FAST COMPANY

THE SMALL BUSINESS GUIDE TO GROWTH HACKING

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THE SMALL BUSINESS GUIDE TO GROWTH HACKING

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Fast Company

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INTRODUCTION

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WHAT'S THE ONE THING THAT most entrepreneurs, no matter the industry, say they want for their business? Growth. Rapid, big-time, and continuous growth. This is true in the early stages when a business is most fragile. It's also true after a company finds its footing and brings in more customers and employees. Growth, the thinking here goes, is the answer. The golden ticket.

The reality, of course, is far more complicated. While growth can provide credibility, resources, and revenue, it must be managed well. If it isn't, it can undermine and ultimately jeopardize everything. *Fast Company*'s *The Small Business Guide to Growth Hacking*, presented by OPEN Forum from American Express OPEN, explores what it takes to build a thriving business that manages to both expand and adapt to the myriad demands of a bigger company. More and more these days, the answers are rooted in what we call "growth hacking." That is, ultra-clever problem solving that short-circuits conventional sales, marketing, and product development approaches.

The range of perspectives and lessons that fill this exclusive collection, drawn from successful entrepreneurs and thought leaders alike, are designed to inspire and educate, arming you with strategies and insightful questions for whichever stage your company is in.

We delve into growth fundamentals, such as generating new business. Part of what propelled Airbnb, Spotify, and Groupon onto the scene, writes best-selling author Ryan Holiday in the chapter "How Growth Hackers Redefine the Game," was a savvy blend of marketing and technology that uncovered a wealth of initial customers and turned then-unknown services into viral sensations. And as serial entrepreneur Faisal Hoque observes, in the early days of Whole Foods, founder John Mackey focused on fostering an emotional attachment to the brand to nurture loyal customers, who then acted as evangelists.

For Nasty Gal founder Sophia Amoruso, the secret sauce behind turning a little-known vintage clothing store on eBay into a hot $100 million retail brand was a deep understanding of her customers. "It was very iterative," she tells *Fast Company*. "It all centered around what my customers were responding to."

Without a doubt, one of the keys to building your business is the art of the pitch. In "Guy Kawasaki on the Art of Pitching Your Ideas, which originally appeared in OPEN Forum, the marketing guru and best-selling author discusses how to tell your story well to win over potential investors, partners, and others. "Four Big Investments That Can Help Your Business Grow," also from OPEN Forum, highlights an area that entrepreneurs often overlook. But a cost-benefit analysis on major expenses such as hardware and real estate could maximize cash flow so you're ready to respond to market opportunities.

Although there is no single path that successful small businesses follow to strong growth, some patterns emerge. "Dropbox Versus the World," an in-depth case study, illustrates how nothing fuels a company like new thinking, a fresh approach. In an impossibly crowded field, in which Dropbox and its then-twentysomething founder Drew Houston, the ultimate growth hacker, went up against Internet giants, the online storage startup survived with a simple solution supported by mind-bogglingly complex algorithms. It has continued to gain market share by cultivating that inventive mind-set in the latest executive hires.

One of the crucial lessons this collection addresses is the challenge of not being undone by growth and the accompanying complexity that affects everything from decision making to the supply chain to sales forecasting. One seemingly paradoxical solution is staying small and growing simultaneously. Andrea Sittig-Rolf, the founder and CEO of BlitzMasters, a Seattle-based business-development consulting firm, writes about her decision to increase profits rather than focus on boosting revenue. She used technology to embrace "smallness" and new efficiencies rather than add to her payroll. That's an insight every small business can learn from.

More often, though, staying small while getting bigger is a strategy designed to retain a certain nimbleness, in both mind-set and execution. Uber founder and CEO Travis Kalanick puts it most succinctly in the Dropbox chapter: “How do you make sure that you don’t become the big company that becomes rigid, brittle, and disrupted by the new guy?”

Truly forward-thinking entrepreneurs are prepared for the organizational transitions that come with maturity. If there’s one aspect they get right from the start, writes Steven DuPuis, founder of the design innovation agency DuPuis Group, it’s vision. With that comes a sense of purpose and meaning that guides how a company responds to new opportunities and challenges as opposed to simply chasing revenue. “Vision,” he writes, “is what pulls at our emotions and creates desire to challenge the status quo.”

In other words, to innovate. For any business, large or small, that ability is perhaps the most enduring growth hack of them all.

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Chuck Salter, senior editor, *Fast Company*
September 2015

FIVE ESSENTIAL PRINCIPLES FOR GROWING YOUR SMALL BUSINESS

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By Faisal Hoque

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LEADING A SMALL BUSINESS CAN be more stressful than raising children or maintaining a healthy relationship with your spouse. Here are some basic principles to get you started on a sane journey toward growth.

When John Mackey and his then-girlfriend Renee Lawson opened a vegetarian food store in their Austin, Texas, home 34 years ago, nobody—including the couple themselves—would have dubbed him an entrepreneur. Today, a clean-shaven Mackey is most likely unrecognizable to patrons of the bearded college dropout's first shop. He built his venture into the $15.5 billion Whole Foods empire, with more than 300 supermarkets that boast organic and grass-fed meats along with an array of vegetarian fare.

Few will ever rise to the ranks of Mackey, who made the cut for *Fortune*'s 12 greatest entrepreneurs of our time. Mackey created a repeatable process of selling high-quality natural and organic products in communities with the right appetite for a brand that relies on customer affinity. It takes a combination of understanding market demand and market size and having repeatable processes to support that market to have a scalable business. And Mackey had to strive to sustain innovation in a world where even Walmart peddles organic foods.

So many business founders come up with a good idea, yet they are unable to scale their companies for growth. Through my own journey as an entrepreneur, I've learned that every business is unique, but there are certain key precepts to follow for success. The few that do succeed do so with unmatched focus, discipline, and unconventional thinking.

Although it takes more than just this to be a success in business, here are five principles that you can begin implementing right away as you begin your journey toward growing your business:

1. TIMING IS EVERYTHING

The timing of your product or service must be right in the marketplace. Mackey bit on the organic and natural food revolution just as the public's palate for these products oozed into the mainstream, but if the market isn't ready and you are way ahead of the market, then you must possess the drive and the willingness to sacrifice in order to make that product or service work.

You will need to choose to either wait for the market to catch up (requiring the resources to survive during that period and accepting the risk of emerging competition), or you will need to adjust your offering to something more palatable to the market's current readiness.

Smaller businesses have the advantage of being able to make choices and implement changes without the exhaustive process and conflicting points of view that slow down major corporations. You need to anticipate your market and customers' needs and constantly innovate to stay ahead. This requires leadership with agility, resilience, and a willingness to fail—and to recognize that failure quickly enough to adapt and move forward.

2. BRAND, BRAND, BRAND

Today’s economy requires business leaders to create positive memories for customers and partners, like Mackey has, or customers will turn to a competitor in search of a better experience. Whole Foods shoppers are loyal and believe they are embracing a healthy and socially conscious lifestyle by shopping at the stores. If you want to create a scalable business, you have to understand just how crucial it is to build brand equity. The emotional attachment that links customers to your product, as opposed to any other, translates into sustainable growth.

Here are some basic rules to connect, shape, influence, and lead with your brand:

Choose your target audience: The surest road to product failure is to try to be all things to all people.

Connect with the public: Your objective is to make your audience feel an emotional attachment to your brand.

Inspire and influence your audience: An inspirational brand message is far more influential than one that just highlights product feature functions.

Reinforce the brand image within your company: Make sure employees at every level of your organization work and behave in a way that reinforces your brand image.

3. Scale Your Scales

Creating a unique product and a unique brand isn’t enough. It takes repeatable sales processes to create a scalable business. It is one thing to sign up a few customers; it is another thing entirely to identify, design, and implement repeatable sales and customer delivery processes. You’ve created a repeatable and scalable sales model when:

- You can add new hires at the same productivity level as yourself or your sales leader.
- You can increase the sources of your customer leads on a consistent basis.
- Your sales conversion rate and revenue can be consistently forecasted.
- Your cost to acquire a new customer is significantly less than the amount you can earn from that customer over time.
- Your customers get the right product in the right place at the right time.

A repeatable sales model builds the platform to scale. Like the search for product/market fit, it can take major experimentation/R&D to find a repeatable and scalable sales model.

