The art of scaling gracefully

Lessons from Silicon Valley Comes to the UK 2013

Entrepreneur First
About Silicon Valley Comes to the UK

Silicon Valley Comes to the UK brings leading Silicon Valley entrepreneurs, investors and thought leaders to the UK to explore ideas and to ignite local entrepreneurship.

The conference see Silicon Valley and UK leaders in entrepreneurship lead workshops, master classes and lectures, with the aim to debate, discuss, create and fund today’s most disruptive technologies to change our world in the years to come. In 2013 SVC2UK also launched the 100 Club for CEOs who are expected to take their businesses to £100m in revenue within 3-5 years.

Each year, SVC2UK grows in reach and influence. This year, cities from around Europe and beyond hosted Silicon Valley Comes to You (SVC2U) – a programme of events that run concurrently with SVC2UK. These locations will harness momentum of SVC2UK to showcase local talent and motivate others to start their own enterprise. This year we welcomed friends from Vancouver and Belfast too who also hope to run similar events in their cities in 2014.

About Entrepreneur First

Entrepreneur First is the only seed investment programme in the world that selects entirely on the basis of talent. EF recruits only the top tech students and recent graduates, often pre-team and pre-idea, and supports them to build high-growth tech startups in London.

EF’s track record is comparable to the world’s leading accelerators: its portfolio companies are worth $1m on average per founder after 12 months; 90% have raised external investment. These locations will harness momentum of SVC2UK to showcase local talent and motivate others.

www.svc2uk.com
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Foreword

Every year, Silicon Valley Comes 2 the UK chooses its themes and activities with great care. It was long hard reflection that guided us to ‘scaling up’ as our over-arching theme.

As Nesta’s innovation report observed in 2009, economic development in the UK has mainly been driven by a small number of high-growth companies: “6 per cent of UK businesses with the highest growth rates generated half of the new jobs created by existing businesses between 2002 and 2008.” Similar studies in the United States, a country often considered as having the most mature, fluid and developed innovation economy, show even more stark results. According to the NVCA’s 2011 report about 0.2% of US GDP is invested in new and high-growth companies, which now have revenues that account for some 21% of US GDP.

We feel that rather too much focus has been placed by our ecosystem on ‘starting up’ and ‘startups’ rather than ‘finishing up’ and ‘scaling up’. We are perplexed as to why this is the case - particularly given that it is the quickly scaling companies that produce the lion’s share of jobs and economic growth, not to mention financial independence for founders, who in turn become angel investors backing first time entrepreneurs with their ideas.

We would very much like to explore how we ‘supercharge’ the leaders of our vital 6% so that their companies are as successful as we feel that they can be on a global basis – but supported from European soil rather than US soil. How many jobs do you think might be created in the UK if we - the whole ecosystem - actually focused on supporting our fastest scaling companies so they became truly globally ‘great’?

• What would happen if these companies were fast-tracked for government procurement?

• What would happen if they got visas to help them hire senior talent who had done this before?

• What would happen if they had mentoring and support from hundreds of entrepreneurs who had scaled businesses globally before?

This report is written as advice to entrepreneurs seeking to scale their businesses, but its lessons are such that we investors, large corporates and policy makers should also take note of as we strive to create the future our children and grand-children will inherit.

I am grateful to my former HBS classmate Kevin Sneader of McKinsey who recommended we contact Matt Clifford of Entrepreneur First to help us compile and order these stories which were gathered and distilled over several events and time periods. Matt has done a stunning job and it is my sincere hope that our joint efforts help our leading entrepreneurs avoid some of the pain that was endured by these entrepreneurs as they learned these lessons, and that as a result Britain becomes Greater!

Sherry Coutu CBE
Co-founder and Co-Chair, SVC2UK
Introduction

Why aren’t we creating more billion pound companies, indeed trillion pound companies? The opportunity is here and it is now and we can and should seize this opportunity.

This ‘scale-up manifesto’ is aimed at exploring, explaining and focusing the minds and imaginations of British entrepreneurs, investors and policymakers on the ease and the importance of scaling up gracefully. We hope that you will contemplate why we are making this bold statement and join with us on the journey our country needs to make in order to both create our future and secure our economic growth.

This report chronicles conversations between hundreds of entrepreneurs from the four corners of the earth who have built businesses worth billions of dollars that operate in hundreds of countries and employ tens of thousands of people. Each one of these entrepreneurs not only had the original idea, they stuck with their idea, changed it to suit the needs of their customers over many years while they built the business to employ thousands of people and serve hundreds of millions of customers. As they built these businesses, they became leading industrialists and leaders. There are common themes that underpin how they did this. We’ve made an attempt at converting these common themes into twelve recommendations for action.

Founders of globally ambitious startups will be the first to recognise that there is no simple recipe for building a billion dollar – or, indeed, as some of the speakers this year encouraged us to target, a trillion dollar – business.

It is our hope that these twelve recommendations represent a best practice starting point, a foundation from which the best founders can adapt and scale their businesses. We are not saying that small businesses that stay small are not important. They are. But they are not enough! We are saying that we are not producing sufficient companies that do scale up. It is imperative that we change that and we think that if you take the advice chronicled here, you might even have a chance at doing it gracefully (rather than disgracefully!).

Here is how.
Focus relentlessly

Key idea

Extreme founder focus is a prerequisite for scale, but startups naturally throw up numerous and often apparently important distractions, which must be overcome if a company is to scale. Only the paranoid survive and only the focused scale!

