Meet eight-year-old Archibald T. Whinnymaker, III. You’re about to hear him take his first confident step into the world of entrepreneurship. His launchpad? Why, it’s that timeworn gateway: the lemonade stand.

**ARCHIBALD T. WHINNYMAKER, III**: Come and get ya lemonade. Fresh lemonade here!

**LORETTA LOVEGOOD**: Hi Archie!

**HOFFMAN**: Enter Loretta Lovegood, seven-and-three-quarters.

**LOVEGOOD**: Is that lemonade? Looks delicious. Say, my mom just baked some fresh cookies. Maybe I could sell them from your stand? Then we can both make money and bring even more sweetness into our customers lives.

**HOFFMAN**: Now witness how Archibald takes his first misstep.

**WHINNYMAKER, III**: No way! Scram! This is MY stand. Go find your own!

**HOFFMAN**: As Archibald grew into adulthood, so that lemonade stand grew to a lemonade store. Then a state-wide lemonade franchise. Then a nation-wide chain. All selling his own Whinnymaker brand... And not a single drop of anyone else’s.

**WHINNYMAKER, III** (now an adult): But why stop at simply peddling lemonade! We’ll do wholesale. We’ll do sodas of all flavors! A theme park! And all under the Whinnymaker brand! And woe betide anyone else who tries to muscle in on MY market.

**HOFFMAN**: But in Archibald’s obsession lay the sour lemony seeds of his defeat. We now fast forward a decade, and join a board meeting as he learns the true cost of his hubris.

**CFO**: Mr. Archibald, sir, I’m afraid profits are down 500% for the quarter and customer satisfaction has plummeted.

**WHINNYMAKER, III**: What?! How could this be!

**CFO**: It seems we have a competitor we overlooked.

**WHINNYMAKER, III**: Impossible. Who!?
CFO: They’re called Loretta Lovegood’s Open Emporium. It’s a platform that lets independent merchants sell lemonade. And soda. And cookies. And whatever else they want...

WHINNYMAKER, III: Then we must CRUSH them!

CFO: I’m afraid it’s impossible sir. Their ability to respond to changes in the market is astonishing. In fact, there’s only one course of action left if we want to survive...

WHINNYMAKER, III: Well… out with it man!

HOFFMAN: Now Archibald T. Whinnymaker, III had to drink his most foul-tasting concoction yet, for he had to swallow his own pride.

[PHONE RINGS]

LOVEGOOD: Hello?

WHINNYMAKER, III: Hello. Is… is this Loretta?

LOVEGOOD: Speaking.

WHINNYMAKER, III: I was wondering if… if you had space on your platform for Whinnymaker Lemonades?

LOVEGOOD: Of course!

HOFFMAN: Archibald had fallen under the hypnotic zero-sum spell that the best way to win is to beat everyone else. Only too late did he learn the path to true strength lies not in monolithic power, but in letting as many lemonade stands flourish as there are people who want to sell lemonade.

I believe the secret to MASSIVE scale is compressed in three words: “Be a platform.” Build a virtuous cycle where everyone wins, and you’ll emerge the biggest winner of all.

[THEME MUSIC]

HOFFMAN: I’m Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. And I believe the secret to MASSIVE scale is compressed in three words: “Be a platform.” Build a virtuous cycle where everyone wins, and you’ll emerge the biggest winner of all.

Conventional wisdom tells you: Business is always a zero-sum game. Everyone else has to lose, in order for you to win. So grab every possible piece of your business for yourself.
Sure, a lot of iconic businesses were built that way. But there’s another model that will take you further. Find the areas of your business you can open up and let other companies build with you. Think of the iPhone. Apple could have decided to make all the apps themselves. But they knew: The more apps there were, the more people would buy the iPhone. The more people buy the iPhone, the more companies would develop apps. It creates a virtuous cycle, where your company gains momentum from everyone’s success. This virtuous cycle also makes you more robust, more nimble in reaching new markets, and quicker to react when the market changes.