4. EMBRACE TECHNOLOGY

Nearly two-thirds, or 64%, of the recent Bank of America (BofA) Small Business Owner Survey said they wish they took better advantage of technology innovations to help manage their business. If a small business can identify a genuine need, technology likely exists to fulfill that need both locally and globally. There are few barriers to entry in an age where anyone with wireless can cheaply and quickly access the enabling technologies needed to execute their business model. It comes down to creating the right operating blueprint that connects the dots between your business model and the application of accessible technologies.

5. DE-STRESS FOR SUCCESS

Most small business owners consider managing the ongoing success of their business to be twice as stressful as maintaining a healthy relationship with a spouse or partner, nearly three times as stressful as raising children, and more than four times as stressful as managing their own personal finances, according to the Bank of America survey. The report indicates that small business owners routinely forgo physical fitness and other personal priorities to keep up with business demands. Thirty-eight percent of small business owners maintain full- or part-time jobs while running their own businesses.

The stressors can be relentless. But if you’re not happy, healthy, and motivated, you can’t create a business model that provides a positive market experience. You also set the tone for everyone who works with you. Nobody wants to do business with a grouchy, bitter, and exhausted owner. Therefore, investing the time and effort to adequately take care of your physical and mental well-being will further increase your chances for long-term success. Mental health is not just about going to the gym to let off steam. It’s about achieving a state of calmness to see you though the relentless challenges.

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Faisal Hoque is the founder of Shadoka and the author of *Survive to Thrive: 27 Practices of Resilient Entrepreneurs, Innovators, and Leaders*.

Fast Company, January 2013

FOLLOW YOUR INSTINCTS

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By Evie Nagy

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“THE FIRST THING I EVER sold online was stolen,” admits Sophia Amoruso, who in seven years went from having a string of dead-end jobs to being the CEO of Nasty Gal, the online clothing retailer with an impossibly cool rep and $100 million–plus in revenue.

In 2006, while working the security desk at an art school, Amoruso opened an eBay store to sell vintage clothes, after noticing that similar stores were friending girls like her on Myspace. Directionless as she was at the time, she had an eye for style, photography, and thrift stores, and knew she could make cast-off pieces look irresistible by using her cute friends as models. The brand she built, named Nasty Gal after funk singer Betty Davis’s 1975 album, earned such a following that it spun off to its own site and, in 2012, attracted nearly $50 million in backing from Index Ventures. In addition to vintage, Nasty Gal now sells daring designer pieces as well as its own exclusive line.

Without a college degree or prior business experience, Amoruso, 29, made Nasty Gal profitable from day one because she had the instincts, discipline, and confidence to focus on the successful and ditch what didn’t work. She has collected those lessons in *#GIRLBOSS*, from Portfolio/Putnam, a book detailing the good (and terrible) choices that got her where she is today.

The world of online retail is so crowded. What made you think Nasty Gal would survive, much less succeed?

I was never trained. I never thought, “Oh, here’s the big opportunity!” Now I’m in a place where I have that big opportunity, but only because I’ve built this thing from small pockets of opportunity that I followed. It was very iterative, I guess. If one thing worked, I did more of it. If it didn’t work, I didn’t beat my head against the wall to make something happen. It all centered around what my customers were responding to.

Would I have ever started a website selling vintage clothing and just hoped people would show up at my URL? No. EBay gave me the framework to discover I was an e-commerce entrepreneur. I touched everything, from shipping to logistics. E-commerce means that anyone can have an online store, but it’s become a much more crowded space. Being as early as I was is a big advantage. Lots of people are going to sell clothes online. But not a lot of people have built a brand, a living, breathing brand that people feel like they’re part of.

When you started out, you used to dig through vintage clothing. How did you have the patience? And how did you know when you found the right thing?

It was fun for me. It was like finding a penny on the street. At a certain point, I could hold something up on a hanger and know exactly how it would look on a girl, how I could style it, and how it related to what’s going on in fashion today. It became a treasure hunt.

And for me, it was finding my future. Being able to turn something that has no inherent value, like a vintage blouse, into something that some girl feels is total gold—and is willing to pay the price of gold for—just felt really great.

Nothing will teach you more about perceived value than taking something with literally no value and selling it in the auction format. It teaches you the beauty and power of presentation, and how you can make magic out of nothing.

You've tapped into a young female culture that can't get enough of your stuff. As you get a little bit older —and richer—how do you stay connected to that?

It gets harder less because of the way my life is changing than due to the fact that I'm not managing all the social media. I'm not on the phone or in the email inbox all the time, which is where I learned the most.

We have a really talented team of buyers. My first employee, Christina, is now the buying director. She's been with me for five and a half years. One of my best friends is running social media. That's the kind of team that keeps Nasty Gal relevant. And aesthetically and culturally, I feel like I'll never lose that youthful spirit.

Who are you hoping to reach by sharing such a candid and unlikely entrepreneurial story?

I have something like 70,000 Instagram followers beating down my door every day for a job, like, "Oh, my God, I wanna model for you, I wanna intern for you." They say, "Oh, my god, you had shitty jobs, too. That makes me hopeful." Or I meet women at conferences who tell me, "I have a 20-year-old daughter who's totally flailing, but you give me hope for my child."

I'm sure when you're a parent, you don't think, "Oh, my child just needs to go through this phase where they scare the shit out of me." But that's what made me capable of taking on what I did at 22. I tried so many things that didn't work, and I put my mom through total hell. But most writers don't really talk about that. No one who's talking to women and girls has a story that's as approachable as mine.

As Nasty Gal grows, I want to reinforce what's at the core of our success and tell my story on my own terms, to come out and say, "Hey, the first thing I ever sold online was stolen." I'm not glamorizing that lifestyle, but you know: Don't make my mistakes, or go make your own mistakes—it's okay.

Look, I was dumb. Half the people in this office wouldn't have taken me seriously seven years ago. To my surprise and everyone else's, I've come out the other side more self-aware, self-critical, and able to appreciate what I have.

You're explicit that this is a feminist book. Why is that important to you?

Someone tweeted me today that they were put off by *#GIRLBOSS* because women should be called women. I just thought, "You don't get it. Broad Boss? Do you prefer Matron Boss?“ That's what I tweeted back.

My story of female empowerment, if you can call it that, comes from rejecting everything that the feminist who works at the bookstore on *Portlandia* would believe in. *That's* like living less of a life. I think it's more of a challenge to wear a skirt and makeup and be a wife and be a mom and have a job and feel sexy, while also keeping your boyfriend in check and making sure you don't get treated like shit in the workplace. There's a difference between making compromises and being compromised, which a lot of women do let happen.

The title itself comes from this unknown Japanese film from the '70s called *Girl Boss Guerilla*. It's about these ransom-gathering Japanese girls who ride motorcycles, look amazing, and fight in puddles. It's really campy, cool, glamorous, and totally lowbrow. The genre's called Pinky Violence. There are these DVD box sets, the Pinky Violence collections. They're all female revenge. I just love revenge films for some reason.

You write a lot about staying on top of your finances. But I bet that some of your best customers are girls who overspend on their credit cards on your site.

I know. *I know*. "Money looks better in the bank than on your feet" [one of the chapter titles]. I want our customers to be responsible. I mean, if they're responsible, if they don't splurge today, they'll be customers long-term. That part is for a girl who would never buy a book on finance: Maybe this can be the gateway drug to that for her.

What do you look for when you're hiring?

I hire people who are self-aware and excited for the right reasons. A lot of people want to work at a venture-backed company. That's fine, but I want people excited about *this* opportunity, who can unleash big-time experience to augment the business, and who don't try to cookie-cutter anything. I want people who are self-led and self-motivated, who take things personally. There's no "that's not my job" here.

What are your growth strategies now?

We're going to open some stores over the next year. I've created a very human brand online and our customers really want to engage with us and our product in real life. Also, building out exclusive product is really exciting. And we need to create an amazing experience on the website. Right now, you can shop and check out the blog, but you can't even leave reviews! We're leagues behind where we should be. Being able to tell our story and engage our community better online is big. Our customer doesn't really differentiate between consuming content, shopping for something, and hanging out with her friends online. I just want to give her all kinds of reasons to hang out on Nasty Gal.

As Nasty Gal grows, do you think about possibly getting acquired, signing on with anyone bigger?

No. No. No. I wanna take this as far as I can. If being under the wing of someone else seems like a good idea at some point, I'd consider it. But I'm not a very good employee, so it would have to be someone pretty special. I'm having fun with my autonomy.

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Evie Nagy is a former *Fast Company* staff writer based in San Francisco.