The notion that founders must focus seems almost a truism, but it was noted by a number of SVC2UK speakers and mentors as one of the greatest challenges for entrepreneurs who seek scale. The difficulty arises because as a startup grows, the number of potential paths that the company can take also increases – and sticking relentlessly to a single one, rather than spending time on every available option becomes increasingly hard.

Experimentation ≠ lack of focus

As John Katzman noted, many founders have rightly taken on board the message that experimentation is key in a startup. Startups operate in conditions of extreme uncertainty, so a willingness to experiment allows founders to discover which products and business models present the greatest opportunity. However, if not properly managed, a culture of experimentation can also be one of insufficient focus. In one mentor’s words, “Experimentation is key, but don’t try to run lots of experiments in parallel”. To maximise learning, each experiment – whether a new product, a new channel or a new market – requires a founder’s full focus, so experiments must be run in a series and in a meticulous, rather than a ‘haphazard’ manner.

Moreover, as Katzman argued, the choice of experiments must itself be an exercise in focus. A culture of experimentation is not a licence to pick projects as random. As Katzman said, “making multiple bets in a startup shouldn’t be like throwing darts”; instead, each experiment should follow from the previous one, “moving asymptotically towards your goal”.

Focus is boldness

Scaling usually requires doing one thing exceptionally well. Therefore, a dangerous temptation for founders is to attempt to scale by offering an increasingly broad and unfocused set of products or services to their existing users. The danger is twofold. First, every new offering distracts the startup from becoming exceptional in one area; “every opportunity is a potential distraction”, as one mentor put it. Second, having a very broad set of features within a product set makes it increasingly difficult for a startup to achieve focus later. It is difficult for a startup to take decisive action, which may include dropping features, if it carries the fear of alienating existing users. As Katzman said, “a fear of focus is often a fear of losing customers – but if you can please customers only at the expense of focus, it’s impossible to retain them all in the long run”.

The cost of lack of focus

The solution, according to Mike Shepherd, is for founders to understand and even quantify the true cost of lack of focus. Founder bandwidth, he argued, is one of the scarcest resources in
any growing company. He therefore suggests that founders explicitly calculate the rough “cost” of their time, by dividing target revenue for the next twelve months by the number of management hours available. That number, he argues, is the opportunity cost of your time as a founder. Comparing this number to the value of any task or project you are about to take on and therefore asking yourself if you are spending your time on the right things – or whether you are getting distracted – is a simple way to develop the habit of focus.
Beware premature scaling

Key idea
Scale is good – but can lead founders to seek organisational (rather than output) scale for its own sake, ahead of the company’s needs, which can prove not only unsustainable but actively damaging for the company.

In a report premised on the centrality of scaling up, warning of the dangers of premature scale may seem an odd note. However, the SVC2UK speakers warn over and over that inappropriate scaling can in fact be fatal to a company’s long-term success. Scale is not merely about size, but also sustainability.

What is premature scaling?
Ben Nelson gave the most vivid example of the dangers of premature scaling. He recounted that Snapfish grew extremely rapidly once its achieved early success. The organisation grew to 95 people in a single year. Nelson pointed out that this kind of headcount growth was unjustified by the organisation’s true needs and caused the company to stagnate. Focus was lost, innovation slowed and productivity fell – not to mention the extremely high cash burn rate it required.

The problems grew so severe that it took four rounds of layoffs (each of which was damaging to morale and productivity) to achieve an appropriate organisational size. At that point there were just 23 people working at the company and, in Nelson’s words, “we effectively refounded the company with those 23 people and delivered more in absolute terms than we had with 95”.

Michael Shepherd agreed that the danger is real. He argued that premature scaling stresses the organisation’s ability to execute and, of course, radically reduces return on investment.

How to avoid premature scaling
Nelson argued that there are three main drivers of premature scaling and that the key to avoiding it is to ensure that founders and managers recognise and challenge these drivers as they appear. The first driver of premature scaling is ego. Nelson argued that in startups – particularly in business models where revenue is likely to be low initially – there are few externally validated metrics of success and so it is tempting for founders to increase headcount as a way of demonstrating achievement. However, this is a vanity metric; it is extremely unlikely to be correlated with actual success.

The second driver is that adding employees is often a straightforward way to placate discontent within an organisation. In Nelson’s words, “the easy thing to do is to add people,
rather than firing people and getting better people!”. However, avoiding conflict in the short term by increasing resources only leads to greater pain later on.

Nelson identified the third driver as the temptation to treat hiring as the solution to all problems in an environment of “ever-moving bottlenecks”. That is, startups will always have a team or department that is the bottleneck for productivity; the belief that increasing headcount or resources in that team is a panacea is deeply flawed. Indeed, adding people to that team will only move the bottleneck to another part of the organisation, which will in turn demand more resources and create an upward spiral of pressure on organisational size.

It is crucial, therefore, to create a culture in which increasing size and resources is not the solution of first resort to organisational stress. As Julie Hanna put it, “when considering hiring, wait until the pain is intolerable – and then wait a little bit longer”. Only by maintaining a lean culture of “thinking like a startup even as you scale up”, in KK’s words, can founders avoid the dangers of premature scaling.
Learn “leadership for scale”

Key idea

The kind of leadership required in a scale-up is very different from that required in the very earliest stages of a company; in particular, founders need to learn to let go of the very tasks that made them successful in the startup phase.

