LEARNING FROM BILLION DOLLAR STARTUPS

WHY STARTUPS LIKE UBER, XIAOMI, AIRBNB AND SLACK SUCCEED

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Intro

Figuring out why something is successful in retrospect is like trying to describe the taste of water. It's hard. Today's innovative startups are changing how we use technology, how we lead our daily productive lives and how our businesses run. Young entrepreneurs are changing how we use our mobile devices, how we interact with each other, what we share, how we share information with each other, how we consume information, how we listen to music, how we pay for products, how we travel and how we connect. Things can only get better. Startups don't win just because of better technology or features; they win because they solve real problems that demand clear and simple solutions.

Most of the startups presented in this book started as simple ideas but over time changed how we use the internet and what we do with our mobile devices, at least as long as they remain useful. You will find out what twenty of the most successful startups did right when they launched to the public and what they are still doing right, now. These startups are disrupting their industries, generating side businesses for others, have millions of users and still counting. You will find out how they got their ideas, the goals they had at the time of launch, marketing strategies they used, decisions they took when their businesses started growing, company culture they keep, hiring processes, their plans for the future and lessons they learned on the road to success. Most of these growth strategies and lessons were shared by founders and CEO's of the startups on various media across the web.

Sections of this ebook were based on publicly available information from news articles, industry posts, Wikipedia and public market data. Inspired by the billion dollar startup club publication by The Wall Street Journal.

The One Reason Why Startups Succeed

Bill Gross has discovered one factor that stands out from the others — and surprised even him. Bill has founded a lot of startups, and incubated many others — and he got curious about why some succeeded and others failed. So he gathered data from hundreds of companies, his own and other people's, and ranked each company on five key factors. Bill Gross is the founder of Idealab, a business incubator focused on new ideas. (He's now the chair and CEO.) He helped create GoTo.com, the first sponsored search company. He also created the Snap! search engine, which allows users to preview hyperlinks.

Gross has been an entrepreneur since high school, when he founded a solar energy company. In college, he patented a new loudspeaker design, and after school he started a company that was later acquired by Lotus, and then launched an educational software publishing company. Now, he serves on the boards of companies in the areas of automation, software and renewable energy.

"I believe that the startup organisation is one of the greatest forms to make the world a better place," Bill Gross said, as he opened his TED Talk earlier this year in Vancouver, Canada.

"If you take a group of people with the right equity incentives and organise them in a startup, you can unlock human potential in a way never before possible. You get them to achieve unbelievable things," he added.

"But if the startup organisation is so great, why do so many fail?," he asked.

His presentation was focused on his findings from data gathered from hundreds of companies. He asked “what actually matters most for startup success“.

He said, “I wanted to know this because I’ve been starting businesses since I was 12 years old, when I sold candy at the bus stop in junior high school; to high school, when I made solar energy devices; to college, when I made loudspeakers. And when I graduated from college, I started software companies. And 20 years ago, I started Idealab. In the last 20 years, we started more than 100 companies, many successes and many big failures. We learned a lot from those failures.”

Gross has looked at companies in his portfolio, combined with industry knowledge and has eventually come up with a list of five factors, which he believes, “account the most for company success and failure.”

1. The Idea

First, the idea. “I used to think that the idea was everything. I named my company Idealab for how much I worship the “aha!” moment when you first come up with the idea. But then over time, I came to think that maybe the team, the execution, adaptability mattered even more than the idea,” he said.

2. The Team behind it

Gross said, “I never thought I’d be quoting boxer Mike Tyson on the TED stage, but he once said, “Everybody has a plan, until they get punched in the face.” And I think that’s so true about business as well. “So much about a team’s execution is its ability to adapt to getting punched in the face by the customer.”

"The customer is the true reality. And that's why I have come to think that the team maybe was the most important thing."

3. Business model

"Then I started looking at the business model. Does the company have a very clear path generating customer revenues? That started rising to the top in my thinking about maybe what mattered most for success," He said.

4. Funding

"Then I looked at the funding. Sometimes companies received intense amounts of funding. Maybe that's the most important thing?" Gross said.

5. Timing

He said, "And then of course, the timing. Is the idea way too early and the world's not ready for it? Is it early, as in, you're (in) advance and you have to educate the world? Is it just right? Or is it too late, and there's already too many competitors?"

Digging depper, Gross "looked across all 100 Idealab companies and 100 non-Idealab companies to try and come up with something scientific."

He first focused on Idealab companies; the top five companies — Citysearch, CarsDirect, GoTo, NetZero, Tickets.com — those all became billion-dollar successes. "And the five companies on the bottom — Z.com, Insider Pages, MyLife, Desktop Factory, Peoplelink — we all had high hopes for, but didn't succeed," he said.

He continued, “I tried to rank across all of those attributes, how I felt those companies scored on each of those dimensions. And then for non-Idealab companies, I looked at wild successes like Airbnb, Instagram, Uber, YouTube and LinkedIn.”

Gross also considered some of the biggest failures of all time “some failures: Webvan, Kozmo, Pets.com, Flooz and Friendster. The bottom companies had intense funding; they even had business models in some cases, but they didn’t succeed. I tried to look at what factors actually accounted the most for success and failure across all of these companies, and the results really surprised me,” he said.

The result

Eventually, the intense research led Gross to believe that:

“The number one thing was...timing.”

“Timing accounted for 42 per cent of the difference between success and failure. Team and execution came in second, and the idea, the differentiability of the idea, the uniqueness of the idea, that actually came in third,” he said.

“The last two, business model and funding, made sense to me actually. I think (a) business model makes sense to be that low, because you can start out without a business model and add one later if your customers are demanding what you’re creating. And funding, I think as well, if you’re underfunded at first but you’re gaining traction, especially in today’s age, it’s very, very easy to get intense funding,” he added.

Gross went on to use Airbnb as an example. He said that at first Airbnb was “famously passed on by many smart investors because people thought, ‘No one’s going to rent out a space in their home to a stranger’. Of course, people proved that wrong. But one of the reasons it succeeded, aside from a good business model, a good idea, great execution, is the timing."

He believed that Airbnb came out right during the height of the recession during the last decade, "when people really needed extra money, and that maybe helped people overcome their objection to rent out their own home to a stranger."

"Same thing with Uber. Uber came out: incredible company, incredible business model, great execution, too. But the timing was so perfect for their need to get drivers into the system. Drivers were looking for extra money; it was very, very important," he added.

He then talked about the failures, companies that should have succeeded, but came into the market at a poor time. "We started a company called Z.com. It was an online entertainment company. We were so excited about it — we raised enough money, we had a great business model, we even signed incredibly great Hollywood talent to join the company. But broadband penetration was too low in 1999-2000. It was too hard to watch video content online; you had to put codecs in your browser and do all this stuff, and the company eventually went out of business in 2003," he said.

It was a "great idea, but unbelievable timing. In fact, YouTube didn't even have a business model when it first started. It wasn't even certain that it would work out. But that was beautifully, beautifully timed," Gross explained.

Timing is everything!

"So what I would say, in summary, is execution definitely matters a lot. The idea matters a lot. But timing might matter even more. And the best way to really assess timing is to really look at whether consumers are really ready for what you have to offer them. And to be really, really honest about it, not be in denial about any results that you see, because if you have something you love, you want to push it forward, but you have to be very, very honest about that factor on timing." he said.

"As I said earlier, I think startups can change the world and make the world a better place. I hope some of these insights can maybe help you have a slightly higher success ratio, and thus make something great come to the world that wouldn't have happened otherwise." Gross concluded.

Xiaomi: China's Smartphone Sensation

Aside from Apple Inc. and Google Inc., few tech companies can compete with China's Xiaomi Corp. when it comes to fervent fans. Devotees of the smartphone maker (whose name means "little rice" in Chinese) will fly across the country to bear witness to a product launch and send founder Lei Jun handmade gifts on holidays.

It's why Xiaomi has become China's largest smartphone vendor after only four years. It also became the world's most highly valued startup in December 2014, after closing a new $1.1 billion round of funding at a $46 billion valuation.

Xiaomi's secret sauce has been combining smartphones that are a great bargain with social media savvy. It has consistently launched smartphones with advanced specs that are comparable to leading global brands, but at a fraction of the price. Xiaomi has also built a reputation as being responsive, updating its user interface weekly, often with suggestions that customers had submitted through social media.

Mr. Lei also plays a role in Xiaomi's popularity, as a charismatic speaker who has taken inspiration for product launch aesthetics from Apple's late co-founder Steve Jobs. In his life before Xiaomi, Mr. Lei had been CEO of Chinese software maker Kingsoft and an angel investor. He had then gathered an all-star team of executives, including ex-Googlers, to found Xiaomi.

The company keeps costs down by selling most of its products online and having its fans help it do marketing through word of mouth. It's been a great formula so far, but it's being tested now as Xiaomi looks to expand overseas. Xiaomi is also facing tougher competition in China. But Xiaomi has always maintained it is actually an Internet company, not a smartphone one, and it puts a big emphasis on developing services. Mr. Lei's ultimate goal: an entire ecosystem of household products all connected to a Xiaomi smartphone.

An ecommerce approach

Serial entrepreneur and Xiaomi co-founder Lei Jun likes to say that his newest startup is an ecommerce company – which is one of many reasons he dislikes the frequent comparisons between Xiaomi and Apple. He thinks that likening it to Amazon is closer to the mark. Xiaomi has its own estore and also has a storefront on Alibaba's Tmall. The numbers back up Lei Jun's claim. Xiaomi's website is the third largest business-to-consumer (B2C) ecommerce store in China in terms of sales volume (behind Tmall and closest rival JD). On China's Singles Day on November 11, a sales bonanza that saw US$9.3 billion spent on Tmall, Xiaomi was the top brand on Alibaba's marketplace.

Xiaomi sold 1.2 million phones during the 24-hour sales event, racking up, along with sales of some other gadgets, RMB 1.56 billion (US$254 million) in items sold. Xiaomi generally only sells its devices in limited flash sales – typically in batches of about 50,000 to 100,000 in China, but in smaller amounts overseas – so as to ensure it only manufactures what it's sure to sell. The upstart company's sales pitch doesn't stop once someone has bought a smartphone. New customers will find that their phone comes with a Xiaomi store app pre-installed.

Xiaomi use of a new kind of social commerce

Because Xiaomi largely sells its phones online, social media is an important part of the way it remains visible and engaged with both customers and prospective buyers. It does this in China mainly via Weibo, and in new markets it's making use of Facebook, Twitter, and – primarily through Hugo Barra, ex-Googler turned Xiaomi VP for international operations – Google+. On Weibo, Xiaomi often sees engagement levels well over 60 percent, according to the Resonance China report, thanks to frequent daily posts on a surprising variety of topics. Not only is there the usual buzz for products and news about flash sales, but also incentives for retweets, how-to guides, and fun things like photo contests. Xiaomi's Weibo will also retweet some viral content going around China's web so long as it's relevant to its audience and also sort of ties in to cultural issues around gadgets and technology.

Every product range has a social hub

Another crucial part of Xiaomi's social media strategy is that it runs Weibo accounts for every product range. Xiaomi has 10 main Weibo accounts, the most popular of which is the Xiaomi Mobile Weibo with close to 11 million fans; the newest one, for the MiPad (pictured above), has just surpassed 500,000 followers. Xiaomi's corporate Weibo has four million followers, indicating that people would rather interact online with gadgets (so to speak) rather than a company. Gadgets are very personal, but companies tend to be rather faceless, so this makes sense from a human perspective – yet it's something that so few companies do, particularly outside of China. This allows the company to cross-promote Weibo posts between accounts. In addition to Xiaomi's social accounts, the firm's executives are also active on Weibo and serve as brand ambassadors. Lei Jun has over 11 million followers, while Lin Bin has more than four million.

Lowers the price of “premium”

For Apple, premium starts at about US$700. For Samsung it’s about US$600. But Xiaomi chopped that in half in 2011 when it debuted the first of its smartphones, which packed premium specs (but a rudimentary, blocky design) into a tiny price – just US$325. Xiaomi has kept that price for its flagship phone, which is now the Mi4. Xiaomi has also upped its hardware design game so that the aesthetics of the phone itself are no longer too much of a compromise compared to models from Apple and HTC. Xiaomi’s own version of Android, called MIUI, has also helped with this premium feel as it’s better looking than most Android skins out there.

Creates scarcity

Xiaomi’s flash sales help it rein in inventory and reduce wastage, avoiding the kind of over-production disasters seen recently with Amazon’s Fire Phone and Microsoft’s Surface RT. While that makes it harder to get a Xiaomi gadget, the company has managed to spin that into a positive, creating periodic hype as flash sales of a limited number of devices open up each week. Xiaomi’s social media accounts, particularly on Weibo and WeChat, play a key role in driving people to the registration page for each new flash sale. Then, once a flash sale is completed, Xiaomi makes use of the quick sell-out in further social media postings, declaring that, for example, 50,000 Mi4 smartphones sold out in just 25 seconds. Not everyone welcomes flash sales. The process is certainly a lot more complex than the usual click and checkout on most ecommerce sites. The system seems to have met with more criticism outside of China than it has in Xiaomi’s home nation. When Xiaomi launched in India in September, it faced a backlash as demand outstripped supply by a factor of two-to-one, resulting in a wave of disappointed and frustrated comments on the brand’s Facebook India page. Despite those drawbacks, new phone makers that are emulating Xiaomi, such as OnePlus, are also using flash sales.

Why Uber is Booming

A pair of serial entrepreneurs, Travis Kalanick and Garrett Camp, struck gold in 2009, when they developed a smartphone app that could summon a private taxi with the press of a button. Uber launched in their home city of San Francisco the following year, shuttling affluent young professionals around the booming tech metropolis in black Lincoln Town Cars with white-glove service. Passengers loved the convenience; drivers found an extra source of income and Uber built a business by pocketing 20% of each ride.

With its model proven, Uber plotted a rapid global expansion, bringing the service to more than 270 cities around the world in five years. The company's success has sprouted imitators like Lyft and Sidecar as well as opposition from the incumbent taxi industry and regulators who have raised concerns about safety. The service has been banned in Nevada and Portland, Oregon and outside the U.S. in parts of India, China and Thailand. Mr. Kalanick, Uber's outspoken chief executive, has courted controversy with questionable comments and ruthless competitive tactics. Investors, however, have grown ever more enamored with the company, sending its valuation to more than $41 billion in a round of funding last December that made Uber one of the world's most valuable private startups.

With a war chest of billions, a vast network of lawyers and lobbyists and a veteran political operative named David Plouffe, Uber is now working to ease passage of laws that will bring its service into compliance with municipal codes. It's responding to concerns raised by U.S. Sen. Al Franken last year that the company does not do enough to protect the private transportation data of its users. Mr. Kalanick has also hinted at a more ambitious next act for the company: transforming from a transportation provider for people into a logistics provider moving all manner of goods and services from point A to point B.

The need for Uber

If on the outside chance you're not familiar with Uber, the basics are as follows:
In the past, when you needed to get somewhere, hailing a cab was a nightmare. You either stood outside—wind, rain, sleet, snow, or shine—waving your hand in the air until you could hail a cab, or you called a taxi dispatch (if you had their number) and had to wait 20 minutes until a car arrived. Once you arrived at your destination, you fumbled to count out the right amount of cash plus a tip, negotiate with the driver who never had the right change, or who "forgot" to start their meter, or whose credit card machine was "broken".

All told, very few people viewed finding and using taxi service as something enjoyable—it was simply something that they dealt with due to the lack of an alternative. Before Uber you were beholden to an entrenched, monopolistic entity, whose sloppy execution and lack of regard for the customer experience was evident at every touch point. This poor experience and a perceived lack of ability to change anything about it created pent up frustration and demand from consumers who were eager to find anything better. Uber tapped into that frustration and demand exceptionally well.

Uber is completely changing the way getting private transportation is done in several key ways. First, their smartphone app is integrated with Google maps so that you can see how far away the nearest cars are, set a meeting point on the screen, and hail a car to meet you there. You can even see your driver's information (including ratings) as you watch the car get closer to your location. Uber drivers call or text to confirm that they're on the way, giving you peace of mind that your order was received. Once your car arrives (usually within a few minutes), the driver greets you by name and you hop in. The cars are black cars and SUVs. Uber X, a lower cost version of the service, is made up of a fleet of well maintained sedans.

Once you arrive at your destination, the app charges your card, and you're free to go on about your day. There's no need to deal with cash, change, tips, or receipts. You just hop out. Uber has removed the friction from the typical taxi cab transaction, and made it highly enjoyable in the process. Bill Gurley sees Uber's key to growth as a simple one: Uber offers a great product. He explains, "The product is so good, there is no one spending hundreds of thousands of dollars on marketing." While this is certainly the case, it isn't the only factor driving growth at Uber. First, let's go back to the beginning and look at some of Uber's early tipping points.

Early traction

Though the company was founded in 2009, Uber didn't officially launch until June 2010. In January 2011, just six months later, they had had between 3,000 and 6,000 users and had already done between 10,000 and 20,000 rides. So what got them there?