Fast Company, April 2014

HOW GROWTH HACKERS REDEFINE THE GAME

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By Ryan Holiday

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BEFORE HE BECAME THE MOST brilliant and famous man in the ad business, David Ogilvy sold vacuum cleaners door to door. Because of that, he never forgot that advertising is just a slightly more scalable form of creating demand than door-to-door sales.

But the rest of us, decades away from a world of traveling salesmen and mail-order catalogs, are removed from this fundamental reality. We forget the function behind the form and miss out on new opportunities because we can't see what's in front of us.

At the core, marketing is lead generation. Ads drive awareness…to drive sales. PR and publicity drive attention…to drive sales. Social media drives communication…to drive sales. Marketing, too many people forget, is not an end unto itself. It is simply getting customers. And by the transitive property, anything that gets customers is marketing.

Tech essayist Andrew Chen argues that "growth hackers" are the new VPs of marketing. What he understands is that businesses have new ways of finding new customers and as a result, we need to expand the definition of marketing. As he writes: "Growth hackers are a hybrid of marketer and coder, one who looks at the traditional question of 'How do I get customers for my product?' and answers with A/B tests, landing pages, viral factor, email deliverability, and Open Graph."

Run down the list of the web's biggest startups from Hotmail to Airbnb to Groupon to Spotify and you'll see a startling fact: Tactics that no one would have previously described as marketing turns out to be the marketing steroids behind their business growth. For Hotmail, it was inserting an email signature at the bottom that turned every email sent by one of its users into a pitch for new users. For Airbnb, as Chen has pointed out on his blog AndrewChen.co, it was Craiglist integration that allowed Airbnb hosts to use the online classifieds site as a sales platform. For Groupon (and LivingSocial) it was the "Refer 3 Friends, Get the Deal Free" offer that paid users to share deals with their friends. As for Spotify, well, next time you're on Facebook, consider for a second how much free "advertising" it gets by broadcasting the songs your friends have listened to.

These innovations were possible because they came from startups, businesses typically averse to traditional marketing for two reasons: 1) they don't have the money and 2) they don't have the experience. Because startups don't have access to the "luxuries" of an ad budget or the burden of proper training, they were able to be creative enough to broaden the definition of marketing to immense advantage. Meanwhile, companies with the ability to spend millions a year (or month), chug along with poorer results and poorer ROI.

Despite these recent success stories, companies still chase the old methods and metrics.

Let's say you want to grow your speaking career. If one has wrongly conflated marketing with advertising and publicity, they might go out and spend money on Google Adwords or hire a publicist. But a smarter speaker would step back and ask: Who am I trying to reach? Who are the decision makers who have the ability to get me more speaking gigs?

Well, it doesn't make a lot of sense to get featured in *The New York Times*, with its national reach, for the sole purpose of reaching the few hundred conference organizers, booking agents, and HR reps. How many millions of people would that hit for the actual hope of connecting with fraction of a percentage of them? What are the chances that those decision makers are even reading the *Times*? But this is what people do, and they waste thousands of dollars in the process.

A smart speaker would write a book. Or offer to do one or two gigs for free, as a showcase. And it would be the best marketing decision he or she could possibly make.

Ramit Sethi, the influential behavior engineer and best-selling author, has a case study that illustrates this point nicely. Advising a children's violin instructor who had trouble growing her business, he sat down and examined who she thought her customers were. Ten-year-old kids? No, her business would do better if it wasn't designed to make her students great violinists—though that was certainly happening—but to help shy kids come out of their shell and learn a skill that made them more attractive on their college applications. It was to create this referral: "Jackie's lessons helped my son get into Harvard."

In making these tweaks, most of which were internal and unnoticeable to the customers themselves, the instructor's business grew $81,000 in eight weeks, producing even more excellent violinists (and future Harvard alums) along the way.

By no standard definition does changing your approach to how you personally think about clients constitute "marketing." But from Sethi's results, we can see that it clearly should. It created a new angle for the business and acquired new clients. At Amazon, employees write press releases about new products and initiatives before they're made in order to make sure that they're designed to be press friendly and conducive to narratives. This may seem like a product development strategy but it's also marketing. In fact, it's the most effective kind: building it into the product itself instead of bolting it on post-launch.

Once companies break out of the shackles of antiquated notions of what is or isn't marketing, the whole field becomes cheaper, easier, and much more scalable. Look at Dropbox, which in less than three years became a multibillion dollar brand. The marketing plan powering that growth is shockingly simple. It was just three things:

1) A great product.

2) A cute demo video that drove early adopters.

3) A viral hook that encouraged existing users to evangelize (Dropbox is better for me if you have it, too).

That's it. Dropbox made a straightforward product that is easy to understand. It launched a demo video on Digg and Reddit that appealed to industry insiders (which grew their beta waiting list from 5,000 to 75,000). And it gave referral bonuses of extra storage space for each new user that a current user convinced to sign up.

Welcome to growth hacking. Or better, welcome to actual marketing, where whatever *works* is marketing.

Granted, none of that feels as *Mad Men*-esque as retaining a creative agency, seeing your billboards around town, or pulling in celebrity endorsements. But the difference is that those things don't guarantee success anymore. And they cost 50 to 100 times more.

So the future of marketing is simply going back to its roots. Buying advertisements, as we know it, is a practice that's only a 100 or so years old, and they were invented as a new and effective way of getting new customers that didn't involve speaking to each one individually. Today, there are many other ways to successfully meet that same very broad criterion.

It's time we start calling that marketing, too.

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Ryan Holiday is a media strategist and the author of *Trust Me, I'm Lying: Confessions of a Media Manipulator*.

Fast Company, December 2012

PREPARING YOUR SMALL BUSINESS FOR GROWTH

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By George Pyne

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EVERY BUSINESS STARTS OUT WITH the best of intentions and unlimited potential. Timing is everything, and when you hit the market at the perfect time, it feels almost predestined. Your branding is cohesive, and there is an audience for whatever it is you have to offer. When you launch, sales are instantaneous, and there is more demand than supply.

This is every business owner's dream, right?

At least until the orders are backlogged, and you are suddenly short-staffed and unable to keep up.

If the success of a business outpaces the ability to maintain it, there is a danger that rapid growth will lead to failure. This is why you need to think beyond the initial startup business plan and include a solid growth plan.

Let's say you launch a product that is well received by your target audience, they begin to buy, and you're encouraged by the support. When you start to see a profit, you increase the business, diversifying the products or services you offer in order to make more money. The growth cycle continues, attracting an international clientele and leading to the exploration of new markets.

Then, one day, accounting tells you that the business is losing money. Not enough to worry yet, but a slow, steady bleed where expenses are beginning to exceed monthly revenue. This doesn't make sense, and now you have new products scheduled to roll out. If revenue doubled in one year, shouldn't it theoretically triple next year?

Not necessarily. As any accountant will tell you, "Numbers never lie," and they are always an indicator of what's to come.

It is easy to focus so deeply on bringing the product to market and selling it that you forget to grow all aspects of the business in equal measure. This happens to some of the biggest companies in the world, which is why its imperative to create an infrastructure that will adapt to an accelerated work pace while keeping quality control intact and retaining customer advocacy.

So how can a business grow at a rate that will match increasing international demand and keep everyone satisfied?

CREATE STRUCTURE

As a customer, it is frustrating to be passed around various departments to get answers to a specific question. Even worse is when company structure has not kept up with growth and internal responsibilities, leading to confusion as to who is in charge of what.

The solution to this is to create structure early on and be willing to adapt to increased business. Define roles, and make sure that everyone knows to whom those responsibilities are assigned. Implement a management structure to make sure that there is a tangible level of accountability whenever there are new business benchmarks. This will ensure that the quality of your products and services remain consistent.

It's a good idea to create an organizational chart so that responsibilities and who reports to whom are clear. Usually this visually ends up resembling a pyramid, with the CEO/president at the top and ever-widening rows of employees with specifically designated roles trickling down from there. You will be surprised by how many employees will refer to the chart when they need to ask for approval on important company decisions, especially new staff.

BE CONSISTENT

At the beginning of a business, there is usually a small team in place, and it’s easy to make sure that everyone understands their responsibilities and delivers great service on all levels. But as you grow, it can become less clear as to who is in charge of what.

Inconsistency is detrimental on a variety of levels, ranging from customer service to advertising messages to production output. As your business increases, it’s imperative to make sure that the quality of your product or services is consistent.

