



Stanford eCorner

Surviving the Pivot

Reid Hoffman, *LinkedIn*

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Video URL: <http://ecorner.stanford.edu/videos/2773/Surviving-the-Pivot>

Serial entrepreneur Reid Hoffman says almost all successful startups will at some point reach the critical moment of pivot. Hoffman refers to these as "valley of the shadow" moments, when everyone on the early team wonders, "why did we think this is a good idea?" Hoffman uses examples from his experiences at PayPal and LinkedIn to share how a team pulls through these moments and hopefully avoids the death of a startup.



Transcript

One of the issues that entrepreneurs at an early stage often have to deal with, and you mentioned flexible persistence, is a point in time where the prospects of their startup does not look so good and they need to pivot. I was just wondering if you could share, maybe you've never had that experience, but I wonder if you could share with your experience like PayPal and LinkedIn what that moment felt like and what the hindsight was. Well, almost every startup has what I call a "valley of the shadow" moment which is, there's some moment by which the founders and the early team is sitting around, looking at each other and going, "Why did we think this was a good idea?" Right? The PayPal moment of that was August 2000 where the company spent \$12 million in one month. We didn't have a dime of revenue and the burn rate was accelerating. So, we could tell you the hour at which we would run out of the \$100 million that we raised a couple of months earlier. That was definitely a "valley of the shadow" moment. We basically decided that we had a chance to do one thing that would fix the course of business. We have Peter, Max, Luke and I did an offsite where we talked about it. We settled we have to do mass merchant business because we have to have the real exponential cost line was free credit card processing. We have to have a revenue model that matches that, we got to try it.

A lot of people thought we were going to die because people had tried to do master merchant on eBay before and it hadn't worked. So we generated every idea to make it work and we tried them and that's what we ended up being successful, rather than a smoke cloud. And then at LinkedIn, it actually started from a fairly early day, because one of the things that was interesting is as I recommended to people that you go out to your network and you get intelligence from them, I was taking the LinkedIn idea around them, some of my smartest friends. And all of them were saying, well not all. Two-thirds of them were saying, "You're out of your mind; this is a dumb idea." And I said, "Why do you think it's a dumb idea?" They said, "Well, the whole value is people in the network; so first personal in the network, no value, second personal in the network, no value, third personal in the network no value. Until you get to some size of the network, there's no value for anybody in the network, so this will never go anywhere," and it will never launch. And I said, "Well, I've got some ideas for how virality and other things may be able to pull this together and even though a small percentage of people go, "Ooh, I want to try this, this is interesting," I think I can grow to the right size. If I wasn't right about that, my plan Z was basically to shut the company down or try to sell it and then be done, and that's the reason why we launched as early as we could and we are focusing on the network growth as a part of it, as a way of making it happen. The months between we launched, May 5th 2003 and then to December, was all pretty white knuckled because until we actually got the growth network going the right way, we basically knew the alternative was fairly immediate and messy death.