Completely solves problems for riders

First and foremost (as Gurley points out, and as with Square), Uber provides a solution to a real problem that impacts millions of people. In all sense of the word they have disrupted the monopoly of taxi cab transportation that exists in many cities and reinvented the experience from top to bottom. Among the many problems Uber is tackling are: poor cab infrastructure in some cities, poor service and fulfillment–including dirty cabs, poor customer experience, late cars, drivers unwilling to accept credit cards, and more. Uber set out to reimagine the entire experience to make it seamless and enjoyable across the board. They didn't fix one aspect of the system (e.g. mobile payments for the existing taxi infrastructure), they tackled the whole experience from mobile hailing, seamless payments, better cars, to no tips and driver ratings.

By avoiding the trap of smaller thinking, and iterating on one element of the taxi experience (say, by making credit card payments more accessible in the car) they were able to create a wow experience that has totally redefined what it means to use a car service, sparking an avalanche of word of mouth and press.

Word of mouth from satisfied customers

Much of Uber's success can be attributed, as mentioned above, to the fact that it is totally mind blowing compared to the frustrating and broken taxi experience. Max Crowley of Uber Chicago explains: "We've found that our growth is driven substantially by word of mouth. When someone sees the ease of use, the fact that they press a button on their phone and in under 5 minutes a car appears, they inevitably become a brand advocate." According to Kalanick, Uber relies almost exclusively on word of mouth, spending virtually nothing on marketing. He explains, "I'm talking old school word of mouth, you know at the water cooler in the office, at a restaurant when you're paying the bill, at a party with friends – 'Who's Ubering home?' 95% of all our riders have heard about Uber from other Uber riders." In fact, for every 7 Uber rides, word of mouth generates a new Uber user.

Uber has even gotten attention from the likes of comedian Dave Chappelle, actor Edward Norton, venture capitalist Marc Andreessen—who calls it a "killer experience,"—and AirBnB CEO Brian Chesky—who claims that "Uber makes it very easy to not own a car." This word of mouth is as much today's growth engine as it was in early days. Uber doesn't need to do traditional marketing to drive users, they simply find ways to fan the flame of that first trial to reach new people and grow their user base.

Leveraging mobile technology

Mobile technology has been a source of disruption in many industries. Prior to the launch of Uber, the taxi industry operated without major threats for decades. Uber leveraged mobile technology to disrupt the long-established taxi industry by offering an alternative that excels in providing convenience for passengers. Since its launch, Uber has continued to enhance the functionality of its mobile application, incorporating the latest in mobile technology to further improve the experience for its users. Using the power of mobile, Uber has been able to offer consumers several distinct advantages, including:

1. Quick and reliable ride booking – GPS and mapping technology
2. Transaction convenience and simplicity – Mobile Payments
3. Driver Feedback Enables Improved Experience

After downloading the application and setting up an account, users can easily book a ride through the mobile application with a couple of taps. GPS makes the Uber application location aware, which eliminates the need for passengers to manually type in or communicate their current location. Before and after booking a ride, users can view the location of Uber drivers in the area. Sophisticated algorithms, GPS, and mapping technology allow Uber to quickly match passengers with a nearby driver and provide real-time estimates for pickup times.

The mobile application was also used to simplify the transaction process. Users attach a credit card to their account as part of the sign-up process, which eliminates the transfer of cash. The transaction is further streamlined by a pricing structure that builds the fare and tip into a single price point. In April 2012, Uber further streamlined the transaction related process by incorporating Card.io technology to simplify sign-up. Card.io allows the Uber application to read credit cards by placing them in front of the phone's camera, instead of having users manually type in their credit card information.

In recognition of the threat posed by second movers into the market, Uber has been aggressive with its growth both domestically and internationally. Since launching in

2010, Uber has expanded its reach to include cities in 26 different countries. Uber's expansion has been met both with excitement and major blocks resulting from lawsuits, technological limitations and government regulation.

Expanding internationally has involved a series of changes to the mobile application and business model in order to localize it to the market and culture. Most obviously, Uber has had to make changes to accommodate different languages, currencies, and distance measures (e.g. miles vs. kilometers). International expansion requires must more than this however. Travis Kalanick wrote about Uber's international expansion in a blog posting: "As we started expanding, it became clear that individual cities were the unique factor in our launches. Each city is unique in its transportation pain points, its density, its transportation alternatives, regulation, even its transportation culture." (Kalanick, We're Going Global With Big Funding).

When Uber launched, one of its appeals involved the cash free transaction, which required users to setup a credit card on their account. In some countries however, such as Germany, credit-card adoption is much lower than it is in the United States. In response to this, Uber announced a deal in November 2013 with PayPal, the online payment service. The deal will allow Uber to offer an alternative payment option to users in select countries (Kucera), thereby continuing to broaden its base of potential users and enhancing its ability to expand internationally.

Challenges

Uber has also faced a number of legal actions against them not only from external figures, but also from within the industry. Other cab companies that exist in cities don't want Uber to enter saying their wages create an unfair advantage for them and steal the existing workforce. Internally cab drivers say they are cheated out of taxes which Uber claims are already included in the fare. Uber's solution to this concern also is based on technology. Uber considers itself a technology platform, not a taxi company. Uber only provides the branding and platform for independent people create a small business using the technology. This absolves Uber of requiring them to pay anything as each individual cab driver sets their own wages. Currently, Uber is classified as a taxi company not a technology platform, a ruling which Uber has appealed. Uber's branding and utilization of mobile technology has made its solution to transportation headaches more than successful. It has created a platform that has generated envy that displays itself in copycat competition and worried taxi companies trying to create regulation to shut them down.

Growth Story of Snapchat

Snapchat Inc. first grabbed global headlines in 2013, when the young startup rebuffed an acquisition offer from Facebook Inc. worth more than $3 billion. To most observers, the move appeared foolish and greedy. Snapchat had zero revenue, no business model and was led by Evan Spiegel, then a 23-year-old college dropout with no prior experience running a company. But what attracted Facebook soon became apparent to many others: Snapchat was rapidly accumulating users, mostly teenagers, and getting them to spend long periods of time in the app every day. Its core feature, developed by Mr. Spiegel and his two co-founders as classmates at Stanford University, is the ability to share a photo with one or more friends under the condition they can only view it for a short period of time before it disappears forever.

With more than 100 million users sending over 400 million snaps a day, the company has expanded into new areas, including peer-to-peer payment service Snapcash and a media newsstand called Discover. Investors eager to get a piece of the popular mobile app have piled in cash at fast-rising valuations, from $1.5 billion in November 2013 to more than $10 billion less than a year later. But important tests remain for Mr. Spiegel, who must now try to generate revenue without falling out of favor with his legion of loyal users. The company tiptoed into advertising last year as Mr. Spiegel vowed not to be “creepy,” or target individual users with ads, a lucrative practice now common among all major Internet companies. The CEO, who rarely makes public appearances and asks partners to sign lengthy nondisclosure agreements, nonetheless brought unwanted attention on himself when a batch of leaked emails from his college frat party days contained offensive remarks he made about women. A management bench that includes former Facebook executive Emily White and former Credit Suisse banker Imran Khan will help try to help the young company live up to its soaring ambition and turn its free service into a moneymaking business.

Key Growth Takeaways

While the world is still debating whether or not privacy is the biggest right – Snapchat stepped ahead of the debate to launch its algorithm of self destructive images and gave users the freedom to be fun, to be themselves and share it with their “inner circles” without wondering what the consequences would be, if the photographs made their way to Facebook or the web. Snapchat is liberating in its basic essence and here are three other features that rule:

1. The app is not limited to smartphones.
2. Doesn't need a data plan – if you can find a wi-fi hotspot, you're good to go.
3. The photo and writing app lets you be creative and self-destructive images give you the freedom to share it with a closed group.

A New York Times story spoke of how the co-founders shared an iPhone version of the app with 20 of their friends in September 2011. A few weeks in, they saw multiple new users join and noticed unusual spike in activity, particularly from 8am to 3pm. The activity was courtesy several high school goers of an Orange County high school, who heard about the app from Speigel's cousin studying in the same school. Soon the app spread to other schools in Southern California. Educational centers and skill building institutions like SQL training centers became the hotspots where teens and young adults shared the app with one another and Speigel's app went to have 30,000 users from only 3,000 a month earlier!

If Snapchat's growth could be attributed to a single reason, it would be its popularity amongst the teenaged millennials. The truth is teens and the younger millennials are in fact the primary trend setters. Other demographic groups adopt the trends set by teens and young adults. Snapchat revamped itself for tweens (8 to 12 years), the teens and college-going, young adults. Implications? Teens with no personal smartphones or data plans could use the app on the family's iPad or computer and all that – without wreaking havoc on the family's data plan. And that is why Snapchat won the patronage of the youth.

Reduced friction. Photo-sharing is one of the most frequent daily behaviors of smartphone users. By making photos private and disappearing Snapchat reduced the friction or hesitation to share since: a) you're more likely to share a goofy photo and send more per day if it's not on FB and b) you're more likely to send something a little edgy (whatever that means to you) if it's going to disappear. In addition the UI is one screen which makes it extremely easy and fast to send a photo or video in the moment.

The viral effect. The most viral products are those that have increasing value as more friends use them. Typical examples include Whatsapp, Facebook, Instagram or even LinkedIn. But even more extreme as pure viral products are communication tools such as a phone, text message or email, which effectively have zero value without at least 1 other person using them. Products such as these face a huge challenge of making something addictive enough that it will be used at high frequency between friends but if they're able to achieve this they can generate almost indefensible network effects.

Here’s one of the secret sauces to Snapchat’s viral growth: its group messaging functionality. When a user sends a snap to multiple friends, the recipients receive a snap indistinguishable from an individualized message. In effect, mass snaps feel personalized. This is the holy grail of messaging platforms: evoking strong emotion with minimal friction. Consider this emotion/friction matrix:

The virality of a messaging platform equals its emotion-friction ratio, and the Snapchat paradigm maximizes this virality coefficient. A Snapchat of a funny face will evoke a visceral reaction in the recipient before they have time to consider the meaning behind the message. Conversely, when someone receives an MMS, the first thing they see is the recipient list. Users immediately dissect mass text messages before experiencing them. To solve this problem, Snapchat is intentionally ambiguous. Since the meaning behind a snap is opaque, Snapchat alleviates senders' social inhibitions.

This is revolutionary: by altering the social dynamics of digital messaging, Snapchat created an atmosphere in which people share more openly. Have you ever felt self-conscious about your "texting ratio" after you send three or four texts without a response? Snapchat has no messaging history; it relieves insecurities about message imbalances. Problem solved. Have you ever sent someone a joke via text then feel insecure after not receiving an immediate response? You read and re-read your message, thinking "How did (s)he interpret my text? Was my joke funny?" In Snapchat, you can't read your sent messages, so there's no past correspondence to dwell upon. Problem solved. Snapchat improves the messaging experience because it minimizes the inhibitions of texting." This idea of full attention plus intimacy is another big appeal. If you didn't "get" Snapchat before, hopefully this helps you understand the appeal.

How Palantir Built a Billion Dollar Intelligence Software

From Bernie Madoff to Osama bin Laden, Palantir Technologies Inc. has made its name catching the bad guys. The company sells software that performs link analysis;

think of it as a high-tech version of the parlor game in which players guess the degree of separation between Kevin Bacon and his Hollywood peers. The input could be anything – phone numbers, bank records, license plate numbers. Palantir analyzes their relationships and presents them in a slick visual format. The company's technology started in the early 2000s at Paypal, the online payment platform, where engineers used link analysis to uncover fraud. Paypal executives Joe Lonsdale and Peter Thiel co-founded Palantir in 2004 along with Alexander Karp, the company's current and only chief executive. Palantir's best customers have been U.S. law enforcement and federal three-letter agencies.

According to USAspending.gov, a federal site that publishes government contracts, since 2009, Palantir has received over $215 million dollars contracts with the Defense Department, CIA, FBI, Homeland Security and NSA. It helped prosecute Bernie Madoff and find bin Laden, and it plays a key role in uncovering human trafficking networks. More recently, it has expanded into other sectors including banking, energy, entertainment, healthcare, insurance and retailing.

Palantir's cozy relationships with government agencies have attracted scrutiny from privacy and civil liberties watchdogs. They say Palantir is helping build a surveillance society in which everyone's data becomes fair game in the name of catching bad guys. As the company moves beyond law enforcement, that concern may become less pressing. Instead, the challenge will come from a spate of startups offering business-oriented big-data analytics and visualization tools.

How Palantir made it

To get their initial foothold and overcome the challenges of working with enterprise businesses, Palantir decided to focus on the intelligence community. Like Facebook (launched to Harvard students) and Uber (launched with town cars in San Francisco) before them, Palantir focused on a hyper niche where they could gain some traction before expanding to a wider audience. This paid off well in 2005 when the CIA became a Palantir customer and the CIA's venture capital arm, In-Q-Tel, became an early investor.

With an opportunity to actually get their product in the field at the CIA, Palantir focused on rapidly building and improving their analysis software. For nearly three years, Palantir engineers would fly out to Washington DC every two weeks and talk with the analysts using the software. This period of fast iteration wasn't just about fixing bugs; they actually made significant breakthroughs that today form some of their key competitive advantages. For instance, the first iteration of Palantir focused just on structured data. Through talking with potential users though, Palantir quickly realized that most of the data available for analysis was unstructured (think field reports rather than spreadsheets). Handling unstructured data is one of their core competencies today.

In the enterprise world, computers are often not connected to the internet, so pushing code live means an engineer has to fly to the company's physical location and upgrade the software in-person. The way that Palantir made fast iteration a priority despite the extra challenges helped it to develop a battle-tested, world-class tool in just a few busy years.

After years of iterating quickly and continually improving the product, Palantir reached what we might call product-market fit in 2008. The company spent their first three or four years working with just one client (the CIA). In pre-product market-fit stage it's tempting to want to start "proving the growth engines", but the reality is that until you have a working product, adding new customers today just means burning potential customers tomorrow. Palantir had the patience and the drive to focus solely on the product without getting antsy about finding new customers. By waiting until the product could speak for itself instead of glossing it over with shiny brochures or smooth-talking salespeople, Palantir took a healthy long-term approach to growth.

As far as traditional “marketing” levers are concerned, Palantir really only used one: word of mouth. And this isn’t the result of some viral loop like the one that makes you invite your friends before proceeding to the next level of a gaming app. Palantir connected with the true spirit of virality: they built such an epic product that people – company executives even – wanted to tell their friends about this next great thing. Palantir first focused on a great product and then let happy customers do the speaking. This is the true power of word of mouth.

After investing years of thought and programming into Palantir Gotham (the government product), Palantir realized that many of the same core competencies – handling unstructured data, combining multiple datasets, querying speed – could be used to great effect in the business world. In 2010, Palantir landed its first business client when the New York Police Department referred them to JPMorgan. Palantir helped with everything from untangling complicated foreclosure problems to fighting electronic attacks on the bank – this time from Chinese hackers instead of Russian mafia. As of 2013, just three years after making the leap, somewhere around 60% of Palantir’s revenue came from the private sector. That has to make this tactic one of the most effective Palantir has used to date. Palantir is short on "strategy" - at least the kind found at many companies, often to their detriment - and long on execution and results. There is a huge bias for taking action early and adjusting your approach as more data becomes available, regardless of what it is you do here.

On hiring, Palantir's founders decided very early on in the company's history to take an active role in shaping a distinct company culture. Unsurprisingly, "culture" and "fit" are very important in Palantir's hiring process: does the candidate work hard? Is he or she really passionate about our mission? Does he or she play well with others? Is this person a doer who gets sh*t done - or more of a blocker aka "Dr. No?" Can this person improvise in the face of ambiguity and uncertainty? So in addition to being killer at your job and loving to solve the world's hardest problems - you have to be an awesome person.

According to Eliot Hodges, a Palantir employee, power or responsibility is highly distributed throughout the company. If you were to map out the organization tectonically, you'd have a flat surface with hillocks here and there representing those founders/directors/leads and engineers who have had a huge impact on the company based on their work. (Bottom line, Palantir provides a stark contrast to the organizational hierarchies typically found at many other companies.) With so many people at the organization having the same title, titles are effectively meaningless inside the organization - and are basically for outside consumption only.

SpaceX: How Failure Creates Success

Serial entrepreneur Elon Musk risked a big chunk of his personal fortune more than 13 years ago creating a new space company amid truly inauspicious signs: his first three rocket launches were duds and it took six years until one succeeded, spooking prospective customers and prompting veteran industry officials to call him hopelessly naïve. Working initially with only a few dozen employees, closely-held Space Exploration Technologies Corp. nonetheless boldly set out to directly challenge global aerospace powerhouses such as Boeing Co., Lockheed Martin Corp. and France’s Arianespace SA. It promised to design and build rockets and spacecraft in a new way. SpaceX, as the company is now known around the world, sought to develop simpler, substantially less-expensive alternatives that had more redundancy than boosters which had dominated global commercial markets and the U.S. government space segment for decades.

Mr. Musk, a billionaire Internet pioneer with no prior experience in rocketry, has served as CEO, chairman, public booster and primary financial backer. But his most important role is serving as chief technical officer. The company has built rocket engines, navigation systems and large parts of solar assemblies in-house, rather than buying them from others. Mr. Musk persevered through the hard times, hired a cadre of engineers eager to follow unconventional paths and now has a backlog of launch orders exceeding $3 billion along with a string of historic accomplishments.
It was the first private entity to put a spacecraft into orbit and the first company to deliver supplies to the international space station. Charging roughly $70 million for some launches, or about half of what the Air Force typically pays a Boeing-Lockheed joint venture, SpaceX officials say the company has made money and been cash-flow positive for a number of years. But they confront immense challenges to meet heightened expectations. SpaceX is developing a more-powerful rocket even as it strives to reach the unprecedented tempo of more than one launch per month. In addition, it’s working on a truly reusable booster able to land vertically back on land.