One of the best examples of quality assurance is in the publishing world, where the term “QA” is part of the day-to-day terminology. Articles go through multiple edits to ensure that the facts are properly checked and that there are no grammatical or spelling errors. This extreme attention to detail can be applied to all business acumens. If core elements are established and maintenance responsibilities assigned to various departments, your internal alignment will grow at the same rate as the rest of your business.

IDENTIFY THE WARNING SIGNS

As much as we sometimes wish we could argue with mathematics, the fact remains that numbers are the most consistent way of measuring success. They can alert you to any business weaknesses before things become detrimental. If analyzed properly, numbers will reflect growth and diminishing returns, which you can then use to adapt procedures within your business to increase sales, efficiency, and quality control.

By using numbers to determine where problems may exist, you can quickly create internal systems to improve your business. If everything is run to perfection, it will continue to grow.

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George Pyne is the founder of Bruin Sports Capital, the former president of IMG Sports and Entertainment, and the former chief operating officer of Nascar.

Fast Company, November 2014

THREE MISTAKES TO AVOID WHEN SCALING YOUR BUSINESS

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By James Richman

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YOU'VE BEEN SUCCESSFUL IN LAUNCHING a new product or a new company. There are customers and clients calling to buy your new product or do business with you. So the next logical step is to scale up. Since you have something people obviously want, why not?

But before you start scaling your business, it's smart to pause for a moment and take stock. You haven't reached the summit as soon as you've proved your product or service has a good shot in the marketplace. In fact, the journey has just begun.

When you move ahead, you'll want to skirt the pitfalls that established companies confront when they hastily enter new markets, as well as the errors that drive so many startups to oblivion. On the other hand, waiting too long to scale up your business can determine the life or death of your company, too.

Here are the three things you need to avoid when you want to expand your business.

1. FAILING TO DISTINGUISH DIFFERENT TYPES OF CONSUMERS

The markets for most new products typically have three different types of users—the first users, the early adopters, and the real or scaling users.

The first users are those who try the product for free, suggest improvements, and write about it on their blogs. They play a vital role in the scaling process because their rave reviews can encourage your real users.

Take *Quake*, for instance, a game launched by John Carmack in 1996. The developers let seasoned players try the game for free in return for proposing modifications and debugs. Only then did the polished version of the game go out to the real users, who are the paying public. The company listened to first users' suggestions and complaints, and let them post changes to the game online. Soon afterward, the new, user-redesigned *Quake* saw a sudden increase in sales.

The early adopters are those tech fanatics who always want to be ahead of the pack in trying a new product. In his book, *Crossing the Chasm*, Geoffrey Moore says these types of consumers typically have a pain-point, and they're willing to pay the retail price in order to find a way to solve it. Companies looking to scale their business must first identify and target early adopters before looking to the wider public.

2. CONTINUALLY HIRING—OR WORSE: CONTINUALLY HIRING THE WRONG PEOPLE

One of the most common mistakes startups make when they first start seeing success is to hire more people to ramp up the business. This over-enthusiasm can create bloat in the organization, and even cause the company to accelerate too quickly.

If a startup bounds ahead too fast, early adopters will soon tire of the product and move on to something new, leaving the company with no real customer base, too many people on staff, and too little business to go around.

New companies that begin trying to scale can also wind up hiring the wrong people, since there's usually little in the way of a proven hiring process in place. The fact is you can't rely on gut feeling alone if you're looking to make a successful hire.

A great example of this is Ameet Ranadive, founder of Dasient, an Internet security company acquired by Twitter. He wrote in a post on Medium that when his startup was gaining momentum, experienced investors advised him to hire more salespeople because the company had an execution problem.

But instead of generating more sales, Dasient started burning through its cash. After a careful study, Ranadive later found out that what the company had was a market problem, not an execution problem.

3. REFUSING TO CHANGE WITHIN

A lot of startup owners strive single-mindedly to grow outward and upward, forgetting to trim what's inside. As your company grows, you'll find there are things you don't need anymore, or people you have to let go, or departments you have to dissolve.

What worked when you were managing 50 people won't when you grow to 200. You need a new strategy, a new process, and a new organizational chart. Recognizing what doesn't work any longer—and getting rid of it—is difficult yet vital for any startup trying to scale.

THE SOLUTION

Never lose the habit of turning a sharp, critical eye on your business. One way to do that is to carefully craft a detailed sales plan, and work hard to implement it while keeping track of the results as it gets under way.

Then keep reevaluating your plan, going back to make adjustments all the time. It's a continuous process, but it will help keep your course steady as you sail onward.

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James Richman is the CEO and co-founder of 1stWebDesigner.

Fast Company, July 2015

WHY GROWING COMPANIES NEED VISION, NOT VALUE

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By Steven DuPuis

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RECENTLY I ATTENDED A NATIONAL auto show full of futuristic concept cars. Visitors were clearly elated by the cars—three-wheelers with cartoon-like tires, driverless pods, supercars with hybrid technology, and 4x4s that resembled Tonka Trucks—which gave an inspiring glimpse into the future. These new ideas excited audiences. That, in turn, could drive growth for the brands. Without dreams, companies lose meaning, purpose, and direction. Every startup begins with a vision of a business that matters—its equivalent of a concept car.

In the vision-state, entrepreneurs create, dream, and inspire us to see the future. This is what captivates investors and consumers. When Walt Disney expressed his vision to create Disneyland, most professionals thought it was a crazy idea destined to fail financially. His passion and persistence proved them wrong. Blake Mycoskie, founder of Toms shoe company, had a vision to provide shoes to those in need. Robin Chase of Zipcar knew nothing about cars; in fact, she didn't even own one. But she believed that having cars you could rent by the hour would make it more convenient to drive in urban areas. The driverless car was outside Google's business focus, yet it created an excitement and hope for the future, while changing the perception of Google. In all these cases, not only did vision drive growth, it also innovated new markets, industries, and business models. Vision is what pulls at our emotions and creates desire to challenge the status quo.

The persistent drive of visionaries and their openness to changing the world creates an internal culture of collaboration, focus, and trust. This in turn sets the stage for innovation. True innovation, of course, produces growth and, as a by-product, shareholder value. Yet as companies grow and mature through organic and acquisitioned growth, we see less and less focus placed on vision. In many cases, a company's founders or visionaries have left or been bought out of the company. The main focus shifts to creating more value. This is the typical trajectory of a maturing business, as management is tasked with optimizing products and services for scaled growth.

Scale presents its own set of challenges—operations, supply chain, manufacturing, organizational structure, and financial risk. Value pulls the organization, and vision begins to trail behind. This shift puts functional, measurable processes before emotional, vision-driven models. And ironically, the attempt to alleviate risk actually backfires, stifling innovation and leaving the company more at risk of irrelevance in this age of constant change.

Take Kodak, a once-innovative company that is no longer valued by consumers. Kodak's current global vision statement focuses on three main ideas: to engage the energies of its employees; to meet competitive changes in the marketplace; and to maximize shareholder value. Had Kodak spent more time concerning itself with the relevancy of its products and the desires of its consumers and less with putting money into the pockets of its shareholders, it might have saved itself from the dead zone it's in today, as digital imagery has superseded film.

When you focus on building value first, you compromise the culture and vision of an organization, losing purpose and meaning. People inside and outside the company, including consumers, become uninspired, and there is no community of collective desire. There is little commitment or loyalty to the company, and like its investors, its employees focus on personal gain—many begin looking for other jobs.

Retaining a vision is the key to creating long-term value. Companies such as Tesla, Google, Flor, Nest, and

Warby Parker understand that holding onto their vision challenges conventional value models. These companies lead with their long-term vision. In fact, their vision is a reflection of their values, and this naturally creates financial value. Warby Parker, for example, prides itself on offering designer eyewear at a revolutionary price while leading the way for socially conscious business. Each time you buy a pair of glasses another pair is donated, similar to Toms’s mission. Warby Parker’s annual revenue for 2014 was well over $100 million, and the company was averaging $3,000 per square foot of retail space. Nest has stayed true to its vision of “taking unloved products in homes and making simple, beautiful, thoughtful things.” Nest is currently valued at around $2 billion.

A vision is fostered not through organizational processes, but an authentic idea that inspires, excites, and makes us dream. A business with a vision that matters will assure a strong culture and inspire creative meaningful innovation that results in growth and, ultimately, increased shareholder value. Sustainable growth today is not about value; it’s about values.

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Steven DuPuis is the founder of DuPuis Group, a design innovation agency.