One of the most fundamental challenges for startup founders is learning to be a leader. As numerous speakers and mentors pointed out, to found a company and get it through the startup phase requires extraordinary skill, often in very specialised tasks, such as product or business development. However, scaling up usually requires a founder to step back from these tasks and learn very rapidly a completely different skillset. Failing to make this transition as a leader can be the difference between success and failure for the company.

Prepare yourself to change roles rapidly

According to Renaud Visage of Eventbrite, this is something that founders need to think about and be prepared for from the beginning. In Visage’s words, “you need to understand who you are as a person and what you want”. Startups move so rapidly that within a year you could be running a very different organisation. Visage pointed out that “you may be a developer now, but if all goes well, you’re soon going to have moved from being a developer to managing a hundred developers. You need to be prepared to grow into that or hire someone onto the team who has done that before to make it happen. If you don’t, you’re company will fail.

Stanley Yang made a similar point about the challenges of letting go, particularly if you got into founding a startup in the beginning because of your attachment to a particular product or idea. As he put it, “Building a startup is exciting, but scaling up means being a greater distance from what brought you in”. In particular, founders, however skilled technically, must be prepared to shift their focus rapidly as a consequence of success. In Yang’s words, “I no longer have the luxury of enjoying building the product”.

The need to let go

The implication is that founders must be learning constantly if they are to be as effective as a scale-up CEO as they were as a startup one. As Michael Shepherd put it, “the required pace of your learning is dictated by the pace of growth of your company”. For Shepherd, one of the most difficult leadership skills to learn is delegation – or, in his words, “how to let go”.

Shepherd notes that there is a particular pivot point in an organisation’s growth, when it reaches around 150 people, when it becomes apparent to a founder that it is impossible to know everyone’s name, let alone understand what everyone is doing. Learning to accept and embrace that and, moreover, to lead effectively in that environment is critical to
success.

**Leadership as a prerequisite for hiring for scale**

Julie Hanna argued that in scaling organisations a major component of effective leadership is being able to hire the calibre of people who can take on the tasks you no longer can execute well. Hanna argues that this requires deep learning of a range of soft skills that can inspire an organisation beyond the people you are able to interact with personally day to day. In her words, “a lot of things that used to be seen as “nice to have” or optional extras are key to scaling in today’s world. Compassionate leadership and intentional leadership are how you attract and retain the extremely rare people who will help you get to scale.” She noted that this sort of leadership was rare, in her view, outside of the US where skill and talent shortages made their appreciation of ‘others’ more acute. This was evolutionary and necessary given the extreme degree of movement between companies that were scaling up. This momentum and velocity of talent ‘swapping’ is notable in the US. They recognise that those individuals who have helped to scale a company are like ‘gold-dust’ to those entrepreneurs doing so for the first time.
Choose a big enough problem

Key idea

Startups that scale solve big problems; choosing a global problem that you are suited and committed to solving gives you the best chance of success.

In 2013 as in 2012, the SVC2UK speakers noted that idea choice is the foundation of a scalable business. The emphasis on thinking global from day one was perhaps even stronger this year, with the clear message that global ambitions are important for businesses that aspire to maximise their impact. This is particularly the case in Europe where one’s ‘home market’ is not that large.

Think big

Several panels and discussions focused on the question of billion (and, indeed, trillion) dollar ideas. Michael Baum perhaps summed up the prevailing attitude among the speakers in saying “Think big! If it sounds like a difficult problem to solve, that’s probably what you should be focusing on!”

A number of approaches were suggested for identifying these types of scalable ideas. Renaud Visage suggested that founders “build something that taps into a fundamental human need and makes it easier – and then scale it”, noting that in the case of Eventbrite that need was meeting others. Michael Baum added that the biggest wins come from disruptive ideas in large markets. In particular, he argued that “if a market has been around for a long time and has become calcified, perhaps dominated by a small number of large players, there is the opportunity to build something huge”.

A third approach was suggested by Stanley Yang, who noted in a panel discussion on the topic of “trillion dollar companies” that such organisations already exist – but that they are called governments. He argued that a private-sector trillion dollar company will have to have government-like features; in particular, it will have to have products that people cannot avoid using.

Of course, scale-ups need to solve big problems – but that doesn’t mean they need to be glamorous ones, as Mohsen Moazami pointed out. He noted that the person who solves balding or snoring will become a billionaire!

Sam Chaudhury sounded a note of caution about trying to pick big ideas, arguing that the outstanding companies of each generation tend to be “black swans” – that is, inherently unpredictable. He noted that exponential growth is both intuitive (and therefore difficult to observe in its early stages) and extraordinarily powerful (and therefore impossible to ignore once it gets going).
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**Problem ownership**

If the biggest ideas are often unpredictable, that makes a strong fit between the founding team and the problem they are solving even more important. As Megan Smith put it, “the ‘who’ and the ‘what’ of a founding team are rarely separate questions”; that is, there are certain companies that could really have only been founded by the people who did so – and certain founders who really could only have founded the companies they did.

Moazami concurred in his comments to one of the conference panels. In his words, “founders need an authentic desire to solve a real problem”. He cautioned strongly against the opposite approach, where a founder scans potential markets and selects one with apparently attractive characteristics. Scaling a startup is so hard, that without a genuine sense of problem ownership, founders are likely
to give up or fail when they meet discouraging obstacles.