SpaceX's achievements include the first privately funded, liquid-propellant rocket (Falcon 1) to reach orbit on 28 September 2008, the first privately funded company to successfully launch, orbit and recover a spacecraft (Dragon) on 9 December 2010; and the first private company to send a spacecraft (Dragon) to the ISS on 25 May 2012. The launch of SES-8, on 3 December 2013, was the first SpaceX delivery into geosynchronous orbit. In 2006, NASA awarded the company a Commercial Orbital Transportation Services (COTS) contract to design and demonstrate a launch system to resupply cargo to the International Space Station (ISS). SpaceX, as of May 2015 has flown six missions to the ISS under a cargo resupply contract. NASA has also awarded SpaceX a contract to develop and demonstrate a human-rated Dragon as part of its Commercial Crew Development (CCDev) program to transport crew to the ISS.

In 2012, an initial public offering (IPO) was perceived as possible by the end of 2013, but then Musk stated in June 2013 that he planned to hold off any potential IPO until after the "Mars Colonial Transporter is flying regularly," and this was reiterated in 2015 indicating that it would be many years before SpaceX would become a publicly-traded company, where Musk stated that "I just don't want [SpaceX] to be controlled by some private equity firm that would milk it for near-term revenue". The company has grown rapidly since it was founded in 2002, growing from 160 employees in November 2005 to more than 500 by July 2008, to over 1,100 in 2010, 1800 in early 2012, and 3000 by early 2013. By October 2013, the company had grown to 3,800 employees and contractors.

In August 2012, SpaceX signed a large development contract with NASA to design and develop a crew-carrying space capsule for the "next generation of U.S. human spaceflight capabilities", in order to re-enable the launch of astronauts from U.S. soil by 2017. Two other companies, Boeing and Sierra Nevada Corporation, received similar development contracts. Advances made by all three companies under Space Act Agreements through NASA's Commercial Crew Integrated Capability (CCiCap) initiative are intended to ultimately lead to the availability of commercial human spaceflight services for both government and commercial customers. As part of this agreement, SpaceX was awarded a contract worth up to $440 million for contract deliverables between 2012 and May 2014. At year-end 2012, SpaceX had over 40 launches on its manifest representing about $4 billion in contract revenue—with many of those contracts already making progress payments to SpaceX—with both commercial and government (NASA/DOD) customers. As of December 2013, SpaceX has a total of 50 future launches under contract, two-thirds of them are for commercial customers. In late 2013, space industry media began to comment on the phenomenon that SpaceX prices are undercutting the major competitors in the commercial commsat launch market—the Ariane 5 and Proton-M—at which time SpaceX had at least 10 further geostationary orbit flights on its books.

In January 2015, SpaceX raised $1 billion in funding from Google and Fidelity, in exchange for 8.333% of the company, establishing the company valuation at approximately $12 billion. Google and Fidelity joined the then current investorship group of Draper Fisher Jurvetson, Founders Fund, Valor Equity Partners and Capricorn. Although the investment was thought to be related to SpaceX's launch of a satellite construction business and global satellite internet service effort, Gwynne Shotwell said in March 2015 that the investment was not specifically for the global internet project. Google had been searching for a satellite internet partner since the split with O3b Networks and OneWeb.

Goals

Musk has stated that one of his goals is to improve the cost and reliability of access to space, ultimately by a factor of ten. The company plans in 2004 called for "development of a heavy lift product and even a super-heavy, if there is customer demand" with each size increase resulting in a significant decrease in cost per pound to orbit. CEO Elon Musk said: "I believe $500 per pound ($1,100/kg) or less is very achievable." He stated in a 2011 interview that he hopes to send humans to Mars' surface within 10–20 years. In June 2013, Musk used the descriptor Mars Colonial Transporter to refer to the privately funded development project to design and build a spaceflight system of rocket engines, launch vehicles and space capsules to transport humans to Mars and return to Earth. In March 2014, COO Gwynne Shotwell said that once the Falcon Heavy and Dragon v2 crew version are flying, the focus for the company's engineering team will be on developing the technology to support the transport infrastructure necessary for Mars missions.

According to Steve Jurvetson, Musk believes that by 2035 at the latest, there will be thousands of rockets flying a million people to Mars, in order to enable a self-sustaining human colony. SpaceX has on occasion developed new engineering development technologies to enable it to pursue its various goals. In 2015, public sources revealed that SpaceX is developing their own computational fluid dynamics (CFD) software to improve the simulation capability of evaluating rocket engine combustion design. In June 2015 the company asked the federal government for permission to begin testing for a project that aims to build a constellation of 4000 satellites capable of beaming the Internet to the entire globe, including remote regions which currently do not have internet access.

There's no doubt that Elon Musk and his SpaceX rocket program have their own, sky-high, business plan. But there are several trends worth watching that are sure to affect U.S. space activity for years to come. They include national budget austerity that leads to programmatic uncertainty. As counterpoint, there is also a maturing relationship between government and commercial space.

The Rise of Pinterest

Ben Silbermann was an avid collector of things like bugs, stamps and leaves while growing up in Des Moines, Iowa. Years later, his childhood hobby became the inspiration for Pinterest, the digital bookmarking and image-sharing site.
In 2010, Silbermann founded Pinterest Inc. with Evan Sharp, the creative brains behind the service's design and Paul Sciarra, a classmate from Yale who left the company two years later. But investors were slow to get on board, nervous that the concept of collecting images was out of step with the trend of real-time communication platforms like Twitter and Facebook. A few months after it launched the service took off first among the arts and crafts crowd in the Midwest, then expanded to home decorators, home cooks and young brides who collect or "pin" images ranging from do-it-yourself projects to cupcake recipes and favorite wedding hairstyles.

Pinterest’s content library has grown to over 30 billion unique pins, and doubling every nine months. Magazine brands including “Elle” and retailers such as Target Corp. have amassed their own followings on Pinterest, which drives traffic back to their own sites. Now, first-time entrepreneurs Mssrs. Silbermann and Sharp find themselves in charge of one of the fastest-growing startups in the world. According to comScore, Pinterest had about 78.8 million unique visitors in the U.S. in January, up 37% from the same period a year earlier. The company now has over 500 employees. But it’s still early days for Pinterest, which only began making revenue in January when it opened up its advertising program to all brands. Pinterest’s push pits it against social media companies like Facebook, Twitter and Instagram, rivals with more established ad products. But Pinterest says it offers a compelling case because its users’ pinning activity reveals what they might be interested in buying.

In early 2011, the company secured a $10 million USD Series A financing led by Jeremy Levine and Sarah Tavel of Bessemer Venture Partners. In October 2011, after an introduction from Kevin Hartz and Jeremy Stoppelman, the company secured $27 million USD in funding from Andreessen Horowitz, which valued the company at $200 million USD. Retail companies use Pinterest for advertising and style trending. Pinterest intends the web design to support "style conscious retailers," where customers can visualize products within a consumer context. Companies like The Gap, Chobani, Nordstrom, and West Elm use Pinterest to gather online referrals that link users with similar interests to a company. The Gap has arguably taken the biggest initiative in their use of Pinterest, employing their own themed pinboards such as "Denim Icons" and "Everybody in Gap." Baynote founder Scott Brave sees Pinterest as an ideal environment to collect affinity data; a resource that holds the potential for substantial demand and income. This data "reveals valuable relationships between consumer behaviours, products and content," where it can be collected and sold as marketing analysis. In May 2012, Pinterest was valued at $1.5 billion. In February

2013, it was valued at $2.5 billion. In October 2013, it was valued at $3.8 billion. In May 2014, it was valued at $5 billion. In June 2015, it was valued at 11 billion.
In June 2015, Pinterest added the "Buy" button to its mobile app.

Growth strategies

Unlike some of the other biggest sites on the Internet today, Pinterest did not launch with an immense amount of hype behind it. Instead, it was a homegrown program launched by some passionate thinkers who ultimately had to go back and incorporate some smart growth-hacking methods into the program once it had already been set free. One of the most important ways Pinterest incorporated growth hacking into its marketing scheme is its signup process. In order to join Pinterest, users can't just visit the website and join. Instead, they have to request an invitation to the site, making it feel like an exclusive club to which you actually want to belong.

People always want to be a part of something that they're not initially included in, right? After new users request an invitation, they receive one by email a few days later, making it feel like they have been approved for a special offer or accepted into an exclusive group. This makes Pinterest seem like a privilege to use right off the bat, enhancing its reputation as a site that people covet. The invitation email uses strategic wording and content, as well, to help bolster its image, calling Pinterest a small community and offering rules about how to behave while there.

In addition to its joining process, one of the Pinterest's other most successful growth-hacking techniques is its initial automatic link with Facebook. Once users join the community, Pinterest instantly gives them the option to sign up with their Facebook account, making it easy for users to start using the site without jumping through a million hoops and more likely that they'll start using the site right away as opposed to putting off use because of all the bureaucratic stuff. This also connects users to their Facebook friends immediately, so that they don't start with an empty social media profile page. Rather, Pinterest's Facebook connection allows new users to see a page full of people they know, which is an incentive to keep using and exploring further. Another growth-hacking technique that happens when a user first starts using Pinterest is its interest survey. Pinterest shows users a variety of images and asks which ones appeal to them. Based on a user's responses, it follows some related and popular boards that match the user's choices, automatically generating content and information that makes users feel like they are already part of a community and in turn, encourages them to explore the site further.

Pinterest's growth hacks go beyond simply what it requires or offers a user right at the get-go. In fact, one of Pinterest's principal growth hacks is its user interface (UI), which allows a user to perform almost every possible Pinterest function from their one, main page. Not only can users comment, re-pin or check out another board from their main feed, but they can also follow new friends, check out the website from which a pin came, share a pin through other social media networks, or edit their own profile or pinboards.

The easy usability of Pinterest makes it extremely popular with users, not only through word of mouth, but also through the direct ability to share the site via simple buttons that connect to email and social media networks. Another element of Pinterest's design that has helped make it so popular is its infinite scrollability. Users can continuously scroll down their feed without ever reaching bottom and having to click a new button to get more information. This allows for ease of use, and even encourages losing track of time while browsing, ultimately upping time spent on the page and in turn, boosting its SEO ranking.

The growth hackers behind Pinterest also took advantage of email in order to help it go viral. Every function and action on Pinterest is linked with an email alert, which, when sent to users, keeps them up to date on what's happening on the site and reminds them to go and engage themselves. While emails are optional, the immediate opt-in feature helps keep users engaged and interested with very little effort on the part of either the user or the company. Ultimately, Pinterest is such a success story because it combines two things, a really great product with an equally great scheme for viral marketing. Its growth hackers have done an incredible job of attracting new customers and keeping them engaged, which is important for growing the company and attracting more users. But the product is also one that is extremely well-designed and useful for both individuals and companies.

Today, Pinterest is used by companies because it has a 50 percent higher conversion rate than any other site that directs people to products, and Pinterest users regularly spend more money, more often than any of the other top four social media sites (Facebook, Twitter, YouTube, Google+). In fact, Pinterest currently generates four times more revenue per click than Twitter does and nearly three times more than Facebook. If you're an entrepreneur who believes in your product, and you are looking to grow your business virally online, you should pay heed to the strategy behind Pinterest's growth. Not only has it created a popular site that is entertaining and helpful for promoting social interaction, but one that has also helped changed the way business is conducted online.

How Airbnb Disrupted The Hotel Economy

Airbnb Inc., originally called AirBed & Breakfast, takes its name from the inflatable air mattresses co-founders Brian Chesky and Joe Gebbia rented out to strangers in their San Francisco apartment one night in October 2007 so they could afford to pay rent. The pair decided they were onto something, and brought on a third co-founder, Nathan Blecharczyk to help them build an online marketplace connecting home and apartment owners with an extra room to rent to travelers looking for a low-priced alternative to hotels. The business initially turned off investors, including Y Combinator founder Paul Graham, who called it a "terrible idea" despite accepting them into his startup incubator because he liked the founders.

After a slow start, Airbnb began to blossom into a vast online database of lodging choices, letting users rent everything from treehouses in California to an 18th century windmill in France to bohemian beach houses in Rio. Venture capitalists got on board, pumping in $800 million and driving its valuation past two of the largest publicly-traded hotel chains, Wyndham Worldwide Corp. and Hyatt Hotels Corp. Hotel owners are part of a coalition of groups now trying to stymie the startup's expansion, arguing the site's loosely-regulated short-term rentals pose a risk to public safety, impede residential zoning laws and squelch the supply of affordable long-term rentals.

New York's attorney general, Eric Schneiderman, claims nearly three-fourths of Airbnb rentals are illegal and has vowed to take action against people who violate local laws by renting out multiple rooms on the site. In other places like San Francisco and Portland, the company has succeeded in pushing through new regulations that formally regulate short-term rentals and set up a system for registering hosts and paying cities taxes. In April 2014, the company closed on an investment of $450 million by TPG Capital at a valuation of approximately $10 billion. As of March 2015, Airbnb is raising a new round of funding that will place the company at a $20 billion valuation.

In February 2011, Airbnb announced its 1 millionth booking since its inception in August 2008. Then, in January 2012, Airbnb announced its 5 millionth night booked internationally through the service. In June 2012, the company announced 10 million nights booked, doubling business in 5 months. Of these bookings, 75% of the business came from markets outside of the continental United States. By October 2013, Airbnb had served nine million guests since its founding in August 2008. In December 2013, the company reported it had over six million new guests in 2013, and nearly 250,000 properties were added in 2013.

Early growth

“Pure, Unadulterated Hustle” in the Face of Initial Resistance. As they were starting out in the summer of 2008, the founders needed a way to raise money. They bought a ton of cereal and designed special edition election-themed boxes, released that fall—Obama O’s and Cap’n McCain’s, which they sold at convention parties for $40 a box. They sold 500 boxes of each cereal, helping them to raise around $30k for Airbed & Breakfast.

Still, the site did not gain much traction initially, and the founders resorted to living off of leftover Cap’n McCain’s (the Obama O’s sold out)—a time they refer to as a real “low point.” This low point did not last for long, however, as the following spring they had dinner with Paul Graham. Despite recognizing the startup’s potential, Graham admits to having some initial doubts, explaining “I thought the idea was crazy. … Are people really going to do this? I would never do this.” Nevertheless, Airbed & Breakfast soon joined Y Combinator’s 2009 winter class, receiving another $20,000 in funding. They renamed the business Airbnb, and soon received another $600k in a seed round from Sequoia Capital and Y Ventures.

Not everyone was as impressed with Airbnb’s business model, however, and the young startup was also notoriously rejected by Fred Wilson and Union Square Ventures—a decision Wilson now admits wasn’t a good one. Wilson claimed in 2011 that Union Square kept a box of Obama O’s in their conference room to remind themselves not to make the same mistake again. It also serves as an example of an early stage startup doing everything necessary to get off the ground.

As Wilson explains: “Whenever someone tells me that they can’t figure out how to raise the first $25,000 they need to get their company started I stand up, walk over to the cereal box, and tell this story. It is a story of pure unadulterated hustle. And I love it.”

But it wasn’t just Airbnb’s business model that posed a concern. When Gebbia and Chesky—both of whom are Rhode Island School of Design alums—were initially seeking funding for their startup, potential investors didn’t know what to make of a company with two designers, despite the fact that Blecharczyk, with a solid background in tech, had already signed on as an engineer. Chesky explains that it was hard for many in the Valley to see the company’s potential because, “they thought we just made things pretty.”

Yet it was most likely this design background that helped Airbnb to find such innovative, unexpected solutions—like the limited edition presidential cereal campaign—to the very real problems that all early stage startups face. It is this ability to innovate that informs much of Airbnb’s growth strategy.

It’s unclear exactly when Airbnb implemented what’s become their most famous growth hack, but there is evidence of the Craigslist platform hack as early as 2010. Though the startup worked hard to distinguish themselves from the more impersonal, scam-filled super platform, Craigslist had one thing that Airbnb did not—a massive user base. Airbnb knew through both market research and their own experience that Craigslist was the place where people who wanted something other than the standard hotel experience looked for listings—in other words, Airbnb’s target market.

In order to tap into this market, Airbnb offered users who listed properties on Airbnb the opportunity to post them to Craigslist as well—despite the fact that there was no sanctioned way from Craigslist to do so. Though fairly straightforward in hindsight, the execution was anything but simple, as explained by writer and entrepreneur Andrew Chen.

The benefits of the Airbnb/Craigslist integration were numerous. Not only was it the sheer volume of potential users accessible via Craigslist, but the fact that Airbnb listings were far superior to the other properties available—more personal, with better descriptions and nicer photos—made them more appealing to Craigslist users looking for vacation properties. Once those Craigslist users made the switch, they were more likely to ignore Craigslist and book through Airbnb in the future. Not only that, but those with properties listed on Airbnb ended up making more money on their listings, which kept them using the service as well.

Only July 16, 2014, Airbnb officially relaunched their site and mobile apps with an entirely new look and feel. This rebranding was the result of a full year of brand study, for which they collected user research, interviewed guests and hosts in more than a dozen countries, and brought in London-based Design Studio for additional assistance. Their research also delved into competing brands, and, according to Design Studio's Paul Stafford, they found that too many tech companies rely on "cold, corporate blue."