Co.Design, July 2015

GUY KAWASAKI ON THE ART OF PITCHING YOUR IDEAS

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By Bruna Martinuzzi

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WHEN IT COMES TO HELPING ENTREPRENEURS pitch their ideas, Guy Kawasaki may be one of the most influential people in marketing today. He is the chief evangelist of Canva, an online graphic design tool, and best-selling author of such books as *The Art of the Start 2.0*; *The Art of Social Media*; *Enchantment: The Art of Changing Hearts, Minds, and Actions;* and nine others. Kawasaki was also the chief evangelist of Apple and has more than 10 million followers.

OPEN Forum recently asked Kawasaki how entrepreneurs can pitch their ideas for maximum impact.

The typical way most entrepreneurs structure a pitch is to talk about their product in detail, focusing on all the bells and whistles. In your book, *Enchantment*, you advise against this. You tell people to "sell your dream," not the product. Can you elaborate on this?

The typical way most entrepreneurs structure their pitch is worse: They talk about their company in detail. Talking about their product would be an improvement. Selling the dream is even better [than selling the product], because it focuses on what the product does for people—that is, benefits, not features. Even better than all this, of course, is a great demo.

One of your initiatives in helping people grow businesses is the course you're teaching at Udemy. A module of that course is "Tell Your Story." What are the fundamentals or building blocks for telling your story?

Telling a story is an easy technique. I don't know why more people don't do it. There are two kinds of stories that are effective. First, the personal story of how the founders came to create a product because of their need or firsthand observations. For example, Steve Wozniak wanted a personal computer. Melanie Perkins, the founder of Canva, was teaching graphics to college students and saw how hard it was for them to learn Photoshop.

The second kind of story is a customer story. In this case, the story isn't personal or firsthand, but the entrepreneur knows a customer who had a need, and the entrepreneur tells the customer's story. In either case, the goal is to illustrate the need for the company's product or service with people-oriented stories.

In your most recent book, *The Art of the Start 2.0*, you talk about the art of pitching. What are some other elements of an effective pitch that entrepreneurs should pay attention to?

The most important element is that you have a great product or service. If you have this, everything else is easy. But here are the key elements of an effective pitch:

• Ten slides

• Twenty minutes long

• Minimum 30 point font

• Black background

You advise entrepreneurs not to delay going to market with a product until every aspect is perfect, so as not to risk losing the market. But how do you know when it's time to ship?

It's time to ship when you're about to run out of money—that's for sure. Another real-world test is to show it to your wife and see what she says. If you have plenty of money and you're not married, then ship when you are

10 times better than the status quo. All this means that this isn't a science. You ship and you pray.

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Bruna Martinuzzi is the president of Clarion Enterprises, a leadership training and coaching firm.

OPEN Forum, July 2015

HOW TO GROW YOUR BUSINESS WITHOUT GROWING YOUR PAYROLL

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By Andrea Sittig-Rolf

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IT'S EASY FOR BUSINESS OWNERS to become overwhelmed by the prospect of scaling their businesses; I can't be the first to dream of duplicating myself in hopes of accomplishing more in less time.

But while you may not have the money, time, or energy to grow in size, you can grow in profit and still have a life. Here's how:

WHEN IS A COMPANY BETTER OFF SMALL?

Many Fortune 100 companies such as Apple, Disney, HP, Mattel, and Google started from humble beginnings in a garage, and while the size and scope of what these companies have become since then is impressive, sometimes the complications that come with growth are actually a detriment to success.

Pets.com is a good example of this: While it had a great idea, the company failed because it grew too fast. After initial success in 1998, Pets.com expanded by opening warehouses all over the country. It went bust in just two years. It built a great brand, mainly with the sock puppet commercials you may remember, and while people liked the ads, Pets.com spent millions of dollars on building a company with an offering no one wanted.

YOU CAN GROW YOUR PROFITS AND NOT YOUR PAYROLL

For many small businesses, growing in size is a distraction. Because I value my free time and wanted balance in my life, I chose to grow in terms of profit instead. With a team of just five, I've gone from $500,000 to $1.5 million in annual revenue just by adding technology and new offerings. I've updated the value of what I sell, rather than the quantity. You can increase your profits without having to increase your payroll, your overhead, or your stress level, and still enjoy the lifestyle that running a small business allows.

Some companies are actually better off embracing their smallness, staying managed by a single founder, and trusting just a handful of loyal workers. With this model, you're able to easily manage quality control, build strong relationships with clients, and focus on bringing new products and services to market; and all of this attracts more prospects to become new clients.

One common worry, though, is that, if you're not always expanding, your company stands a greater risk of being taken out by competitors who are. This isn't the case if your value remains high, if your quality of customer service is second to none, and if your smallness allows you to pay attention to detail. While others may be growing in size, you can focus on creating new products, programs, and services that match what prospects and clients are telling you they want and are willing to pay for.

So, how do you stay "in the garage" and not get stuck in a time warp? By reinventing yourself, innovating, and creating the next evolution of your products and services to keep up with the demand of the ever-changing marketplace. The secret to staying competitive is not necessarily in growing your business in the traditional sense, but in using technology to innovate.

USING TECHNOLOGY TO GROW YOUR BUSINESS

In 2002, I started BlitzMasters, a lead-generation and revenue development company. In the beginning, it was just me and a single sales training program called, The Blitz Experience. Now, intentionally staying small in size, I have a team of five people but offer multiple programs to meet the changing needs of my clients. I've also added technology that allows us to use one trainer for many clients, whereas before, we could only do a ratio of one trainer to one client. Now, because of the technology I've implemented, instead of a single transaction of what was often $5,000, I've increased not only the number of transactions I can do at a time, but also the price. Now, a single transaction can amount to as much as $250,000.

Here's an even juicier example of how implementing the latest in tech can grow your revenue. I've recently added a new on-demand program, a cloud-based, highly interactive, online workshop that anyone in the world can use anytime they want. It doesn't even require a live trainer to be involved, and I didn't need to hire a single new employee to do it.

If you want to grow your business without the headache and stress of growing your payroll, first talk to your clients to find out exactly what they're looking for, then reach out to web developers and inquire about turning your content into an interactive web-based tool. It's easier and cheaper than you might think. Maybe technology has afforded us the ability to clone ourselves after all.

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Andrea Sittig-Rolf is the CEO of BlitzMasters.

Fast Company, June 2014

FOUR BIG INVESTMENTS THAT CAN HELP YOUR BUSINESS GROW

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By Rieva Lesonsky

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IT'S NEVER TOO EARLY TO START thinking about year-end tax planning and next year's growth plans. If, like many small businesses, your company is doing better financially than in years past and your outlook is optimistic, this could be a good time to make some investments in your business before the end of the year.

Before making these decisions, however, it's important to determine how valuable these big investments will be to your business, how it will affect your finances, and how it will affect your business taxes. Here are some items that can deliver the most bang for your buck.

HARDWARE

Technology is advancing exponentially. In general, a business computer has a three-year life span—typically how long manufacturers offer warranties for. Sometimes a computer can last as long as five years. But with more data to maintain and secure, more memory-intensive applications to run and more business tasks going online, computers are under heavy demands. If your company's computers are starting to show their age, think about how much that's costing you in lost time. Not only that, but weaknesses in your system due to outdated technology could put data at risk—and that could put your business at risk of fines or lawsuits from customers.

BUSINESS EQUIPMENT

Almost every business has some type of specialized equipment necessary to operations, whether it's a pizza oven for a restaurant or machinery for a manufacturer. If your equipment becomes outdated, requires frequent repairs, or is no longer meeting safety or emission standards, it's time to replace it. Even if your equipment is still functional, upgrading to newer equipment may enable you to boost productivity and sales.

VEHICLES

Vehicles have made rapid advances in the past few years, with sophisticated safety features such as backup cameras, hands-free communication, built-in GPS systems, and lane-change warning lights now standard on many models. If your business vehicles are showing their age, consider how newer vehicles with updated features could save money on insurance and maintenance. If your business involves lots of driving, such as making deliveries or visiting distant customers, buying hybrid vehicles or other cars with good fuel economy may save you a lot of money.

COMMERCIAL REAL ESTATE

You may know a business owner who's been forced out of a good location by a drastic rent increase when his or her lease was up. You can eliminate this risk by purchasing your business's building instead of leasing. Obviously, this is about the biggest investment you can make, but it can be worthwhile. Consider:

- How would mortgage payments compare to your lease payments? In some cases, they may be less—plus, your costs are predictable, unlike lease increases.
- How long do you expect to stay in this location? In general, if you plan to stay in the same building for seven years or more, buying will cost less overall than leasing.
- Does the building have adequate space for future growth? If it's too big for you now, you can always rent the empty space to other businesses until your business needs it.
- Could you sell or lease the building when it's paid off and you retire? If the building is very specialized to your business's needs, this may be harder, but if it's a building that can easily accommodate a variety of different businesses' needs, you may see a profit.