Sherry Coutu also felt that having investors who wanted to solve the problem was something that entrepreneurs should think about when choosing who to invite in as investors. Investors who want to solve the problem will work with the founder over a long period of time to actually solve the problem, whereas those that are ‘market scanners’, will not have what it takes to overcome the myriad of barriers presented to those who scale.
Embed yourself in the right networks

Key idea

Network density is one of the secrets of Silicon Valley’s success and creating your own network of exceptional people is crucial for scaling your own startup.

No one can scale a company by themselves. Doing so requires having a tight but heterogeneous network of people and institutions upon which to draw at different points in a startup’s journey. Some of these people will work for the company, others will support it informally as an advisor, consultant, Non-exec director or just as an active customer.

Megan Smith from Google emphasised this point strongly. In her talk at the big data summit, Smith argued that the answer to the much-asked question, “Why does Silicon Valley produce such big companies?” is first and foremost the density of the networks there. She noted that Google’s Solve For X initiative, which celebrates “moonshot thinking”, is predicated on three ingredients: huge problems, breakthrough technologies and radical solutions. Smith argues that people who think in these terms and on this scale are rare and that surrounding yourself with people like this enables you to achieve extraordinary outcomes.

Renaud Visage had a similar message. He noted that building an exceptional network is the prime task of an aspiring scale-up founder, as it can be the source of the opportunities that lead to building big companies. Visage pointed out that the story of Eventbrite is a story of networks creating opportunities. Visage was introduced to his co-founders Kevin and Julia Hartz because they were seeking a CTO for a new venture and a mutual connection thought there could be a good fit. In Visage’s words, “build your network early, because you don’t know where the next opportunity is coming from”. 
Recruit people who have done it before

Key idea

First-time entrepreneurs can scale startups into big companies, but they almost always need the help of people who have done it before. Finding these people and working with them effectively is critical.

A strong theme in 2013, particularly at the SVC2UK CEO Summit, was the value of pattern recognition in scaling a startup. Every business is different, of course, but there are striking similarities in the challenges they face in scaling. Therefore, first-time entrepreneurs should seek to surround themselves with people who have played important roles in scaling up companies before. The speakers and mentors noted that this applies both to the employees a founder hires, but also the advisers and board members that a founder chooses.

Renaud Visage put the need most starkly, “unless you have people around you who have done it before, you simply won’t make the right decisions along the way”. This echoes Megan Smith’s exhortation from 2012: “You must hire people who have done it before. There is no substitute”. Ben Nelson made a similar point with a memorable analogy, saying that given a million dollars, no Silicon Valley CEO would hire 10 smart engineers whose experience priced them at $100,000 a year if they could hire two whose experience priced them at $500,000. This idea of the “10x employee”, whose contribution is more than ten times as large as a “merely good” employee is a challenging but important idea for founders to take on.

The speakers acknowledged that many founders resist bringing on people who are older and more experienced than themselves, because they fear they will lose control and credibility once there are “grown-ups” in the organisation. However, this discomfort is an unreliable guide for decision making. Any founder who wishes to remain an executive in a scaled-up organisation will have to confront this situation eventually; postponing this moment does nothing to promote the company’s growth.

A new emphasis in this year’s conference was the value of having experienced advisers as well as employees. One mentor at the CEO summit made the point that the right advisors can challenge your thinking in a way that can be difficult for even the most experienced employees. The keys are trust and mutual respect; there is no point having experienced advisers who don’t have the incentive or temperament to tell you difficult truths.

Ash Patel noted that startups increasingly want to have formal advisers, but that few of them make the most of these relationships and use them in the right way. He cautioned against having advisers whose primary purpose is to look good on the company’s web site. Instead, startups that are scaling up should treat advisers as they would non-executive directors; they
should communicate transparently, ask specific questions in the advisers’ areas of expertise and actively encourage advisers to challenge their thinking and decisions. According to Patel, used in this way, a good group of advisers can replicate many of the benefits both of a strong board and an experienced executive team.
Hire for tomorrow, not today

Key idea

Having the right team is arguably the single most important component of scale-up success. And, as the needs of a rapidly scaling company change so quickly, you need to hire for the organisation you want to become, not the one you are now.

Many speakers mentioned the ability to attract and retain talent as the most important characteristic of companies successfully scale up. Three challenges stand out: attracting exceptional people; matching the workforce to the organisation’s stage; and remaining lean even as you hire.

Attracting exceptional people

One mentor at the CEO Summit noted that the technology media is abuzz with talk of a Series A crunch – meaning the concern that there is insufficient capital available for companies who have successfully raised a seed round, but now need to raise an A-round to enable scale. However, the mentor noted that potentially more worrying than a Series A finance gap is what he called a “Series A talent gap”. The idea is that people with the right combination of skills, experience and risk appetite to take seed-stage startup to scale are even rarer than the capital required to do so. This is particularly true in startup ecosystems such as the UK with shorter histories than Silicon Valley.

Another mentor noted that to be able to attract these people, startups should replicate the approach of their counterparts in Silicon Valley, who tend to be much more willing to create generous option pools to reward the senior, non-founder employees who make a crucial contribution to scaling a company. In Silicon Valley it is common to set aside 10 to 20 percent of the company’s equity to incentivise employees; in the UK is often much smaller. Several speakers noted that unless startups share their success with the people who make it possible, they will struggle to attract the sort of people who can help them scale.

