Business Horizons (2020) 63, 109—119

Available online at www.sciencedirect.com

ScienceDirect

KELLEY SCHOOL OF BUSINESS
INDIANA UNIVERSITY
www.journals.elsevier.com/business-horizons

Blitzscaling: The good, the bad, and the ugly

Donald F. Kuratko*, **Harrison L. Holt**, **Emily Neubert**

Kelley School of Business, Indiana University, Bloomington, IN 47405, U.S.A.

KEYWORDS
Blitzscaling;
Disruptive innovation;
Scaling;
Startup funding;
Venture capital

Abstract Today's disruptive innovations are driving the creation of numerous billion-dollar startups. Venture capitalists focus on these potentially disruptive technology startups and fund them furiously, advancing their speed of growth. The idea is to scale fast and seek huge returns for investors. Terms that define this type of aggressive scaling have recently developed in Silicon Valley. *Unicorn* is defined as a venture with a value of $1 billion, while a *decacorn* describes startups with a value of $10 billion. Another recent term is *blitzscaling*: funding a venture for extremely fast growth and prioritizing speed over efficiency in an environment of uncertainty. While blitzscaling is being used heavily by investors in Silicon Valley, we look at exactly what comprises this new phenomenon and how it is used in practice. We examine the concept, its stages, and its prevalence before reviewing the different examples of how the strategy has been implemented for success (the good), cases of its failure in practice (the bad), and the extreme cases of ethical compromise by ventures (the ugly). From these cases, we draw specific lessons that, if understood and appropriately addressed, would help new ventures effectively implement the strategy.

1. The rise of disruptive innovations

Within the academic and popular entrepreneurship literature, Silicon Valley is recognized as the hub of entrepreneurial startups. There is no question of Silicon Valley's importance in terms of its spark for high-tech entrepreneurship and disruptive innovations with venture capital serving as a driving force. Over the last 20 years, venture capital investing has followed the economic landscape. Venture capitalists (VCs) invested only $19 billion in 3,065 deals in 2009. As the economy slowly improved, venture capital investing experienced a slow increase with 3,526 deals drawing $23.2 billion in 2010 to an excess of $131 billion invested in 8,949 deals in 2018 (Pitchbook, 2018; Pearce, 2014). It is interesting to note that the total number of firms that are provided venture capital is extremely small compared to the total

* Corresponding author
E-mail addresses: dkuratko@indiana.edu (D.F. Kuratko), haholt@iu.edu (H.L. Holt), eneubert@iu.edu (E. Neubert)

https://doi.org/10.1016/j.bushor.2019.10.002
0007-6813/

number of entrepreneurial startups each year. The growth of equity crowdfunding has certainly moved initial funding for a greater number of venture startups (Stevenson, Kuratko, & Eutsler, 2019). However, even with a small number of ventures receiving VC funding, it is clear that the potentially disruptive technology startups turn to VCs in hopes of growing extremely fast and gaining a greater return for their investors.

New ventures focused on disruptive innovations have been funded furiously by VCs recently to advance their speed of growth. The idea is to scale fast and seek huge returns for the investors and founders. Terms have developed to describe fast-growth ventures that refer to their market value. In the early 2000s, the idea of a pre-IPO tech startup with a $1 billion market value was a fantasy. For example, neither Google nor Amazon—nor any other original dot-com venture—was ever worth $1 billion as a private company, but today's disruptive innovations are driving the creation of numerous billion-dollar startups.

Smartphones, inexpensive sensors, and cloud computing are examples of new technologies that have enabled new internet-connected services to be introduced into traditionally nontech industries, just as Uber has disrupted the taxi industry and Airbnb is busy disrupting the hotel industry. The term *unicorn* was introduced as a label for such corporate ventures. In just 10 years, a term that represented mythical creatures has evolved to refer to new ventures with a market value of $1 billion. As of 2018, there were more than 153 ventures valued at $1 billion or more by venture capitalists, and this continues to trend upward. As they continue to grow, many startups are surpassing the $1 billion level and reaching $10 billion. These firms such as Facebook, Uber, and Airbnb are now referred to as *decacorns* (D'Onfro, 2015). Terms like these are new but common among venture capital investors.

Another term that has recently developed in Silicon Valley that defines this type of aggressive scaling to reach unicorn or decacorn levels is *blitzscaling*. This term was coined by Reid Hoffman while teaching a class at Stanford University called technology-enabled blitzscaling (Sullivan, 2016). But what exactly is this new phenomenon and how has it been used in practice?

2. A closer look at blitzscaling

In pursuing market dominance, businesses scale up to expand their markets and obtain new customers. Classic business scaling occurs in a predictable environment with efficient scaling strategies. On the opposite end of the spectrum, blitzscaling prioritizes speed over efficiency in an environment of uncertainty (Hoffman & Yeh, 2018). Reid Hoffman outlined three distinct features of blitzscaling: rapid growth, growth on a global scale, and scaling toward a first-mover advantage (Sullivan, 2016).

Prioritizing speed over efficiency is necessary for an effective blitzscaling strategy. Not only are ventures in competition for a first-mover advantage but they also must achieve a certain level of growth before they run out of capital. As a result of this priority on speed, the company will not have time to go through an experimentation process to determine its most efficient product. Instead, Hoffman and Yeh (2018, p. 206) suggested that startups should "launch a product that embarrasses them." A technology startup venture must validate the value of the proposed idea and estimate the potential growth in the market before the venture can drastically scale. In order to do this, the company will release a beta version of the product that demonstrates the basic value to users. This version of the product is known as a minimum viable product (MVP; Moogk, 2012). Keep in mind that blitzscaling is not appropriate for all industries as an MVP product may not be feasible in certain areas, including pharmaceuticals or hospitals. Intangible products such as software may be better suited for blitzscaling because they can be launched quickly and updated with relative ease.

