How to build an enduring, multi-billion dollar business

(hint: create a 10x product + recast incumbent cost structures)

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In my last post, I wrote that Uber built a multi-billion dollar business by using mobile to create a 10x better product than the incumbent (taxis), *and* did so at a lower price. The “and”, as I wrote, is everything.

What’s exciting to me is that Uber is not the first, nor will it be the last. Indeed, when you start to look for it, you realize “[10x product] and save people money” is the undercurrent running through dozens of breakout companies ranging from Airbnb (a Greylock company) to WhatsApp.

What’s Amazon? Endless selection/convenience *and* the best price.

Remember Netflix’s original marketing? More selection/convenience than your neighborhood Blockbuster, *and* no late fees.

Airbnb is all about unique accommodations *and* it’s cheaper than a hotel.

Skype introduced presence/chat etc, *and* free international calls. WhatsApp did to international SMS what Skype did to international calls.

Alibaba, Craigslist, CreditKarma, eBay, Expedia, Poshmark, Priceline, Orbitz, Shutterfly, Transferwise, TurboTax, ... I could go on. (Oh, and if you’re building one, I’d obviously love to hear from you: sarah at benchmark dot com.)

It shouldn’t be a surprise that 10x + cheaper is such a killer combo for consumers. Who doesn’t want something better, cheaper? It also happens to be a great catalyst for word of mouth. People love to talk about a new service they discovered that’s better and saved them money — telling a friend how to save $20 can feel like actually giving the friend $20.

So how did they do it? Or perhaps more pointedly, how can *you* do it?

To me, there are two key ingredients:

1. It’s about the [10x product]. Saving money is pouring gas on the fire.

As my former Pinterest colleague David Rubin pointed out to me, your service shouldn’t *lead* with “saving money”. You must create an offering that is so compelling, it stands by itself in the consumer’s mind.

Case in point: when I first started to talk to people about my thesis, they’d push back. “Uber is just so much better than a taxi.” “Amazon is all about convenience.” “Airbnb is experiences you can’t get at a hotel.” Of course, they’re right, but it’s the “and” that accelerated the behavior change for most people. The 10x product is what kept those people as customers.

If you can get people to take your price advantage for granted, you’ve won. If on the other hand, your brand becomes more identified with saving money, then that’s likely because your offering isn’t sufficiently differentiated. Saving money *is* the feature. This puts incredible downward pressure on a company’s unit economics. It’s a lot harder to build an enduring business if you’re forced to constantly optimize for price.

Think: flash sale and deal sites.

The one exception I’d add here is that “free” is its own 10x product. If you can offer something for free that used to cost lots of people money (I’m looking at you Skype and WhatsApp), growth will be the least of your worries.

2. Use technology to recast incumbent cost structures.

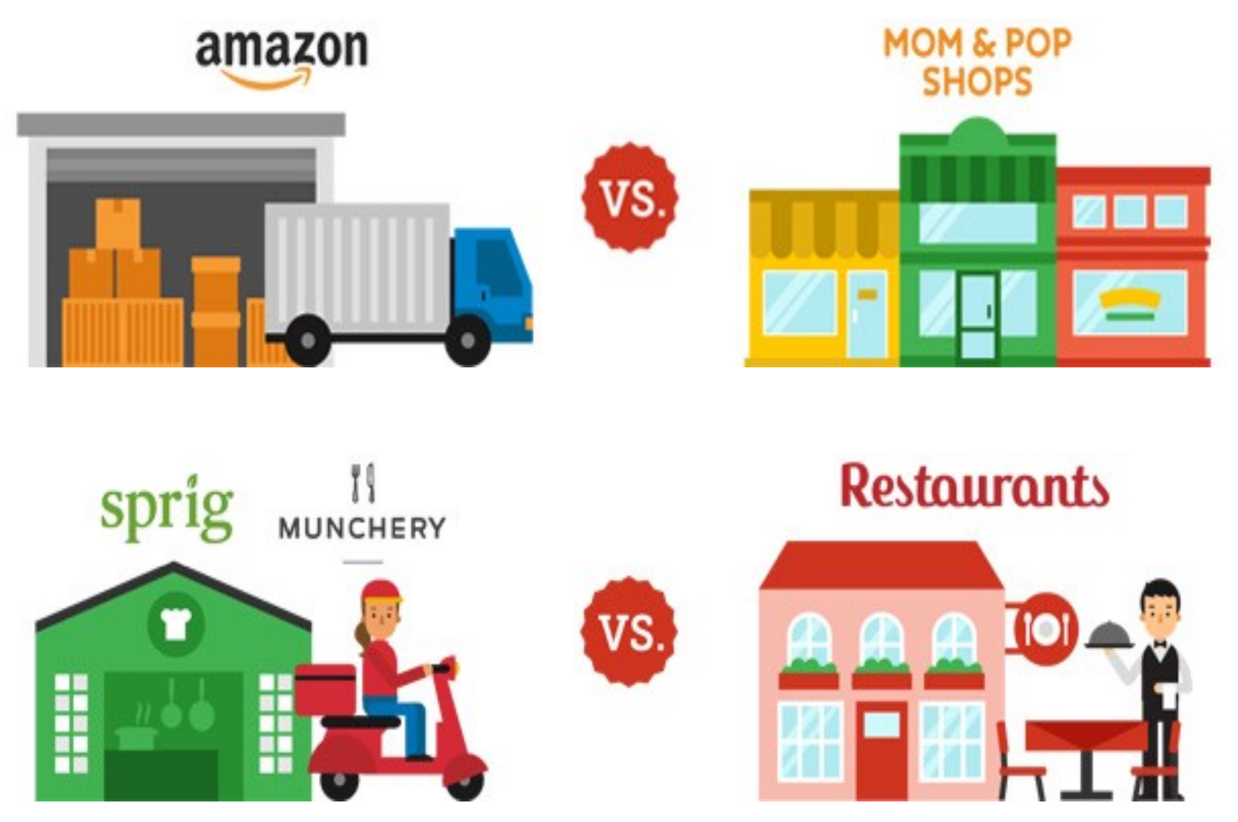
Okay, so you’ve got a 10x service. That’s the easy part. Providing the 10x product *cheaper* in a sustainable way is where the rubber hits the road.