But with the company's new focus on international expansion and becoming a more inclusive hospitality brand, it seemed like the appropriate time to tackle the branding issue. After conducting intense research into their own brand as well as others, Chesky claims he was able to distill it all into a single concept—belonging. He explains, "Airbnb is about belonging anywhere. The brand shouldn't say we're about community, or our international [reach], or renting homes—it's about belonging.

Why Dropbox is Successful

Drew Houston wrote the first software code for Dropbox Inc. on a bus ride from Boston to New York in 2007. Frustrated because he had forgotten a thumb drive with an important file, the MIT graduate saw the need for a service that could help people access all their documents wherever they go on whatever device they're using.
Mr. Houston took his idea to startup incubator Y Combinator, where he teamed up with coding prodigy Arash Ferdowski and got the first funding for Dropbox. The service grew rapidly through its referral program, which rewarded users with extra storage space for getting friends to sign up.

The co-founders grew so confident in their prospects that in 2009 they turned down a reported nine-figure acquisition offer from Apple Inc. founder Steve Jobs. Apple, Microsoft Corp., Amazon.com Inc. and Google Inc. are now Dropbox's greatest cause for concern. The tech giants have introduced their own file-storage services and have used their deep pockets to undercut Dropbox's prices. The startup has developed a suite of new tools and services, like a photo-sharing app called Carousel, as a way to stand out from other offerings. It's also embarked on an ambitious expansion into the corporate market, where it sells IT managers on added features like enhanced security and collaboration tools.

Mr. Houston has bolstered his management bench, adding Dennis Woodside, the former head of Motorola Mobility, as Dropbox's operating chief and promoting business executive Sujay Jaswa to the role of chief financial officer. The company has raised hundreds of millions of dollars, some of which it used to buy a string of startups like email app Mailbox and CloudOn, a developer of mobile productivity tools whose Herzliya, Israel, office will become a new engineering hub for Dropbox. As of June 2015, Dropbox had recorded more than 400 million registered users

How Dropbox hacked growth to become a billion dollar company

When Dropbox launched to the public in 2008, the service grew seemingly overnight from just a few thousand users to hundreds of thousands — and then millions. That's great for a new startup, but it presents some engineering problems, especially when you start to think about scaling your infrastructure to meet the demands of your users.

In the case of Dropbox, the company faced an even more difficult challenge because it was billing itself as a real-time storage and syncing solution. For Dropbox to be successful, users had to be able to trust that the service was fast, reliable and safe. So how did Dropbox manage to scale? Rajiv Eranki was Dropbox's head of server engineering at Dropbox from 2008-2011. He was the second engineer hired and from the beginning, his job was focused was on helping the product scale. During his tenure at Dropbox, Eranki watched the company grow from 2,000 to 40 million users. Eranki shared some of his experiences scaling Dropbox on his blog and at the RAMP Conference earlier this month.

Choosing Python Was a Good Decision. Eranki explained in his RAMP Conference presentation that the Dropbox team used Python for virtually everything. This was beneficial because it meant that the entire platform "could get to 40 million users without having to write thousands of lines of C code." This was echoed by Rian Hunter at PyCon 2011. PyCon is a conference dedicated to the Python language and Hunter gave a presentation titled "How Dropbox Did It and How Python Helped." The advantage of Python was that it allowed the team to scale much more quickly than if it had used another language or group of languages as its base. In the early days, when only two engineers were focused on scaling, limiting complexity was an important part of keeping the project growing. In a similar vein, by using popular software stacks — including MySQL and Amazon's S3 and EC2 infrastructure, the team was able to ensure that at least in the early days — it wasn't the biggest or most active user of a technology.

They tested their potential fail points. One of the points that Ernaki makes repeatedly in his presentation is that it's important that systems that can fail be tested. Frequently, Ernaki said that the team would hard reboot servers to see what would happen. Does the failover strategy work? Does the process automatically restart itself? Figuring out how something fails and testing those systems when things are running right makes actual failures manageable. Ernaki writes, "Maybe it sounds stupid to run fire drills on the live site, but testing environments are not sufficient and this is really good insurance."

Keep Hardware Consistent. A lot of Dropbox's scaling meant that new hardware needed to be purchased. Rather than relying on a bunch of different server configurations and hardware types, the team had smaller categories of machine types with consistent configurations. That limited the amount of "capacity planning" as Ernaki put it also helps keep things consistent when it comes to figuring out if a problem is specific to a piece of hardware.

Use UTC. Using the UTC time code across servers saved Dropbox from having to deal with potential problems of one server or one system being in one timezone and one in another. Dropbox even goes as far as not converting times to the user's time zone until the last second, in the browser (or file manager). The Dropbox team even kept their wall clock set to UTC, just so everyone was on the same time as their servers. This might sound silly, but when a big part of your business relies on reliable file synchronization, a timezone change could potentially mean that files were synced incorrectly.

Release Often. One of Dropbox's mantras was — and is — to release updates frequently. In Dropbox's early days, code was often released the same day it was coded. This meant that results were instantly available and that potential improvements immediately helped users. Even today, Dropbox still releases beta channel updates to its Mac, Windows and Linux clients. These releases often introduce new features before they hit the main line for users who explicitly are willing to test the newest stuff, while understanding there could be bugs. As important as early releases are, however, Dropbox also has had to make sure that only stable code is pushed to its clients. After all, a corrupted directory and lost work is one of the worst things that can happen to a storage and syncing service.

How WeWork is Transforming Office Life

WeWork Companies Inc. is out to transform office life. The four-year-old company, which divvies up rented office space and sublets largely to startups, aims to bring together entrepreneurs and spark connections among them—either through its online network of members or at happy hours in its trendy offices. Its $5 billion valuation makes WeWork more valuable than other shared-office companies like Regus PLC. Co-founder and chief Adam Neumann is adamant that WeWork is not just another real-estate venture, and will redefine its industry in much the same way that Airbnb Inc. and Uber Technologies Inc. have changed travel and transportation.

Unlike Airbnb and Uber, however, WeWork has large fixed expenses, in the form of rent paid to building owners, and industry watchers note the company may be as vulnerable in a downturn as any other co-working or real-estate firm. Young startup strivers feel at home in WeWork’s sleekly designed spaces in rising urban neighborhoods, with perks ranging from IT support to affordable healthcare to free beer. The Israeli-born Mr. Neumann looks more like one of his startup tenants than a traditional landlord, and is reportedly in the process of expanding his vision. In the works: living space near Washington, D.C.’s city limits that would function as a high-end dorm for 20-something workers, according to people briefed on the company’s plans.

The company says its annual revenue run rate is about $150 million, based on 2014 performance. WeWork began 2015 with 25 locations in eight cities, and plans to grow to 60 locations in the next year. The company remains tight-lipped on the topic of an initial public offering, although landlords who have discussed the matter with company executives say those leaders have discussed a potential IPO in the next two or three years.

What's driving WeWork's growth?

A focus on community development. While many coworking spaces boast about their community of members, none can beat WeWork in terms of its commitment to creating that community. Last December, the provider of coworking spaces with roots in NYC but whose network now includes shared offices in cities like Washington, DC., London, and Tel Aviv, closed a $355 million funding round. Sure, while it's become common knowledge that each WeWork space is designed and styled in its own unique, modern aesthetic (oftentimes reflecting its surrounding community), demand for and popularity of its spaces isn't wholly based on WeWork's physical offerings; rather, people are also attracted to WeWork's focus on its community.

From access to its online network of more than 20,000 WeWork members to its wide offering of community events, the company aims to be more than just a coworking space; it's fully committed to creating a community where everyday interactions happen – whether that's in the form of business transactions and partnerships between members, or actual friendships between individuals. I mean, have you heard of any other coworking space putting in the effort to create a three-day networking and music festival just for its members?

Its Stronghold in NYC. Community and collaboration is at the core of what makes WeWork so successful. Despite its many locations, the company has a community manager on-site at each location to make sure that WeWork members are able to get the support they need to make connections with other members. Whether it's to a lawyer located on another floor or to a startup in another city that's aimed at making tax filing easier, WeWork members are provided with the tools and resources to form those relationships. In New York, where WeWork currently has 15 locations (with another office soon to open in DUMBO), the company continues to rank highly among entrepreneurs and freelancers for its accessibility to an extensive network.

Located in WeWork's SoHo West office, social polling startup Pyne believes that being a member of WeWork has enabled them to meet with certain people much more easily. According to Pyne cofounder Tony Peccatiello: "Through their many offices around the city as well as in other cities, I have been able to hold meetings that otherwise would have been difficult to orchestrate. This flexibility is very important for me and has been a huge asset. I have also met a number of people through the many events that WeWork hosts."

But even if a WeWork member isn't located in New York, connections from one member to another can be easily coordinated through the company's own online network. WeWork Commons, which was launched towards the end of 2014, serves as a kind of LinkedIn for WeWork members, allowing them to connect with other members regardless of physical location.

Collaboration and partnership within its network. For Melanie Charlton, the cofounder and COO/Creative Director of the digital creative agency, Brilliant Collaborations, the potential for connections through WeWork's extensive network was a huge draw: "When looking for a space, our top considerations were: location, business opportunities within the network, availability of private office space, and cost. A friend of ours works for WeWork corporate, and invited us for a trial day in Fulton Center [in New York]. We loved the culture, the aesthetic, and the networking potential. After visiting Wonder Bread [in DC] and seeing the beautiful outdoor spaces, we were sold."

Brilliant Collaborations is currently based in WeWork's Wonder Bread location in Washington, D.C. Initially in a 6-person office in the space, the company soon teamed up with Overachiever Media, a content marketing and media production agency, and upgraded to a 12-person office (with a hammock). Over the last eight or so months, the two companies have been able to create a unique relationship where they not only share a space, but also a set of clients, experiences, and business lessons.

And, according to Overachiever Media founder and CEO Jason Nellis, the relationship has led to a unique culture that he believes would not have happened if it were not for WeWork: "We love [sharing a space with Brilliant Collaborations]! I think my company (as well as Melanie's) has benefitted from having a more substantive culture develop within our space. Their team meshes well with ours, to the point of regularly sharing lunches and events with one another. We all hang out after hours frequently as well. It has been a great way to build a larger social culture without having to hire up quickly."

Connections are driving business for members. What's more, those connections at WeWork are helping entrepreneurs and freelancers gain clients at a faster rate than they typically would. Is there any bigger draw than the potential to help your business succeed? "[Brilliant Collaborations] has also made many connections within Wonder Bread with clients and creative partners, that have allowed us to establish ourselves as a desirable creative agency in DC much faster than we would have done on our own or in another co-working space," said Charlton. "Because the Wonder Bread is such a great event space, we also get to meet members of other WeWork locations in DC, as well as a more extended network that is drawn into the space for events throughout the week."

How Theranos is Turning the Lab Industry Upside Down

Elizabeth Holmes was a student at Stanford University's School of Engineering when she decided to makeover the laboratory business testing blood, urine and other samples for high sugar levels, sexually-transmitted diseases and other medical conditions. In 2003, Ms. Holmes abandoned her Stanford education and founded Theranos Inc. The idea was simple: draw just a few drops of blood from a tiny finger stick without the large needles and big vials typically used, then furnish important medical information within a few hours and at low cost. The company's goal is more ambitious: To give people information about what is going on inside their bodies so they can take actions to prevent the onset of disease.

Holmes, a Stanford dropout turned paper multibillionaire has quietly worked for over 11 years on her startup, which aims to give all of us better information about our bodies in a quest to revolutionize how we manage our health. "If people can really begin to understand their bodies, that can help them change their lives," she said during a recent interview at the Palo Alto headquarters of Theranos, a mix of the words "therapy" and "diagnosis." Over the past year, Holmes has embraced a more public profile, recently snagging the cover of Fortune magazine in what bore all the hallmarks of a carefully orchestrated media push. Her board includes a Who's Who of American political influence -- former Secretaries of State Henry Kissinger and George Shultz, former Defense Secretary Bill Perry, a couple of former U.S. senators, a Marine general. Oracle CEO Larry Ellison is one of her investors. Holmes' drive to change the world has a familiar ring here. She may actually do it -- or not. It's always hard to know in Silicon Valley whether the hype matches the reality. The tech industry has seen phenoms before. They are typically young, bold and single-minded with boundless ambition. Think Steve Jobs, Bill Gates, Jeff Bezos, Mark Zuckerberg.What often distinguishes great leaders are qualities like determination and persistence, but something else too, said Bob Sutton, a Stanford engineering school professor and co-author of "Scaling Up Excellence." "They believe they are destined to do something special," he said.

In that respect, Holmes is cast from the same mold as Jobs et al. She launched the company, she told me, after "thinking about what is the greatest change I could make in the world." Holmes, who hates needles, zeroed in on blood tests as a starting point. If blood tests were easier, cheaper and more convenient -- Theranos aims to put a lab within a mile of any city dweller -- people could take multiple tests over time and see signs of a disease or condition before it's too late, Holmes argues. She recalled the death of her uncle, whose skin cancer progressed rapidly to brain cancer. "You look at something like that and it doesn't make sense," she said softly. "If it was caught in time, it's a completely manageable condition." To that end, Theranos has devised software and hardware so that with just one pinprick of blood, critical medical tests can be run more cheaply and more conveniently.

In September, Theranos and Walgreens announced a deal to open Theranos "wellness centers" at one Walgreens in Palo Alto as well as 20 stores in Phoenix. The goal is to expand to all 8,200 Walgreens stores nationwide. Theranos' main revenue stream is payment from customers or their insurance providers for lab tests. The company has other revenue streams through its long-term strategic partners, which it declined to discuss. With Theranos, Holmes is taking on the $70 billion U.S. blood-testing industry dominated by companies such as Quest and LabCorp. But she says her aim is something bigger, creating a new market called "consumer health technology," which Holmes describes as engaging and empowering people about their health.
"Here in California, I can go and buy a gun and shoot myself but I can't order a vitamin D test because I might do something quote 'clinically dangerous,' " she said. "We feel strongly over time that this has to change." Shultz, who meets weekly with Holmes to discuss the business, described Theranos as "on the cusp of a real movement in preventive medicine.""What Elizabeth is doing is important in diagnostics, that the more you are able to spot something before it occurs, the more you can do something about it," he said.Theranos faces numerous regulatory, logistical and market

challenges, said Eric Lakin, an analyst with DeciBio Consulting, a market research firm. Still, the potential is great."With current efforts to realize the dream of personalized medicine, Theranos may play a critical piece in this puzzle," he said. "But as with all puzzles, it often takes time to collect these pieces and put them together in a meaningful way."

Holmes' background is right out of the phenom playbook. Growing up in Texas, Holmes taught herself Mandarin and launched a business in high school selling C++ compilers to Chinese universities. She applied for her first patent while at Stanford, where she majored in chemical engineering. In the summer before her sophomore year, she went to Singapore to work at the Genome Institute on the SARS virus.

Then she dropped out of Stanford to begin working on Theranos, using the money her parents had saved for college for the business. "She may be the female Mark Zuckerberg that Silicon Valley has been waiting for," said Vivek Wadhwa, a professor and researcher at Stanford and Duke and a lecturer on entrepreneurship. "She started when she was young, defied the odds and built a great technology, and is doing good for the world." Tim Draper, the venture capitalist, said Holmes, who was friends with his daughter growing up, is the first entrepreneur he knows who kept quiet about her business for so long "so that the competition wouldn't get a chance to start."

"She had a winner and knew it," he said. His firm DFJ Venture was the first to invest. In recent years, Theranos' head count has mushroomed to about 500 employees, up from 100 in 2010. It took over the former offices of Facebook at the Stanford Research Park. Holmes has raised $400 million, valuing the entire company at $9 billion. She has a 50 percent stake, leading Forbes to call her "the youngest woman to become a self-made billionaire." As for her gender, Holmes, who wears all black suits and heels and speaks in a deep, soft voice, has never allowed herself to think of it as an issue, she says. But she knows people are paying attention. "If I can show that in this country, a 19-year-old girl can drop out of school and build something like this," she said, "then other women should be doing it."

Theranos enjoys impressive backing: its board includes two former senators and three former cabinet secretaries. The profile of the company and its precocious chief executive (who makes public appearances dressed in all-black like Steve Jobs once did) have been rocketing recently. Theranos was featured in two major magazines (“Fortune” and “The New Yorker”), and the company says its blood-testing centers have begun popping up at Walgreens pharmacies around the country. Yet there are as many questions as answers about Theranos, its technology and its business model. The Palo Alto, Calif., company won’t divulge any information about its financial performance, except to relay estimates of a $73 billion U.S. laboratory testing market.

Nor will Theranos explain how it plans to make money selling medical tests costing as little as $1.55. In addition, the company won’t discuss the technology behind its testing except to say the tests are certified under industry standards and are being filed with the Food and Drug Administration. What is clear is the company sees itself as a disruptor of health care, much like Apple Inc. disrupted consumer technology.