Hoffman and Yeh (2018) noted that blitzscaling usually occurs on a global scale as it allows the technology startup to rapidly maximize its value, expand the size of its total available market, and gain exposure to additional sources of capital. Bailetti (2012, p. 5) stated: "The earlier a startup globalizes, the stronger its capability for exploiting growth-seeking opportunities worldwide." For most technology startups, the general appeal of blitzscaling is that it leads to rapid growth on a global scale. This type of growth enables new technology startups to achieve a first-mover advantage in new global markets. A relevant example is PayPal, the first major online payment system. O'Reilly (2019) examined how Hoffman achieved success growing PayPal by employing blitzscaling techniques. When PayPal first started, the company was able to grow at a rate of 5% per day by letting customers use credit cards to settle charges without paying additional fees. However, Hoffman stated if he and Peter Thiel "were standing on the roof of our office and throwing stacks of hundred-dollar bills off the edge as fast

as our arms could go, we still wouldn't be losing money as quickly as we are right now" (Hoffman & Yeh, 2018, p. 44). Regardless, the strategy paid off as PayPal's user base increased from 1 million to 5 million users in 3 months. In addition, PayPal quickly gained a global presence and today is available in 202 countries around the world.

While PayPal effectively gained the first-mover advantage in the online payment market, many Silicon Valley startups fail to maintain their first-mover advantage. It is estimated that about 1% of Silicon Valley startups survive over 2 years. While this low survival rate stems from many factors, the most common reason is that once technology startups gain a first-mover advantage, their competitors enter the market with slightly updated versions of the product and that competitive advantage erodes quickly. If ventures employed blitzscaling techniques to further innovate their products, they could maintain their first-mover advantage. An example of this is the dominance of Amazon Web Service (AWS) in the cloud computing market. Amazon launched AWS in 2006 as the first mover in cloud computing. Alibaba Cloud launched in 2009, Microsoft Azure followed in 2010, and Google Cloud in 2011 (Deagon, 2016). Even as competitors eroded its competitive advantage, AWS maintained a steady market growth rate and continued to control 35% of cloud provider market share in the U.S., which represented more than double the market share of the next competitor (Miller, 2018). AWS has maintained its dominance in cloud computing in the four major regions throughout the world—with the exception of China—due to rapid and continuous investment in infrastructure and technological innovations, but the global cloud market continues to grow at a dramatic pace. The industry as a whole is still in its early days in terms of cloud adoption.

In the process of growing rapidly on a global scale, companies face a great deal of uncertainty. Blitzscaling purposely prioritizes speed over efficiency in the face of uncertainty. Normally, the startup is blitzscaling toward the launch of an original or revolutionary product. In some cases, this concept or product may not be fully developed or the business may not have experience in the target market. As a result, the only certainty in the process of blitzscaling is that a mistake will be made along the way. Immediately integrating blitzscaling with a venture results in managerial inefficiencies, increased capital expenditures, and instability in the company's culture. A venture incurs a massive amount of risk when blitzscaling its business or product. If successful with this strategy, ventures may have an experience similar to that of baseball players who try for a lot of home runs: they will strike out a lot but when they do find success, the outcome of the contest can change dramatically (Gilbert, 1994).

2.1. Stages of blitzscaling

The size of a company grows quickly through the process of blitzscaling. Between 1996 and 1999, Amazon grew from 151 employees to 7,600; between 2001 and 2007, Google grew from 284 to 16,805 employees; and between 2008 and 2012, LinkedIn grew from 370 to 3,458 employees (Sullivan, 2016). Hoffman and Yeh (2018) structured the main stages of blitzscaling into five aggregate categories by number of employees. The first stage is called the family stage, which is 1—9 employees. This stage involves raising capital and determining the business's MVP. Once the business grows to 10—100 employees, it moves to the tribe stage. In the initial family and tribe stages, blitzscaling is somewhat discreet since most startups attempt to scale at a fast pace early in their founding.

Blitzscaling normally becomes more apparent in the village stage, which starts at over 100 employees. Once a company achieves this size, it has defined its product market and a competitive landscape has evolved. At this stage, some of the competing organizations may be more focused on optimizing their efficiency and others will be focused on fast scaling (Hoffman & Yeh, 2018). Blitzscaling will allow a business to engage in a differentiated scaling strategy from its competition and quickly expand the company's market reach.

At the city stage—between 1,000—10,000 employees—or the nation stage—over 10,000 employees—the founder is responsible for pulling the organization as a whole back from blitzscaling and focusing on blitzscaling new product lines or services (Hoffman & Yeh, 2018). For example, Microsoft blitzscaled its cloud computing service Azure to keep up with AWS's dominance in cloud computing. Microsoft Azure continuously registered 75% plus sales growth each quarter up until 2019 (Seeking Alpha, 2018). While Microsoft would not benefit from blitzscaling as an entire company, it successfully utilized blitzscaling to introduce a specific formidable product in the cloud computing market. Gilbert (1994, p. 20) reinforced this idea by stating that, in high-velocity industries, a product's lifecycle "is measured in months rather than years, and companies that fail to bring innovations to market within months of the industry leaders are considered non-competitive."