I wanted to talk to Tobias Lütke, because his dramatic success with Shopify is a classic example of the power of a platform. If you bought something online in the last year – and it wasn’t on Amazon – then Shopify’s platform probably powered the purchase.

In 2018, more than 1 million businesses made over $40 billion in sales using Shopify. And app developers for the platform made over $90 million dollars. And yet, Shopify flew almost entirely under the radar of Silicon Valley VCs for the best part of a decade until its IPO in 2015. During this time, Tobi quietly built Shopify into a commerce powerhouse, from their HQ in Ottawa. This success all ties back to Tobi’s decision to turn Shopify into a platform, one that helps merchants build online stores, and also helps developers build specialty stores for merchants.

That might sound like a money grab, but it’s actually quite the opposite. I love the way Tobi described it to me:

**TOBIAS LÜTKE:** What we did to get the platform off the ground is to basically leave all the economics for Shopify on the table and give it to the third-party app developers. It just started out – and to this day, is an incredibly valuable platform to build on for other people.

And we built a lot of the technology which is underlying it in 2009. And only in 2018, almost a decade later, is when – like I think Bill Gates said this, I think it's almost called the "Gates line" – “You are not a platform until the people who are building on you make more money than you do."

**HOFFMAN:** Exactly right.

**LÜTKE:** And we've only cleared that in 2018. So it takes a long time.

**HOFFMAN:** Yes.

**LÜTKE:** And it's hard to do, because you are leaving a lot of economics that you could easily take for yourself on the table – or actually, you are investing it into your own future by giving it to other people. And that's very hard to do for most businesses.
HOFFMAN: Yes, no, exactly. Part of the dynamic by which I actually look at the majority of my investments – like maybe 90% plus – is do I see a route to being a platform? And do I see the team wanting to build the platform, and how to do it? And building platforms is super hard.

HOFFMAN: We talk about platforms a lot on this show. And Tobi is right to invoke Bill Gates. Bill knew early on that Microsoft would succeed by building a platform, by making operating systems that others could develop for, and any machine could run. Here’s how Bill described it to me:

BILL GATES: It was the virtuous cycle. The cheaper the PC was, the more volume there was for PCs, the more software for our platform there was, the more people would want to buy those PCs.

HOFFMAN: So the main reason to become a platform is to kickstart that virtuous cycle Bill talks about. And a platform should be your end-point, but it shouldn’t be your only aim. Here’s Eric Schmidt, Google’s former CEO, on exactly why.

ERIC SCHMIDT: Another failure that I’ve seen many many times at Google and elsewhere, is people decide that the platform is what they’re building, rather than a solution.

There are no cases where a platform emerged that was highly successful before it had a use case that solved a new problem that was important. But you don't write a business proposal saying, “I want to build a platform.” You write a business proposal saying, “I want to solve the following problem in a new way, which will result in a platform.”

HOFFMAN: To see how Tobi found that problem that needed to be solved, we need to go back in time, to when the only kind of platforms that interested Tobi were snowboards. He started his career as a programmer, but found himself miserable in his job.

LÜTKE: I wanted to find something that I could still do with my technical skill, which would give me some advantage, but then I could earn my money in a different way and recover programming as a hobby for myself.

HOFFMAN: To rediscover programming as a hobby, Tobi decided to start his own business. He and his friend Scott Lake started the online snowboard store SnowDevil in 2004. They thought it would take just a few days to get their online store up and running. But it was harder than they thought.

LÜTKE: I tried to find the right software to use for this business, and I was stunned that I couldn't find anything. It was – it's not that there wasn't e-commerce software, but it was
just all basically user-hostile database editors, at best. It was so clear that no one who's ever run a retail business had had any part in building these pieces of software.

So the best option became for me to just build my own software from scratch, instead of using anything out there. So I started doing this. I found some technology which I really liked, which wasn't Java Enterprise and...

**HOFFMAN:** That was Ruby on Rails, if I recall? Yes?

**LÜTKE:** That was Ruby on Rails, exactly, which came out right around 2004, right around this time.

**COMPUTER VOICE:** Ruby on Rails is a programming language.

**LÜTKE:** I did the day-and-night thing, probably working 16 hours a day, and a couple months later launched the snowboard store, and it ended up working really, really well.