As of September 2014, Theranos held more than 10 patents, including patents on wearable blood monitors and influenza virus detection. The medical device for analytemonitoring (medicine) and drug delivery is "ingestible, implantable or wearable [...] comprising a microarray which comprises a bioactive agent capable of interacting with a disease marker biological analyte; a reservoir which comprises at least one therapeutic agent and is capable of releasing the therapeutic agent(s) from the medical device; and a plurality of microchips comprising a microarray scanning device capable of obtaining physical parameter data of an interaction between the disease marker biological analyte with the bioactive agent." A 2014 patent is for information management systems and methods using a biological signature, which may be used to

verify the identity of the individual who may be granted access to a secured location, item, and/or service or to search or aggregate records for an individual.
Among Theranos' software-based inventions are "Systems and methods for response calibration", a patent for calibrating user responses to questions, as for example in health surveys. Another patent is for assisted medical and associated lifestyle decision making] or methods and systems for assessing clinical outcomes using "computer-assessed methods, medical information systems, and computer-readable instructions that can aid an end-user in diagnosis, prognosis, and treatment"

How Spotify Dominated Music Streaming

After applying unsuccessfully for a job at Google Inc. as a 16-year-old, Daniel Ek became a multimillionaire at age 23 when he sold an online advertising company in his native Sweden in 2006. He then turned his focus to the sputtering music industry to create an alternative to music-piracy services such as Napster.Mr. Ek envisioned a service that offered access to unlimited music for a monthly fee, helping users discover new tunes and find old favorites. Easier said than done: Mr. Ek spent years trying to get permission from record companies to essentially rent out their catalogs. But he has gradually managed to secure the rights to do so in nearly 60 key markets.

Spotify gives a cut of the revenue to record labels and music publishers, which in turn pay out their artists and songwriters at varying rates. The major labels – Vivendi SA's Universal Music Group, Sony Corp.'s Sony Music Entertainment and Access Industries' Warner Music Group – also own about 15%of the company, collectively. Spotify reported in November that its 2013 revenue was €747 million ($842 million) and it lost €57.8 million ($65 million). Spotify offers a limited, free version of its service, hoping users will eventually subscribe. The service reached 20 million users (5 million paid) by December 2012, 60 million users (15 million paid) by January 2015, and more than 75 million active users (20 million paid) by June 2015. Spotify Ltd. operates as the parent company, headquartered in London. Spotify AB handles research and development in Stockholm.

But Spotify is under increasing pressure from the music industry to make its free users pony up. The company also faces a fresh competitive threat this year from Apple Inc., which has re-launched Beats Music as Apple Music, the subscription music service it bought last year, as a part of iTunes. Other rivals include Google Inc., which launched its All Access subscription service in 2013, and is now testing an early version of its video-based subscription music service, YouTube Music Key.

Business model

Spotify operates under the freemium model (basic services are free, while additional features are offered via paid subscriptions). Spotify makes its revenues by selling streaming subscriptions to premium users and advertising placements to third parties. In December 2013, the company launched a new website, "Spotify for Artists", that revealed its business model and revenue data. Spotify pays copyright holders royalties for streamed music. The company pays 70% of its total revenue to rights holders. Spotify for Artists states that the company does not have a fixed per-play rate, considers factors such as the user's home country and the individual artist's royalty rate. Rights holders received an average per-play payout between $.006 and .0084. The company has allegedly lost $200 million since it was founded, although the company has not confirmed or denied this.

A 2012 report stated that Spotify posted a net loss of US$59 million in 2011, attributed to increased staffing costs and licensing fees and royalties to record companies. A November 2012 report predicted that Spotify would reach revenues of US$500 million over the course of 2012, up from US$244 million in 2011. As of 2013, Spotify offered a US$10 per month unlimited subscription package, close to the Open Music Model (OMM)—estimated economic equilibrium—for the recording industry. However, the incorporation of DRM diverges from the OMM and competitors such as iTunes and Amazon MP3 that have dropped DRM. In Denmark, for example, the cost is DKK49 (US$9.00) per month (as of 8 December 2013) for an unlimited subscription. Another income source is music purchases from within the app.There is currently a bipartisan bill going through the House of Representatives known as H.R. 1733. or the "Fair Play, Far Pay Act" that intended to provide fair compensation to artists and increase transparency for royalties. This bill is supported by musician-based organizations, as they seek to challenge the streaming companies to compensate them more fairly. The passing of this bill could threaten the business model of companies like Spotify and its competitors.

Spotify's amazing growth strategies

A focus on engagement & retention: Making it hard for people to leave. The same product features that have enabled retention are also driving conversion: engagement and switching costs the bread and butter of many freemium services. Spotify has increased engagement and switching costs through the creation of several key features: personal playlists, saved songs, featured playlists, and personal radio stations. Making it seamless and easy to "save" music on the service, Spotify removed as much friction as possible for driving up switching costs for it users. If you've got 20 playlists and 1000 songs saved on Spotify, deleting your account and starting a new one becomes exponentially less desirable.

Social pressures: Creating network effects. One of Spotify's greatest competitive advantage was its early integration with Facebook. Not only did Spotify allow you to easily follow friends, it provides passive broadcasting to Facebook as people listen to different songs (sometimes - to the surprise and chagrin of the user who didn't check their settings closely enough). Why is this important? Once Spotify launched collaborative playlists as well as general playlist and song sharing with Spotify connections, being connected to friends on Spotify dramatically boosted Spotify's value to each user with each additional connection they made on the platform. Network effects can be very difficult to create, but because music is inherently a very social experience, especially in the U.S., users are naturally inclined to want to invite and share with their friends on Spotify. By making an early move to the U.S., Spotify has built in both strong switching costs and network effects to defend itself against other music streaming services, like Deezer.

Pricing plays: strategic promotions. In a strategic pricing play adopted by many companies, Spotify launched a $4.99 pricing model for university students, half off normal subscriptions. Discount pricing for university students is driven by a few key interests: the value of the network effects this market creates for companies; youths' willingness to try new things; and price discrimination tailored to a segment that is much more price sensitive. By tapping into the word of mouth and network effects of universities, Spotify was able to accelerate its growth through the dense networks that exist at schools.

How DJI Became world's Most Popular Consumer Drone Maker

Frank Wang dreamed of owning a model helicopter as a child, but when he first received one in high school, he promptly crashed it. Since then, much of Mr. Wang's life has revolved around making remote-controlled aircraft easier to fly, mostly by putting computers on board to handle the difficult task of stabilizing the craft. He founded SZ DJI Technology Co. in his Hong Kong dorm room in 2006. Several years later, DJI helped launch the consumer-drone craze by bringing to market lightweight, four-propeller helicopters that are easy to fly, shoot stable high-definition footage, and cost around $1,000. The Chinese company has sold hundreds of thousands of its Phantom drones, enabling filmmakers, hobbyists and journalists to document the world from a new vantage point. DJI is now the world's largest consumer-drone maker by revenue, expecting to top $1 billion in 2015, roughly eight times the $130 million recorded in 2013, according to people familiar with the company's financial documents.

As the company raises funding, it could develop drones targeted specifically for commercial or industrial applications, where industry officials expect much of the growth over the next several years. DJI comes with risks. Its Phantom drones have been plagued by so-called flyaways, in which the user loses control of the drone and it flies off. They've also been used to start trouble, landing on the properties of world leaders and even starting a brawl at a soccer game in the Balkans when it hovered overhead towing a controversial political banner. More broadly, governments around the world are considering ways to curb potential threats drones pose to air safety, public safety and privacy.

The Federal Aviation Administration, which has largely banned commercial use of drones for years, has proposed rules—expected to be made final in late 2016—that would allow such use but set strict limits, including prohibitions on flights in urban areas and beyond the sight of operators. Drone proponents also worry that one high-profile incident—such as a collision with a passenger jet or a terrorist attack carried out with a small drone—would lead to stifling regulations for the industry.

In an interview with The Wall Street Journal at the company's Shenzhen, China, headquarters, Frank Wang explained how he started DJI. "This stuff has been my dream since childhood. At elementary school I saw my first model helicopter in a shop. It cost the equivalent of several months' salary for average people. My family could not afford it. But finally, after I did a good job on my high-school finals, my parents rewarded me with a model helicopter. I assembled it but I wasn't able to fly it properly because to do that needed months of practice. So when I did try to fly it, the helicopter immediately crashed. It was impossible for ordinary people to fly that machine. Still, I imagined flying those kinds of things everywhere—following the trains

and cars in which I rode, or when I climbed mountains with my father. I always imagined something flying beside us that could reach places we could not.
Before we started the company, I spent three months intensively working on the project. At that time I was still enrolled at the university, but I skipped all the courses and just went to my home in Shenzhen. I would wake up at 2 p.m. and then work until like 5 or 6 a.m. for days at a time. One time, when I did go back to the university lab, I tried to use my ID card but it didn't work. My heart sank a little bit, because I thought I was kicked out of college by my professor. But actually I had forgotten to pay my tuition.

At the beginning when we started the company four years ago, we made flight-control systems. We focused on the operating system for drones. But it was hard to use, the drones were complicated and the controllability was relatively poor. People couldn't use it on a larger scale. We felt a multirotor drone should be very simple, very small, very reliable and very cheap. If people could use it the market will be larger. So slowly we went from making the flight-control systems to multirotor drones. I believe that the direction of our company is driven by our initial dream: to make a very easy-to-use product that can realize the human dream to fly. And to make it perform well so that everyone can enjoy it. In addition, we will develop our business in agricultural and industrial and all kinds of fields. The next five to 10 years will be a very exciting period for unmanned aircraft and I am looking forward to the future."

DJI manufactures a range of products like flying cameras (ex. Inspire and Phantom series), flying platforms, flight controllers for multi rotors, accessories for helicopters, camera gimballs (aerial, handheld) and ground stations. These products are for industrial, professional and amateur use. Recently, the American Federal Aviation Administration (FAA) proposed some regulations and guidelines to ensure proper operation of these vehicles. DJI makes professional and amateur flight controllers intended for multi-rotor stabilization control of various platforms or heavy payloads in aerial photography. In addition to the main A2 main controller model (intelligent orientation, landing, home return), there are the IMU (damper module), the GPS-Compass Pro Plus (high end antenna, satellite receiver), the PMU (voltage alarm) and the LED bluetooth indicator (smartphone connectivity).

The DJI Ronin is the company's first stand alone ground based camera stabilization platform developed for everyday cinematography and aerial film making in professional environments. It is built for professional videography and photography and targets the movie-making industry. By using the 3 individual motors to balance the system the DJI Ronin has the ability to stabilize the camera when moving vigorously. DJI has developed a series of multirotors flying platforms called Flame Wheel (Feng-Huo-Lun or Fenghuolun) for aerial photography in entertainment. In 2013, there was a total of three electrically powered Flame Wheels: the hexacopter Flame Wheel F550, and quadcopters Flame Wheel F330 and Flame Wheel F450. The most recent one is the Flame Wheel ARF KIT.

DJI has also developed a series of quadcopters called the Phantoms that have evolved into an integrated flying system with aircraft, camera, Wi-Fi connectivity, a controller and the pilot’s mobile device. These quadcopters are mainly intended for aerial cinematography and photography applications. The Phantom 2 Vision+ features a camera and a gimbal system manufactured by DJI. It is capable of taking 14 MegaPixel still shots and recording high definition (1080p) video. In comparison, the DJI Phantom 3 Professional, the latest Phantom model to be released can shoot 4K resolution video and take 12 MegaPixel still photos. DJI has also developed a series of hexacopters called Spreading Wings (Gen-Dou-Yun or Gendouyun) for carrying heavy cameras in aerial photography, search and rescue, and surveillance. In 2013, two models have been released as Spreading Wings S800 and Spreading Wings S800 EVO.

DJI unmanned helicopter is a small unmanned helicopter jointly developed by Harbin Institute of Technology (HIT) and Hong Kong University of Science and Technology (HKUST) with DJI. This small unmanned helicopter is intended for high elevation missions and can operate with wind scale of 6. The general designer is Professor Li Ze-Xiang, and the chief designer for software is associate Professor Zhu Xiao-Rui. The unmanned helicopter is completely indigenously developed in China and Hong Kong, without using any foreign technology, except the constellation of GPS satellites developed by other nations on which its navigation relies.

Before the Phantom, most highly capable consumer drones were sold to serious hobbyists and required a lot of assembly and know-how. The French company, Parrot, had a simple, popular unit with its A.R. Drone, but that was not a very powerful craft. The Phantom represented the first relatively cheap drone that came ready to fly out of the box, but boasted top of the line flight control systems. They also had a potent pitchman in Colin Guinn, who we met for the first time at SXSW in 2012. North America represents DJI's biggest market. Mr. Guinn has since left for rival drone maker 3D Robotics, which two weeks ago announced a $50 million round of funding led by Qualcomm. And Parrot recently released its own more powerful quadcopter, the Bebop, taking direct aim at DJI's Phantom line. Up until now, DJI had taken on relatively little outside capital, preferring to bootstrap the business. But as competition heats up, it is considering taking on venture capital to help maintain its lead and potentially branch out into new sectors of the booming drone market.

The Growth Strategy of Square

Square Inc. takes its name from the shape of its small gadgets that plug into smartphones and tablets to process credit cards. Serial entrepreneur and billionaire Jack Dorsey, a co-founder of Twitter, conceived the notion in 2009, in the hope of displacing other point-of-sale systems. The company gives the devices away for free and charges 2.75% of each transaction. Square quickly became the de facto payment system for taco trucks, coffee shops and cab drivers, among others, spawning copycats like PayPal's Here card-swiping device and similar systems from Amazon.com Inc. and Intuit Inc.

In 2012, Square landed a deal to process credit- and debit- card payments at Starbucks Corp. stores, including mobile payments. However, in late 2014 Starbucks stopped allowing customers to pay for coffee using Square's smartphone app, preferring its own similar technology. Square has been rumored to be exploring an IPO and held discussions with banks in 2013 about a public offering, The Wall Street Journal reported. The company has struggled to reach profitability and The Wall Street Journal reported in April 2014 it had held talks with Google Inc., PayPal and Apple Inc. about a possible takeover.

Square has branched out with a $99 iPad-based register called Square Stand and an e-commerce initiative to help small businesses sell their wares. In addition to its core card reader, Square has also rolled out a small-business lending program, known as Square Capital. And its Square Cash app allows people to send money to one another through an app or by email. In 2014, two new competitors emerged as Amazon rolled out a credit-card reader with a lower fee, while Apple launched Apple Pay, which allows credit-card payments by waving an iPhone in front of a reading device. Square is now a $6.0b company as of June 2015.

From early traction to a sustainable platform

By combining an elegant integrated payments system with a distinctive conversation-triggering piece of hardware, Square has disrupted the credit card payments establishment while making credit card processing more accessible to small businesses everywhere. As with most fast growth products, the Square story starts with addressing a widespread need with an effective solution that completely reimagines small business payments. Before Square, it was illegal for non-registered merchants to accept credit card payments. Registering was a costly and difficult process that most small business owners couldn't afford. These business owners struggled with the reality that while most people carried plastic instead of cash, the costs and complexity of credit card processing made it impractical to accept credit cards.

There is not much public information available on the early traction of Square, but Jack Dorsey's own personal profile (as Twitter cofounder) cannot be understated when it came to attracting early customers and investors. Dorsey created a list titled, "140 Reasons Why Square Will Fail", which he distributed to potential investors of Square. The list included counterpoints to each objection, which informed investors that he was prepared for any possible obstacle the new startup may face. "140 Reasons Why Square Will Fail" also served as a clever strategy to acquire new interest.

While Dorsey's celebrity helped gain early tech press and investor notice, Square was designed to unlock credit card payments for the average small business–not the avid TechCrunch reader. To that end, Jack Dorsey's celebrity is less important to lasting growth, compared to the obvious early benefits. Dorsey also promoted his product through demonstrations held with potential vendors and investors of the company showing just how easy it was to use the product. By following the Apple iTunes/iPod model of developing an integrated hardware and software solution, Square was able to create a system that was easy to use, elegant in its design and completely new and remarkable from the other solutions on the market. By reimagining what it meant to take credit card payments, Square was able to catalyze word of mouth while unlocking untapped markets for new customers.

Despite early challenges, including questions about security, Square began to build credibility and momentum through partnerships with industry leaders and glowing reviews from users and reviewers alike. With high profile partnerships from Apple—where the company stocked and sold its reader for $10 in every store—to a strategic investment from Visa, Square showed their audience and the market that they were a serious new entrant with a product that brands they already trusted believed in. This gave Square the bonafides needed to make the leap from techset darling to a must-have for small businesses hungry for a solution to a long-unmet need.

Looking back at early traction it's clear that there were 4 factors that drove growth:

1. An elegant hardware/software solution that reimagined the payment processing space, similar to Apple's iTunes/iPod approach to digital music.
2. A business model that made payments accessible to small businesses who were previously shut out due to price and application process.
3. Early tech excitement based on Dorsey's public profile to drive initial awareness.
4. Strategic partnerships that drove distribution and credibility fueling growth among their target customers.

As Square has matured their growth engine has evolved. You don't reach a $3.25 billion valuation on the back of any one hack. And sustaining growth tends to move away from early traction efforts to a more conventional marketing approach.

Square's growth, however, continues to be driven by the core components of their hardware/software system, and their ability to continually innovate to make payments easier and more accessible for both consumers and small businesses alike.

Square's growth engine can be summarized at a high level by the following four components: Compelling value proposition proposition and low friction drives trials Square solves a real problem that relates to the number one priority of their target customers – making more money. And they make it very easy and low risk to get started. Once a user activates an account on squareup.com, the company automatically ships out a free card reader to them within 7-10 business days. Signing up is hassle free and quick with very little friction, which complements the company's goal to gain as many new users as possible.