2.2. The spread of blitzscaling

Blitzscaling is typically associated with Silicon Valley due to the extensive blitzscaling of hi-tech startups and companies founded in the region. In 2019, Silicon Valley was home to three of the world's five most valuable companies—Alphabet, Apple, and Facebook—valued together at almost $2.5 trillion. Blitzscaling is effective in Silicon Valley because of the region's access to venture capital and competitive talent. Due to the talent pool attracted by Microsoft and Amazon in Seattle and the success of companies like Snap Inc. and SpaceX in Los Angeles, these cities have become high-tech ecosystems in their own right (Hoffman & Yeh, 2018). Both Seattle and Los Angeles benefit from networking with Silicon Valley VC firms, which has enabled startups to raise the capital they need to fund blitzscaling. Startups are finding alternative locations to launch their headquarters or new locations in order to continue scaling their companies as they are faced with Silicon Valley's high cost of living (The Economist, 2018a).

According to PitchBook's 2018 Venture Capital Outlook, 2017 saw a growing number of deals and capital flow moving toward the development of VC ecosystems in mid-America. PitchBook's analysts forecasted greater investment in entrepreneurial environments outside of California in 2018. The Kauffman Foundation ranked Miami-Fort Lauderdale as first for startup activity in America, noted Phoenix and Pittsburgh as home to the development of autonomous vehicles, and listed New York, London, and Shenzhen as important cities for the future of innovative technology startups (The Economist, 2018b). In addition, Boston, Austin, and Boulder, as well as the European cities of Stockholm and Berlin, have emerged as innovative tech ecosystems (Hoffman & Yeh, 2018). If these locations continue to develop their innovative technology scene, they will attract VC financing and a pool of top talent. Combining both will enable blitzscaling in these potential startup ecosystems.

3. Blitzscaling in practice

A review of venture startups and established companies' attempts at blitzscaling provides further insight into the effects such fast growth has on ventures. In this section, we divide these cases into three aggregated categories:

- The good, or companies successful at blitzscaling;
- The bad, or companies that failed in the process of blitzscaling; and
- The ugly, or companies whose blitzscaling strategies entrenched them in major ethical dilemmas.

3.1. The good: Companies successful at blitzscaling

Let us look at two companies that recently employed blitzscaling strategies to yield impressive results: one achieved over a billion-dollar valuation (i.e., Flexport) while the other was acquired by a *Fortune* 500 company (i.e., Home Chef). Flexport is a logistics startup based in Silicon Valley that began as a member of Y-Combinator's Winter Class of 2014. Founder and CEO Ryan Peterson started Flexport to digitally transform the antiquated freight-forwarding process. In 2015, the venture's Series A funding was led by Peter Thiel's Founders Fund (Schubarth, 2015). Following Theil's investment, more investments flooded in from other funds, including Ashton Kutcher's A-Grade Investments, Bloomberg Beta, Google Ventures, and Y-Combinator, all of which brought Flexport's funding to over $94 million.

In just 30 months after its founding, Flexport was able to increase revenue by 25% each month and onboard over 600 customers (Rogers, 2016). Unlike most blitzscaling companies, Flexport was actually profitable. Peterson stated in an interview that Flexport will "actually make money on the growth" and have "the opportunity to be one of the first really profitable unicorn companies" (Constine, 2016). Flexport focused on keeping up with its growing volume. In 2017, it opened its fourth North American office (seventh globally) in Atlanta, Georgia (Petersen, 2017). Two years later, it opened a new office in Seattle (Flexport, 2019), a city known for its prominence in logistics and strong talent pool. Flexport's other offices are located in San Francisco, New York, Hong Kong, Amsterdam, and Shenzhen, China (Whelan, 2016), all of which are major trading hubs and cities in which blitzscaling has been most effective.

In 2017, Flexport increased to 420 employees across its seven global offices and expected a target revenue of $500 million for 2018. Just 1 year later, Flexport landed eighth on *Inc.*'s 5000 fastest-growing private companies with a 3-year growth rate of 15,911%, having expanded its size from 26 employees in 2014 to almost 1,000 employees in 2018 (Gonzalez, 2018). Further emphasizing its rapid growth, Flexport stated it has over 10,000

clients and suppliers and more than double the $226 million in revenue it reported in 2017 (Johnson, 2019). Based on these statistics, Flexport's size categorizes the company in the city stage of blitzscaling. Neither Facebook, nor Google, nor Microsoft achieved this stage of blitzscaling in just 4 years from incorporation.

In 2019, Flexport operated its own 747 aircrafts, managed more than 1,000 employees in eight global offices—up from seven offices in 2017—and owned four warehouses (Konrad, 2019). Its vision for technology-enabled global trade and shipping led to a recent funding round led by SoftBank's Vision Fund; Flexport received $1 billion in the funding round and achieved a valuation of $3.2 billion (Konrad, 2019). This billion-dollar-plus valuation establishes Flexport as a unicorn. After this massive funding round, Flexport will be able to dedicate itself to blitzscaling the company through the expansion of its physical infrastructure and scaling of its engineering team. Both of these elements relate to the efficiency of operations, which Flexport clearly needs as it has prioritized speed over efficiency in order to grow extremely fast. While Flexport attempted to expand its capacity for ocean and airfreight, it encountered obstacles in scaling fast enough to obtain advantageous cost efficiencies (Whelan, 2016). Similar to how Uber blitzscaled to rapidly grow its driver and customer base, increasing its profit margin through volume, Flexport will need to incorporate similar blitzscaling strategies to quickly expand its capacity and onboard more customers.

An additional example of blitzscaling success is Home Chef. Founded in 2013 by Pat Vihtelic, Home Chef has achieved revenues of $255 million, a 3-year growth of 60,166%, and was recently acquired by Kroger (Gonzalez, 2018). Early in the company's life, Home Chef raised an initial $500,000 followed by another $250,000 near the end of 2014 when it was available to 60% of households in the U.S. Contingent on future funding series, Home Chef planned to expand its geographic reach to 90% of the U.S. To increase its production capacity and recruit high-quality talent, Home Chef moved its headquarters and production facility to Chicago's West Loop (Reim, 2014).