Matching the workforce to the company’s stage

One of the hardest lessons to learn for scaling a business is that having the right team is as much about letting people go as it is hiring new people. “Hiring for tomorrow” means employing people who can help your business reach its next stage – and saying goodbye to people whose contribution was most effective earlier in the organisation’s life.

Renaud Visage put this plainly: “You will outgrow your people. None of the first ten employees at my business are still there”. Ketan Kothari concurred, saying, “Once you get to about 30 people, you realise you’re going to have to let loyal people go”. The two pieces of advice the speakers offered are, first, confront these decisions head on and, second, act decisively but compassionately when you make them. One mentor noted that once you realise that it is time to let someone go, postponing the decision only allows
the opportunity for the mismatch to cause resentment on both sides and ultimately to poison the organisation and morale.

Remain lean

As noted above in the discussion of premature scaling, hiring excessively brings enormous difficulties. The SVC2UK mentors therefore advised maintaining a lean mentality even as you grow the organisation. Not only does this avoid the organisational stress that premature scaling causes, but it has positive benefits of its own. As Ben Nelson argues, “doing a lot with a few extraordinary people creates extraordinary loyalty”. He noted that fourteen of the 23 people left in Snapfish in 2001 after the final round of layoffs were still there in 2010.

The balance between hiring ahead of your needs and ensuring that you do not hire so far ahead of them that you undermine your organisation is doubtless a tricky one. However, according to our speakers, remaining lean – and so increasing expectations – is one way to develop people into exactly the sort of workforce that a rapidly scaling company needs. The clear takeaway from the conference is that “hiring for tomorrow” is as much about talent and capabilities as it is about raw employee numbers.
Embrace diversity that scale

Key idea

Homogeneous teams struggle to scale. A broad range of skillsets, mindsets and backgrounds are needed.

The strong emphasis on diversity in SVC2UK 2012 was less pronounced in 2013. However, it remained a clear theme in a number of speakers’ remarks, particularly with respect to the characteristics of the founding team.

Michael Baum noted that his Founder.org initiative, which seeks to increase the number of students who build startups, has taken a data-driven approach to selecting potential high-impact teams. One dimension in the data that has proved particularly important is the diversity of the team.

Baum highlighted two especially important points. First, he pointed out that arguably the most important effect of diversity in a founding team is simply that it signals that there were multiple smart, driven people who were sufficiently convinced of an idea’s potential that they came together to work on it. Although it can be tempting for aspiring entrepreneurs to go it alone – the ultimate lack of diversity! - Baum argued that this is a strongly negative signal for investors. In his words, “If it’s just you, why can’t you persuade someone else to join you?”

Second, Baum argued that diverse problem solving approaches are crucial to overcoming the kind of obstacles that startups are likely to encounter as they scale. Different backgrounds, experiences and approaches are needed to tackle the truly hard problems. As Baum put it, “You need a diverse team – not three MBAs, of course, but probably not three engineers either!”

Renaud Visage had a similar message, noting that scaling a company is too big and too broad a task for one person or even a team of people with the same skillsets. “A varied team with different competencies is crucial”, he argued.
Nurture company culture and values as you grow

Key idea

Culture and values are difficult to maintain as you scale, but doing so is important. Your culture and values are the foundation of your ability to attract the exceptional talent who can grow the company.

Why culture matters

J The SVC2UK raised two reasons why building – and scaling – a strong culture is critical for success. First, as one mentor put it, “culture is what remains in the room when the founder leaves it”. As we emphasised above, scaling means letting go; so, if as a founder you can no longer take each decision directly, instilling a culture that propagates the values that are important to your business allows you to scale your own impact beyond the people you can interact with personally.

Second, as several speakers noted, values and mission, far more than economics, are what attract truly exceptional people to work for you – and without truly exceptional people you will fail to scale. As Julie Hanna said, “The best engineer is worth 10 average engineers, so you should be obsessed with people. And for the kind of people you should be obsessed with, mission is the key”. Hanna noted that to become a big company, you either have to exploit the world at scale or change it at scale. Because, Hanna argued, the best engineers usually measure success not by money but by how many people are using their product and with what impact, putting your mission and values “front and centre” is the only way to inspire the right people to join you.

Andrew Thompson concurred, saying “You shouldn’t motivate people by telling them they’re going to be rich; you should motivate them by telling them you’re going to change the world”. Unless you can maintain your values and culture as you grow, it is difficult to communicate this message with authenticity.

Why scaling culture and values is hard

In addition to the linear difficulty of ensuring that each additional employee absorbs and buys into the values, culture and mission of the company, growth brings particular challenges to companies that seek to maintain their culture and values. As a startup scales, it is often presented with opportunities that highlight the trade-offs between growth and values.

Stanley Yang crystalised this idea in saying, “Growth that causes you to compromise your values isn’t the growth you want”. He noted that his company’s products (NeuroSky makes brainwave reading devices) have lots of potential applications that are in conflict with
the kind of organisation he and his team want to build. As a consequence, they have refused lots of work that was at odds with the impact they want to have, for example in the adult entertainment industry. Julie Hanna noted that Kiva had had to make similar trade-offs. For example, Kiva currently invests significant time and resources in operating in some of the world’s riskiest geographies. In Hanna’s words, “We could grow faster if we abandoned some of this activity. However, we see that activity as having a potentially catalytic impact in some of the riskiest parts of the world. We’re happy to trade off some growth now for more impact in the future”.

Making these potentially costly trade-offs in favour of your values is difficult, but the SVC2UK speakers argue that it is the right decision for long-term growth and impact.