**HOFFMAN:** And then – this is part of the story that I'm probably the least familiar with, so I'm asking a question I actually don't know the answer to, which is – so Snowdevil was that store.

**LÜTKE:** Exactly.

**HOFFMAN:** Tobi coded the backend for SnowDevil but their customers were interested in more than snowboards and padded jackets. People started asking Tobi if he'd build the backend for their online stores. And that's when SnowDevil decided to pivot. They ultimately became Shopify.

**LÜTKE:** Basically what initial Shopify was, is that we wanted to build the perfect piece of software that I wish I would've found when I started my snowboard store.

**HOFFMAN:** With Shopify, Tobi was aiming to make it easy for anyone to set up an online store. And unlike Tobi, they wouldn't need to wrestle with hostile programming languages, or appreciate the elegance of Ruby on Rails. They could just sign up on Shopify and do it in a matter of minutes.

But this direction wasn’t for Tobi’s co-founder. So Tobi, the engineer, became Tobi, the accidental CEO. He spent two years searching for a replacement. Until...

**LÜTKE:** Eventually, someone took me aside and gave me the good advice that I will never ever find anyone who will care as much about Shopify as I do. And that is actually probably the best qualification for a CEO.
HOFFMAN: And was that a VC or someone else?

LÜTKE: No, this was an angel investor.

HOFFMAN: And then what was your thinking about, "Okay, I'm going to become CEO, and now I need to learn this?"

LÜTKE: Right.

HOFFMAN: How did that path begin?

LÜTKE: I started at the same way I start everything. I'm like, "Okay, I have no idea what this is like, I don't know the components of it or the shape of it all. So let's read some books on it." And the first two books were Andy Grove's *High Output Management*...

HOFFMAN: Yes.

LÜTKE: Yes, which is incredibly lucky as a first book about business.

HOFFMAN: Yes.

LÜTKE: Andy taught me that building a business sounds a whole lot like an engineering challenge. And that gave me a lot of hope. I mean, I was probably miserable at it in the beginning, but slowly, with a very patient team, started on average making reasonable choices and just learned the ropes.

HOFFMAN: I'd say Tobi's choices were more than just "reasonable". He understood that to build a great platform, he first needed a great product.

LÜTKE: Building a platform is the most valuable thing in the world. But you can't do it immediately. You have to build a base of people using the product first, because otherwise the platform is not valuable.

HOFFMAN: But how do you build a product to meet all the needs of all those stores, selling all those different items? Fortunately, they have a lot in common.

LÜTKE: The lucky thing about our industry, is that the first 80% is almost the same for everyone. Everyone needs a website, everyone needs a payment gateway, everyone needs a domain, everyone needs the shopping cart, and a product grid and some content management system, order workflow system. All that stuff is, luckily, the same. It's the next 20% which are perfectly unique.
HOFFMAN: Building the first 80% was straightforward. But if Tobi’s team also built the last 20% of unique features it would create an almost endless engineering challenge. It had other drawbacks too.

LÜTKE: We knew that if we would add all the features for all our unique customers, we would end up with this problem of having something that is impossible to use.

HOFFMAN: Tobi worried that if they tried to build everything for everyone, they’d build a product that worked for no one. It’s a phenomenon called “feature creep.” And Tobi had seen it before, in previous versions of Microsoft Word, for example.

LÜTKE: We were worried about what we internally called the Microsoft Word toolbar problem. Now this is hard to explain, because now Word has a ribbon and hides a lot of this stuff. But back in those days, and we talked about it, Word had toolbars, and if you were on a normal 17-inch screen, and you would enable every single toolbar that you could, you would actually only have a centimeter of space for actually typing text, right?

Because Word had a lot of features and packaged good software has to make another sale every single cycle, and that makes perfect sense. But we thought that was a problem for us building Shopify, because e-commerce is – we are the home of these businesses. We are the software that people open up in the morning and that's their work day, where they spend it in.

