

## Masters of Scale Episode Transcript: Robert Reffkin

“How setbacks create momentum”

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**REFFKIN:** It felt like one of the hardest things, if not the hardest moment that I had. All my dreams were wrapped up in what I had thought at that time was enough to support my family forever. And I lost it all and actually owed the banks money. I was shaking, I was at McKinsey shaking. I was never shaking before.

**HOFFMAN:** That's Robert Reffkin, founder and CEO of real estate platform Compass. He's recalling when he went all in on tech stocks – and lost.

**REFFKIN:** I borrowed against the money I had, which was around \$100,000 I believe. I invested it in the top five highest performing tech stocks from the prior year. That was my plan.

I just went all in and turned the \$100,000 to around a million dollars.

**HOFFMAN:** This was just weeks before the very height of the dot com bubble. Which means there was only one way this could end for Robert.

**REFFKIN:** A few months later it went to negative zero. And so I actually owed the banks money.

I call my mom, and she takes me to a psychotherapist to talk about it that day.

But the next morning I was fine. And the reason I was fine was I started dreaming again about the future I can create. And I was like, okay, I'm going to go back to business school. And then I'm going to go into investment banking and then private equity. I'll be able to earn it back here and figure this out there.

And I wrote it all down in a plan. That's basically what I saw my mom do every time she dreamed and failed – she would dream her way out of it again, to get your energy back. The lesson I learned was, you have to preserve your energy. You can not do great things in the world if you don't have that entrepreneurial, “I can do it” energy. And how do you get that energy? You dream a big dream.

**HOFFMAN:** Note here how Robert energized himself not just by dreaming about how his life could be different – but by making a concrete, step-by-step plan; a long-term strategy with a new goal. And he immediately started working towards it.

Entrepreneurs will always have dark moments on the path to scale. Sometimes these will send you on detours – and sometimes you'll need to set a new course altogether. But if you approach them with the right mindset, they can actually increase your momentum.

That's why I believe you need to harness the failures, pivots, and false starts into rapidly growing momentum.

### [THEME MUSIC]

**HOFFMAN:** I'm Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. And I believe you need to harness the failures, pivots, and false starts into rapidly growing momentum.

Imagine you're a mountain biker, flying down a forest track. Branches hang down and roots snarl across your path. Keeping up your pace is important, but you need to be on the constant lookout for patches of loose earth, potholes, and downed tree trunks. If you're not prepared to swerve at a moment's notice, you're in danger of taking a painful tumble.

But some of these obstacles also present an opportunity. Maybe it's an opportunity to set a new path with a better destination that you didn't see before. Or maybe you head straight for one of the obstacles because you're betting that, if you hit it just right, it can launch you across a gully.

The trick isn't working hard to avoid obstacles at any cost. Rather, you want to quickly identify any obstacles as resources you can harness.

I wanted to talk to Robert Reffkin about this because repeatedly throughout his life, he's made a clear-eyed assessment of how to grow his momentum using the obstacles in his path. Each time Robert's done this, he's deployed phenomenal energy and self-awareness – using the challenge itself to generate a fresh burst of energy.

His bedrock inspiration in doing this is his mom.

**REFFKIN:** My mom's an immigrant from Israel. She moved here when she was seven, to New York. And then she moved from New York to California to change her stars, to do what she wanted to do. And despite her father not being supportive, she had a relationship with a Black man, my father, and was disowned.

**HOFFMAN:** Robert's mom persevered, founding a pre-school that she ran out of her home. Following this, she became a life insurance broker and then a real estate agent.

**REFFKIN:** Having a mom growing up who was a single parent, disowned by her parents, and who was just trying to figure it out time after time again, it just made me believe that anything was possible. It made me realize that even if you shoot for the stars, you land on the moon, even if you fail, you just have to bounce back with passion.

**HOFFMAN:** Robert emulated his mother's grit from an early age and was determined to set his own momentum. At the age of 13, he came up with a plan that was pretty out there even for his ambitious mom.

