Stanford eCorner

Fundamental Principles of Entrepreneurship

Reid Hoffman, *LinkedIn*

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According to Hoffman, working as if you will succeed, getting to failure points and measuring them as early as possible, making a timely entry and exit into the market, taking controlled risks and finally, solving the easiest problems and not the most complex ones are some of the most fundamental principles of entrepreneurship.

Transcript

So here's some key things, I think, to remember. And these are kind of principles about entrepreneurship that I've learned. And I'll try to put them as I remember them in kind of the 'why it was surprising to me when I moved from academia into business'. So, first, work as if you're going to succeed. One of the things about entrepreneurs is you're a little crazy because you're taking this blank thing and you're thinking, "Oh, I can see the thing I can build." It's always a lot more work and a lot harder than you think. And if you look at statistics, most entrepreneurial ventures fail. So depending on which stat you look at, it's somewhere between 10% and 30% in the success range. That's in a there is a happy exit that isn't a crater at the, you know, that isn't a little smoking ruin. So you work as if you're going to succeed because you have to have that kind of, like, visualize it. But plan on the fact that you might actually fail.

In other words, be paranoid about the fact that you may be failing. So for example, one of the lessons that was very contrary for me between my academic training and my business training is, you want to get to your failure points and measure them as early as you can. In fact, it's like, "Oh, I'll do all the stuff to prep because I really don't want to fail, so I'll do this piece of work first, and that piece of work, and that piece of work, and this piece of work." But if this is your test failure point and this point is, say, three years out, and you wait for three years to measure that and you could've measured it in Year 1, you could've actually known that you were going to fail and had the extra two years to do something else. So get to that point as soon as you can. And do not maximize getting over the hurdle. Everyone has a fear of failure. They have a fear of public embarrassment. They fear of, "Oh, look. I did that, and it blew up." And there's some rationale to that. We all have brands.

Those brands affect who invest in us, who works with us, etcetera. You have to manage that in some intelligent way. But in fact, I see tons of people basically spend years on failed ideas because they don't actually drive it too. They just think, "Well, if I just get everything right, it will work." And you really have to be hard-nosed about what's the central test. And if it fails that test, what do I think about it? So work as if you're going to succeed, but plan on the contingency of failing. Time matters. One of the things that's unfortunately true is that there's a market readiness to when an idea's good. So let's take one of the recent phenomenon: YouTube. Obviously, YouTube had one of the most spectacular beginning growth-and-exits for an entrepreneur in a very compressed time period. Think about MySpace if it didn't exist, or for PayPal, that I did earlier, if eBay didn't exist.

If those things weren't there, they could not have been the successes that they were. And what's more, before YouTube, there had been at least 30 to 40 video start-ups I knew about over the last four years previous to that. And so a lot of people said, "Well, I had an idea that was like that." And it's like, "Yes, you did. And some of it is just luck." It's 'this is the right time, this is the right place.' Now, Chad and Steve did a great job. They copped the wave, they surfed it, they surfed it really well. They did a great job with it. But part of when you look at the lessons to this is sometimes you have to count on the fact that sometimes you're going to be lucky and sometimes you're not, and if your time cycles are really, really long, the number of times that you have the luck of catching the wave is small. So you want to get to measuring whether or not your idea works or not as early as you can. It's about controlled risk, which means neither take tons and tons of risk and take no risk. If you think you're taking no risk, well, either you're not doing anything or you're deluding yourself, because anything that's new involves some amount of risk.

Now, the whole point about controlled risk is, people don't say, "Oh, it's risky," so what I'm going to do is I'm going to work on Artificial Intelligence and I'll create a device that's advancing science. Well, it's risky. Who knows who can do it? Well, the answer is that won't be happening anytime soon, contrary to some AI predictions from some number of years ago. But focus on, like, if this one risk or these two risks--or hopefully no more than three--break my way, then I've got something really valuable, and that thing can really work. And in particular, actually, this leads to another thing that was a big insight for me. Maybe this is... I was stupid. In business, the problem that you're trying to solve is take the easiest, simplest problem that's valuable. You're not trying to prove how smart you are. You're not trying to prove how hard of a problem you can solve.

Those are academic things, because the way that you're rewarded here by publishing a great paper or having a great essay or something else is you took an intellectually very difficult problem and you displayed your master of it by being able to solve that problem with pure brain power. Business is about the simplest possible problem that you can actually--it's scalable, that works in scale--and goes. So for example, YouTube. Simple publishing of video. It's not to say that sometimes, by the way, there isn't a tremendous amount of work underneath it, but it's not like a grand master plan. So I guess I'll kind of go through quickly these kinds of things to get to--it's a little bit of a narrative, which will be interesting. What's the fundamental strategy of a start-up? People frequently think it's product strategy. It's like, "I have a great idea for a photo-sharing site," or a video site or a blogging site, a way of doing a new search, a way of preventing spam, a way of delivering email, whatever it is. I'm a consumer internet guy, so that's--I mean, there's lots of other entrepreneurial exits, but all my examples have been in that arena. It's actually not product strategy and it's not sales strategy.

It's financing strategy. It's strategy relative to capital markets. I'll go in a little bit more depth than this when I indicate why my first start-up had problems. And it was a lack of knowledge at financing strategy that is central.