The key is to use technology to recast incumbent cost structures. This creates a structural cost advantage, and if you have economies of scale or network effects, an advantage that can endure as you grow.

Here are some of the strategies companies have used to do this:

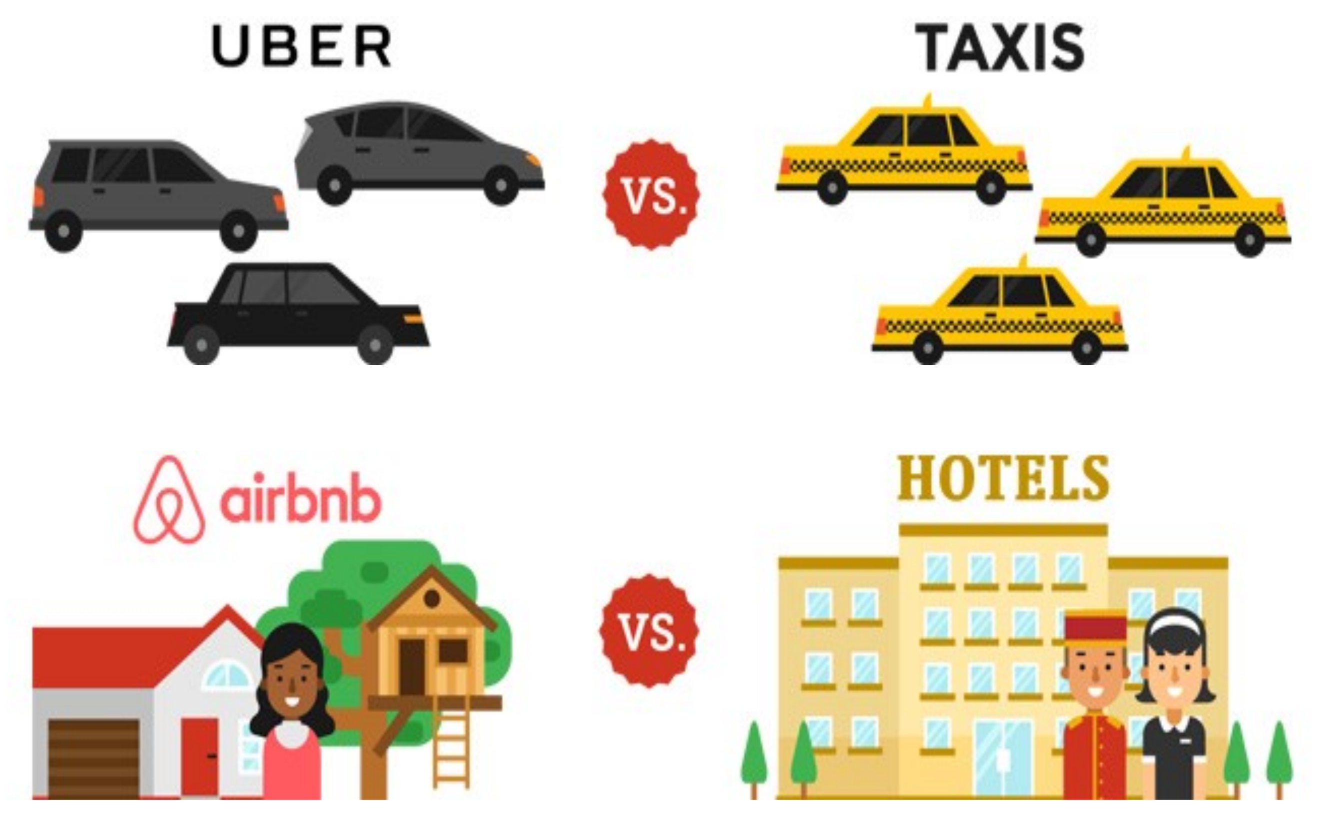
E-Commerce

E-Commerce companies disrupted brick and mortar retailers by centralizing operations and benefiting from economies of scale.