HOFFMAN: Instead of giving in to feature creep, Tobi focused on getting Shopify’s core features right. Then he opened the platform to outside developers, so they could create specialized apps that merchants could install on their stores. Think customer support chat, or specialized inventory control.

As more developers built custom apps for merchants, Tobi saw the potential for a true platform, one where merchants could choose from hundreds of apps and developers could offer their apps to many more merchants.

Tobi remembers asking early merchant developers if they’d be willing to turn their custom apps into something any merchant could buy.

LÜTKE: The question we always asked, saying, "Hey, would you generalize this, and make it so that other people could also use this?" And eventually we heard "yes" more often than "no" to this question, and that's when we introduced an App Store, where these developers could list their software, and created the software discovery issue. Now the typical plus Shopify store probably has 20 different apps installed, grossing over a billion dollars a year.
HOFFMAN: Now, that's awesome, and really good thinking. And it's one of the things where, as you know, everyone's learned to be obsessive about talking about network effects, because they understand network effects create deep moats of business, lead to compounding value, then a large scale.

And that, for example, one of the reasons why people neglect the platform is, one of the key network effects is between platforms and developers, platforms and applications. Because once you have a suite of applications that each have its own creative team working on stuff, that's another one of the compounding loops. Which then, a customer going, "Oh, I need those ten applications on this platform. This is what I need. This is my life, my business, my work is built upon this."

LÜTKE: Right. Yeah. I mean, probably one of the more tangible reasons why people use Shopify by default without thinking about it now, if they have anything related to the problem of needing to sell products on the internet, it means that as soon as someone does some innovation in this space, the form that innovation will take is likely in the form of an app that is going to be in the App Store related to Shopify. As soon as there's a new sales channel, as soon as Instagram says, "Okay, we will allow products to be sold," you add Instagram as a new channel to your Shopify account, Shopify store, and you're off to doing it.

But it's worth talking about what this used to be like, right? Even 10 years prior, for a business to go into a new channel was a board of directors–level decision, probably like a ramp-up of 20 new hires, and an implementation plan of 18 months. And yet people now sell across five different channels probably in their first half year of business.

And this is the power of software. It gives superpowers to people that had never even thought about this. We have very frequently these funny emails or conversations with some of our customers who come back from some e-commerce conference and are just completely confused about what kind of stuff they're talking – their keynotes – about having a single view into the customer, or something like this, across all their different businesses. And like standing up a data warehouse, and for all the advantages of this would be a keynote at some conference. And it's just like if you signed up last week for Shopify, you have all these things, because obviously you do. It's an amazingly thriving ecosystem.

HOFFMAN: No, I think it's among the different parts of genius.

HOFFMAN: The Shopify app store officially launched in 2009. We'll hear about the huge effect it had after the break.
HOFFMAN: Before the break we heard how Tobi opened up an app store for merchants, with apps by third party developers. This kickstarted a positive feedback loop that spurred innovation. Merchants were attracted by the ever-growing range of features, while developers were attracted by the ever-growing demand from merchants for apps. And this is one of the biggest strengths of a platform: you can rapidly respond to that “long tail” of user needs. And this puts your virtuous cycle into high gear.

Cultivating a rich ecosystem of third-party developers isn’t the only way to do this though. You can also do it by keeping your model flexible, and ensuring the feedback loop between yourself and your customers is as short as possible. This is the approach that Julia Hartz, CEO of Eventbrite takes.

JULIA HARTZ: One of the things that’s actually been a strong contributor to our competitive mode, if you look at where Eventbrite sits in the live experience market and who we are, is our instinct to not try to force the product to be something specific to just one kind of event creator.

While you can say that, yeah, the top four largest categories – music, festivals, registration events, endurance sports – make up about 80% of our gross ticket fees today. The other 20 is just completely long tail, in terms of category distribution. That gives us a really interesting playground, to both cultivate creators, but also to expand our platform capability.