SHOULD YOU OR SHOULDN'T YOU?

In weighing all of these investments, there are a number of questions to ask:

- Will it make you and your employees more productive?
- Will it enable you to produce more products or serve more customers?
- Will it cost less to operate than the existing asset?
- Is it essential for planned expansion?
- Is the lack of it holding your business back compared to your competition?
- Is the cost of repairing or upgrading the item close to the cost of replacing it with a newer model?
- How will the investment affect my taxes?

BUY OR LEASE

For any of the capital expenses mentioned above, you have the choice to buy or lease. In some situations, such as business equipment, leasing may make more sense. You don't need a lot of money upfront, and at the end of the lease you can start a new lease with newer equipment so you always have the latest model. You may also be able to expense the lease costs under Section 179 tax deductions.

Leasing almost always costs more than buying in the long run, so if it's an asset you plan on keeping for a long time and one that retains its value, buying may be the best bet. Keep in mind, buying ties up more money upfront. You'll either need to have the down payment on hand, or take out an equipment loan to pay for it. Consider what else you could do with the money before you make the investment.

ASK THE EXPERT

Talk to your accountant to determine the tax effects of the investment and whether to lease or buy. Your accountant can help you see how big investments will affect your cash flow, projected sales, and operating costs going forward based on your industry and financial situation.

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Rieva Lesonsky is the founder and CEO of GrowBiz Media.

OPEN Forum, July 2015

KEEPING COMPANY CULTURE ALIVE DURING GROWING PAINS

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By Lydia Dishman

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RECENTLY, DIGITAL JUGGERNAUT IAC GOT a little bigger with the acquisition of pay-per-call ad business Felix under its CityGrid portfolio. Based in New York, the three-year-old Felix's 85 employees are far from CityGrid's HQ in West Hollywood, California. Rather than pull those New Yorkers over to the other side of the country (or worse, lay them all off and start with a fresh crew), says Kara Nortman, SVP of consumer businesses, they'll stay right where they are and continue to grow the company.

"We look to bring in cultures and support them," she says, not just buy up the tech and tell the founders to check their vision and values at the door. And that means more than just "not hiring assholes," she says, when those companies do get bigger.

Startup cultures are often defined by the personalities of their founders (hoodies and hackathons, anyone?). Growing beyond the original crew means that those initial quirks either become more defined or diluted, depending on how tightly leadership holds on to them. So how to preserve that scrappy vibe and the can-do vision that will continue to attract the best and brightest so your business can grow? We talked to culture mavens who are working on that right now to get their best advice.

Grow the Staff, Not the Teams

As part of its due diligence process, CityGrid hunts for startups with a strong sense of company culture, even if it's only shared among three people—the size of Urbanspoon's staff was when it was acquired. Still based in Seattle, Urbanspoon's ranks have swelled to 70 people and counting, but true to its roots, the vibe is still casual. There are no corporate titles listed on the website and all head shots are candid photos of staff tucking into a favorite dish.

Nortman says that's because of CityGrid's companywide practice of keeping the size of teams and meetings manageable. "Even if you become bigger, you should size your teams so they have a clear feeling of ownership," she offers. "That's instantly more important than a boss telling you what to do." Likewise, Nortman advises hammering out how many meetings will be required to make any decision and then determine how many people should attend. "You want to make those decisions and fail quickly instead of waiting for 17 people to say yes," she adds.

Keep the Lines Open

Teamwork was so important to Foursquare cofounder Dennis Crowley that when the company added its first eight people, he hired friends he knew would foster the kind of open sharing that continues to be a core value. Today, 135 people work in three separate offices.

Susan Loh, head of talent at the social check-in company, says that to keep the lines of communication open, Crowley started holding office hours once a week. "Anyone can sign up for a 10-minute time slot," she says, to bring ideas and feedback straight to the boss. For those not based in New York, video technology such as iPads in the conference room are available for virtual face-to-face meetings.

Foursquare also has an internal email blast called Snippets that allows everyone, including senior management, to share what they are working on. "It's not about what meetings they have scheduled; it's what's keeping them up at night and calls to action," Loh explains.

Pay People to Leave

Culture isn't passed through osmosis at the water cooler. When Clate Mask, CEO of Infusionsoft, talks about the early days (in a garage) of the sales and marketing software company, he references family and fun as often as he cites innovation from within, faster execution, and fierce loyalty. He admits it's been a challenge to keep that "one big happy" feeling as the company grew to 300 employees, but it is on track to beef up to 1,000 in three years. "We believe we can keep this forever as long as we are intentional," he says. "We wanted to dispel the notion that you can't scale culture."

To do this as Infusionsoft adds about 10 to 15 people per month, each new hire must go through a two-week intensive orientation. When that's complete, they are offered $5,000—to leave (a practice made famous by Zappos). "It's expensive to have the wrong people," Mask says. "This gives the individual an opportunity to assess if they are really committed." So far he's gotten no takers and says Infusionsoft's retention rate is 90%.

Hire a "Culture Captain"

A veteran of the dotcom boom and bust, Brad Jannenga watched numerous startups become corporations without a heart. So when he cofounded WebPT, a software company serving the physical therapy industry, he stood firm on "making sure we remained employee-driven."

Now with a staff of 94 (up from 17 in less than two years) and more than 13,000 active users, Jannenga wants to keep the momentum—not to mention the 99% customer-retention rate—as the business grows.

A culture committee was formed to on-board new staff and keep the company involved in the greater Phoenix community through charity work. But when Chelsie Shadrach came to interview for an admin job just over a month ago, Jannenga says WebPT found its culture captain. According to Jannenga, "WebPT hires for culture first and skill set second. I can train someone to be a better product manager, but your core values and how you approach your job is more important."

Shadrach's enthusiasm translates to her new role facilitating team events outside the office and keeping tabs on the suggestion box. But she's also tasked with shepherding new staff through their first 40 hours, teaching them what the company is about through a department-by-department tour. "It's about understanding and respecting everyone's role in the company. Our members only see one product so we have to present as one entity."

Be Completely Transparent

Founded just last March, SumAll, a New York–based data analytics startup, has grown rapidly, adding more than 20 employees to serve a customer base nearing 7,000 merchants. CEO and cofounder Dane Atkinson is keeping an eagle eye on his culture. "In our hyper-competitive markets the only way to survive is with a culture that engages, grows, and defends its team," he says.

To help guide the company as it grows, the team created a SumAll Constitution. "Openness and honesty is at the heart of everything we do, and we want to attract like-minded individuals," Atkinson explains. Transparency is then baked in from the business intelligence product it provides that lets customers view key data in real time, to every decision made in the office from what staffers are paid to what equity they hold.

SumAll's shared drive keeps all this information just a click away. While that makes it trickier to negotiate raises, Atkinson maintains, "you have to face these conversations with a lot more honesty and directness than you typically find elsewhere."

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Lydia Dishman is a *Fast Company* contributor.

Fast Company, August 2012

DROPBOX VERSUS THE WORLD

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By J.J. McCorvey

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“WHAT’S PREVENTING GOOGLE FROM DISRUPTING your success?”

Drew Houston's company may be valued at $10 billion, but here in GSB Faculty West 104 on the Stanford University campus, he’s being grilled like a newbie on *Shark Tank.* The three-dozen students in this class, called “Disruptive Innovation,” are relentless, even though he’s been invited as a guest. Another pupil brings up what he believes is another giant threat: “Amazon [Web Services] was this huge competitive advantage for you when you were first starting,” he says. “But now they have this competing Cloud Drive.”

Houston is the epitome of Northern California cool. With his full beard, hair sticking straight up, and a silver hoop piercing the middle of his left earlobe, he leans back in his chair and placidly fields the queries, no matter how snippy. “Pretty much any big company, for any sufficient market, is gonna have some chips on the table,” Houston says, explaining why he thinks Amazon and Google now have services that compete with Dropbox. “That doesn’t mean it’s gonna work.”

Houston, 32, finds himself in the dead center of one of the tech industry’s most fearsome turf wars. Dropbox has the distinction of being the only cloud service—and perhaps the only startup—ever to compete simultaneously against Apple ($748 billion market cap), Google ($369 billion), Microsoft ($357 billion), Amazon ($173 billion), and Tencent ($160 billion).