In mid-2016, Home Chef closed a $10 million Series A funding round with investments from Shining Capital and Guild Capital. Home Chef used this funding to rapidly expand throughout the remainder of the U.S. and invest in distribution centers on the West Coast. At this stage in its growth, Home Chef had 400 employees and delivered over 540,000 meals per month (Dewey, 2016). Home Chef's employee and consumer scale, with its hundreds of employees and millions of users, placed it in the village stage of blitzscaling at that time.

Less than a year later, Home Chef grew to 800 employees and more than quadrupled its monthly production to 2.5 million meals per month. Facing increasing competition and market saturation, Home Chef merged with Kroger Co. in 2018. The need for greater efficiencies in this market was set aside during the blitzscaling period so that extreme growth was achieved. A merger with an established company like Kroger offered Home Chef the cost efficiencies needed to stay competitive in a market that was becoming saturated. Starting in 2019, Kroger began selling Home Chef meal kits in over 500 Kroger-owned stores in 15 states. Kroger intends to make Home Chef available at more than 700 Kroger stores and 2,800 banner stores. Following the merger, Home Chef's monthly production increased to 3 million meals delivered per month (Melton, 2019). In the end, Home Chef's rapid scale through blitzscaling stimulated an increase in its top-line revenue and employee size that enticed Kroger to acquire the company.

3.2. The bad: Companies that failed with blitzscaling

Unlike unicorns that successfully blitzscale beyond their billion-dollar-plus valuation, some unicorns fail in their attempts to blitzscale. While a billion-dollar valuation may seem like a reliable indicator of a company's future sustainability, not all unicorns survive. In this section, we explore two companies, Jawbone and Better Place, that blitzscaled to achieve a unicorn status but failed to sustain their businesses in the long term.

Two Stanford University undergraduates founded Jawbone in 1998 under the name Aliph. The company originally launched Jawbone, its military-grade Bluetooth headset, in May 2002 and was awarded a contract by the U.S. federal agency Darpa. Shortly after the contract, Aliph began offering Jawbone to public consumers and expected to sell over 57.5 million headsets in the U.S. by the end of the year (Wired, 2004). In the following years, Aliph continued to drive sales through partnerships with AT&T, Apple, and Best Buy.

Following an initial successful product launch, Aliph continued rapidly innovating and scaling its Jawbone headset through multimillion-dollar investments from Khosla Ventures and Sequoia Capital. In 2010, Aliph disrupted the wireless speaker industry and expanded its product make-up with the release of the Jambox wireless

speaker. Following Jambox's successful launch, Aliph changed its company name to Jawbone. While this new product took the industry by surprise and experienced immediate success, Jawbone was still not satisfied. Less than a year later, Jawbone entered the saturated fitness technology market with the release of the UP fitness tracker (Lashinsky, 2015).

After more than 10 years of blitzscaling, Jawbone appeared to have finally become a sustainable business. In addition, it used blitzscaling techniques to speed up growth via the acquisitions of technology startups such as Visere, Massive Health, and BodyMedia (Velazco, 2013). These acquisitions rapidly grew Jawbone's internal talent and enhanced its IP portfolio. In 2014, Jawbone received $147 million in investments from top-tier venture capital firms including Sequoia, Andressen Horowitz, Khosla Ventures, and Kleiner Perkins (Somerville, 2017). After this massive funding round, Jawbone's valuation rose to $3.2 billion. While Jawbone achieved the status of a unicorn, it was unable to enjoy the inflated valuation for long.

Beginning in 2013, Jawbone began experiencing a rapid decline in the market share of its Bluetooth headsets, wireless speakers, and fitness trackers. On two different occasions, Jawbone offered a full refund to customers due to a hardware malfunction and offered a $40 discount after a shipping delay of its UP3. In 2016, Jawbone halted production and began selling off its remaining inventory. Not even a multi-billion-dollar valuation could have saved Jawbone from the failed launch of its UP fitness tracker and the decline in market share of its remaining products.

Following its unicorn status valuation, Jawbone made fundamental errors in the process of blitzscaling its products, which led to the company's eventual demise. Hosain Rahman stated in an interview: "You have to push your product to the point where it seems like it's going to break" (Kuang, 2009). This philosophy is similar to Hoffman's idea of firms launching a product that embarrasses them. However, for hardware products, the philosophy of launching an unfinished product or pushing the product to a point of uncertainty does not apply. When Jawbone attempted to blitzscale, it quickly scaled its hardware and ended up launching an unfinished product. Hardware is costly to fix as Jawbone experienced when it refunded a majority of the UP customers. On the other hand, software allows companies to troubleshoot problems and implement updates inexpensively in a short period of time. Jawbone should have first perfected its hardware and then blitzscaled through the innovation of advanced software updates.

Our second blitzscaling failure, Better Place, was founded in 2007 by Shai Agassi, a successful software entrepreneur and former executive at SAP. Agassi's vision was to create the world's first affordable electric car. His revolutionary idea was to build a network of battery-swap stations to swap out an electric vehicle's old battery with a fresh battery. Early on, the startup gained profound support from Israel, whose government announced it would support the joint venture between Better Place and Renault to pioneer a new vision for electric cars. In this partnership, Better Place committed to order 100,000 Renault electric vehicles from 2011 to 2016 and launch its business in Israel and Denmark (Chafkin, 2014).

With the active support of Israel and a $200 million investment, Better Place began constructing recharging facilities throughout Israel. The company also began plans for expansion into the U.S., Denmark, Australia, China, and Japan. From 2010 to 2012, Better Place received over $475 million in funding from top-tier investors such as HSBC General Electric, European Investment Bank, and Israel Corp (Crunchbase, 2019). In the end, the company built 37 swap stations and over 1,000 charge spots in Israel, 18 swap stations and 700 charge spots in Denmark, and 80 charge spots in Hawaii (Motavalli, 2013).

