



Stanford eCorner

Moving Product at Unprecedented Scale

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April 22, 2009

Video URL: <http://ecorner.stanford.edu/videos/2239/Moving-Product-at-Unprecedented-Scale>

When you think about a product that scales, future entrepreneurs must consider web and mobile technologies, as they've allowed for unprecedented, accelerated, broader markets than ever before conceivable. Truly understand the economics of distribution; Sheryl Sandberg, Facebook's COO talks about old print media and music and how they've been trumped by the free distribution of the Web. She strongly encourages those venturing into business to take this business angle into account.



Transcript

The other day at work, Facebook just hit 200 million users and we were excited about it. And the other day in a meeting, someone had a good idea to come in to some meeting with a chart which had graphs of companies that had hit 200 million users in the time frame in which they had come and it was great for us because we are really fast and that felt great. And someone else looked at the chart and said, "I wonder about all the other industries, this is only a tech chart." And someone else looked at them and said, "Of course, it's only a tech chart. Until eBay and Amazon and Google and Facebook and companies like that, no one hit 200 million users this fast, it wasn't impossible. This is an Internet-based phenomena. And so when you think about a product that scales, you have to think about what the connectivity of the web, and now increasingly mobile, is doing because it is allowing scale at a pace and at a size that we've never seen before. It wasn't possible to hit 200 million users. I'm sure the Standard Oil Company didn't get there. I'm not sure there were 200 million people in the country then. But they couldn't get there.

But the other thing that's happened is that along with the ability to scale, the fundamental economics of distribution - not of everything. We still have to distribute water bottles, in many ways the old fashioned way, have fundamentally changed. And if you're thinking about finding a product that scales, you really want to understand the economics of distribution, and you want to really understand the kind of scale that is possible now. So we'll spend a minute on the economics of distribution. People are spending a lot of time - it's obviously very important to journalists. I think it's very important to society. Thinking and talking about what is old media or traditional media. Are the newspapers going away? Many have gone out of business, many still are struggling more. What's happening to magazines, what's happening to TV, what's happening to the music industry? And when you think about these business models, all of these companies produce very high quality content, content that's very important. We all enjoy music.

I think it's fundamental to democracy that we have a reporting in a "I check facts" kind of way. The kind of reporting that can break Watergate, that can take down a president. That stuff matters and there's an editorial quality that matters. But these business models were built on limited distribution and that limited distribution has gone away. So you think about distributing the written word. You have to like print stuff and then you had to like ship in and deliver it to people's home. And so we live in a country, and we still do where there are about a thousand magazine and newspaper companies publishing about 6700 titles. And today, because distribution of words is free, on the web there are somewhere between 70 to 100 million blogs, 15.5 of which were updated in the last 90 days. 15.5 million compared to a thousand magazines and newspapers, pretty amazing. The reason that's happened is that distribution is free, and when distribution became free the fundamental economics changed.

Same thing happened to music. Distribution used to be expensive. You have to print the discs and then you have to like get space in Tower Records, which went out of business. And then you have to compete for that shelf space and they made a lot of money because people would compete for which shelf space they would. And that's the way people had to buy music and they were making money not on the content, but on the distribution. TV shows - the same thing. There were a very limited number of TV shows, cable channels opened up and yes, you got from like five channels or 10 channels to a hundred, but that's still really limited. Not like it is today where you can download I don't know how many videos on YouTube. And so when you think about products that scale, you have to think about what that scale entails and what the basic business model is of distributing your product or service. I have this t-shirt I really like and I meant to look up what company gave it to me so I could properly credit them and I forgot.

But it's this orange t-shirt someone gave me at some event that says, "Make something people want." Like yeah, make a product people want, fantastic! But in the new day and age, figure out how to distribute it so that you can cover your cost and make a profit. And remember that you're doing this in a time of absolutely unprecedented scale.