The stakes are clear: Whoever controls your stuff may control the digital future. Over the past few years, storing and sharing data in the cloud has become an almost ubiquitous habit. Conventional wisdom had been such that cloud-based storage was a commodity business, a digital file cabinet. But a better metaphor for the potential of cloud-based storage might be a portable office. “Your whole computing environment ought to follow you around,” explains Houston. “Your financial records, your health information, your music playlist…anything that’s ‘mine.’ It’s a pretty long list.” Better yet, you should eventually be able to interact seamlessly with everything in that portable office: work on documents with colleagues, send email, chronicle inventory. About storage, he says, “That’s kind of the easy part. The more interesting part is, What can you do with it?”

Unlike his amply financed competitors, which were all founded during the desktop computing era, Houston has been embedded in the cloud for eight years, ever since launching Dropbox in 2007. He’s not building smartphones, holographic lenses, or self-driving cars: His sole focus is solving the annoyances created by the invisible networked quilt that is modern computing. The cloud makes it possible to work from anywhere, anytime, but keeping everything safe and in sync is a massive software challenge. Our economy’s workforce is increasingly independent, mobile, and flexible, and the line between work and home continues to blur. The traditional design of business computing was not built for how we work today. “[Employees] are basically saying, ‘I need to get my job done,’” says Maureen Fleming, a VP at the analyst firm IDC. Those employees will gravitate to whichever service makes it easiest for them to do so.

No one yet dominates the new global network, but Dropbox just may be the most adroit cloud company in the world, the one that has solved more problems for its users than any other. That’s why Dropbox is not just surviving its onslaught of competition, but is thriving. The company says it has more than 300 million users and 4 million companies using the service. According to IDC, Dropbox owns 27% of the consumer market for file-syncing and sharing documents, more than Microsoft and Apple. It is also the most popular file-syncing and sharing service used by businesses. More than 100,000 organizations, including Hyatt, Under Armour, and Spotify, pay $15 per employee per month for Dropbox for Business, while a tiny fraction of its consumers pay $99 per year for the Pro service. Our conservative estimate of all those paying customers (assuming five employees in each business and 1% of consumers) puts Dropbox's revenue at approximately $450 million annually, which is why the company is rumored to be going public before too long.

A potential IPO is just one of the many reasons 2015 is a critical year for Dropbox. Houston is already rolling out new features that enhance Dropbox's utility, letting users do things such as save any file within an iPhone app to Dropbox with two taps, and edit Office documents without having to save them to a computer. These new additions will be a test: of Houston's bet that Dropbox is a business and not merely a feature; of Dropbox's ability to stay rigorously focused on solving customer problems at a time when it is growing madly; and of Houston's ability to fend off his rivals' cloud initiatives.

Toward the end of the Stanford class, another future disrupter named Jordan bluntly asks Houston, "What made you the right person to start Dropbox in the first place?" In the jargon of Silicon Valley, he's asking about what's called founder-market fit. Why, Jordan wants to know, does Houston have more than a puncher's chance against Amazon, Google, Microsoft, and the rest?

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The first time I interviewed Houston, roughly four years ago, he was a young, happy-go-lucky startup founder, recounting with charm and ebullience the story of the day Dropbox received its first major funding from Sequoia Capital, and how he had clicked "refresh" on his computer repeatedly so he could watch his bank account rise from $60 to $1 million. This time around he's more guarded; some white hues are creeping up in his dark hair. We talk in a conference room decorated as if it's situated in the cloud—cotton-ball-like material on two walls, sky blue chairs—at Dropbox's headquarters in San Francisco's China Basin, where he presides over 1,000 employees (double last year's head count). On a dry-erase board, a chart compares the storage size and prices offered by Amazon, Google, and Microsoft. He checks his phone incessantly.

It isn't until we start talking product that Houston's mood ticks up. Excited to learn that I am a Dropbox user, he wants to ensure that I also convert from the default Apple photo-management tools to Dropbox's version, called Carousel. "Here, I'll show you," he says, and he practically leaps toward my side of the table to demo how it creates a time line of backed-up photos, and can simply delete duplicates from a smartphone. As he starts flicking all the way back to 2001 to a picture of himself with his MIT Phi Delta Theta brothers, I'm reminded of the commencement speech he gave at his alma mater's 2013 graduation ceremony, in which he professed his admiration for people who were "obsessed" with solving a problem, likening them to a dog chasing a tennis ball. "Every time we find ways to save you 15 minutes to an hour, times hundreds of millions of people," he tells me, "it's, like, we save lifetimes of pain, every day."

Houston's drive to mitigate eons of technology-inspired angst has been the energy that's fueled Dropbox since its inception. When he was just 23, Houston took a four-hour bus ride from Boston to New York, planning to use the time to work on a project. But he was stymied, because he forgot to bring the thumb-size hard drive that held his files. Deciding he'd been inconvenienced by this sort of thing for the last time, he wrote the very first lines of Dropbox code during the ride.

"A lot of the startups we fund, they're still trying to figure out what to build," says Paul Graham, cofounder of the startup accelerator Y Combinator. "Drew knew." In Houston's application for YC's summer 2007 session, he laid out his vision: “In the future, you won’t have to move your data around manually.” He explained that he’d created something that would make sure we’d have the same version of every file on all our computers. “It’s a very simple thing to describe,” says Graham, “but an unbelievably hard thing to execute.”

From the start, Dropbox was almost magically simple: Install Dropbox’s folder on your desktop, and by simply dragging files into it you could suddenly access them from anywhere. The simplicity inspired an almost cultish following. Whenever he or cofounder and CTO Arash Ferdowsi would overhear someone talking about Dropbox and they’d ask that person about it, he or she would inevitably say, “I love Dropbox!” or “Dropbox changed my life!” Houston recalls. “We’d look at each other like, Well . . . great! Cloud synchronization, sweet!”

Suddenly people had an easy way to share documents, including the kind of massive files that would trip up everything from Yahoo Mail to corporate Exchange accounts. That simplicity has driven Dropbox ever since. It is now integrated with more than 300,000 companies and services. Dropbox comes preinstalled on laptops, tablets, and Android smartphones made by Dell, HP, Sony, and Samsung. It’s a one-click service on Slack, Shutterstock, and Vimeo. While it doesn’t come preinstalled on Apple products, Apple has had such a struggle with its own cloud services that millions of its customers rely on Dropbox.

This ubiquity helped Dropbox make a deal last December with perhaps its most significant competitor, Microsoft, whose CEO, Satya Nadella, is pursuing a “mobile first, cloud first” vision. Subscribers to Office 365, the cloud-based version of the world’s most popular productivity suite, can now open and edit, directly from Office, the more than 35 billion Word, PowerPoint, and Excel files they’ve stored in Dropbox. “We heard loud and clear in customer feedback that people wanted access to Dropbox,” says Kirk Koenigsbauer, VP of Microsoft Office. (Three months later, Microsoft opened up Office 365 to competing cloud drives.) Dropbox sure has come a long way since January 2013, when then–Microsoft CEO Steve Ballmer belittled the company as a “fine little startup.”

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Houston has always been a fierce competitor, never cowed by the technology establishment. In his YC application, he predicted that Microsoft was too conflicted to ever achieve the universality it desired. In Dropbox’s first video demos, he taunts Google, which was rumored to be working on a cloud service, code named “Platypus,” a product now known as Google Drive. Houston opens a photo of a platypus, marks it with a big X, and syncs it across devices.

Most famously, Houston rebuffed Steve Jobs in 2009, when Apple’s CEO offered to buy Dropbox. Once rejected, Jobs, according to Houston, retorted that Dropbox was merely a “feature” that Apple would kill with its own storage service. The Dropbox team did “freak out” over the release of iCloud, says CTO Ferdowsi. But Houston assuaged everyone’s fears. “He was really good at calming the team down,” Ferdowsi says. “He was more like, ‘This is a sign that we’re onto something.’” ICloud pushed the cofounders to create even more features for consumers, including automatic camera uploads, an immediate hit. “We felt like, Hey, we want to go beyond just syncing files,” says Ferdowsi.

