



Stanford eCorner

Entrepreneurship Rules of Thumb

Reid Hoffman, *LinkedIn*

June 30, 2011

Video URL: <http://ecorner.stanford.edu/videos/2770/Entrepreneurship-Rules-of-Thumb>

How do you set your mind to becoming a more effective entrepreneur? LinkedIn Co-Founder Reid Hoffman discusses these rules to help individuals looking to create new products and companies: 1) Look for disruptive change, 2) Aim high, 3) Build a network around your company, 4) Plan for good and bad luck, 5) Maintain flexible persistence, 6) Remember these rules are just rules of thumb by which you navigate.



Transcript

The first rule that I discussed was to look for disruptive change and the reason that I said look for disruptive change is because it's what are the opportunities that come about that are really new opportunities, because the opportunity, generally speaking, has to be large. It can't be something like, "Well, boy, it's been sitting there for 10 or 20 years and no one's ever really thought about it," it's very rarely the right answer. And if it's not large enough to be something that you could make something significant out of, it's not really high impact. The kind of pioneer parallel to this is that if you're going to actually pack up your wagons and go somewhere, make sure that where you're going is potentially really good, right. That the algorithm by which you can make about that is all of a sudden there's a new opportunity; it's a change in technology, it's a change in competitive landscape, it's a change in how the global ecosystem comes together. The second rule was "aim high" and part of the "aiming"; actually I'd say "big", same thing, was because it's the same amount of blood, sweat and tears when you start a company, whether or not it's a fixed-vertical market or whether or not it's something really, really large. The difference is that you might as well shoot for something large because you can still end up with something smaller, but aiming for something large is really important. Part of the reason why this is kind of a rule of entrepreneurship and may be this is the kind of thing that to this room is like, "We already know this. We're living it," I hope, is because if you don't start out aiming for the big game, you almost never can get there. It's got to be, "How do I have global impact?" I think all high impact companies are basically have to think globally in nature these days because of the way that the market ecosystem is going.

So you go, "OK, how do I play onto that stage?" Part of that, in terms of a pioneer parallel, is again, "How do I go somewhere that is substantially unique?" The third, and this is one of things we're going to come back to is "how do build a network around your company," because as much as we tend to glorify the entrepreneur, for example LinkedIn, as a product of Reid's brain. It's actually brought about by lots of different people; everything from your co-founders, there's the early employees, there're the investors, the customers, some businesses have distribution channels. There's a whole set of network around it. That's even true, for example pioneers, very rarely that one person get a wagon and head west. That was usually the recipe for failure. Really, one of things that's really important to make these things more likely to succeed is to assemble a network around them that where that network helps you get intelligence, helps you get the right resources and drives forward, thinking about it as "what kind of network are you assembling around your company." So for example, the practical advice is when you're looking at financing, it's what additional strength of network can I bring to my company when I'm doing the financing, because it's a very good opportunity to get people to have their interests aligned with yours. The fourth, and this is actually a tricky one to explain, is the plan for both good and bad luck. Part of what it is as people say, "What do you mean plan for good luck? I have this idea, it works out and then things keep going." Well, good luck actually comes in opportunities that you don't normally see. So for example, PayPal started as an encryption on mobile phones company; because it was two close friends of mine, I joined aboard when they founded it. Even though I thought encryption technology on mobile phones back in December '98 was not a good idea, which I told them, but it was also back people.

Then they were like, "Well, OK, not encryption on mobile phones but cash on mobile phones, or just cash in mobile phones, maybe cash on Palm Pilots, maybe cash on Palm Pilots and payment service to the web, and then they launched with that. From the first week they said, "Well, all these growth is coming through eBay, but that's not really what we planned. We planned on people bringing their palm pilot around with them, exchanging money; these aren't our customers, we should figure out how to get them off. Then of course, part of PayPal's great strength was being able to pivot fast and they went, "Oh no, these are our customers; all the rest of that stuff doesn't work, this is the thing that we need to go to. " That's an instance of what I think of it as "planning for good luck," which is you basically go "OK, sometimes what happens when you start the journey of going down the company, you're looking for an opportunity that you may not have thought of it when you started it. But then suddenly, like the pioneering parallel, you come around the corner and all of a sudden, there're new opportunities available to you and that head very strongly to that." So, good luck is not just, "Oh, look my plan worked," it's you will encounter opportunities that you will need to move quickly and grow into it and exploit by having been on the journey. Now, planning for bad luck is unfortunately a little bit more straightforward, which is sometimes you find yourself pioneering and going that you can't find the way through the mountains. What's your plan B, right? One of the ways that I frequently about this is I have a plan A, a plan B and a plan Z. The plan A is "Ok, this is what we're thinking of doing." Plan B is, "Well, if that's not working, what are my parameters of flexibility? I'm still trying to build the same product, the same product market fit, I'm still trying to get there. But maybe if I try this, rather than that?" So for example, when we launched LinkedIn, our hope was that people would just invite each other, and the invitations would work and it would grow into a big network that that would be all we need to do in order to grow the network.