**Role-modelling your values**

Making trade-offs in this way is a specific instance of a broader point: your employees should see the values that you want the organisation to have role modelled in each of the decisions you make as a founder.

Megan Smith made this point about the problem-solving and idea generation culture at Google. People at Google absorb the notion that discussion of ideas should be, in Smith’s words, “two thirds ‘Yes and’ and one third ‘Yes but’” because they see senior leaders take this approach. The mindset filters down the organisation.

Role modelling is not just about founders’ behaviours, but also their decisions about where to invest resources. Julie Hanna pointed out that Silicon Graphics was “arguably the first company to say that the physical workplace itself should reflect the value you place on your people”. She noted that first Netscape and now, and most famously, Google, as well as many other technology companies have taken this to the next level. In Hanna’s words, “The famous benefits of Silicon Valley offices – free food, homely design – are not just perks, they are a symbol of what you value and what is important to you: your people.”
Build systems that scale

Key idea

Scaling systems and processes are perhaps some of the least glamorous aspects of scaling a company, but are also among the most crucial. Systems and processes should be designed for scale from the beginning.

The speakers discussed a number of different systems and processes that need to be designed for scale, even in early stage companies. As Mike Shepherd put it, “Planning for scale is about anticipating where you’ll be in 12 months and building the organisation you’ll need then now. Everything needs to be systematised!”

Ash Patel encouraged founders to think global from Day 1 in designing their technical infrastructure. In particular, he emphasised the benefits of setting up the infrastructure to be able to operate in multiple countries. Philip Su expanded on this point, noting that it is often tempting for founders to shy away from early investment in engineering as a company scales. Su argued that this is usually a false economy; founders should invest in building their engineering talent and embrace the idea that “engineering is not a cost centre, but a core competency”.

The benefits of building flexible systems that can accommodate advances in technology were raised by Renaud Visage. He pointed out that “The evolution of the iPhone and its growing ubiquity changed Eventbrite, as being able to use smartphones as ticket scanners opened up lots more opportunities for growth.” This wasn’t a development that Eventbrite was designed for, but their systems were designed to be able to take advantage of technological change.

Data and analytics

Mike Lynch used his remarks at the data summit to highlight the central importance of capturing and analysing data for growth. Lynch argued that companies “can’t afford to ignore big data”. Indeed, according to Lynch, startups that want to scale need to be aware of the enormous opportunity to improve decision making that having more data and better algorithms presents.

One venture capital investor who mentored at the CEO summit agreed with this overall view, but also sounded a note of caution. In his words, “if you don’t have a clear view of what success looks like, data cannot save you”. His argument is that data provides answers, but cannot help you ask the right questions. In particular, he noted that rapid growth can “hide dangerous ripples in the data, such as an older cohort of customers falling off a cliff”. His advice to CEOs deciding how to balance data and intuition as they scale is, “follow the data, but be paranoid about threats”.

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Test continuously to stay close to the customer

Key idea

Startups have to be able to listen to and be responsive to their customers as they scale. Techniques such as A/B testing and agile development allow this approach to scale to millions of customers.

Early on in a startup’s life, product design and development is often driven by processes that don’t scale, such as heavy investment of founder time in talking to individual customers (often all of them!) and incorporating their feedback constantly. As a company scales, this approach no longer works. However, as several speakers argued, it is important that the mindset of continuous testing and responsiveness to customers remain, even as the techniques used change.

Julie Hanna summarised the Silicon Valley approach to this challenge in saying, “Think about scale from the get-go, but act hyper-local”. By this she meant that startups need to find products and business models that work at the individual customer level, but can be repeated and scaled globally. At the beginning, according to Hanna, “you can test all your key assumptions in a purely analogue fashion, without any tech. You can test, learn, iterate, repeat hyper-locally even if the problem is global. The key is repeatability”.

A number of mentors at the CEO summit noted that as startups scale, techniques such as A/B testing, in which distinct segments of customers are shown different versions of websites or products and their responses tracked, allow this level of responsiveness to scale to millions of users. For example, an A/B test could allow you to test which of multiple articulations of your value proposition drives the most valuable behaviour (e.g. sales or engagement) among your customers. Once you know this, you can repeat this articulation to all your users and reap the benefits.

Mike Lynch echoed this point at the data summit. He cited the fact that retailers can now achieve an 18% uplift in sales by optimising their website design and user experience using big data. According to Lynch, “what’s most striking is that a human can’t tell the difference between the optimised and the unoptimised versions”; that is, investing in data-heavy, customer-responsive testing unlocks opportunities for growth that are otherwise inaccessible.

Renaud Visage reinforced the importance of a testing mentality, with particular emphasis on the value of releasing new iterations of your product early and often. In his words, “releasing early is the only way to get organic validation of your product”. Visage acknowledged that many startups are wary of releasing imperfect versions of their product. By way of counterargument, he quoted SVC2UK co-founder Reid Hoffman, who has often said, “If you’re not embarrassed by the first version of the product you release, you waited too long”.

Visage also noted that a testing mentality goes beyond finding out which of the startup’s ideas resonates most with the customers; it may mean...
listening to and implementing the customers’ own ideas. In Visage’s words, “we couldn’t have predicted the ways people would use our products. Your users will dictate what your becomes. If you’re not listening, you will miss out on the full potential of your company”.
Take the right kind of money at the right time

Key idea

Although many companies that wish to scale will require external capital, the relationship between fundraising and scaling is far from linear. Companies can be hamstrung by raising too much, raising too little or choosing the wrong investors.