HOFFMAN: You can hear more from Julia on this in our episode titled “Let Your Customers Be Your Scouts”. For Shopify, developers built around the core product, fulfilling merchants’ needs and ultimately attracting more developers AND more merchants. This thriving, self-reinforcing ecosystem of merchants and developers is what set Shopify apart. It was a platform that people could mold to their own needs. And by 2015 the platform had over 160,000 merchants.

But Shopify had barely registered in Silicon Valley. In May that year, it went public. But in the runup, it was apparent they had really flown under the radar.

LÜTKE: Even to the day of our IPO roadshow, we really flew around to talk to all these financiers. We got our deck out. And they said "So that sounds interesting. How have I never heard of you?"

HOFFMAN: I put it to Tobi that his ability to go un-recognized by Silicon Valley was part of his success.
**HOFFMAN:** From the outside, looking at Shopify, I think part of the benefit you had, and this is actually, I think, among the group think of Silicon Valley, is everyone thought it was a combination of Amazon and maybe eBay, and it was all locked up. And there wasn't anything interesting there. And because that was the groupthink, you could actually build very systematically, and actually even build a new platform. Because the platforms are what really lock things in.

**LÜTKE:** Absolutely.

**HOFFMAN:** Right? And you could do that, and then you could say, "Well, once we pop above the radar, then we go fast."

**LÜTKE:** Yeah.

**HOFFMAN:** Until then, "Hey, nothing to see here. We're just building some stuff, and it's really important, and we know we're doing something important, but we don't need to tell you that."

**LÜTKE:** Yeah, Exactly.

**HOFFMAN:** So for me, from a blitzscaling perspective, what I would say is, you actually have to choose when you're going to try to hit the afterburners.

**LÜTKE:** Yes.

**HOFFMAN:** It's a mistake to think blitzscaling needs to be a white-knuckle ride on a roller coaster right from the start. A viable strategy is to take the time to build out the foundations of your business. Build under the radar.

And this is what thriving as a platform allowed Shopify to do. It was building something that even Silicon Valley VCs didn’t yet understand.

**HOFFMAN:** Part of the blind spot I think Silicon Valley would have had – and my guess is you bumped into some of this stuff in the VCs in Silicon Valley – would be the, "Oh no, no, this is already owned by Amazon, or maybe by eBay, and there isn't really room for another." And yet you saw a path and then you grew into it in a competitively differentiated space. What was the path that you saw, and then what was the learning of that journey?

**LÜTKE:** Silicon Valley has always, and still does – and potentially will always – underestimate commerce, just straight up. There's a reason why most commerce companies can't come from Silicon Valley. And I think this is actually has a lot to do with by osmosis everyone kind of observes the current debate. And the early successful
business models were advertising-based. And by the way, in China, they are commerce-based. And I think that is a very, very big difference between those two places. Business models are generally more about selling things than advertising.

And for a European living in Canada and observing places from outside, that just kind of felt really obvious that it was underestimated. I just, even when I was meeting with venture capitalists, they always wanted me to answer how big the TAM was.

**COMPUTER VOICE:** TAM, the total addressable market.

**LÜTKE:** ...Which I always got terribly confused, because this is retail, you realize retail is basically everything, it's a four trillion-dollar business, a four trillion-dollar market just for online parts in the next couple of years.

And so it's like, this is so unbelievably big. I don't know why I have to make the case for that. But then I would get back that they estimated that – this is again, middle of last decade – that there's only about 40,000 online stores online. And even if I could get 50 percent of those, that would just be not that compelling of a venture capital investment.

And to which I always try to say, well, you realize why there's only 40,000 stores? Because no one has ever built software for the new businesses. The entire software world did the obvious thing, they built e-commerce software for existing retail businesses who wanted to go online, that was like the term back then, “going online”, right? And that makes sense, most existing businesses have money, new businesses don't yet have money. In fact, they are also not terribly sophisticated. They need a lot of help, probably lots of support.