In order to rapidly expand its customer base, Better Place invested $5 million dollars to construct a visitor center in Tel Aviv, which attracted more than 100,000 people. Its campaign resulted in 30,000 people signing an intent to buy one of the vehicles. However, Better Place only managed to sell fewer than 1,500 electric vehicles. By 2013, Better Place declared bankruptcy.

How did such an anticipated unicorn with over $900 million in funding and a $1.25 billion valuation end up declaring bankruptcy after only a few years? The answer lies in Agassi's extraordinary overspending and hubris as the company grew. Better Place lost over $800 million investing in the infrastructure to create a network of battery swapping stations (LeVine, 2013). As the demise of the company grew near, Better Place removed Agassi as the CEO and replaced him with Australian CEO Evan Thornley (Biggs, 2012). Thornley's helm as CEO did not last long. The board fired him in 2013 following an operating loss of $386 million in 2012.

Similar to Jawbone's overinvestment in hardware, Better Place overinvested in its battery-swapping infrastructure. Unlike Jawbone, the issue was not that its product was not ready for

launch, but rather Better Place failed to convince consumers to actually adopt the new technology. After numerous successful funding rounds, Agassi spread the business too thin instead of focusing on rapidly scaling the business in a single market. The company attempted to scale in many different markets and spent a large amount of its capital on extraordinary expenditures such as inflated employee salaries and a $5 million visitor center. In the end, Better Place went from a $1.25 billion unicorn to a bankrupt firm forced to sell off its assets for far less than their original market value.

3.3. The ugly: Companies that compromised ethics

As blitzscaling requires companies to prioritize speed over efficiency, companies that grow rapidly are often pressured to cut corners and sacrifice culture and ethics in pursuit of growth. In this section, we look at two companies—Theranos and Zenefits—that employed blitzscaling techniques to grow their ventures but made decisions along the way that crossed ethical and even legal boundaries.

Theranos founder Elizabeth Holmes dropped out of Stanford in 2003 to start her company. Theranos was meant to revolutionize the healthcare industry through its disruptive technology, the most notable being its blood-testing technology, which Holmes claimed could perform hundreds of tests on only a few drops of blood (Carreyrou, 2015a). In 2004, Holmes hired her first employee and leveraged family connections to raise almost $6 million in funding (Ramsey, 2019). During this initial round of funding, Theranos would have been classified as being in the family stage of blitzscaling. In 2010, Theranos received additional funding that boosted its valuation to more than $1 billion (Carreyrou, 2015a).

Theranos started offering its blood tests to the public in 2013 via a partnership with Walgreens and, in 2014, it achieved a valuation of $9 billion after receiving more than $600 million from investors (Carreyrou, 2015b). Having over 1,000 employees at this time (Weisul, 2015), Theranos entered the city stage of blitzscaling. From the outside, Holmes and her company looked unstoppable. She graced the cover of *Fortune*, *Forbes*, and the *New Yorker* in 2014, often being compared to the brilliant Steve Jobs (Leuty, 2014). Theranos' board was seen as one of "the most illustrious board[s] in U.S. corporate history" (Parloff, 2014).

However, on the inside, problems were brewing and employees were raising issues with the viability and accuracy of Theranos' technology. The New York State Department of Health received a formal complaint from a Theranos employee in April 2014 (Carreyrou, 2015a). In October 2015, John Carreyrou from the *Wall Street Journal* shined a light on Theranos' issues with its technology, which prompted other investigations into Theranos by the FDA and the Centers for Medicare and Medicaid Services (CMS) (Ramsey, 2019). The investigations and rumors came to a dramatic head in March 2018 when the SEC charged Theranos—as well as Holmes and COO Sunny Balwani—with massive fraud (SEC, 2018). Later that same year, the Department of Justice charged Holmes and Balwani with wire fraud, Holmes stepped down as CEO, and Theranos officially closed its doors in September (Ramsey, 2019).

In the span of only 4 years, Theranos went from one of the top startups, valued at $9 billion, to an illegal and unethical venture that had to shut down. There were several issues that contributed to Theranos' disgraceful fall. First, it deceived investors through fraudulent claims. According to the SEC, Theranos claimed the company would generate over $100 million in revenues in 2014, but it only generated $100,000 (SEC, 2018). Second, Theranos rushed its technology to market before it was a functioning product. In the spirit of blitzscaling, a company's first version of its product can be unpolished in order to receive quick feedback and react to consumer preferences (Hoffman & Yeh, 2018). However, Theranos repeatedly ignored and covered up complaints about its product, risking patient safety and failing to deliver what it had promised (Carreyrou, 2018). Third, Holmes and Balwani created a culture of secrecy and conformity within Theranos. Employees were discouraged from discussing their tasks with other employees and anyone who disagreed with Holmes was likely to 'disappear' from the company (Dunn, Thompson, & Jarvis, 2019). This prevented people from speaking up and raising issues either because of a lack of knowledge or fear of being terminated.

Although not as dramatic as Theranos' story, Zenefits also faced ethical issues and came under public scrutiny. Zenefits, founded by Parker Conrad and Laks Srini in 2013, provides HR software that automates and streamlines HR processes. Conrad and Srini launched Zenefits through startup accelerator Y Combinator and, within 8 months, the company received a large VC investment and was on track to generate $1 million in recurring annual revenue. By the end of 2014, Zenefits received an additional $82 million in funding, was generating $20 million recurring annual revenue, and had nearly 500 employees (Suddath &

Newcomer, 2016). Zenefits was in the village stage of blitzscaling and moving quickly toward the city stage. Zenefits was valued at $4.5 billion in May 2015 and was projected to reach $100 million in recurring revenue by the end of the year, but it only ended up generating $63 million (Suddath & Newcomer, 2016). The company hired hundreds of employees to support its rapid growth and employed about 1,600 people by the end of 2015 (Manjoo, 2016).