Sharing economy

The “sharing” economy enables companies to unlock latent value in underutilized assets, and by doing so disrupts asset heavy approaches.

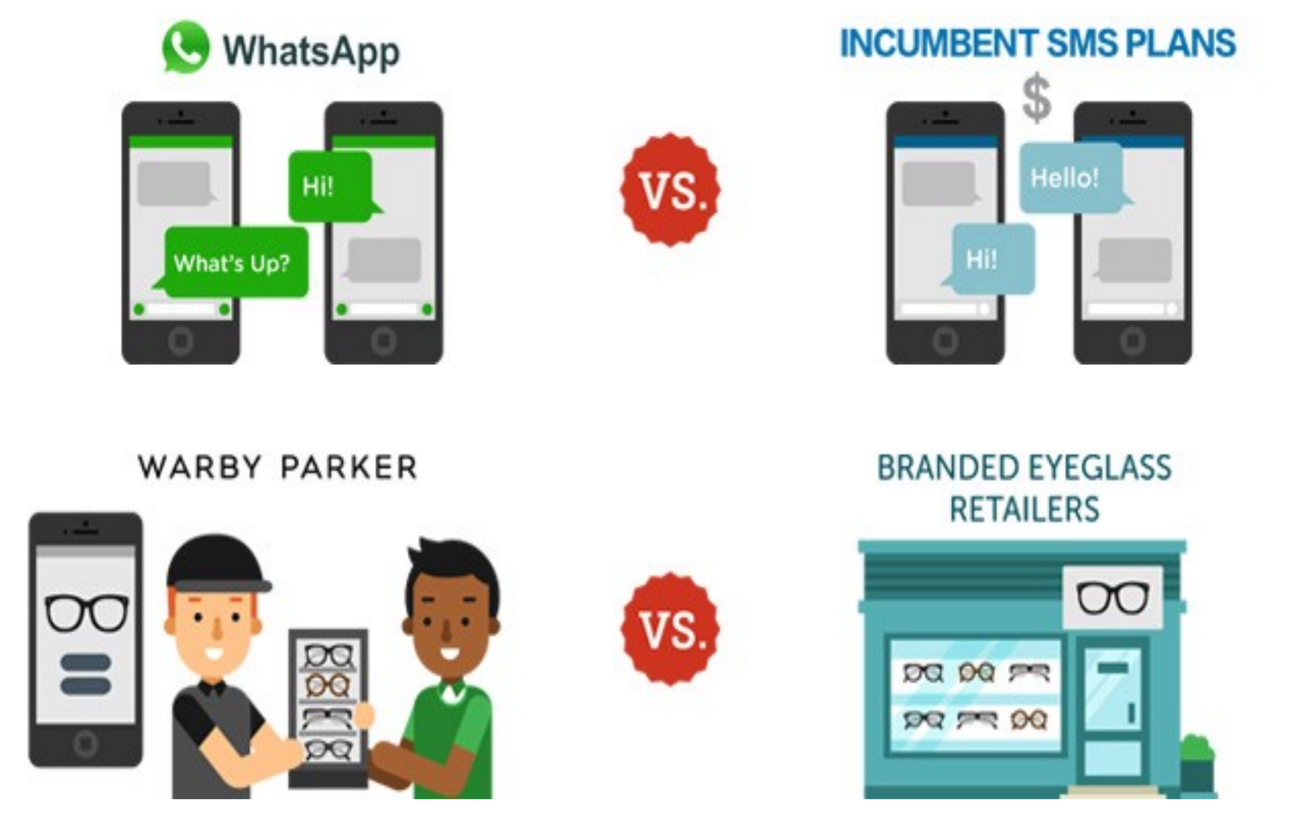


Peer to peer marketplaces

P2P marketplaces eliminate broker fees and middlemen, letting them pass savings to participants in their marketplace and reducing operation costs.