For first-time entrepreneurs, raising money can often appear to be among the more glamorous elements of building a company. However, in practice, while fundraising is often necessary, it can also be a time-consuming process that is fraught with challenges. The SVC2UK speakers offered advice on ensuring that investment is a positive process that enables growth.

External investment can be the catalyst for scale

The most straightforward reason to raise external capital is to allow a company to make investments, in people and assets, more quickly than revenue alone would allow. However, according to several SVC2UK mentors, there are other strong reasons to gain buy-in from experienced investors as you scale.

Ash Patel noted that there are four major challenges of scaling where venture capitalists can help: hiring, partnerships, expanding into new domains and expanding into new geographies. Patel argues that good and experienced investors should be able to catalyse growth by making warm introductions for a startup in each of these areas, as well as by passing on learnings from previous companies. In Patel’s words, “If your investors can’t help in this way, they’re the wrong investors!”

But beware raising too much (or too little) money

One mentor at the CEO summit noted that there are “just two dangers of taking venture capital – taking too much and taking too little”! However, speakers had advice for how to avoid these two challenges. Julie Hanna noted that the best way to avoid raising too little is to ensure that when fundraising, you are thinking explicitly about the milestones you will need to reach to raise the next round. In Hanna’s words, “you need to raise enough money to allow you to reach these milestones in an agreed amount of time”. If you miss them, investors are unlikely to back you a second time, even if all you need is more time.

However, several mentors cautioned against making the interpretation that you should therefore raise as much money as possible. As one mentor put it, “if you take money from a leading venture capital firm, you have a big ‘for sale’ sign on your head from that day”. The challenge here is that economics of venture
capital require investors to seek extraordinary returns on their money. In Mike Shepherd’s words, “VCs are looking for home runs, so you tie yourself into selling for a minimum of ten times your valuation when you take VC money”. In this sense, venture capital money, even if it helps a startup scale, may not help it scale in the way the founders want.

**Beware of picking the wrong investors**

More broadly, a strong theme from the speakers’ discussions of investment is that founders should treat taking capital as a long-term relationship. In Patel’s words, “when you choose your board, you choose your boss”. For Patel, the implication is that founders should not be excessively swayed by a VC firm’s reputation, as it is not the firm but a specific partner that the startup will interact with: “Don’t pick a firm, pick an individual”.

Patel also had advice for how to choose that individual. He argued that if there is a successful outcome, founders will be working with their investors for seven to ten years. Therefore, according to Patel, “just as there has to be chemistry between founders, there must be chemistry between founders and investors.

One mentor noted that given this requirement, it makes sense for founders to begin building relationships with investors early. As one mentor at the CEO summit said, “companies built on deeper technology need to build relationships with investors over a longer period of time. You can’t just turn up one day and expect a cheque”.

Clearly fundraising is a difficult balancing act, requiring a founder to find the right amount from the right people at the right time. However, executed well, external capital can be the fuel that enables startups to scale.
Conclusion

There is no escaping that scaling a startup successfully is an enormous challenge that even extremely smart and driven founders may fail to overcome. However, Silicon Valley Comes to the UK 2013 provided UK founders who seek to scale many with many causes for optimism.

First, the conference demonstrated that not only is there a vibrant group of British founders with ambitions to scale, but that the benefits of bringing these people together with experienced entrepreneurs to talk through their achievements and challenges yields real and lasting benefits for the companies involved.

Second, the strength in depth of the UK-based mentors at the CEO summit was striking and encouraging. As several speakers pointed out, one of the pillars of Silicon Valley’s success is the recycling of wisdom and capital by entrepreneurs who have exited one or more businesses and re-engage by becoming mentors and investors themselves. It is clear that this cycle is well underway in the UK and will only become stronger as, for example, the founders of the SVC2UK 100 Club themselves exit.

Third, while some of the causes of Silicon Valley’s extraordinary track record are locally and historically contingent and thus difficult to replicate, one element that travels well is the lessons learned from past successes and failures. We hope that this report crystallises some of these lessons for a wider audience in the UK and beyond, just as the conference itself crystallises them for networks of entrepreneurs on both sides of the Atlantic.

The startup founders who attended SVC2UK can have no doubt that scaling up is not a question of geography; as one mentor put it, “Silicon Valley isn’t a place, it’s a state of mind”. The task for UK-based startups is to embrace that mindset and take the steps to scale.
Contributor profiles

Alice Rathjen, DNA Guide
Alice Rathjen is the Founder and Chief Executive Officer of DNA Guide, a company making searching the genome as easy as finding a pub around the corner. In 2011 Alice won the Kaufman Business Idea Competition for Women in Science and Engineering. She is the primary inventor of US Patent 7089498 Method for Managing Personal Genetic Profiles.

Andrew Thompson, Proteus
Andrew is the Co-founder, President and Chief Executive Officer of Proteus Digital Health. He also co-founded and was President and Chief Executive Officer of FemRx and Chief Financial Officer of CardioRhythm.

Ash Patel, Morado Ventures
Ash Co-Founded and is the Managing Director at Morado Venture Partners where he joined from Yahoo! where he held a variety of positions including EVP of Audience Products Division, Chief Product Officer and Senior Vice President of Platform Engineering.

