution of humanity and what our future looks like.

FERRIS: What have you changed your mind about in the last few years and why?

HOFFMAN: I'd give two answers here. The first is a personal one: which is previously, I'd always avoided politics because it seemed like a zero-sum game and I care about building things, I care about these Archimedean levers by which you move the world. And yet I realized, that if I don't myself engage in politics and take a more active responsibility then I'm shirking my duties as a citizen. So that's a personal change.

Scientifically, I've actually come around to the view that artificial intelligence is going to have a huge impact on our lives. I was an artificial intelligence undergraduate and major and more or less thought, there were going to be some interesting toys and not going to create something massive. And yet, as the five years goes by, as 10 years goes by, as 20 years go by, I think we're going to see massive transformation in many industries, in many parts of life, that come from it. I'm not yet at a view that we're on a short path to artificial general intelligence machines but the impact that the old techniques now applied is going to have on our lives is going to be ferocious. And that's something that I rediscovered in the last few years.

FERRISS: What purchase of one hundred dollars or less has most positively impacted your life in say the last six months or from recent memory?

HOFFMAN: This is going to sound a little strange, but my trainer started recommending that I add moringa leaf powder to my tea. And that's actually added a rich antioxidant, anti-inflammatory, and a little bit more substance such that drinking tea now feels a little bit like a snack and is super healthy.

FERRIS: What advice would you give to a college senior about to enter the so-called "real world"?

HOFFMAN: Well, for the college senior, this is one the key audiences to which I wrote my book, The Start-Up of You, and the answer is to think about yourself as an entrepreneur, not necessarily starting a business but beginning a path that isn't a career path but actually in fact, a set of entrepreneurial experiences by which you're strategically defining your forward life. That means, looking for opportunities that change your trajectory along the variables that matter to you. Whether they're economic, or mission, or people you're working with.

FERRISS: What advice would you give to a smart, aggressive 30-year-old, assuming that in both cases, they’re similar to how you were at that age?

HOFFMAN: For the 30-year-old, you know, it’s again much like The Start-Up of You. But I think it begins to say, ok, here are the assets that I have, how do I really leverage them, how do I amplify them? As opposed to those first steps in the journey, thinking about, “ok, I’ve done this. What are the things that lead me from here?”

Now, not surprisingly, in both answers, because I approach my life in a very strategic way, these are ways that I was behaving both as a college senior and as a 30-year-old.

FERRISS: How has a failure or apparent failure set you up for later success? Do you have a favorite failure of yours?

HOFFMAN: Well one of the things that I like about the entrepreneurial life is that we fail all the time. Like literally, I’ve got just like dozens of failures and failing fast in order to try to succeed. And perhaps in this context, the best one is my very first startup, SocialNet. I literally made most of the classic mistakes in the first year. And all of the advice I give entrepreneurs, for example, if you’re not embarrassed by your first product release, you’ve released too late, all of that comes from lessons that I have personally learned. And so that that favorite failure, my first company, SocialNet, was literally one of those experiences where when you say “oh, it’s a learning experience”, it really does mean lots of scars and lots of blood on the floor.

FERRISS: What is the worst advice you hear commonly dispensed and repeated in your field? That could be startups, VC, investing of other types, or whatever you choose.

HOFFMAN: So, the classic mistake that people say and entrepreneurs do is they believe that what is valuable about what they’re doing is they have a unique, secret idea. And that they should hold their idea close to their chest and not talk to anyone about it because that’s the precious gem that they have.

And actually, the truth is your asset is that you are in motion on this idea and you should talk to everyone smart who can give you feedback to try to refine the idea, to try to build it. Because your unique asset is that you’re in motion on it and you’re acting on it and you're making something happen now. And you know, it doesn't mean you publish your idea to the world. But it does mean that every time you can get good feedback that would help recruit people, help you refine the idea, help you advance the idea, you take it.

FERRISS: What is an unusual habit or an absurd thing that you love? For instance, Cheryl Stayed needs to perfectly layer each sandwich so that every bite includes every ingredient.

HOFFMAN: You'd think, I'm a software guy, I'm a digital guy, that everything is digital recording. Well I found this little shop in New York, online, called the Unemployed Philosopher's Guild. And they sell these little notebooks, you know like, Plato's Republic and Alice in Wonderland and Pangea Passport and actually having these little highly designed notebooks that kind of have these literary references that are the things that I write notes on, that's an absurd thing that I actually love.

FERRISS: What rules or criteria do you use to determine what to say yes to?

HOFFMAN: Obviously, you get totally overloaded by saying yes and I frequently, sadly, refer to myself, as a kid in a candy store, and I end up saying yes to too many things and that creates a challenge. It's kind of like "oh I'll have that one too" and "yes, that too!" And that's challenging. So when trying to apply intelligence and discipline to it, I look at a couple of different things.

So first, is it something that is big and important in the world, something I am uniquely well-suited for? Second is, is it referred to me by someone I deeply trust? Someone who knows me, knows the problem, or knows the opportunity and thinks it should happen? And the third is, some room for serendipity. Some room for trying something new and different in a way that would stimulate me to think or to learn or to essentially have a new epiphany or a new vista open for you. And so always leaving room for some serendipity. Of course, between all of that, the usual thing is that in every particular hour slot in my calendar, there are usually 10 things that are competing for it.

FERRISS: Alright folks, that's it. Thank you again, Reid. It's always wonderful speaking with you, learning from you, and congratulations on the new podcast among many, many other things.

HOFFMAN: Thanks again to Tim for this fun podcast mashup. And his podcast is The Tim Ferriss Show and you can read more of Tim's blog at tim.blog.