Similar to Theranos in its peak funding, Zenefits looked like a successful Silicon Valley startup with a bright future ahead, being touted as the Hottest Startup of 2014 by *Forbes* (Solomon, 2014). However, internally, the company was struggling to support its rapid growth. Feeling the pressure to hit Zenefits' targets, Conrad started to cut corners and his employees followed suit. Conrad helped employees bypass online training courses for insurance licensing exams and the company failed to properly track which employees passed their licensing exams. Thus, many of the company's new brokers were selling insurance illegally. At that point, Zenefits had developed a culture of pressuring and even bullying employees to cut corners and do the wrong thing (Suddath & Newcomer, 2016).

In November 2015, Buzzfeed published an investigative report highlighting Zenefits' licensing violations (Alden, 2015). An internal investigation resulted in Conrad stepping down as CEO and David Sacks, the company's COO, temporarily taking over as CEO to try to turn the company around (Suddath & Newcomer, 2016). Sacks quickly instituted changes to the workplace and repositioned Zenefits to focus on small businesses. Zenefits laid off a large number of employees, reducing its headcount to about 900. Zenefits' valuation decreased from $4.5 billion to $2 billion after giving its investors a larger stake in the company (O'Brien, 2016). In February 2017, Jay Fulcher was hired as Zenefits' new CEO. Fulcher fired almost half of the workforce and hired a new executive team. Under his leadership, Zenefits left the insurance business and started charging customers for its HR software (Kunthara, 2019). As a result of Sacks and Fulcher's leadership, Zenefits was able to avoid shutting down and re-engineered itself so that it could handle future growth and achieve long-term success.

Although Zenefits managed to recover, it almost spiraled out of control due to three key issues. First, Zenefits was unable to handle its rapid growth and failed to properly manage its growing number of employees. Workgroups doubled in size in a span of months, people were promoted with minimal experience, and, most importantly, no one properly managed and tracked the new hires' licensing requirements. Second, Zenefits had a poor company culture that drove unethical behavior by prioritizing growth at all costs. The training and sales environment created a culture of dishonesty in which salespeople were instructed to lie to clients about the software's capabilities and manipulate them into signing contracts. Third, employees were encouraged to target large clients but the software was not enterprise-ready because it lacked the proper security and features that enterprise HR software typically offers (Bort, 2016).

Both Theranos and Zenefits prioritized speed and growth above quality and ethics, which had a significant negative effect on their businesses. As we have shown through examples highlighting the good, the bad, and the ugly in blitzscaling, it is clear that companies must be careful about the way they approach rapid growth. Section 4 introduces several recommendations for managers who wish to pursue blitzscaling.

4. Key principles for successful blitzscaling

This section is designed to provide the lessons learned from companies that have utilized blitzscaling and offer some key principles that will assist companies seeking to grow fast and utilize blitzscaling for a successful outcome in the future.

4.1. Principle #1: Expand into environments that enable blitzscaling

In choosing where to locate, firms pursuing blitzscaling should look for access to venture capital funding, talented employees, and adaptable customers. Cities such as Seattle, Chicago, Miami, New York, and Austin have emerged as potential new ecosystems where firms can successfully blitzscale. As such, environments are a critical concern for successful blitzscaling.

4.2. Principle #2: Raise enough funding to mitigate blitzscaling errors, but be cautious of overfunding

If a firm does not raise enough funding to overcome unforeseen issues while blitzscaling, it will inevitably fail. However, firms must be cautious of overfunding. Excessive financing rounds can result in unnecessary spending and premature expansion into new markets.

4.3. Principle #3: Set realistic expectations and reasonable targets

Setting unreasonable targets can get firms into trouble. It is good to set high expectations with challenging targets but they should be feasible. If targets appear to be impossible, employees may feel pressured to cut corners in order to deliver results.

4.4. Principle #4: Maintain a healthy culture

Blitzscaling should not be pursued at the expense of a firm's culture. Unhealthy cultures foster dishonesty and unethical behavior. Firms pursuing blitzscaling should promote open communication throughout the organization so that problems can be addressed quickly. In addition, it is important to reward good behavior and punish the bad (e.g., get rid of bad apples) so employees understand behavioral expectations.

4.5. Principle #5: Ensure structure can support growth

Blitzscaling results in rapid growth but too much growth without proper management and control can result in chaos. As firms grow in number of employees and customers, it is vital to make sure other functions and support departments (e.g., HR, IT, management teams) also grow and are able to support the expanding company.

4.6. Principle #6: Understand customer expectations

Not all products are suitable for blitzscaling. Because expectations for an MVP can vary by product type or industry, it is important for firms to understand target customers' values and expectations regarding the degree of refinement in product releases before they pursue blitzscaling. As blitzscaling prioritizes speed over efficiency, intangible products (e.g., software) may be better suited for blitzscaling than tangible products because they can be launched quickly and updated relatively easily as issues arise.

5. Summary

Adhering to the principles laid out in Section 4 will not guarantee that a venture will find success with blitzscaling but it will certainly enhance its odds of avoiding many of the pitfalls suffered by companies highlighted in this article. We hope that these key principles will help potentially disruptive ventures to be far more careful in the execution of a blitzscaling strategy.