**REFFKIN:** I had a bar mitzvah, and from my bar mitzvah money and my babysitting money, I wanted to become a DJ. I wanted to take all of it and invest it in buying DJ equipment. My mom said, "Absolutely not. That's crazy. It took so long to save this money."

**HOFFMAN:** So Robert launched into an impassioned pitch.

**REFFKIN:** I told her, "Look, I have this great idea. I noticed all these DJs are just playing the music they want to hear. I could be the DJ to play whatever the customers want to hear. And I can create a guarantee that if they give me the list a week in advance, I will play their music. And that will give me the competitive advantage."

**HOFFMAN:** As any teenager can tell you, changing your mom's mind may be the most difficult pitch there is. But Robert sold his mom on the idea.

**REFFKIN:** She liked that idea, and she was supportive. I bought the equipment, and I became the most utilized disc jockey in the San Francisco Bay Area for two years in a row.

**HOFFMAN:** Even at 13-years-old, Robert was harnessing momentum to change his path. To work out how, he looked at the momentum of his competitors – the other DJs in town – to see what he should do differently. Note how it wasn't about having a better sound system or scratching skills. Instead, Robert made a more nuanced shift. He took DJ ego out of the equation and simply played the songs his customers wanted. This gave him the momentum to overtake the competition.

Later, when Robert won a place at Columbia University, maintaining momentum was his top priority.

**REFFKIN:** I graduated college in two and a half years. I was paying for school, and I wanted to hurry up and shorten the amount of expenses. I didn't get energy from school. And so I wanted to hurry up and find a career where I would get energy.

**HOFFMAN:** Many of Robert's peers were going into management consulting and investment banking. This was a time he decided to go with the momentum – but with different aims.

**REFFKIN:** I thought that my career would be entrepreneurial in total, even if it didn't necessarily start that way. I saw that job out of college as just a continuation of college,

getting credibility and experiences to be transferable to a larger entrepreneurial life over time. And so it was really just like, I thought of it as graduate school.

**HOFFMAN:** But as his time at college drew to a close, Robert struck out in all his job interviews. But rather than accept failure as his fate, Robert took positive action to preserve his forward momentum.

**REFFKIN:** I looked through all the business cards I collected while in college, and there was a business card of a guy who was the highest revenue-generating partner at a company called McKinsey, I didn't really know what they did.

I email him and I say, "Hey, would you be open to talking to me about McKinsey. I'm graduating in a month and would love to talk to you about an opportunity to work there."

**HOFFMAN:** The partner helped Robert get an interview at McKinsey. He had just two weeks to prepare.

**REFFKIN:** For those two weeks, I take the entire time from school off. I do not go to one class. I just go to the Columbia Business School library, and I read the case study interview books.

I basically memorized the interview method, the kinds of questions and the answers.

**HOFFMAN:** The hard work paid off.

**REFFKIN:** And although I had a C average in high school, I was able to convince them that, because I graduated college in two and a half years, because I was working 30-plus hours a week at work study to help pay for school, and because I aced the case, that I was worth taking a bet on.

**HOFFMAN:** Robert came up with a clear and daring plan of action to change his path, while keying in on his momentum, and became the youngest analyst McKinsey had ever hired.

And notice the gamble Robert made here. He had already worked so hard to build the momentum to get through college in little over two years. But he saw how that was now taking him away from his goals. So he made a positive – and necessary – gamble by taking those two weeks off of school.

His two years at McKinsey taught him a lesson he would put to use when he needed to overcome an obstacle in the future.

**REFFKIN:** At McKinsey they structurally made it so that after every single meeting, your manager would tell you, here's what you did really well in the meeting that you should continue. Here are the things that you didn't do that you should start doing. Here are the

things you did that should stop doing. It was after every meeting. And it was exhausting for me at the time. I remember just feeling depressed, going home every day because I didn't feel good enough. But it's actually very hard to get feedback because most people are scared to give it. Most people that receive feedback, they don't actually listen to it and hear it.