“Full stack” startups

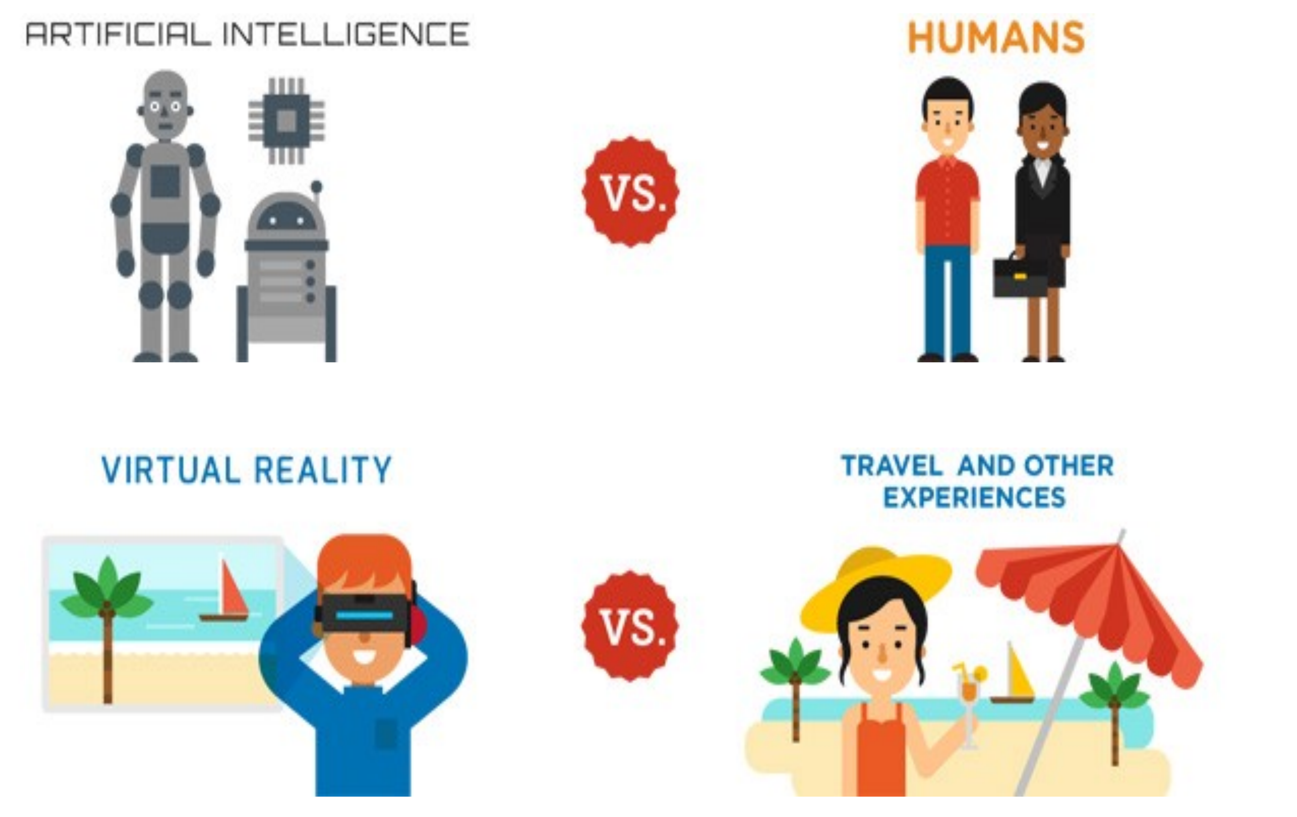
More broadly, “full stack” startups use technology to fundamentally rethink services and disrupt the incumbents.



Emerging: AI, virtual reality, others?

Fast forward, and I’ve got to imagine that in addition to the existing techniques I mentioned, emerging technologies like AI and virtual reality will create a new class of 10x products that save consumers money.

For example, imagine not having to travel to the Serengeti because you can have an experience in virtual reality that’s just like being on a safari, or getting a prescription almost immediately because you’ve been diagnosed by a neural network.



It’s hard not to get excited for future startups capitalizing on these strategies.

What do you think? What emerging companies do you see doing this? I’d love to hear from you.

Follow me on Twitter @sarahtavel.