Well as it turned out, we launched the network and a couple of weeks later, we're growing at 2,000 people a week. I was like, "Well, that's not fast enough," so what were the other ideas we had in mind, the plan B? The plan B was actually one of the questions that people most have when they come to LinkedIn is, "Who else do I know who's here," so why don't we build an address book utility that allows people to say, "OK, how do I quickly find that who else do I know who's here? I'll upload my address book and see who's here." We invented that whole pattern and that caused our growth rate to go from 2,000 a week to about 20,000 a week. Without that, I don't know if we would have succeeded. Maybe other plan B's would have worked. Plan Z is what happens when it's just not working at all. It's kind of the "life boat" plan and that's part of how you plan for both good and bad luck. The last two more rules I'm going to through. It's funny, there's only a partial pioneering parallel to this, but it's so important to entrepreneurs to understand this, which is "maintain flexibly persistence." Entrepreneurs are given two pieces of advice with equal vigor, when you look at them they are in contradiction. One is "Have a vision; plow through the wall, keep your vision. Don't allow yourself to be defocused from that, keep going." The other one is "Listen to your customers, listen to market feedback, listen to your network, be really adaptive." Well, OK, how do you put those two things together? That's part of it again where it's a very difficult thing to teach, other than by doing, other than by the activity of going out and being an entrepreneur and making those decisions.

The reason that the rule is "maintain flexible persistence," is because it's both "keep a vision" and be "flexible". So for example, if you think about the A-B-Z planning framework, it's like "Look, I've got a plan. I want to try to get there. This is my main plan. If that's hitting problems like I'm not growing fast enough or I'm stalling out, OK, here are some things I can try to keep trying to do that. And if that doesn't work, how do I shift to a different destination, a different location?" That's part of the plan Z. So, the last rule that I'll go through for today, before we get back to entrepreneurs as pioneers in education, is that these rules are not rules of physics. They're not natural gravity; gravity not just an idea, it's the law. They are rules of thumb by which you navigate and that's part of what makes entrepreneurship so interesting, because usually almost every company has something of a unique pattern to how it operates. Now, sometimes the unique pattern is where its operating in the world, sometimes it's a question of which distribution channels it has.

But one of the things that I love about the consumer internet, which is what I focus on with the vast majority of my time, is that each thing that elevation defines its own unique space and that which we're really looking for is a unique pattern to getting there. The problems that are in front of the company; even though there's family resemblance like, "Well, OK, how do I scale the sales force," or "What do I do in terms of financing," or "How do I work with potential financiers," and all the rest is "How do I make all that happen," and there is a skill set there. The combination on how you pull together and which is your strategy that pulls it off; that's how new strategies are created and entrepreneurial companies are usually the ones that create the new strategies. Usually, when I'm telling someone that I think something isn't going to work, I never say, "Well, that would never work well." Actually, sometimes I say that. But usually, it's like "Well, that's going to be really hard and you're really betting the farm on that one idea, which doesn't strike me as it's potentially going to work." So these are the kinds of rules that are the kind of things you have to learn in the journey that you take. The metaphor that I use for entrepreneurship frequently is, "you jump of a cliff and you assemble an airplane one the way down," and the reason I used this metaphor is because it gets you really focused because the ground is coming. Financing isn't a success; it's a thermal draft, it just makes the ground a little further away. You have to get the plane working and of course, if you get the plane working maybe it goes up and off to the right, and that's good.