References

Alden, W. (2015, November 25). Startup Zenefits under scrutiny for flouting insurance laws. *BuzzFeed News*. Available at https://www.buzzfeednews.com/article/williamalden/zenefits-under-scrutiny-for-flouting-insurance-laws

Bailetti, T. (2012). What technology startups must get right to globalize early and rapidly. *Technology Innovation Management Review*, 2(10), 5—16.

Biggs, J. (2012, October 17). Better Place board quietly removes CEO Shai Agassi. *Tech Crunch*. Available at https://techcrunch.com/2012/10/17/better-place-board-quietly-removes-ceo-shai-agassi-places-evan-thornley-at-helm/

Bort, J. (2016, March 11). Lies, booze, and billions: How one of the fastest-growing startups in Silicon Valley history raised $580 million then spiraled out of control. *Business Insider*. Available at https://www.businessinsider.com/the-inside-story-of-zenefits-2016-3

Carreyrou, J. (2015, October 16). Hot startup Theranos has struggled with its blood-test technology. *Wall Street Journal*. Available at https://www.wsj.com/articles/theranos-has-struggled-with-blood-tests-1444881901

Carreyrou, J. (2015, December 27). At Theranos, many strategies and snags. *Wall Street Journal*. Available at https://www.wsj.com/articles/at-theranos-many-strategies-and-snags-1451259629

Carreyrou, J. (2018). *Bad blood: Secrets and lies in a Silicon Valley startup*. New York, NY: Knopf.

Chafkin, M. (2014, April 7). A broken place: The spectacular failure of the startup that was going to change the world. *Fast Company*. Available at https://www.fastcompany.com/3028159/a-broken-place-better-place

Constine, J. (2016, September 26). Unsexy Flexport scores $65 million as software eats shipping. *Tech Crunch*. Available at https://techcrunch.com/2016/09/26/freight-forwarding/

Crunchbase. (2019). *Better place*. Available at https://www.crunchbase.com/organization/better-place#section-overview

Deagon, B. (2016, November 16). Amazon confronts Microsoft, Google, and IBM in cloud computing wars. *Investor's Business Daily*. Available at https://www.investors.com/news/technology/amazon-confronts-microsoft-google-ibm-in-cloud-computing-wars/

Dewey, S. (2016, May 2). Home Chef cooks up $10M series A. *Built in Chicago*. Available at https://www.builtinchicago.org/2016/05/02/home-chef-10m-series

Dunn, T., Thompson, V., & Jarvis, R. (2019, March 12). Ex-Theranos employees describe culture of secrecy at Elizabeth Holmes' startup: 'The dropout' podcast ep. 1. *ABC News*. Available at https://abcnews.go.com/Business/theranos-employees-describe-culture-secrecy-elizabeth-holmes-startup/story?id=60544673

D'Onfro, J. (2015, March 18). There are so many $10 billion startups that there's a new name for them: 'Decacorns'. *Business Insider*. Available at https://www.businessinsider.com/decacorn-is-the-new-unicorn-2015-3

Flexport. (2019, March 13). *Flexport announces 12th global site opening in Seattle*. Available at https://www.flexport.com/blog/flexport-announces-12th-global-site-opening-in-seattle

Gilbert, J. T. (1994). Choosing an innovation strategy: Theory and practice. *Business Horizons, 37*(6), 16—22.

Gonzalez, G. (2018). These are the 10 fastest-growing private companies in America this year. *Inc*. Available at https://www.inc.com/guadalupe-gonzalez/2018-inc5000-top-companies.html

Hoffman, R., & Yeh, C. (2018). *Blitzscaling: The lightning-fast path to building massively valuable companies*. New York, NY: Random House.

Johnson, E. (2019, February 21). Flexport's $1 billion injection retriggers scale questions. *JOC.com*. Available at https://www.joc.com/international-logistics/logistics-providers/flexport%E2%80%99s-1-billion-injection-retriggers-scale-questions_20190221.html

Konrad, A. (2019, February 21). Freight startup Flexport hits $3.2 billion valuation after $1 billion investment led by SoftBank. *Forbes*. Available at https://www.forbes.com/sites/alexkonrad/2019/02/21/flexport-raises-1-billion-softbank/#1aa2020a5650

Kuang, C. (2009, August 19). The invention of Jawbone offers essential lessons for tech start-ups. *Fast Company*. Available at https://www.fastcompany.com/90183328/the-invention-of-jawbone-offers-essential-lessons-for-tech-start-ups

Kunthara, S. (2019, February 11). How Zenefits recovered from scandal in insurance business. *San Francisco Chronicle*. Available at https://www.sfchronicle.com/business/article/How-Zenefits-recovered-from-scandal-in-insurance-13602991.php

Lashinsky, A. (2015). Jawbone: The trails of a 16-year-old can't-miss startup. *Fortune*. Available at http://fortune.com/2015/01/22/jawbone/

Leuty, R. (2014, December 17). Newsmaker 2014: Elizabeth Holmes, Theranos mystify, excite life sciences. *San Francisco Business Times*. Available at https://www.bizjournals.com/sanfrancisco/blog/biotech/2014/12/theranos-elizabeth-holmes-diagnostics-walgreens.html

LeVine, S. (2013, June 1). Why Better Place failed with swappable batteries. *Quartz*. Available at https://qz.com/88871/better-place-shai-agassi-swappable-electric-car-batteries/

Manjoo, F. (2016, February 17). Zenefits scandal highlights perils of hypergrowth at start-ups. *New York Times*. Available at https://www.nytimes.com/2016/02/18/technology/zenefits-scandal-highlights-perils-of-hypergrowth-at-start-ups.html

Melton, J. (2019, February 6). Kroger plans to roll out Home Chef meal kits to 500 more stores. *Digital Commerce, 360*. Available at https://www.digitalcommerce360.com/2019/02/06/kroger-expands-in-store-distribution-of-home-chef-meal-kits/

Miller, R. (2018, December 2). AWS wants to rule the world. *Tech Crunch*. Available at https://techcrunch.com/2018/12/02/aws-wants-to-rule-the-world/

Moogk, D. R. (2012). Minimum viable product and the importance of experimentation in technology startups. *Technology Innovation Management Review, 2*(3), 23—26.

