



Stanford eCorner

Exponential Growth

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Video URL: <http://ecorner.stanford.edu/videos/1027/Exponential-Growth>

PayPal Co-Founders Peter Thiel and Max Levchin discuss the connections between growth and burn rate during their company's early days. The co-founders also describe why this was a frantic and stressful period for the organization.



Transcript

We've thought that it was a sort of, the viral marketing started in October, we launched on October 22, 1999 with 24 people in the office sending emails to other people. In the first month or two, it was slow. We were up to 1000 by mid-November, 12,000 by the end of December of '99. It grew by about 5% to 7% compounding daily. It was 100,000 by February 2, 2000 and about a million by mid-April. The eBay subset was growing even faster. It was compounding about 7% to 10% a day. So yeah, it definitely was growing extraordinarily fast. The slightly worrisome component to me as a CEO and even more so to our CFO who used to work at Silicon Valley Bank, which is sort of, you know, very traditional bank was with the exponential customer growth, there was an exponential growth in expenses because they were all costing \$20. Because we plot the exponential curve of the customer growth and one could also plot the burn rate, which was growing exponentially as well.

And by early March of 2000, and we had about ways to more venture capital money. We had \$15 million in the bank, which is a decent respectable amount but the burn rate of this, there were no revenues and of course no profits. But the burn rate was running at about 10 million in a month and when sort of plotted out the whole thing was going to blow up in six weeks. We had various company meetings with the engineers and you know, it was like oh, we even take over the world we can't slow down now and... I was just getting a little tense. So, we basically just figure we have to raise more money. Last thing you want to do is stop the kind of machine we're building. The timing, March 2000 was rather auspicious in that score. Yes. So one of the things that occurred at that time, we merged with our largest competitor x.com, which there are still some rumors about who came up with the idea but we claimed we were there certainly first.

And it was a 50/50 merger of equals, which made a lot of things more palatable than not. And both companies were basically growing exponentially at that point. Both companies were pretty close to running out of money. So... We're four blocks down the street from each other on University Avenue. That's quite the Mexican stand-off. It was like a classic insane competition situation. Yeah, you know, one of the engineers was actually telling me after a few weeks of sleep deprivation that the easiest way to dispense with our competitors down the block is to build a bomb and just, you know, we'll take care of them. We got slightly insane over the competition with those guys because like, for example my favorite at that time anyway, Latin saying was 'memento mori' which stands for be mindful of death and I had it printed out in gigantic letters on my wall with the x.com logo underneath. But people never, it was amazing from a mass psychology perspective how hard people work.

I mean there was no other context where people worked around the clock like that and you know, it was like, yes the people they're getting ready to destroy us, they're four blocks down the street in University Avenue. That's where the enemy is.

But it turned out that we combined the two companies in early March and then we frantically tried to raise some money. And March 2000 was, it was actually a good time to do this. I remember thinking to myself that it felt like things couldn't get much crazier and we really had to close the money quickly because the window might not last forever. One day, I was in Korea to get a little bit of the flavor. There was once an investor that was a university professor who concluded that the way he was going to become a multimillionaire was to spy on internet businesses from America and copy their business models and implement them in Korea. And so he was hiding behind the tree bush in the hotel lobby to spy on us. Unfortunately, the bush was in the way and so he couldn't hear properly what we're saying and decided to shamelessly just pull up the chair right next to us and listen in on us. A third group of investors took me to the airport and decided that they were going to pitch, and they're all pitching in why I should take their money as opposed to somebody else's.

This was the basic demon. They were going to pitch me on why I should take their money and we were wandering into the airport and I was buying the plane ticket back to the US where I was leading this revolutionary payments, that's going to change the whole future of payments in the world. And I was trying to buy a plane ticket and my credit card didn't work. I think it was probably maxed out or something. But under normal circumstances that would've been a little bit worrisome, they were excited beyond belief. They bought me a first class plane ticket on the spot. The next day, they called up our law firm asked, you know, what's the bank account we need to send the money. No paperwork was signed. I could've given the bank account. Swiss or...

I don't know they wired in \$5 million, showed up the next day and so... But all of these really have confirmed my sense that it was imperative to move very quickly. We closed on \$100 million on Friday, March 31st. It was the following Monday that the market basically collapsed. That did give us a lot of cushion actually, figure out how to make a business work.