



GO **BIG**

or

GO **HOME**

How the next generation of startup companies think BIG, grow FAST, and dominate markets overnight

WIL SCHROTER

Go BIG or Go HOME!

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Introduction

The short version of what I'm about to say is this:

These days successful startup companies need to think bigger, grow faster and stay smaller (physically) than ever before.

Windows of opportunity are closing faster meaning startups must react quickly to opportunities by leveraging speed versus size. In a short period of time startups need to Go BIG or go HOME!

This book is about how to Go BIG (really fast).

If that just inherently makes sense then you can probably skip the rest of what I'm about to say because you've either heard it all before or you probably just assumed everyone knew that "going BIG, fast" was the way things were done these days.

For everyone else, allow me to explain what has changed in the last few years and why companies who don't have a *Go BIG* mentality are going to get eaten alive by the ones that do.

The startup game has changed

In order to understand why it's so important to *Go BIG* you first need to understand that the game of starting companies has changed a lot in just the last few years. In particular, three important things have happened that made the startup game much easier and far more competitive at the same time.

#1: The key ingredients got cheaper

Every startup, no matter what industry they're in, has an income statement with roughly the same line items – payroll, marketing, technology and such. Ten years ago each of these line items would have cost a fortune to fund. That meant a startup company needed tons of capital in order to even make a dent in the marketplace. This created a large barrier to entry for new competitors.

However in the last few years the price of each of these key ingredients has simply plummeted, which in turn has significantly lowered the barriers to entry for startup companies.

Take a look at how each of the line items that used to break the bank for startups has changed:

Technology is a commodity. Software has gone open source (read: free), connectivity and hosting are dirt cheap and you can buy a fully functional PC on eBay for \$100. Even the ridiculous costs of long distance telephone service have become a thing of the past (we love you Skype!) You can legitimately take care of all the technology startup costs for a company for about \$1,000. Sweet.

Marketing became performance-based. We can thank Google and Overture for this one. With the rise of cost-per-click and search engine marketing we saw the rise of performance-based marketing that allowed companies to pay for ads that worked, not just for ads that ran. Now a startup can begin attracting customers with a marketing budget of just \$100 and grow from there.

22 year olds don't make \$100,000 anymore. The young, energetic talent that we all relied on to build the infrastructure behind all of our great ideas no longer has a rock star salary. The days of the HTML programmer making \$100k and taking his dog to work are over. Now that work can be done for \$10 per hour – or less.

Capital is less necessary. When the price of just about everything plummeted, so did the need for lots of capital. The problem with capital is that it takes time and energy to raise. Now that same time and energy can go into actually starting the company, not funding it.

When you add all of these ingredients together you get an interesting combination. All of a sudden startup companies can get to market quickly without having to raise lots of capital to do so. This breeds more startups and it breeds them a lot faster.

#2: The Internet actually happened

The promise of a billion people instantly connected to the Internet sounded like a pipe dream in the mid-90's, but guess what? It actually happened.

Today over a billion people are connected to the Internet and using it like crazy. Heck, since the Internet took off I can't even remember the last time I visited my local bank or walked into a Blockbuster to rent a movie. I don't even know if real live travel agents still exist anymore thanks to Expedia.com.

The Internet "actually happening" has meant that the benefits to having a truly networked audience can make lots of businesses highly scaleable and far more cost effective. Here are just a few of the key reasons why the proliferation of the Internet means so much:

The viral Internet got real. In the last five years we've seen the true power of viral marketing on the Internet. Companies like Napster, PayPal and MySpace have grown to tens of millions of users within just a few years simply by referral. That same rate of user acquisition a decade ago would have cost tens of millions of dollars and would have taken ten years.

A billion people actually use it. Think about this for a second. Even five years ago you had people experimenting with stuff like eBay. Today thousands of people actually make their living on eBay. When the Internet goes from a “nifty tool” to a “basic necessity” the power of that Network increases exponentially.

It scales like a mother. Once startups understood that the fastest way to grow a business is to have a truly scaleable on-line product, companies like PayPal and Google went through the roof. Sure, you can open up 20 restaurants a year, but nothing grows faster than an Internet-based company simply adding more servers to support more customers.

It's really easy to get started. Any idiot with computer and the most basic knowledge of the Web can (and has) open up shop on-line. This means that the barrier to entry for new startups has plummeted significantly (I'm still not sure if this is good or bad judging from some of the incredibly lame Web sites I've seen, but hey – who am I to judge?)

Obviously the Internet isn't new, but it's important to understand just how much it has evolved in the last five years as a key business startup tool. That is not to say

that companies who do not have an Internet strategy are doomed, but it's hard to ignore an instantly addressable market of 1 billion people as a key game-changing trend.

#3: Speed became king

If the next generation of high growth startup companies has shown us anything, it's that "speed is king". Companies like Google, Skype and NetFlix have shown us that it wasn't about adding more employees and office space as quickly as possible. It was about addressing changing market conditions as quickly as possible with products that could scale big and fast.

Look at how these companies have gone from relative obscurity to market powerhouses in a matter of years, shoving giant incumbents out of their way in the process:

Google - Proved to Microsoft that being the world's largest software company was useless if you couldn't respond quickly enough to changing market conditions, like the rise in ad-supported searches. Google is now worth almost half the price of Microsoft.