An account with Square requires no contract, no monthly service fee, and doesn't require a merchant service fee. As an added bonus, the credit card reader comes with a redemption code that allows new users to redeem $10, which is deposited into their bank account after registering the device. Compare this to the traditional payment processor model which required a detailed application, a phone call audit, and an expensive equipment purchase and/or lease.

The Square phone app can be downloaded for free, turning any phone into a reader. The app is practical and easy-to-navigate. Even for non-tech savvy small business owners, Square is a breeze to use. Square customers who have a hard time using their iPhone have no problem taking a payment.

Wow customers with elegant integrated system

Square delivers on the initial promise of solving small business credit card challenges and then goes on to wow customers with an integrated solution that includes beautiful reporting; much of the system solves needs the customer didn't even know they had (after nailing the obvious problem). Square's applications for small businesses make it easy to setup and configure point of sale systems on an iPad, can provide rich insights to help business owners make the most of business opportunities, and help build loyalty through two-way communication between the business app and consumers using Square.

This integrated approach to payments goes far beyond just taking payments. Take business intelligence: Square gives small business owners access to data they never had before. What's the most popular drink on the menu? The busiest day? And other data that lets small business act more like big business. Customer loyalty is another facet of the system. Square's Wallet allows users to buy from merchants who accept Square without having to physically take anything out of their pockets to pay (the app has all of the customer's credit card information saved). A customer can simply walk into the store, say his or her name, and the merchant can pull up his or her account profile and picture through geo-fencing technology. This technology detects when a customer is nearby a merchant-enabled store. The app also features the ability to find location nearby that accepts Square and provides customers with information such as contact info, menus, coupons, photos, and reviews of said merchants. All innovations around payments to remove friction and delight their customers—business owners and shoppers.

Beautiful highly visible hardware sparks questions

Square spent the time and resources to make the hardware component of their solution interesting and even beautiful to the eye. Compared to other credit card terminals, it's a work of art. This visible unique differentiator sparks conversations with customers. People naturally ask "Wow, what is that thing attached to our iPhone?" The experience of signing with your fingers and having the receipt mailed to you is convenient and amazing in itself. It's completely unlike any other way to pay.

The company keeps pushing forward with new technology such as the Square Register application which turns an iPad into a powerful, point-of-sale system. The app supports a traditional cash drawer and has the ability to print physical receipts with a compatible receipt printer—a smart evolution that acknowledges that cash still is an important part of small business commerce.

With each innovation in hardware, the striking style and attention to detail and remarkable experience continues the conversation and creates more visibility for the business. For example, the new Square Stand spins completely around so that the customer signs on the same screen that the clerk uses. While efficient, it also creates a novel moment of surprise and delight as something completely unexpected from traditional purchase transactions. This delight creates goodwill, word of mouth, and customer satisfaction both for the store's customer and Square's.

Raving fans advocate benefits of solution

Business owners that are asked about Square are happy to rave about the product. It makes them look smart and hip to their customers and their peers. Square's hardware design elevates the small business brand and provides delightful elements to their own customers' experiences. This positive word of mouth creates a flywheel of momentum for the business. And the more people that use and interact with the product, the more their ecosystem grows. More small business owners get the reader. Their customers download the Square app to make payments more seamlessly. Those customers tell other business owners to install Square, and the beat goes on.

As more people get added to the ecosystem their momentum gets stronger. New partnerships with companies like Starbucks will put Square in front of millions of new users, driving that flywheel ever faster. When compared to Intuit or PayPal, both who recently released credit card adapters for iPhones, the positive word of mouth and delightful experiences that generate it are powerful barriers for competition to overcome.

How Zenefits Disrupted Human Resources

Parker Conrad is out to upend the health-insurance brokerage industry with a novel approach to business software. The CEO and co-founder of Zenefits saw firsthand the frustration of HR software, and the big fees reaped by insurance brokers, while at his previous startup, online wealth management firm SigFig. After a disagreement with his SigFig co-founder, he left to create Zenefits and brought over a star engineer, Laks Srini, with him.Unlike most enterprise software companies, which charge customers a subscription fee, Zenefits gives all its software away for free. The software aims to provide a kind of automated human-resources department for small businesses that can't afford a full-time HR staff. It generates revenue by acting as an online brokerage for insurance plans, helping users pick between plans and taking a percentage fee each time a user signs up for insurance using its software.

That unusual business model is upsetting the brokerage industry, frustrating regulators and giving investors a reason to bet big. The company's valuation shot up to $4.5 billion in May 2015, nine times the price investors paid 11 months earlier.
As Zenefits has expanded to more than 10,000 companies, its commissions have added up. Inside a typical customer using Zenefits as its insurance broker, about 70% of employees have signed up for insurance using the program and each employee generates about $450 a year for Zenefits, the company said in May.
Zenefits doesn't share its annual revenue but said it expects to reach an annual revenue run rate of $100 million by the end of its fiscal year in January, meaning it plans to take in more than $8 million in sales that month. That's up from a run rate of $20 million last January, or about $1.6 million in revenue for that month.

While revenue is growing fast, Zenefits is far from profitable. The company expects to burn through about $100 million this year developing software and expanding its fleet of salespeople. Zenefits' growth has also invited scrutiny from regulators and the entrenched players in an insurance brokerage industry worth tens of billions of dollars a year. They argue that Zenefits is violating state laws which prevent brokers from giving customers a rebate in exchange for using their product. Instead of giving a money rebate, Zenefits is giving away software. The company is now valued at $4.5b (as of May 2015)

Conrad reveals how Zenefits got its start. (As explained to Inc.)
Opportunity in Obamacare. The idea for Zenefits started when I was working at my finance startup, SigFig. I was interested in health insurance--in part because I had cancer about 10 years ago. When you get sick like that, you become extremely vigilant about your health insurance. I was also interested in the Affordable Care Act. I

thought, "Obamacare is really going to change a lot about how the industry works." I started talking with insurance brokers. The consensus was that it was going to chill their business. One broker said, "If this goes through, I'm going to stop working with small companies. The juice isn't worth the squeeze." I figured there was a big opportunity for someone to come in and do this with technology.

Automating HR. My co-founder, Laks Srini, joined me in early 2013. We realized this new company would not be just about insurance, but about a broader HR system as well. A lot of startups are like SigFig: They can't afford a dedicated HR person. So the burden of hiring, benefits, and compliance paperwork typically falls to the founders. At SigFig, I was doing a lot of this paperwork. Whenever you hired or terminated someone, you had to fill out forms and add or remove that person from 20 different places. Sometimes you would have to use a fax machine to submit the forms. We didn't have one, so I'd have to stop by Kinko's on the way home. It was 2010, not 1986! Zenefits would be an automated system that requires the necessary information to be entered only once. It would dramatically reduce the amount of work you have to do.

Making it free. Instead of charging for the software, our idea was to do a hub-and-spoke model. We would make the software so easy to use that employers would want to do everything through our system, including health insurance, other benefits, and payroll. We realized, "Hey, we can actually make enough money on all of these spokes that it makes sense to give the hub away for free." Insurance happens to be one of the most lucrative spokes. When companies use Zenefits to buy a group plan, we get a commission from the insurance carrier, like any other broker. People buy insurance through us because it's integrated in one place online, and we do a good job with it. Zenefits also integrates with different payroll systems. We get a revenue share from the payroll companies on the clients we send to them.
Our first clients were mostly tech companies, because they were frustrated with having to do anything on paper. Thanks to some marketing and word of mouth, we've

grown pretty fast. In one year, we've gone from 15 employees to 450 and increased revenue 20-fold.

Our own best customer. We use Zenefits as a company. But our employees aren't allowed to call our support line if they have issues. They need to just fix it. As a result, they solve big problems. When we started doing commuter benefits, for instance, people at our company were confused about it, called it out, and fixed it before we got any external complaints.

Not banking on funding. From the start, I knew I had to build a company that didn't need to raise money. At SigFig, I was trying to raise money with my co-founder for four years. We went hat in hand to every VC firm in Silicon Valley--and every one turned us down. This time, I knew I had to build and grow this organically, because you just can't count on investors being available to you. It turns out that's the kind of business that really draws investors. It made it really easy to raise money on attractive terms. So far, we've raised $84 million. That's allowed us to grow much more quickly than we could've on our own.

Making the ACA work. The Affordable Care Act has actually accelerated our business in two ways. First, there's now a lengthy form that employers have to file so the government can figure out which employees are eligible for subsidies on the public health exchanges and which are not. It's an incredible amount of work. If you have a small company, who's going to do that? We will. And then, as of 2014, medical underwriting isn't required for companies with fewer than 51 employees. This means insurance companies can create prices based on the ZIP code and age of an employee rather than on an extensive medical history. So if we can get the rates into our system for every ZIP code, every age, every plan, every carrier, every state--which is daunting, but doable--we can give any customer a real quote instantly. Currently, we're able to do that in 30 states. Most brokers take several days to turn a quote around.

A Regulatory Fight. We've grown so quickly that the world of insurance brokers is freaking out. They're losing customers. As in a lot of industries that feel threatened, brokers have been reaching out to regulators for protection. In November, Utah banned us. They say we should charge employers for our software or it's unfair competition. I get why that would be good for the brokers, but how is that better for consumers? I hate to lose customers. It's painful. But what was cool was that all these customers in Utah started tweeting about how much they liked Zenefits, saying, "Please don't take this away." Disruption is painful for incumbents, but we're able to do some really powerful stuff for a lot of companies out there. In the end, I believe these regulatory issues will be few and far between, because this is the United States, the country that understands the need for a free market and innovation. Ultimately, I think we will prevail.

Why Stripe’s Payment Platform is so Popular

Stripe was founded by brothers John and Patrick Collison in 2009 as a simpler way for websites and apps to process payments. Prior to founding Stripe, the Limerick, Ireland, natives were founders of online-auction management firm Auctomatic.
Stripe allows companies to quickly set up credit-card processing on a website or app with easy-to-use code. For most transactions, Stripe takes a 2.9% fee, plus a commission of 30 cents, though it offers volume discounts. The company has grown rapidly, reaching deals to process payments for ride-sharing service Lyft Inc. and one-hour delivery service Postmates Inc., among others.

In 2014, it struck deals to support “buy” buttons on Twitter Inc. and Facebook Inc., allowing users to order goods directly from the social-media sites, rather than being directed to a retailer. It also has a deal with Alipay, the Chinese payments portal affiliated with Alibaba Group Holding Ltd., enabling Chinese customers to more easily order goods directly from the U.S. Stripe has been using its funds to expand into new international markets and now serves more than a dozen countries. Still, Stripe faces competition from Braintree, which eBay Inc.'s PayPal bought for $800 million in late 2013 and powers payments for Uber Technologies Inc. and Airbnb Inc., among others. Apple Inc.'s Apple Pay has also quickly become a popular payments choice for app developers.

Initialt Traction / early growth

Stripe Began With a Problem. John Collison asserts, "Stripe really did come about because we were really appalled by how hard it was to charge for things online." The goal behind Stripe was simple—create a payments platform that "didn't suck." ["It seemed clear," their website explains, "that there should be a developer-focused, instant-setup payment platform that would scale to any size." According to John Collison: "It's easy to send a packet of information anywhere in the world, but sending money isn't so easy … It's a question of the economic infrastructure that's underneath the web. We personally think that's a really important problem–you have great connectivity at the information level but not at the payments level." Stripe is the Collison's solution to that problem.

As John explained to CNBC, "Stripe is building payment infrastructure for the Web, so we make it easy to accept credit cards online. … Before Stripe, the way you'd do this is using the legacy banking structure. It was slow, it was complex, it was expensive. It had this very chilling effect on e-commerce." He goes on to explain that Stripe, by contrast, "does all the heavy lifting in the background and just gives the company the product they want to use." As was to be expected, Stripe users were happy to relinquish the responsibility. As one early Stripe adopter raved in 2011: "Stripe is a game changer. I've been using it for a few months and honestly its the best API I've ever used. The documentation is clear and concise. Its customized to your account so you can literally copy and paste and see the result. Just like it says, it gets out of your way. I was up and running and accepting recurring payments in less than an hour or so. I actually began to think of larger 'swing for the fence' type of ideas that I would have never considered if I were stuck to using Paypal because it was so painless. Looking forward to them eating every other payment processor's lunch."

Stripe takes the notion of doing the heavy lifting seriously and it's visible across all of the company's products and support systems. For developers creating new platforms that require payments, the company has seemingly thought of everything. From robust documentation that makes it easy to get questions answered, to detail-oriented testing settings including a litany of test credit card numbers and response codes to a single click switch from test to production data in Stripe, to beautiful payment UI that's available to anyone, Stripe has lived up to it's goal to take the pain out of payments for developers.

As it turns out, with Stripe doing all the heavy lifting, merchants and developers were no longer struggling to keep their heads above the water, meaning they were free to expend their energies on other, more enjoyable areas of business. But circumnavigating those clunky legacy players that serve as middlemen didn't just make online payments easier for established businesses—it made getting off the ground more feasible for new businesses as well. For the Collison brothers, who claim to, "want to help put more websites in business," this is the whole point.

The Power of Delightful Experience. The Stripe team clearly puts the developer first, but it isn't all about just making it easy for developers on the backend–the team is dedicated to making payments a delightful experience across the board. The end user making the payment is no exception. While most legacy checkout forms are clunky and cumbersome, Stripe has worked diligently to make it easy for developers and designers to build payment forms that are as elegant on the front end as they are efficient and functional behind the scenes. For the Collisions, the key to making it all work is code, as is evident from Stripe's early developer-type names, /dev/payments and SLASHDEVSLASHFINANCE. "We believe that enabling transactions on the web is a problem rooted in code, not finance," they explain. It's true that site owners love Stripe because it allows them to keep customers on the site for the entirety of the checkout experience, as well as brand the checkout experience, store cards, enable subscriptions, and deposit payouts to bank accounts.

Developers also love Stripe because it supports several programming languages and allows them to build their own payment forms. This combination of elegance on both the front and back end makes the developers and designers who use Stripe heroes to their companies, colleagues and peers. It also creates a seamless and intuitive payment experience that consumers love.

This attention to creating a delightful experience for the end user while making it a delight to work with the product on the backend has created a passionate fan base of advocates. Ask a product manager, designer or developer what payment system you should use to power your ecommerce site or mobile app and without fail, the recommendation will be Stripe.

Word of Mouth. Stripe benefited initially from the tight network of other Y Combinator companies who were looking for a payment platform that "didn't suck". A seemingly innocuous blog post from Y Combinator partner Garry Tan was one of the first catalysts in Stripe's early traction. As with many truly delightful products, much of Stripe's initial growth resulted from people who were excited to finally have an alternative payment method. After years of dealing with companies like Authorize.net and PayPal, developers were willing to try anything that helped them avoid the pain of another kludgy integration with either company. Patrick explained in an interview with TechZing in February of 2012: "Initially [Stripe] very much spread through a word of mouth process. That was surprising to us because it's a payment system not a social network so it's not something you'd think would have any virality whatsoever. But it became clear that everything else was so bad and so painful to work with that people actually were selling this to their friends."

Not only did the company quickly learn that their initial assessment of available payment solutions was spot on, but also that the developers for whom they built Stripe were more than ready for an alternative—and they were happy to tell their friends about it. As the above testimonial from 2011 makes clear, a product that solves a problem for a lot of people can essentially sell itself. Stripe seized upon the surprise word of mouth and worked hard to facilitate growth through the referral channel. The company sent care packages to developers who deployed live instances of Stripe. The launch packages included t-shirts, stickers, and other Stripe swag that only fueled the positive vibes developers had of the company. These t-shirts were worn proudly and the care packages shared on social media, mostly from developer recipients to other developers who they were connected to online.

The Real Reason Slack Became a billion dollar Company so fast

Slack Technologies Inc. Chief Executive Stewart Butterfield ditched his dream of developing a hit videogame a few years ago when it didn't catch on. He instead shifted to an idea that might sound dull by comparison: a better way to communicate with co-workers. The company's devoted users are glad he did. At the one-year mark since Slack launched its work-collaboration software in February 2014, more than 500,000 workers used it daily to instant-message their colleagues. Slack tries to hook workers on its free service and then convince their bosses to pay for a version with more features. The company said after one year it had 135,000 paid users at a monthly cost of $6.67 or more per person.

Those numbers encouraged venture capitalists to value the company at $1.1 billion in October 2014, making Slack among the fastest startups ever to reach the billion-dollar mark. It didn't hurt that Mr. Butterfield was a Web celebrity from his days as co-founder of photo-sharing service Flickr, now owned by Yahoo Inc. Like other new-breed business software, Slack melds the friendly feel of a consumer app with sophisticated features. Co-workers can place documents saved in Dropbox into their chat streams, collaborate on revisions and assign tasks without leaving Slack. Messages can be searched to dig up old conversations and files. Slack is among many startups pursuing a similar goal: rethinking the often awkward ways people collaborate via reply-all emails, attached files and conference calls. Workplace-focused firms Asana Inc., Quip Inc. and Box Inc. also offer variations on this theme. The biggest hurdle for Slack is diverting workers' attention from email, which many users find as frustrating as it is central to office work.

This is what drives Slacks' success

#1 Social isolation / pressure

Because if you don't follow Slack all the time, other people reference or know stuff on Slack that you don't know and you don't take part in. Within companies it is very important to inform yourself about what's going on, not only for your job but also for your position within the company and your future ambitions. You start to feel social pressure to follow Slack and post to Slack 24/7.