And if you're part of an underrepresented community I think people give feedback to you even less. I learned the importance of making people feel very comfortable giving me feedback and saying, I just want more feedback, please give me more.

**HOFFMAN:** A lack of feedback can actually hold you back from building momentum because without that feedback, there's nothing to push off from. It's like trying to get moving from a dead stop. In 2006, Robert joined Goldman Sachs.

**REFFKIN:** I thought it was a great balance of having the corporate infrastructure that would give me the best shot at success. But also still had the entrepreneurial opportunity of private equity.

**HOFFMAN:** Robert spent a decade at Goldman, and followed his entrepreneurial impulses by founding a nonprofit dedicated to closing the opportunity gap for young people – America Needs You – and raising money through his program Running to Support Young Dreams.

You can hear more about these by becoming a member of Masters of Scale to listen to my complete interview with Robert. Visit [join.mastersofscale.com](http://join.mastersofscale.com) or look for the Masters of Scale Complete Interviews on Apple Podcasts Subscriptions.

Robert's momentum as a founder was on the rise, as his momentum as an employee at Goldman was slowing.

**REFFKIN:** I think that you have to know when it's time to go. In this case, when I was at Goldman, I had support, but the enthusiasm from the people that supported me was waning. You can see it, you can feel it. I could have stayed there my entire career, I'm pretty sure. But I would not have had the opportunities that would've been worthy of dreaming for. If I can't go to sleep at night dreaming about how great the future will be, I can't be my best self.

**HOFFMAN:** Note how Robert says you have to know when it's time to go. This is a sense many serial founders have. And it's something I encourage everyone to develop. We should all be tending to our own momentum. When it brings us together on a shared mission, it can be additive to everyone's momentum. But when the missions diverge, it's best to part ways – otherwise you risk slowing each other down.

So Robert reached out to Bayo Ogunlesi, a founding partner of private equity firm Global Infrastructure Partners.

**REFFKIN:** I said, “Hey, I want to work for you.” He said, “Robert, I've seen you do this great stuff with nonprofits you've founded. I know when you put your energy into something, you can do great things. If you were my son, I would tell you to go start a company.” And I said, “Hey, Bayo, I have to take care of my family. I can't do that. I'm going to get married soon.”

**HOFFMAN:** Recall why Robert had originally worked so hard to join McKinsey.

**REFFKIN:** I saw that job out of college as just a continuation of college, getting credibility and experiences to be transferable to a larger entrepreneurial life over time.

**HOFFMAN:** Now, over a decade on, Robert had built momentum in his finance career, and used his entrepreneurial skills to found non-profits. But Bayo could see Robert needed help convincing himself that he could change to an entirely new direction without a disastrous loss of momentum.

**REFFKIN:** And he says, “Okay, how about this? As part of the interview process, how about you put as much energy into a business plan for a new idea, as you do into a nonprofit.

And I can use that to evaluate your business acumen and what you can do here at the company.”

**HOFFMAN:** Robert met up with his friend, serial tech founder Ori Allon, and they came up with the idea for what would become Compass. But he didn't plan to actually use it.

**REFFKIN:** And so then I go back to Bayo, I have a 10 page deck. It looks really smart, a lot of lines and charts. And I say Bayo, “This is the business plan. What do you think? Would love to work for you.” He said, “This is a great idea. Go do it.” And I said, “No, no no Bayo, I can't do it. You told me to create a plan so that you could evaluate me as part of the interview. I'm getting married in a few months. I'm going to have kids. I can't go do this.”

He said, “How about this? I'll give you \$500,000. I'll be your first investor. And if you fail in a year, then I'll hire you.” I look to the left, and I was like, is there any rebuttal I can have to that? I said, “All right, deal. Let's do it.”