Skype - Grew to over 50 million users of its voice over IP service before big telecom could even begin to respond to the opportunity (they still really haven't). Skype was sold to eBay for over \$4 billion dollars after just 3 years in business.

NetFlix – Forced Blockbuster to abandon its cash cow – movie rental late fees – to try to stay competitive while NetFlix completely changed the movie rental model on them. NetFlix is now approaching 4 million subscribers and the “dark years” of late fees are now only a horror story told to young children.

What you’re seeing more and more of are David and Goliath match-ups where David is kicking Goliath’s proverbial ass in a pretty big way. Big companies aren’t geared toward addressing rapidly changing market opportunities – startups are.

The next generation of startups has learned that it’s their speed that is keeping them ahead, not their size.

The windows of opportunity are closing faster

So what does all of this mean? It means that the windows of opportunity to address new markets are closing much faster than ever before. You simply have less time to get a lot bigger than ever before.

Each of these changes will manifest itself into a handful of challenges that every startup will have to deal with.

Competition will show up faster

When you significantly reduce the barriers to entry for new companies to get to market you create more competition a lot faster. Your competition is no longer just a few well-financed companies; it's every college kid with a big idea and some time on his hands.

For you this means that your window of opportunity to be first to market is tiny at best. You don't have time to "feel the market out" and see what happens. You need to be gaining a ton of traction on Day One just to stay

in the game or someone else will take your place in a heartbeat.

While the lowered cost of starting a company is great for you, it's just as great for your competition. As a result, you need to be prepared for an onslaught of competitors in a very short period of time.

Companies will grow bigger, faster

Telecom companies like Skype grew from startup to 50 million customers in less than three years. Google went from obscurity to a company with a \$100 million market cap in just a few years. The rate at which the new generation of startups can grow is astronomical.

This means that unless you are ready to grow like mad you are going to get run over by the next competitor who is. The maturity of the Internet has created a thriving platform for companies to scale quickly and cost effectively. Unless you have a plan in place to take advantage of these opportunities, you'll wind up being a footnote in the history of your industry.

Number One will take everything

Not only do startups like Google, Skype and NetFlix enjoy the spoils of new market opportunities, they also get all the attention from the people that matter most – customers, the media and investors. If you're not sure about that, can you tell me who is Number Two next to Google, Skype and NetFlix? If you're like most people you have no idea.

That's what makes these companies so successful. They get to market quickly, they claim a leadership position and they outgrow everyone else. For this reason they hog all of the attention. There's just not enough time for the world to figure out who Number Two, Three and Four even are.

So let's ask the question again – what does it all mean? It means that these days a startup has only one choice – Go BIG or Go HOME!

In order for your startup company to compete (and win, because that's what it's all about, right?) it needs to think *BIG*, grow fast, and take a Number One position before anyone can possibly challenge you.

Oh, and that all needs to be done in about three years, not ten!

The new startup playbook

Go BIG or Go HOME is a playbook for startups who want to conceive and grow companies in this new market environment.

The book is divided up into five sections that represent the key aspects of a startup company. They are in no particular order, so feel free to jump straight to any section that strikes a chord with you.

The five sections look like this:

Vision – Think BIG. There's a reason companies like Google, PayPal and Skype become huge companies in short periods of time. They think big, solve painful problems, scale quickly, address big markets and (try to) grow profitably.

Growth – Compress Time. As windows of opportunity continue to close faster, startups need to learn how to compress ten years of growth into three years by building backwards, cutting out the fat, and looking for ways to make their business scale quickly.

Marketing – Act Like Number One. Consumers have become fascinated with Number One a company, which means that if a startup expects to dominate a market, they must learn to act like a Number One company right out of the gates.

Capital – Create Capital. The cost of starting a company has plummeted, which means that startups can now *create* the capital they need versus spending lots of time raising it. The focus now shifts towards creating as much value as quickly as possible.

Management – Stay Small. It’s all about speed versus size. Instead of trying to grow the size of the company, startups need to learn how to leverage the smallness of the company to run circles around their larger (and slower) competitors.

Creating *Go BIG* Companies

Collectively these five sections make up the building blocks of what I call “*Go BIG* Companies”. *Go BIG* companies are not about being physically big, they are about being the big players of their respective industries.

Go BIG companies are thinking bigger, growing faster and staying leaner than everyone else. Most importantly, many of the *Go BIG* companies that I reference throughout this book probably weren’t around even ten years ago. They are almost all startups.

I believe that in order for the next generation of entrepreneurs to take advantage of the massive shifts that have occurred in the business marketplace we need to understand the new mechanics behind these shifts.

I hope that the lessons learned here will help you go on to create your own “*Go BIG Company*” that becomes a case study for my next book. Use what you think works and throw out the rest.

If you pick up even one point that helps your business then hopefully it was worth the read. If you end up using all of these points verbatim then I’d really appreciate a nice Christmas card in the mail (hopefully filled with some holiday stock options!) That would be good Karma, right?

Good Luck!

- Wil Schroter