Ben Nelson, Minerva
Ben is Founder and CEO of Minerva University, a for-profit online university set to open in 2015. He joined the on-line photo-sharing company Snapfish in 1999 and in 2000 he brought the company to profitability and guided Snapfish’s 2001 sale to District Photo. Prior to Snapfish, Nelson was president and CEO of Community Ventures.

David Hornik, August Capital
David joined August Capital in 2000 to invest broadly in information technology companies. David also teaches entrepreneurship and venture capital at the Harvard Law School and previously taught intellectual property at Stanford’s Graduate School of Business.

Diane Tavenner, Summit Public Schools
Diane is the Founder and CEO of Summit Public Schools (SPS), a non-profit charter management organization focused on Silicon Valley. In 2003, she founded Summit Preparatory Charter High School in Redwood City, which now ranks as one of 10 miracle high schools voted by Newsweek.
Heather Hiles, Pathbrite
Heather is the Founder and CEO of Pathbrite, a platform showcasing learning and career portfolios. Heather has served as the Commissioner for San Francisco Unified School District and held C-level positions with Silicon Valley Social Venture Fund EARN, SFWorks, and Break the Cycle.

John Katzman, Noodle Education
John founded Noodle Education with the aim of helping people navigate the vast world of education resources. He was also the founder and Chief Executive Officer of 2tor.com and the Princeton Review. He has assisted several start-ups, including Student Advantage and Tutor.com. John has co-authored five books on testing.

Jose Ferreira, Knewton
Jose Ferreira is the founder and CEO of Knewton, the world’s leading adaptive learning company. Knewton combines big data with psychometrics to continuously and progressively personalize any publisher or school’s online learning courses. The company was named a 2011 Technology Pioneer by the Economic Forum at Davos in 2012.

Julie Hanna, Kiva
Julie is an entrepreneur, technologist & CEO turned board director, advisor and investor to numerous companies, including Kiva, Lending Club, Bonobos, SYPartners and Idealab. As Chair of the Board at Kiva, the world’s largest crowdfunding marketplace for entrepreneurs, she’s helping lead the growing movement of tech-enabled, mission-driven companies that are changing the world at scale.

Ketan Kothari, Edmodo
Ketan was co-founder of Root-1, Inc which was acquired March 1st, 2013 by Edmodo Inc where he is currently VP of Marketing. Prior to that, Ketan was the CEO and co-founder of AlphaSmart, which IPO’d on NASDAQ:in February 2004. Prior to that he was with Apple. Ketan has an MBA degree and a BSEE degree from Brigham Young University.
Megan Smith, Google
Megan is an entrepreneur, tech evangelist, engineer, social change agent and connector. At Google, Megan works on a range of projects including co-creating/hosting SolveForX. Megan was CEO of PlanetOut, the leading LGBT online community and was also at General Magic and Apple Japan.

Michael Baum, FOUNDER.org
Michael is CEO of FOUNDER.org, an organisation created to inspire students to chase big ideas and become founders of impactful companies that drive innovation and economic growth. Michael was previously co-Founder & CEO of big data software company Splunk (SPLK).

Michael Keller, Stanford
Michael A. Keller is the Stanford University Librarian, Director of Academic Information Resources, and Publisher of HighWire Press for Stanford’s Green Library. Michael is also an elected Fellow of both the American Association for the Advancement of Science and the American Academy of Arts & Sciences.

Michael Shepherd, GrowthPoint Technology Partners
Mike is a Managing Director at GrowthPoint Technology Partners, a technology investment bank, focused on financing and M&A transactions for growth stage technology companies. Prior to founding GrowthPoint, Mike did four other startups in publishing News, Music, Software and Video.

Mohsen Moazami, Columbus Nova Technology Partners
Mohsen Moazami is a GP at Columbus Nova Technology Partners (CNTP), a novel global technology investment firm combining the best attributes of venture & private equity business models. He has a strategic consulting background and 20+ years of creating top and bottom line impact, by working with CEO’s, CxO’s and government leaders globally.

Renaud Visage, Eventbrite
Renaud Visage is the founding technical architect and CTO of leading online event management company Eventbrite. Eventbrite enables people all over the world to plan, promote, and sell out any event. Renaud started his career as an environmental consultant. Prior to this he was Director of Engineering, at Internet photo-sharing pioneer, Zing Networks which was funded by Kleiner Perkins Caufield & Byers and later acquired by Sony ImageStation.
Sam Chaudhary, ClassDojo
Sam is the co-founder and CEO of ClassDojo. Sam and his co-founder Liam founded ClassDojo in 2011 to help teachers, parents and students improve classroom behavior and build positive learning habits and character strengths. Since then, ClassDojo has become one of the world’s fastest-growing education technology companies, currently being used by millions of teachers and students in more than 30 countries.

Stanley Yang, NeuroSky
As Chief Executive Officer of NeuroSky, Inc., Stanley Yang is the visionary behind the bio-sensor company that has quickly become the global leader in mass market Brain-Computer Interface technology. NeuroSky has developed a revolutionary non-invasive neural communication sensor that converts brainwaves and other bio-signals into digital electronic signals.

Suranga Chandratillake, Blinkx
Suranga founded blinkx.com, the Video Search Engine in 2004 and launched it in 2005. Suranga served as blinkx’s CEO from start-up through its IPO and growth to a profitable, $100M+ business with an $800M market capitalization. Suranga was born in Sri Lanka, grew up in Manchester and lives in San Francisco.