**HOFFMAN:** Robert had reached out to Bayo in order to change his momentum. But he needed a bigger push – and Bayo was the person to give it. Often, like Robert, we can sense that our momentum isn't taking us down the right path. And often, other people will give us the extra impetus we need.

**[AD BREAK]**

**HOFFMAN:** We're back! It's 2012, and Robert has just launched Urban Compass with co-founder Ori Alon. Their mission: to take the pain out of apartment hunting in New York City.

**REFFKIN:** And so the idea was, we hired neighborhood specialists. They came from the hospitality industry, doormen, waiters, and they would be agents paid on salary, not commission, bonus-ed on customer satisfaction. And they would only focus in their neighborhood.

**HOFFMAN:** These specialists weren't real estate professionals. Instead of industry expertise, they had neighborhood smarts, enthusiasm and ... breath mints.

**REFFKIN:** We had booking coordinators, and the client would call the booking coordinator to schedule showings, and let's say one in Soho. And then two in the Upper West Side, then they would meet the neighborhood specialist who really knew the neighborhood in Soho. And then they would meet the other neighborhood specialists in the Upper West Side. The neighborhood specialists would have a red backpack. In the red backpack were breath mints, battery chargers, umbrellas, and even shoe shiner, as crazy as it sounds. We were going to be the best in customer service.

**HOFFMAN:** However, after hitting the sidewalk with the specialists, Robert could see they needed far more than a backpack full of TicTacs and an upbeat neighborhood tour to make their customers happy.

**REFFKIN:** We were not giving good customer service, because people are not looking for a friend. They're looking for someone who has expertise. And that has done this many, many, many times before.

**HOFFMAN:** It was the classic road bump many early-stage startups encounter. Amazing idea, meet world. World shrugs.

**REFFKIN:** We were optimizing for ourselves, not for the customer. Creating booking coordinators and neighborhood specialists in different areas for ourselves, one, it sounded really cool, and it sounded smart. And we would pass them off really efficiently.

**HOFFMAN:** It was efficient for Urban Compass. And efficient for the neighborhood specialists, who could fit giving the tours around their other commitments. But for apartment hunters, using Urban Compass was a momentum drag on an already stressful and slow experience.

**REFFKIN:** They had to repeat their entire story three times. Instead of talking to agent once and only telling your story once, where you want to live, how you're thinking about it, how many key people in your family, you had to say to the booking coordinator and then to each neighborhood specialist for every neighborhood.

**HOFFMAN:** Meanwhile, there was another problem that was taking momentum away from Urban Compass's first year in business. Robert's belief in Urban Compass's mission was strong. However, the rest of his team weren't even sure what the mission was.

**REFFKIN:** I hired all these people by saying, "We're going to change the consumer experience. We're going to improve the consumer experience." And that brought in a lot of people, because everyone could apply their own definition of what that was. For some people, it was, we're going to make things faster. For other people it was, we're going to make it cheaper. For other people, we're going to make people more customer service oriented. But everyone went in a different direction. I've learned over time, you have to use words that are universally understood and that are absolutely clear on what the definition of success is.

**HOFFMAN:** Yes, you can change your stars, and set a brand new path to scale. But you need to be specific and clear when you choose your mission. Otherwise you risk members of your team going off on their own courses and pulling in different directions. This will create a tension that will sap your organization's momentum. Robert saw these problems early on, and he started talking to his team about the changes that he thought were needed.

**REFFKIN:** I was telling them, this dream we had to improve and transform the rental experience is not working. I was out there renting apartments to my friends, and they were telling me it was not working. I told them we should pivot to a traditional model of serving independent contractors, traditional agents.

**HOFFMAN:** Robert was talking about change, and this time the message was getting through. But not in the way Robert imagined.

**REFFKIN:** My co-founder Ori, he's invited to a breakfast by one of the senior members of the team. He goes for breakfast, and he sees the entire senior leadership team there. He's like, where's Robert? And they basically say, we're all here today to tell you that we need to fire Robert.