#2 Addiction

Now you start to follow Slack all the time. It's addictive, resulting in unconscious stress, because you have the feeling you might miss something. I see colleagues Slack at night, weekends, days off, when their wife is labouring, etc, which basically put Slack on the same level as email, Facebook and Whatsapp.

#3 Single source of information

Everyone is now going all-in on Slack because of reason #1 and #2. More and more information is going into Slack (exactly the reason why Slack has hundreds of integrations and more popping up each week) and the team is heavily invested in it. And before you know there's no way out. Slack has become part of your company and your companies' culture. And then you find out you need to start paying...

Why Slack's business model is evilly brilliant

Slack's business model is essentially based on historical messages. The free searchable (and viewable limit) is 10.000 messages before you start paying. If you want to find a historical post on Slack, it only gets you 10k messages back unless you start paying. Which means, If you didn't check Slack enough, which put you in social isolation, now there's no way for you to see a conversation ever again and drag yourself out of social isolation. Unless you pay. And the more people in your company, the faster you reach that 10k messages limit. For example, if each person in your company is posting like 100 messages a day, and your team is 100 people in total, you already need to start paying to avoid social isolation.

Before you know, half the people are missing conversations, find themselves socially isolated, and you start paying licenses because your internal communication and company culture just fails.

It's brilliantly evil.

Why the Slacks alternatives didn't work.

Now you probably think, yes but there was Yammer before, and Campfire and Hipchat and Skype. I've used them but none of them has been as addictive as Slack. The reason is that they all either implemented threaded comments or didn't put a message limit. The result is that you don't have to check the conversation all the time, because you can always take part in it later. Even years later. There's no social isolation effect, no addiction effect and no reason to keep checking. If I'd be in competition with Slack I would implement those message limits immediately on my free plans.

Why Twitter fails

So then I started thinking. Slack is like Twitter for business so why is Twitter failing? Twitter also has this continuous stream of information and if you don't check Twitter you miss great stuff. I realised that Twitter misses this social pressure effect because Twitter is focussed on individuals whereas Slack is focussed on teams. If you miss stuff on Twitter, nobody cares. If you miss stuff on Slack, oh man, you're a bad colleague. Hence the reason why Facebook is a billion dollar company as well: if you don't continuously like stuff of your friends, how well a friend are you? Hence, social pressure makes you keep checking and liking the stuff of your friends.

The same counts for Snapchat. You need to keep checking or the messages just disappear.

Why Slack took off at such an amazing growth rate

1. "I think we got on a problem that's been under everyone's noses but they just haven't noticed," Butterfield, Slack's CEO, told Business Insider. "The advantages of a centralized communication platform for internal use is so huge that everyone will be using one within the next 10 years."
2. "Our growth has been very good. But so far, it's been happening to us, as opposed to us doing it in a deliberate way. But now we get to do it in a deliberate way," Butterfield said.
3. "Our subscription revenue is growing about 8 percent monthly, before we add new sales," says Slack's business analytics lead Josh Pritchard. "This is, as far as I know, unheard for an enterprise SaaS company less than seven months after launch." Slack's user retention stands at an astonishing 93 percent.

4. Slack didn't run run any advertising or marketing campaigns when it launched. “I have never seen a viral enterprise app takeoff like this before — all word of mouth.” billionaire investor Marc Andreessen once tweeted.
5. "I think Twitter makes a huge difference. People get excited about it and they post it to Twitter, and that obviously works a lot faster and better than the individual 1-on-1 kind of recommendations.
Every day we get hundreds of tweets, and dozens that are really enthusiastic about our product. If it wasn't for Twitter, I think it would have been much harder for us to grow as fast as we did." according to Butterfield in an interview with Business Insider.
6. "Slack is simple enough for new users to jump right in. Many competing group-messaging or collaboration services are either over-engineered or poorly designed. Slack has a great balance." says Quartz.
7. Slack is popular with the press. It has been embraced by all the trendy and brave young media properties—Vox Media, Buzzfeed, Medium and Gawker Media are all paying customers.
8. According to Wired "Slack is so beloved that some companies have begun mentioning it as an employment perk alongside on-site massages and bottomless bacon-tray Fridays in their job listings,"
9. The slack habit. "The Slack team understood that it is much easier to displace an existing habit than to create an entirely new one. Slack doesn’t try to radically change user behavior. Instead, it makes existing behaviors easier and more efficient." says Nir Eyal and Ciara Byrne.
The author of "Hooked: How to Build Habit-Forming Products" and Ciara continue to say in a post that "Slack leads users repeatedly through a cycle called a "hook." The four steps of the hook include a trigger, action, reward, and investment, and through successive passes through these hooks, the new habit is formed.
10. "Slack has an actually-useful free service. The key to growth is to remove as much friction as possible, in both product design and economics. Many groups (including Quartz) are happily communicating on Slack for free." Quartz.

How to replicate the success

So yes, to replicate Slacks' success you need a well designed product, an experienced team, perfect timing and amazing execution, as Andrew Wilkonso, Matt Hobb and Slack founder Steward Butterfield rightfully concluded. But honestly, there are tons of startups out there that do this well and have not gained as much traction as Slack. So what you simply need to take into account when building, marketing and selling a social tool like Slack is psychology. You will become successful if people feel emotionally locked in because of social pressure. And this pressure makes them invest heavily in your product. (Slack actually needs people to invest a mere 2000 message for the effect to take off). This is the real reason that makes social platforms like Slack, Facebook and Snapchat billion dollar companies.

Lyft Is On An Upward Trajectory

Lyf Inc. is the underdog to Uber Technologies Inc. in the fiercely competitive car-hailing app market, but it is fast becoming a formidable competitor.
The company was founded as Zimride in 2007 by Logan Green and John Zimmer, two college graduates on opposite ends of the country who had thought deeply about the future of transporation. They originally created an app called Carpool that connected drivers with riders to schedule long road trips. That idea failed to live up to expectations. By 2009, Uber had launched a rides-on-demand platform for cities, connecting non-professional drivers or black-car drivers with consumers via its app. Zimride in 2012 launched Lyft, its answer to Uber, and has played catch-up ever since.

Uber has raised about five times more capital and is available in more than four times as many cities as Lyft, including internationally where Lyft has yet to land. That may change later this year -- Lyft, which was available in 65 cities as of March, plans to expand into its first city outside the U.S. by the end of 2015.

A key battleground for the rivals is carpooling. Lyft last year rolled out Lyft Line, a service that pairs passengers going in the same direction and lets them split the cost. Lyft doesn't disclose its revenue, but Mr. Zimmer said its sales and its total number of rides have quintupled over the past year. Known for its fuzzy-pink moustaches, Lyft has in recent months backed away from some of the things that make it unique from Uber. In an email last year, the company told passengers it no longer expects them to sit in the front seat of the car and bump fists with the driver, quirky customs the company used in the past to emphasize the community aspects of its service.
In place of the large pink moustaches attached to the bumpers of its cars, Lyft this year gave drivers a smaller, glowing pink moustache that sits on the dashboard.

Prior to creating Lyft as part of a hack-day project, the twenty-something, first-time entrepreneurs had spent five years building Zimride, a carpooling service designed to help university students share rides back home during the holidays. At the time, Zimride was in the midst of an identity crisis. After years of selling enterprise licenses to universities and businesses, it decided to go after the consumer market and opened its platform for anyone to book a carpool. But consumer adoption was slow. Despite a number of failed experiments aimed at juicing growth, Zimride was having a hard time acquiring and retaining new users. So the team decided it was time to enable them to book rides on the go.

Zimride accomplished that somewhat with the launch of a mobile web version of its platform. There was a bigger opportunity ahead, however, in offering a mobile experience that could fundamentally change the way its users found and shared rides. After some experimenting they came up with Lyft, a new product that wouldn’t just redefine their company, but also the way people thought about getting a ride from a stranger. In a way, that’s what John and Logan were hoping for all along.

Early growth

Eight weeks after launching to a select group of friends and family, Zimride's new director of communications Erin Simpson invited members of the tech media to learn about the new product. Simpson had joined Zimride just a few months before, filling a new role for the startup. Until then, most press and marketing had been handled by John, and this was her first major product launch. The plan was for local tech press to meet the founders and members of the Zimride community on a Thursday night. By email, Simpson asked attendees to hold the news until the following week. But something went wrong, and one of the attendees wrote about the event that night.

After five years spent trying to get people to share rides, Zimride had finally found a model that worked. It was so popular that after a few months Lyft had to add a waitlist because it couldn't keep up with demand. The early success of Lyft was a breath of fresh air, but it was causing some confusion among the troops. It had taken a small group of engineers to develop the initial product, but now everyone at the company wanted to work on the shiny new thing. With more than 150 paying clients, however, John and Logan knew they couldn't just ignore Zimride.

There was a bigger question at stake: What was the future of Zimride? Was it with a product the team had spent the previous five years building, or was it going to be the result of a three-week hack project?

In hindsight, it seems obvious which path John and Logan would take, but it wasn't at the time. They spent about a month debating how they would restructure the company to accommodate the new product, asking for advice from their board and advisers. The stress of deciding the future of the company was taking a toll on John's health. With a staff of employees depending on him and investors he needed to impress, John began having terrible migraines, seemingly out of nowhere. They affected his ability to think and work, and they only got worse as time went on. He first

went to his primary care physician, but eventually got referred to the hospital for a brain scan. Even so, no one could find anything physically wrong with him.
After some deliberation, the founders decided to continue support for Zimride, but with a small number of sales support staff running it. The other 90 percent of its employees moved to work on Lyft, which they saw as a bigger overall opportunity. And after about a month of not being able to concentrate, John's headaches disappeared as mysteriously as they began. With that, Lyft was no longer just a product that Zimride had created — it was the primary focus of the company. In May 2013, the company made the switchover official by reincorporating as Lyft.

The company's biggest challenge, however, has come from its competition with market leader Uber. In many ways, Uber helped pave the way for Lyft by getting consumers used to the idea of hiring a driver via mobile app. But even though it opened the door for other players in the market, Uber has aggressively moved to stamp out the competition. Lyft may have pioneered the peer-to-peer model for ground transportation, offering a low-cost alternative to Uber and local taxi services. Uber quickly copied it, however, by hiring its own army of non-commercially licensed drivers in a bid to compete with the new entrant.

Over the past two years, Uber and Lyft have been locked in a fight for market share in the cities in which they both operate. Over the past year, that's played itself out through an aggressive price war to sign up users, but also through a battle to sign up and retain drivers that will work on each service. In many cases, drivers are keeping both applications open in an effort to get more rides. Given Uber's early lead — it was in dozens of markets before Lyft had even launched in San Francisco — and the amount of funding it's raised over the last four years, it's unlikely that Lyft will overtake it anytime soon. The urban transportation market is huge, however, and there's good reason to believe multiple players can co-exist. In many places throughout the U.S., Lyft is the solid No. 2 player.

It’s also seeing adoption in a number of markets you might not consider highly dense cities — think places like Providence, R.I. That shows its model could extend to more suburban areas and help people get around even in places where car ownership is currently ubiquitous. While Lyft has a long way to go before it is available everywhere, its most recent experiment could also be its most important. The launch of its on-demand carpooling service Lyft Line in San Francisco has gotten it one step closer to decreasing the number of cars on the road.

How Houzz Became an Industry-Changing Business

When Adi Tatarko and her husband Alon Cohen set out to remodel their Palo Alto, Calif., home, the undertaking was so difficult that they started another project to help them get through it. In 2009, Houzz was born. The website and app allows architects and interior designers to show off their portfolios, creating a vast album of farmhouse kitchens, industrial lofts and midcentury study nooks that can both inspire and help home renovators communicate what they want.

Six years after what started out as a pet project for the husband-wife team, Houzz now has a community of some 25 million users. For professionals, it’s become a way to get their work in front of potential clients. For home remodelers, it’s a place to gather ideas, connect with experts and most recently, buy the products they see in the photo galleries.And in the process, Houzz has figured out ways to generate revenue from its offerings. It charges architects, designers and other home contractors an annual subscription fee for tools to help them engage with potential clients. For every curtain rod or hanging lamp sold on the Houzz site, the company keeps a 15% cut. Houzz also makes money from ads served on the site. Houzz is expanding overseas, aiming to be in 15 markets outside of the U.S. by the end of 2015.

But Houzz is facing competition from other startups looking to help people improve their homes. Pinterest, too, has become a popular resource for home decorators hunting for ideas—though the digital bookmarking and image-sharing site does not yet offer e-commerce. Meanwhile, Seattle-based Porch.com is focusing on connecting homeowners with home improvement professionals. Similar to Houzz, homeowners can search for design ideas on Porch.com and find professionals to help them pull it off. Unlike Houzz, Porch.com, which investors valued at half a billion dollars after its second funding round in January, doesn't allow homeowners to buy products through its site.

Like many great businesses, Houzz was born from a personal need. Houzz co-founders Alon and Adi Tatarko were remodeling their home and found the process was much more frustrating than they had thought it would be. Through talking to their friends, they realized their experience wasn't out of the ordinary. "Everybody in the community said, 'Oh, don't even start. It's such a pain,'" Adi Tatarko remembers. "We felt it shouldn't be that way. If we had technology and the ability to communicate with other people and see what's out there and learn more, maybe it will be much more fun."

Meager Beginnings

Operating from their kitchen table at first, Adi and Alon launched Houzz, a website and online community dedicated to home remodeling and do-it-yourself projects. For 18 months, the company operated in bootstrap mode before they finally began to seek funding. The couple grew the business over nights and weekends while still holding day jobs and raising two children. They realized funding would allow them to devote more time to the rapidly growing business. "At some point we just met the right people who told us, 'You're crazy,'" Adi says. "'If you want to bring great people on board to help you and scale it, you have to get some money from investors.'"

Landing funding

A year after launch, the couple met venture capitalist Oren Zeev. Petrified that an investor would come and “ruin everything,” Tatarko cautiously listened to his pitch. His laissez-faire attitude (“You don’t want to monetize, don’t monetize. Do whatever you want to do. It’s your thing.”) eased her mind; Houzz raised $2 million that fall.

Through her experience in successfully seeking funding, Adi learned that every business needs two things to attract the attention of top-tier venture capitalists: proof that an idea is good and people are actually going to use it and proof you can execute that idea. By bootstrapping their business for so long, the Tatarkos were able to demonstrate both of these things because they already had a growing product with a strong community. "Sequioa promised us--and they kept their promise--that they're going to keep [Houzz] exactly the way it is," Adi says. "I think that the product was pretty clear what it is, why we're doing what we're doing, how we're planning to do it, what is the path to get there, and they were so supportive."

Building a culture

Using the money provided by Sequoia Capital, the Tatarkos hired some of the best engineers, product people, designers, editors, and community people in Silicon Valley. The couple built a fun culture that they were proud to be a part of, where they could work alongside great partners. Through their shared passion for the community they'd created, the Tatarkos were able to see their community grow rapidly. "We just kept doing it and the community kept growing, growing, growing," Adi recalls. "In 2013, we looked at our traffic and users and professionals and we actually have professionals and users from all over the world. 35 percent of our users were coming from outside the U.S."

Houzz’s community is measurable through the idea exchange that takes place on the platform each day. Professionals have published more than 20,,000 ideabooks to date, around which consumers ask questions, leave comments, borrow inspiration, and ultimately identify products and vendors to execute their own renovations. These books contain over 2 million retina quality images of professionally designed interiors and exteriors. Consumers, in turn, have added these images 300 million times to their own look books.

Houzz has thrived by focusing on the needs of its two constituencies, homeowners and professionals, and on fostering a community among them. Thinking about it, the platform may be the first place ever that the two groups have consistently interacted and shared ideas. The impressive growth and resulting monetization have come as a function of this commitment to creating value rather than on creating a big business at the expense of user experience.

Continued growth

In response to community demand, Houzz decided its next step would be to localize its service. Adi realized this meant more than simply providing the service in different languages. They wanted to create a global design language where people could sit in Russia, Japan, Australia, or the U.S. and get inspiration from each other. Houzz has already launched its localized services in U.K., Australia, Germany, and France and has plans to launch in 15 other countries later this year. The Tatarkos have always focused on providing a strong product and user experience, knowing monetization would follow. In 2014, Houzz launched three revenue channels: brand advertising, local channels for professionals, and click-to-buy options. Even in its monetization, the Houzz is very protective of its community. Every new move it makes is designed to keep the site as user-friendly as possible. The Houzz team continues to turn to its community members with each new change it makes.

By bootstrapping the company for the first 18 months and focusing on users first, Adi Tatarko has been able to build a successful business with loyal users. The focus on users instead of on profit is becoming a popular strategic move for many new companies. Do you see this changing the way people spend their money?

How Blue Apron is Disrupting the Traditional Grocery Chain Model

Blue Apron is one of today's fastest-growing food delivery businesses -- and they've taken a unique approach to what it means to deliver food. Blue Apron assembled the ingredients for a multibillion-dollar valuation just three years after launching. The entire grocery supply chain system needs a lot of work. There are a lot of components in the chain along the way, with a lot of middlemen taking a cut at each step. Beyond that, there's no end visibility into the customer, which results in a lot of waste and perishability of food that contributes to higher costs to customers. The challenge is showing people and educating them that buying food from Blue Apron is better for them from an experience perspective, a convenience perspective, a cost perspective, and a quality perspective than going to your grocery store. It's always difficult to get people to change their behaviors and try something new, even if it's better for them.