Houston is still translating his competitive fire into products. When I visit in January, the team is putting the finishing touches on its new “Open” button, a way for users to read and edit files without even downloading them. They’re also working on the Dropbox badge, a collaboration system to save teams from “Frankenfiles,” shared documents that contain multiple, disjointed edits. It’s a notoriously complicated problem, one that has frustrated many a user of Google Drive. “All of this seems like a little thing,” Houston says, “but every day you have afternoons being ruined because you open an Excel spreadsheet to finish it up, and someone 30 feet away from you has been editing the same thing. It’s horrible.” He says this with the emotional conviction of someone whose heart has been broken. “Our dream is that, with Dropbox, this should be the first day in a long time that you go home early.”

Houston is the driving force of Dropbox, but he has also shown the maturity to surround himself with an impressive network of mentors and advisers, most of whom have been counted out when faced with competition from established rivals. That list includes close friend and Facebook CEO Mark Zuckerberg, who is known to pop into Dropbox HQ from time to time; Salesforce CEO Marc Benioff, a pioneer of cloud-based services; Dennis Woodside, a former Google executive who served as CEO of Motorola during the search company’s brief ownership, and who joined Dropbox as COO in April 2014; and Travis Kalanick, the CEO of Uber. Kalanick and Houston meet regularly for dinner and drinks to share notes on managing through an intensely competitive landscape. “In an engineering- and product-oriented organization, there are complexities when you get to several hundred or several thousand employees,” Kalanick explains. “How do you create a place that stays innovative while it scales?”

The question gnaws at Houston: How can he ensure that every new employee is as passionate about ridding the world of digital inconveniences as he is? “The big challenge will be growing the company in a way that allows people coming in to quickly get up to speed and contribute,” says Woodside. It’s particularly hard for someone as obsessive as Houston. Described as an extremely hands-on “engineer’s engineer,” Houston participates every year in the company’s Hack Week, in which developers work on individual projects that often get fast-tracked to product status. He’s positioned his desk right next to the other engineers in Dropbox’s open office. The day I visit, multiple half-full water jugs have been abandoned behind three vertically positioned monitors while an open can of sour-cream-and-onion Pringles sits in front. “He’s gotten a lot better at it,” VP of engineering Aditya Agarwal tells me. “Being able to frame problems and then relying on other people to come back with solutions.”

During a product review I observe, Houston cuts through a boilerplate recital of statistics about Dropbox badge’s early trials with questions that repeatedly steer the discussion back to the user. “Are there people who dislike it?” “Have users come up with any new requests?” “What other feedback do we have?” In the middle of a brainstorming session about new features, he tries to rev things up by rattling off suggestions from customers he met at the Consumer Electronics Show. He can’t relax until a loud, almost indecipherable clamor of ideas erupts. “You should just be able to just like, ping the file, or ‘Yo’ it,” he jokes, sending the room into uproarious laughter with his nod to the briefly hot notification app. “I want to leave a lot of blanks for other people to fill in, both because it’s less work for me,” he later tells me with a smile, “and because it’s something for people to debate.”

Houston is also working hard to ensure that Dropbox feels like a collection of peers, at all levels of the company. It’s a philosophy that appeals to many Dropbox employees. On a chilly night in San Francisco’s Financial District, Ilya Fushman, head of business and mobile products, and Agarwal join Houston and me for dinner at the Battery, an exclusive restaurant and private club. Despite the posh surroundings, Fushman and Agarwal wax poetic about the egalitarian culture Houston and Ferdowsi have created. “It’s really hard to pull off creating an environment of peers,” says Agarwal, a former engineering director at Facebook who oversaw the development of its News Feed. “We hold ourselves accountable to expectations, and at a bunch of companies, that ends up being centralized. Drew’s my boss, but I prefer to think of him as a peer and friend.”

One way Dropbox encourages a distributed sense of responsibility is by giving new hires hefty tasks. This is particularly true of the small engineering teams brought in by acquiring startups. Houston, Agarwal, and Fushman, who winkingly refer to themselves as “Deal Team 6,” have overseen more than 20 such acquisitions in the past three years, and Houston notes that nearly all of these acqui-hires still work at the company. “They end up with a much bigger playground than they had before,” Houston says. For example, Gentry Underwood, cofounder of the popular Mailbox email app that Dropbox acquired in 2013, is now head of design. It’s a strategy that comes directly out of the Mark Zuckerberg playbook.

Dropbox badge, which is expected to launch this month, is a product of exactly this mind-set. The idea was originally suggested by Max Belanger, an intern. “I’m like, ‘Dude, it’s not possible. No, don’t do that,’” Houston says, laughing. Belanger stuck with his obsession and proved its feasibility anyway. He’s now a full-time engineer.

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Maintaining a peer-oriented, obsessively focused company is about to become more challenging than ever. The cloud is now the hottest, most competitive sector of technology innovation. Amazon has rebranded its cloud service, giving it the more consumer-friendly label “WorkDocs” and adding email management, the ability to store and share files up to 5 TB, and mobile apps for both Android and iOS. In February, Apple launched a slicker, cloud-focused replacement for iPhoto on OS X. And perhaps most menacing of all, Microsoft’s mobile and cloud-based productivity mandate is starting to pay off. The company is set to garner about $5.5 billion in annual sales of its cloud-based services. In just two months, Nadella spent $300 million to acquire Acompli, an app that anchors Microsoft’s rejuvenated Outlook app, and Sunrise, a popular calendar app. Even Houston’s buddy Zuck may prove to be a rival—his company is testing Facebook for Work.

With the increased competition comes a new kind of glare. The antisurveillance crowd inveighs against popular cloud-based services; most recently, Edward Snowden warned the public to “get rid of” services like Dropbox and Google Drive, claiming that they didn’t offer enough privacy features for users or advocate on their behalf. (Dropbox’s addition of former Secretary of State Condoleezza Rice to its board last year did little to quell fears.) The attention ramps up the pressure to get every detail right. “Dropbox just can’t ever screw up,” Ferdowsi admits. “If we ship out a version of Dropbox that deletes data erroneously, at scale, it’s kind of the end of the company.” Dropbox’s offices feature a blue neon sign that glows—it just works. It’s both a goal and a constant reminder to be ever vigilant.

Houston acknowledges a certain level of pressure. Two years ago, he started taking what he calls “think days”—secluded, long weekends in a hotel in nearby Palo Alto or as far away as Maui—to escape and meditate on Dropbox’s position. He often returns with long manifestos.

A student of tech history, Houston puts the dilemma he’s obsessing about in context. “A while ago, people might have put an MP3 in their Dropbox, but why would you do that now, with Spotify and Pandora?” He cites Craigslist as an example of what could happen to his company if it falls behind. “You used to see Craigslist used for everything. And then Match.com takes away some, StubHub, and then Airbnb comes along. It gets unbundled. And we’re like, ‘Maybe this is gonna happen to us.’ So we should do that to ourselves instead of letting someone else do that to us.”

This is Houston’s biggest concern—not Amazon, Apple, Google, Microsoft, or Tencent. He’s worried about the next twentysomething who wedges her way into his user base and peels off Dropbox’s features before he can build more of them. His paranoia is not without cause: one of his former engineers, fellow MIT alum Michael Grinich, is already gunning for Dropbox’s Mailbox with his new email startup, Nilas.

This gets to the heart of those discussions Houston regularly engages in with Kalanick: “How do you make sure,” explains the Uber CEO, “that you don’t become the big company that becomes rigid, brittle, and disrupted by the new guy?” Like the many purchases made by his friend Zuckerberg, Houston’s acquisition spree may be as much about neutralizing potential threats as it is adding to Dropbox’s talent and tools. While Microsoft pursued its splashy deals, Deal Team 6 quietly added crews that build tools to let users create collaborative documents and assign to-do lists; that let designers share and work on CAD files; and that even have created a cloud-based word processor that Dropbox’s customers could use instead of Microsoft Word. Each feature could have chipped away at Dropbox’s utility. Now they will be integrated into Dropbox and rolled out later this year.

Houston tells me that one of the first things he shows to new hires is a slide show that includes the logos of Netscape, Myspace, RIM, Lotus, and Friendster. It almost seems absurd to me that a startup not even a decade old is already worried about being upended and becoming a cautionary tale. “What do these companies have in common?” Houston asks his new acolytes. “No one wears their T-shirts anymore, except maybe as a Halloween costume.” There’s a stack of free Dropbox T-shirts when you enter the offices. Houston is hell-bent on making sure that they don’t become ironic garb for some Stanford business-school student with his head in the cloud.

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J.J. McCorvey is senior associate editor for *Fast Company*.
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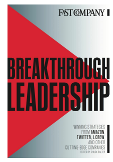

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