Ori comes to me later on, right around lunch. And he says, let's go on a walk. He tells me what happened. And he says, everyone wants me to leave, they don't think I have the vision to continue the path.

**HOFFMAN:** Robert had made the mistake of talking about change, but not driving it through. When you want to change the momentum of an entire company, you can't simply point out the things that need to be changed. You have to demonstrate why your new vision works better and lead by example. Because Robert hadn't done this, his momentum was taking him in one direction: the door.

**REFFKIN:** I go home, I talk to my wife, and I tell her, they all want me to leave. I say, "I think maybe they're right. Maybe I'm not the right person for the job." And she listens to

me, hears me out and says, “Absolutely not. You need to go back, talk to Ori and you need to tell him why you believe this is the right answer and share so convincingly.” And she told me to bounce back and bounce back with passion.

**HOFFMAN:** One of the biggest changes in momentum is the company pivot – and the friction you'll encounter.

That's not to say friction is necessarily bad. Actually, it's essential when changing momentum. For a scientific perspective on this, we talked to Dr. Shini Somara, renowned mechanical engineer and science broadcaster.

**DR. SHINI SOMARA:** Friction gets me out of bed in the morning. If there was no friction, I would not be able to get out of bed, literally. I wouldn't be able to grip onto surfaces to actually get myself out of bed. I wouldn't be able to stand up, because the floor would be too slippery. So, friction is fundamental to our lives. We need it.

Friction is often used to actually get people to think. For example, if you're about to delete a file, user experience designers will get you to think about whether you actually want to delete a file by asking you, "Are you sure you want to delete this file?" Friction does make you stop and assess what you're doing.

**HOFFMAN:** So friction is inescapable – but it is useful – even necessary. But what about when you want to overcome it?

**SOMARA:** Wherever there is a force in one direction, you will get a resistance force in the opposite direction. That's one of Newton's Laws that every action has a reaction, in terms of forces. So, if you're trying to push a bookcase in one direction, you will have friction resisting that direction of movement in the opposite direction. Yes, you can put more energy into the system to overcome that friction force, but it just means you have to spend more energy doing that. That's not ideal.

**HOFFMAN:** So at its extremes, friction can drop our momentum to zero – and in these cases, trying to overcome friction with brute force will be costly and perhaps futile.

So when Robert went back to Ori, he didn't try to bulldoze him into making the pivot. Instead, he made a persuasive argument for why altering the momentum of Urban Compass would be a net gain.

**REFFKIN:** I explained to him, there are 2 million agents in the country, they're all entrepreneurs. They know exactly what to do. They're independent contractors. They don't have salary. And I explained the industry dynamics.

I tell him, my mom has been an agent for many, many years. And I saw her struggle because she did not have the tools that she needed to succeed. She moved from firm to

firm to firm, always hoping to get the tools and support to realize success, but didn't get it. We have all these resources, we'd be great at building for people like her.

**HOFFMAN:** The newly-impassioned Robert won Ori over.

**REFFKIN:** Basically the same way I was listening when I was a DJ to the people who said, hey, play this music for me when other DJs were just listening to themselves, playing whatever they want. That was the pivot that I made with Compass. Instead of being the DJ or the company in this context who just played whatever they want or built whatever they want, we became a customer backward company that said, "Okay, there are these agents that are all entrepreneurs. They know what they need. And we could be the company that can build the best for everything, for them in one single place, by just listening to them and building what they want."

**HOFFMAN:** So Robert and Ori started talking about the details of the pivot.

**REFFKIN:** He said, "We're great at raising money and hiring very talented people. If we can just take those resources and help agents be more successful, well, we'd be more successful. If we can help them make more money, well, we make money," I said, yes.

**HOFFMAN:** They dropped the "Urban" and became "Compass." They focused on a clearer mission: helping thousands of entrepreneurial realtors build their momentum.

**REFFKIN:** We pivoted. We lost over a third of our people because they thought we weren't going in the right direction.