So no one built this thing, but that is why it didn't look big. So it's a completely chicken-and-egg problem that I was trying to tell them that I want to solve. Now, just on Shopify, we have a million merchants on the platform. Every 50 seconds a new business has their first sale on Shopify alone, right? And it's not that we have all of the market. So it just was so obviously important, obviously big, and there was obvious reasons why this wasn't growing, because it was so hard, and only the Venn diagram intersection of people with an interest in retail and computer programming abilities could actually be new entrants into the space.

**HOFFMAN:** It was this failure of Silicon Valley VCs to grasp Shopify’s value that made Tobi conclude that he was better off in Ottawa.

Tobi could see the virtuous cycle that Silicon Valley created: The best companies draw the best talent and build the best products, which draws more talent and more companies. But he didn't see how he could win there.
LÜTKE: I couldn't answer the question about why I believe I can be the most magnetic, obvious company to work for in Silicon Valley. Because there's already Google, and Facebook was growing very fast. And I didn't think being top three would be that valuable. You want to be number one, right? And so I'm like, "But I can do this in Canada."

HOFFMAN: So Tobi built Shopify in Ottawa, on his own terms.

LÜTKE: I realized that almost every business book that I then was reading, was not written for me. Right? It was written for the people who are building companies in these places. And that the rules of secondary cities are completely reversed. For instance, when I hire someone, the chance of us working together in five years or 10 years, is massive, in Ottawa and Toronto. Right?

So that's just one very tangible difference. Where the average tenure of engineering in Silicon Valley is 18 months at this point. And that means I can invest completely differently into people. Right? And which means that I can build a learner's organization.

HOFFMAN: In fact, I think any organization can be a learner's organization, no matter how short, long, or punctuated its tours of duty. But Tobi's differentiation goes beyond 10-year talent timelines. Not only was he outside of Silicon Valley. He was bringing his engineering mindset to his role as CEO.

LÜTKE: When you come at things from an engineering background, especially if you've been involved in architecting fairly complex systems, is that you use systems thinking. You know that in reality, a company is a very complex set of different factors which are all kind of influencing each other.

And then, if you want a certain behavior, you need to figure out what loops reinforce these particular behaviors, and what your potential points are which you can tweak.

HOFFMAN: Tobi engineered Shopify's culture to be open internally – and this created a virtuous cycle of its own. New ideas could surface easily, then rapidly gain traction. This stimulated more new ideas, in a chain reaction that let Shopify punch above its weight.

LÜTKE: The closest relation to any organizational system we had is actually from the open-source community. And the ideas of how to produce good work; how to be completely independent within the company, but collaborate; how to have everything out in the open and like default all information to open; and creating ways for people to help themselves. Like, all these kind of organizational systems, they ended up creating, I think, something fairly novel in the way we organize ourselves. And I think that ended up being an advantage in the end.
HOFFMAN: So this open culture led Shopify to build an open platform model, which attracted merchants who attracted developers who attracted merchants who attracted customers who attracted… well, you get the picture.

And at the heart of Shopify’s culture lies a deeper insight of Tobi’s: That commerce isn’t just about selling an item, it’s about telling a story.

LÜTKE: There’s a very strong belief at Shopify that commerce is a relationship thing, and not a transactional thing. A lot of commerce world is about connecting with something larger, joining some kind of tribe. The best way to tell real stories is this idea of a brand. And giving brands a way to have something they own on the internet is hugely important.

We are all the descendants of either the people who told the best stories around the campfires in the more primitive times, or the people who listened the most to those. And I think it just sometimes gets lost. Because at a certain point, you just think about things too rational.

HOFFMAN: It’s those kinds of stories that fuel Shopify’s virtuous cycle.

LÜTKE: It’s amazing and super gratifying part of Shopify's journey now where you know a lot of little lights can become a sun. We have wonderful stories of people from islands in the Pacific selling furniture, all over the planet again; people actually moving there to help which hasn't happened in generations. So that's super gratifying. And this is the opportunity to be taken really seriously about what can we do, and we put a lot of small things together to act big.

HOFFMAN: Putting small things together to act big. That’s the heart of platform thinking.

I’m Reid Hoffman. Thank you for listening.