Motavalli, J. (2013, June 2). Fallout from failure of battery swap plan. *New York Times*. Available at https://www.nytimes.com/2013/06/02/automobiles/fallout-from-failure-of-battery-swap-plan.html

O'Brien, S. A. (2016, July 1). Scandal-ridden Zenefits plummets in value. *CNN*. Available at https://money.cnn.com/2016/07/01/technology/zenefits-valuation-2-billion/?iid=EL

O'Reilly, T. (2019, February 5). The fundamental problem with Silicon Valley's favorite growth strategy. *Quartz*. Available at https://qz.com/1540608/the-problem-with-silicon-valleys-obsession-with-blitzscaling-growth/

Parloff, R. (2014, June 12). A singular board at Theranos. *Fortune*. Available at https://fortune.com/2014/06/12/theranos-board-directors/

Pearce, B. (2014). *Adapting and evolving: Global venture capital insights and trends*. London, UK: Ernst & Young.

Petersen, R. (2017, May 5). Flexport finds new home in Atlanta. *Flexport*. Available at https://www.flexport.com/blog/flexport-office-atlanta

Pitchbook. (2018, January 9). *PitchBook's 2018 venture capital outlook*. Available at https://pitchbook.com/news/reports/1q-2018-pitchbook-analyst-note-2018-venture-capital-outlook

Ramsey, L. (2019, April 11). The rise and fall of Theranos, the blood-testing startup that went from Silicon Valley darling to facing fraud charges. *Business Insider*. Available at https://www.businessinsider.com/the-history-of-silicon-valley-unicorn-theranos-and-ceo-elizabeth-holmes-2018-5

Reim, G. (2014, December 9). Home Chef adds big backers to bring funding total to $750K. *Built In Chicago*. Available at https://www.builtinchicago.org/2014/12/09/home-chef-adds-big-backers-bring-funding-total-750k

Rogers, B. (2016, February 25). Ryan Petersen's Flexport aims to simplify global freight transport business. *Forbes*. Available at https://www.forbes.com/sites/brucerogers/2016/02/25/ryan-petersens-flexport-aims-to-simplify-global-freight-transport-business/#7c9cca097dcf

Schubarth, C. (2015, August 7). Peter Thiel leads $20M funding of Y combinator grad Flexport. *Silicon Valley Business Journal*. Available at https://www.bizjournals.com/sanjose/blog/techflash/2015/08/peter-thiel-leads-20m-funding-ofy-combinator-grad.html

SEC. (2018, March 14). *Theranos, CEO Holmes, and former president Balwani charged with massive fraud [Press release]*. Available at https://www.sec.gov/news/press-release/2018-41

Seeking Alpha. (2018, December 11). *Microsoft is closing in on Amazon in the cloud*. Available at https://seekingalpha.com/article/4227609-microsoft-closing-amazon-cloud

Solomon, B. (2014, December 17). How Zenefits beat out Uber, Airbnb to become 2014's hottest startup. *Forbes*. Available at https://www.forbes.com/sites/briansolomon/2014/12/17/how-zenefits-beat-out-uber-airbnb-to-become-2014s-hottest-startup/#223748ba6ef4

Somerville, H. (2017, July 10). Jawbone's demise a case of 'death by overfunding' in Silicon Valley. *Reuters*. Available at https://www.reuters.com/article/us-jawbone-failure/jawbones-demise-a-case-of-death-by-overfunding-in-silicon-valley-idUSKBN19V0BS

Stevenson, R. M., Kuratko, D. F., & Eutsler, J. (2019). Crowdfunding and the democratization of new venture investments: Unleashing mainstreet entrepreneurship. *Small Business Economics, 52*(2), 375—393.

Suddath, C., & Newcomer, E. (2016, May 9). Zenefits was the perfect startup. Then it self-disrupted. *Bloomberg*. Available at https://www.bloomberg.com/features/2016-zenefits/

Sullivan, T. (2016). Blitzscaling. *Harvard Business Review, 94*(4), 45—50.

The Economist. (2018, September 1). *Silicon Valley is changing, and its lead over other tech hubs narrowing*. Available at https://www.economist.com/briefing/2018/09/01/silicon-valley-is-changing-and-its-lead-over-other-tech-hubs-narrowing

The Economist. (2018, August 30). *Why startups are leaving Silicon Valley*. Available at https://www.economist.com/leaders/2018/08/30/why-startups-are-leaving-silicon-valley

Velazco, C. (2013, February 4). Jawbone acquires mobile health startup Massive Health in big talent acquisition. *Tech Crunch*. Available at https://techcrunch.com/2013/02/04/jawbone-acquires-mobile-health-startup-massive-health-for-tens-of-millions/

Weisul, K. (2015). How playing the long game made Elizabeth Holmes a billionaire. *Inc*. Available at https://www.inc.com/magazine/201510/kimberly-weisul/the-longest-game.html

Whelan, R. (2016, September 26). Flexport raised $65 million in venture-capital funding for expansion. *Wall Street Journal*. Available at https://www.wsj.com/articles/flexport-raised-65-million-in-venture-capital-funding-for-expansion-1474932705?ns=prod/accounts-wsj

Wired. (2004, September 9). *Military headset reaches masses*. Available at https://www.wired.com/2004/09/military-headset-reaches-masses/