**HOFFMAN:** It's a hard certainty that when you change your organization's momentum, not everyone will want to stay. And that's a good thing because to keep the momentum up, you need to find people that not only agree with the new momentum, but who will help define it and drive it.

**REFFKIN:** It was really hard. I wasn't a real estate agent. I didn't have that level of expertise. I had to go off and start hiring agents and asking them what they want, what would help them grow their business, what would help them better serve their clients, why would they want to come to Compass and pay us as opposed to stay at their current company?

**HOFFMAN:** A clear message came through.

**REFFKIN:** I interviewed a bunch of agents, and they all said, "If you don't have a top agent, I can't even start to think about moving, because no one knows Compass," right? I can't go to these sellers and say, hey, this company called Compass you've never heard of, that has no listings, come sell your home through them. And so I asked 10

different agents to give me the names of three top agents in the city, that if one of them came, they would be excited about coming.

**HOFFMAN:** A change in momentum takes concerted effort, and it helps to have something – or someone – to focus on. One name kept coming up: a New York realtor who was the top agent for Downtown Manhattan.

**REFFKIN:** On every single person's list was Leonard Steinberg. He focused on both new development and resale, a really wonderful human being that a lot of people wanted to be around and learn from. And so the first year of the pivot, one of the most important things that I did was hire Leonard Steinberg.

**HOFFMAN:** Robert and Ori met with Leonard to sell him on how Compass could change the momentum of the industry – and for real estate professionals like him.

**REFFKIN:** We talked over a number of times about where the industry was, why it wasn't improving fast, and how we could bring that optimistic, hopeful, can do, big dream attitude from the tech industry.

And that we needed someone like him who could translate the company to the stakeholders, to the agents, because Ori and I didn't have trust in that community, but we needed someone like him to do so. In the same way that Steve Jobs gave inspiration to so many stakeholders that Apple needed to build a future. And that inspired him.

**HOFFMAN:** A change in momentum can start with a single leader. But to get everyone lined up behind it, you need a leadership team that others can trust and follow. By bringing Leonard into the leadership team, Robert was changing Compass's momentum.

With Leonard on board, Robert and Ori could now get everyone behind Robert's vision: creating a platform that would let real estate professionals realize their full potential.

**REFFKIN:** Their core competency is taking this multi-party transaction with all these different entities that it takes to close. Think of it like a very extensive Gantt chart of all these different entities. They're the ones who just keep on pushing it forward, pushing it forward. Project management is a very important transaction that has to get done and get done quickly.

**HOFFMAN:** Compass focused on providing these project management tools to their agents. Word spread through the industry, and Compass grew rapidly.

As momentum built, Robert laid out his ambitious plan to have at least 20% market share in the country's top 20 cities by 2020.

**REFFKIN:** So when I said 20, 20 by 2020, what shocked me is, how many external stakeholders said, “They're never going to be able to do it. They're going to fail. They can't be successful.” It also surprised me how many people on my leadership team said, “You shouldn't say this because what if you say it and then three years later you aren't successful?” And so that was the reaction, but it inspired many more people to do extraordinary things, to travel across the country, launching these cities, and to work harder and better to build towards that. And it gave us all a common vision to bring the company together and rally around.

**HOFFMAN:** Compass created momentum to build to that target. It now has almost 18,000 agents across 40 cities and regions. And this year, it made its IPO and reported estimated revenue of over \$5 billion for the year.

**REFFKIN:** Real estate agents aren't real estate professionals that happened to be entrepreneurs, they're entrepreneurs that just happened to be in real estate. If real estate didn't exist, they would be entrepreneurs somewhere else.

**HOFFMAN:** For Robert, the overriding mission of Compass is to help thousands of entrepreneurial agents build their momentum. And this is the powerful thing about momentum when it comes to scaling a business. When you empower others around you to build momentum, you will soon reach a critical mass that will help you all to grow more rapidly.

I'm Reid Hoffman. Thank you for listening.