The New York startup, which ships boxes of pre-measured ingredients to home cooks, is one of several meal-kit providers that have sprouted including HelloFresh and Plated. As of May 2015, Blue Apron was sending more than two million meals to customers around the country each month, up from a million in November. That translates to about $20 million in monthly sales at a cost of about $10 a meal, though the company also offers many meals for free as promotions. Its most popular plan costs $59.94 a week. For that price, customers get a refrigerated box filled with ingredients for three different dinners for two. The recipes often include unusual ingredients that aren’t easy to find, especially outside of large cities.

Blue Apron, with warehouses in Jersey City, N.J., Richmond, Va., and Dallas filled with perishable food, is a somewhat unusual investment for venture-capital firms, which have for years professed an aversion to capital-intensive businesses. It employs 1,400 nationwide and about 120 in New York.

But investors are enticed by the fact that Blue Apron doesn't have to maintain giant refrigerated warehouses, nor have much retail overhead. Instead of shipping out finished meals, they let their customers be the chefs, delivering recipes and fresh ingredients to people all over the United States. (Think: almond-crusted cod with coconut rice and ginger spinach; spring bucatini pasta with pea tips, asparagus, and mint. Is your mouth watering yet?) Clearly, their mission extends beyond convenience and speed. They've tapped into the personal, emotional, and social side of food: the home-cooked meal. Their goal? To make healthy and delicious home cooking accessible to anybody.

Like so many startups, this idea was born of its co-founders' personal needs. “We were busy working a lot, wanted to cook at home, but it was hard because there was so much prep work involved,” says Salzberg, who was a venture capitalist at Bessemer Venture Partners. A year ago, he was brainstorming with Papas, who has a strong tech background, and Wadiak, a chef, and the three came up with the idea for Blue Apron, a once-a-week subscription service that delivers recipes and just the right amount of raw ingredients needed to cook three meals. The name of the company comes from a French culinary tradition: chefs in training wear blue aprons.

The business is more food and logistics than tech startup, and the best way Blue Apron can succeed is to get the logistics formula exactly right. Chefs plans the meals, then the ingredients are procured, split, and shipped. That seems difficult enough to make profitable, but the meals must also be interesting, easy to learn, and presented in a sensible way. Most people who cook use a "pull" method to get new recipes -- we find them on our own, and if they are a disaster, it's a wash -- we were the ones that chose that recipe. But with Blue Apron, the pressure is on for each recipe to deliver.

Cultivating a dependable partner network

The company's first challenge was to find reliable partners to supply ingredients. "We went out and researched the landscape and approached growers, family-run bakeries, pasta makers and farms," Salzberg says. Recipes are created in Blue Apron's test kitchen every week, according to what is fresh and available in the marketplace. The company has three employees who do nothing but cultivate relationships with suppliers. There are now 20 suppliers, and Blue Apron will seek out more as the company grows, with the intention of sourcing ingredients as geographically close to subscribers as possible.

Getting the logistics down

"If we're missing just one ingredient, we can't make that recipe," Salzberg says. Yes, there have occasionally been emergency substitutions, such as when the company simply couldn't get enough yuzu (an exotic citrus), and variegated pink lemon had to pinch hit in a fancy cod recipe. But typically, there's not a lot of room for logistical failures. The company posts the upcoming week's recipes on its website, so if customers don't get what they're expecting, Blue Apron has to eat crow.

To keep things moving smoothly, the company built a custom internal scheduling system that keeps track of production, and a custom CRM system that manages customer accounts. "A lot of e-commerce companies outsource logistics, but because what we do deals with perishable food items, we're unable to do that," Salzberg says. "We manage everything ourselves and have a warehouse in Williamsburg." He's planning an additional two or three distribution centers as the company expands.

Leveraging word of mouth

Blue Apron benefits from the fondness that folks seem to have these days for posting pictures of their food. "Social media is huge for us," Salzberg says. "People are constantly posting our recipes on Facebook, Twitter, Instagram and Pinterest." It also helps that the company is generous with its recipes. You don't have to be a subscriber to the service to get regular emails with full recipes of the company's fare, like stuffed squash with Caesar chicory salad or glazed mini pork meatballs and snow peas. While the company currently offers a vegetarian option, Salzberg says that in the future, "we'll be offering different kinds of meals according to dietary restrictions." Can gluten-free and non-GMO be far behind? For Blue Apron to scale, however, it will have to rely heavily on its ability to leverage and expand its existing infrastructure and supplier network. While there are competitors, such as Plated and Chefday, scrambling for market share in this space, Salzberg thinks that Blue Apron has a leg up. "To do this cost-effectively in a scalable way nationally is extremely difficult," he says. "That's the value we bring to people—we can do it."

The Fabulous Story of JustFab

Adam Goldenberg and Don Ressler are an unlikely team to take on the fashion industry, but that is what they are doing with JustFab, which uses stylists and celebrities to sell shoes, handbags and jewelry at cut-rate prices via a subscription model. Shoppers fill out a style questionnaire, and each month they get suggestions of merchandise to choose from for a $39.95 fee. The company said in early 2015 it had 3 million subscribers. JustFab hired former runway model Kimora Lee Simmons in 2011 as president and creative director, lending the site a sense of fashion cachet. The site also employs celebrity stylists and shows photos of celebrities wearing its merchandise.

JustFab says it's able to keep prices low by designing and manufacturing its own products. The company has run into hiccups. In October last year, JustFab paid $1.8 million to settle a lawsuit in California that alleged the company was misleading customers by advertising free returns and then charging a restocking fee. JustFab says it no longer advertises free returns and also is refunding the fees to the affected customers. The bigger challenge is growth. JustFab had six million unique visitors in November 2014, down from 9.5 million a year earlier, according to comScore, a sign that some shoppers may be tiring of the model. The subscription is a way to showcase new merchandise and keep shoppers engaged, and members can always opt out each month, the company says.

JustFab co-founders and co-CEOs Adam Goldenberg and Don Ressler know how to spot trends, grow businesses and develop industry-leading brands, and they do it with a combination of passion and fun that is rarely found in an industry that takes itself a little too seriously. Adam founded his first company, Gamers Alliance, at the age of 15, which he sold three years later to MySpace parent company, Intermix Media, in 1999. He quit high school and moved across the country to join Intermix as Vice President of Strategic Planning. By the age of 20, Adam was promoted to Chief Operating Officer, becoming the youngest COO of a publicly traded company. It was at Intermix that Adam first met Don, an entrepreneur and brand building specialist who sold his own company, FitnessHeaven.com to Intermix in 2001. Don's endeavors had lead him to generate over $1 billion in sales and raised more than $100 million in capital for various Internet companies.

The pair became fast friends, and when Intermix was acquired by News Corporation in 2005, Don and Adam were quick to start their own company. In 2006, they created an e-commerce brand incubator platform called Intelligent Beauty. The company became the home to SENSA, a weight-loss system based on groundbreaking research from Dr. Alan Hirsch, and DermStore, a service created by a board certified dermatologist who wanted to provide accurate skin care information and qualified skin care products online. After Adam and Don established these brands as health and beauty market leaders, the guys began to conceptualize a new kind of personalized shopping experience that could live online. They wanted to merge social interaction with cutting-edge fashion, and they wanted to do it at an affordable price. To capitalize on this largely untapped opportunity, Adam and Don operated under the principle that for fashion to work online, it needed to be fun, engaging, and highly social. The pair prepped for a major expansion of Intelligent Beauty and set about creating a personalization platform, hiring style consultants and designers, and building out an attractive and affordable subscription model. The result was JustFab, a style community where "members" receive a selection of shoes, handbags, and accessories tailored to their taste each month for $39.95. "We're not merely shipping out shoes, bags and accessories once a month, we are changing the subscription model and keeping engagement high" notes Don. "JustFab shows women how to wear each item by providing style boards and demonstrating complete looks on models. We want to inspire women with their whole wardrobe and provide style tips from leaders in the field. We also want them to connect and share with each other because fashion is something that evokes a response."

But Don and Adam are maybe not the first guys one would think of to launch a major women's fashion brand. "When we started this business, I couldn't tell you the difference between a peep toe and a Mary Jane," admits Adam. "But I did know that in terms of scale, I have never seen something with this much potential. Don and I were confident we could create a transformational business, so we brought in the best design, creative, and style teams in the industry who share our vision for delivering the highest quality product at the best price."

Enter Kimora. Fashion icon and renowned businesswoman Kimora Lee Simmons was looking for a new challenge, and she was intrigued by what her longtime friend, Don, was doing. She attended some early JustFab functions and got excited by the company's potential. It wasn't long before Kimora officially made JustFab her fashion home, joining the company as president and creative director. "Kimora is a force of nature. No one knows the fashion business like Kimora. She built Baby Phat into a nearly billion dollar business. She has a phenomenal eye and a commitment to making great style affordable and accessible to every woman. She also knows how to cultivate a fanbase through social media," says Don. "Her decision to join us and whole-heartedly devote her time, energy, and considerable talent to JustFab was perhaps the greatest industry validation we could get. She's not just lending her name or her image – Kimora is in the office 3-5 days a week and we couldn't be happier with all she brings to the table." All of the pieces were falling into place for JustFab. Subscriptions grew faster than expected, and customers loved all elements of the service. It was time to expand. As the business grew more rapidly than anticipated, Adam and Don knew they needed venture partners to ensure that JustFab could scale into the global brand they envisioned. That's when one of their existing investors introduced them to Matrix's Josh Hannah. It was a natural fit on both sides.

Josh was known as a seasoned entrepreneur, who co-founded Betfair and made it an international success. He also spotted an opportunity with the once struggling eHow. Josh purchased the company and turned around in an astonishing fashion. He was everything Adam and Don looked for in an investment partner, with a personality that instantly fit JustFab's culture. Factor in Matrix's history of success and its backing of rising fashion companies and this was an ideal match. "JustFab perfected the subscription model, while nailing personalization and delivering great quality products," says Josh. "Adam and Don also have the pedigrees to aggressively grow the business. They have a knack for bringing in the right surrounding team to accomplish their goals. I am even more excited about JustFab's future today than when I first met them – and that says a lot. Their enthusiasm is contagious, and it motivates the team to excel." Now with millions of customers around the world and millions in revenue, JustFab is doing just fine.

Today, JustFab is a lifestyle fashion company that offer their personalized shopping experience to more than 35 million members worldwide through their brands including JustFab, FabKids, ShoeDazzle, and Fabletics. FabKids is a children-focused site that offers affordable, yet stylish outfits for children. ShoeDazzle offers their members a daily deal on exclusive ShoeDazzle label and designer-brand styles. Finally, Fabletics was co-founded by Kate Hudson, and focuses on high quality lifestyle activewear and accessories for women. JustFab believes that they are able to offer their customers a good price on the products by eliminating middlemen and selling through the web directly to the end consumer. They believe that they are "building the next H&M or Zara" through their products. Besides their product offerings, JustFab has also expanded operations internationally. They are present in the US, Germany, Canada, the United Kingdom, France, and Spain.

How Jessica Alba's Honest Co. Became a Billion Dollar Company

Actress Jessica Alba has suffered from allergies since she was young, but it was an allergic reaction to a baby-safe laundry detergent a few years ago that led her to co-found a company that makes non-toxic consumer products like diapers, wipes and creams for delicate skin. Honest Co. started in 2011, three years after Ms. Alba's first daughter, Honor, was born, and it has expanded to sell cleaning products, vitamins and toothpaste, competing against some of the world's biggest companies like Procter & Gamble Co. and Kimberly-Clark Corp. Honest joins other brands such as Earth's Best and Seventh Generation that are playing to concerns about the materials used in everyday items. Honest says its sales rose to $170 million in 2014, up from $60 million in 2013. It sells more than 75% of its products through the Web, and currently is building up its store distribution business, with items available in more than 2,500 locations, including Target Corp. stores.

Makers of conventional diapers, including Procter & Gamble, which sells Pampers, and Kimberly-Clark, maker of Huggies, contest the notion that their products pose safety concerns, noting that ingredients used in disposable diapers are subject to rigorous regulatory tests. But Honest says its diapers contain fewer harsh chemicals that could irritate skin than some national brands. Its message has gained traction among parents, who are willing to pay a premium to allay fears of exposing their infants to unnecessary chemicals. Honest is poised to face fresh competition on diapers. Amazon.com Inc. recently launched Elements, its own line of diapers and baby wipes that boast some of the same claims as Honest, like being free of chlorine and perfume. But in a sign of how difficult it is to crack the space, Amazon pulled the product due to poor reviews and is rethinking how to make them. Ms. Alba founded the company with three others including CEO Brian Lee, who helped begin another celebrity studded start-up ShoeDazzle, an ecommerce fashion site.

The original vision according to Ms. Alba

“When I was pregnant, my mom recommended a baby detergent that made me break out in a rash when I tested it. My mom used this product when I was a kid, but I realized that if I had this reaction, then how could it be safe for my baby? The more I looked into eco-friendly family products, the more “greenwashing” I discovered: Packaging and promises implied they were non-toxic and natural, but they used fragrance and ingredients that were anything but. Now that we have so much information about the harmful effects of toxic chemicals on children’s growth and well-being, I wanted to creat e an option in the marketplace that parents could trust to make better, safer choices for their families.

The Honest Company is the only family goods brand serving the complete range of household needs with products that are totally safe and non-toxic, accessible in price and availability, truly effective and designed to change the perception of eco-friendly style. I was advised to start with only one product, but I knew from my own experience that to serve families and establish the vision, we would need a broader selection. We created and produced 17 products for launch and we continue to make everything that we sell.”

How the company has evolved

"Like our kids, we've grown so much in such a short time. Since our initial product offering, we've launched the health and wellness category and expanded our existing categories to offer over 80 products. After two years in business, our latest investment round has brought us up to $52 million in funding. Our first year revenues were around $12 million. Currently, we're reaching north of $50 million in revenue with a run rate to do over $100 million. We now have just under 300 employees in our new office and a new customer service center helping to take us to the next level.
Finding the right partners has been key to our continued success. With Christopher Gavigan, Brian Lee and Sean Kane, I've found partners that complement my skill set with their own expertise to maintain the clarity of the vision we've established from the beginning.

As a social media user, I've also seen how maintaining an organic connection with our Honest parents through tools like Facebook, Twitter, Instagram and Pinterest affects our business on a daily level. We get honest feedback about how our products change families' lives for the better, alleviating symptoms of chronic respiratory illness, allergies and dermatological issues. Consumer communication constantly inspires us to improve and innovate in ways that address the way families live today. We receive up to 5,000 calls a day and, unlike any other family brand, we use that information to pivot and iterate on product and process constantly."

Lessons learned the hard way

I believed that there was a real opportunity for my idea, but I had to overcome a lot of self-doubt about establishing and running a business. I wanted to ensure I did my research on the marketplace to support my experience and partnered with people who were clear about creating a sustainable business model, which took years of rejection and patience. I like to say I went to the business school of Brian Lee and every day has been a learning experience. At the company, we like to say we're honest, not perfect. We really listen to our customers and our internal teams to pivot as quickly as possible when it comes to addressing any challenges. For example, we heard a lot of feedback from parents about our wipes, which were a key item for our launch. We knew how much it meant for the business as well as the brand to do them right, so we pulled the wipes, reformulated and re-launched them within four months. We listened to our audience and now they're a bestseller.

The way forward

The company now gets 30 percent of sales from brick-and-mortar stores, including Whole Foods and Target. The remainder comes from online sales, and more than 60 percent of those digital sales come from monthly subscriptions of multi-product bundles. Honest began with diapers, baby wipes and cleaning products and expanded to soaps, shampoos and sunscreens. The company recently began selling baby formula and women's deodorant too, and Lee (the CEO of The Honest Company) says Honest will introduce a line of feminine care products later this year. All of this has happened in about three years, which raises the question of whether Honest is doing too much too soon. Lee says no, that the company has found the right balance. He also said Honest will continue to consider new categories where it feels it can introduce a better and healthier product than most competitors.

The cult-like love for the brand among the Honest community is a big reason investors are excited about this e-commerce business. Honest raised a $70 million investment last year led by public market investor Wellington Management Company. An IPO is the goal. "It will allow us to control our own destiny," Lee said in response to a question on whether it could be a buyout target by a bigger consumer packaged goods company. If that IPO happens, venture capitalists as well as similarly structured online-to-offline retailers such as Warby Parker and Bonobos will study how public

market investors value Honest. Will it secure the higher revenue multiples of pure e-commerce businesses or lower ones more in line with traditional retailers?
“We’ve been meeting with bankers of course and they don’t even know what teams to bring,” Lee said. “Sometimes they’ll bring their luxury brand team. Sometimes they’ll bring their e-commerce team. Sometimes they’ll bring their retail team. It is hard to define, but we are a brand that’s born online.”

Ahead of an IPO, big challenges will test Honest’s resolve. Honest has dipped in and out of profitability; it is not yet consistently profitable. And new competitors pop up all the time. Amazon introduced its own line of premium diapers in December but temporarily pulled them less than two months later because of bad reviews. Honest has refused to sell its own diapers to the e-commerce giant. “They’ll be back, probably with a better diaper,” said Lee, who described himself as a customer and fan of Amazon. “Their misstep was that it wasn’t of the highest quality the first time around.”