Appster

Characteristics of High Growth Startups

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What is a Startup?

Startups are in. Inspired by "The Social Network" young people dream of dropping out of school to start a multi million dollar company, media are more occupied with startups than ever before and a day doesn't go by without multiple new blog posts on the "top 10 secrets to startup success". Today startups are strongly associated with Silicon Valley, computer science, venture capital (VC), and the internet. But it was not always so.

In the 1800s America, startups were busy pushing forward the highly nontrivial technologies involved in oil, steel, pharmaceuticals, and telegraphs. In the early 1900s America, startups were developing the fledgling automobile, aviation, and telephone industries. Many similarities exist between these earlier startup eras and the present. For example, the Wright Brothers began the multi-trillion dollar aviation industry in their bike store, similar to the canonical garage startup of today. One of the most important features of these early startup industries was the initially relatively low cost of capital required to start a business and the wide open regulatory, technological, and physical frontiers all resulting in the ability to scale fast. Take Banting and Best for example: In 1921 they came up with the idea for insulin supplementation, in 1922 they had it in a patient's arm, and by 1923 they had won the Nobel Prize.

Startup = High Growth

While different people have different definitions, the general consensus is that a startup is a business built to grow extremely rapidly. As Paul Graham of Y Combinator points out: being newly founded does not in itself make a company a startup. Nor is it necessary for a startup to work on technology, or take venture funding, or have some sort of "exit." The only essential thing is growth and everything else we associate with startups follows from growth.

In general newly founded businesses can be divided into 3 categories:

- **Small Business:** Think of a bar, grocery store, import-export business, consultancy etc. These businesses usually target local markets and are slow to scale, since they often require upfront capital costs or depend on selling someone's time (e.g barber shop) and that limits their ability to scale.
- **Lifestyle Business:** A lifestyle business is set up and run by its founders primarily with the aim of sustaining a particular level of income and no more. Unlike startups who want to maximize revenue and customer base, lifestyle entrepreneurs are in the game primarily to enjoy a level of freedom and income, without working 24/7 to conquer the world. 37 Signals are a great example of a highly successful lifestyle business.
- **Startup:** Startups want to conquer the world. When you start a startup your ambition is to become the next Google, Facebook or Microsoft. Startups often come up with new, unproven products, markets or business models, they operate in uncertainty and try to compete in global markets. The ability to scale is fueled by low capital costs and often lack of regulatory framework in an innovative market.

Key Features of Internet/Mobile Startups

- **Scalability:** For the first time in history, it is possible for an average person to asynchronously trade with someone across the globe. You can buy a book without leaving your house, make payments instantly and language is rarely a barrier.
- **Market Size:** There are 3 billion internet users and 1.75 billion smartphone users in 2014 - all of them are potential customers and transactions can happen almost instantly.
- **Low Capital Requirements:** Starting up is cheaper and easier than ever before. One can purchase a laptop for a few hundred dollars. Instead of buying a server, you start with AWS for free and many SaaS tools make it cheap and easy to put together your first prototype and get it in front of your users.
- **Low Regulatory Barriers:** Unlike virtually every physical arena, the internet is still mostly unregulated, especially for smaller businesses. This makes the arena practically the new "New World"
- **The Long Tail:** The sheer scale of the internet enables a second phenomenon: Not only is it possible to address markets of unprecedented size, it is now feasible to address markets of unprecedented specificity. E.g. with Facebook Ads, you can reach every single person between 27 and 33 with interests in math from small towns in Wisconsin.
- **Failure Tolerance:** When a car crashes or a drug is contaminated, people die and new regulations are inevitably passed. When Google or Facebook crashes, people generally yawn and wait for the site to come back up.
- All of these reasons are what makes web/app startups the big thing of this era, just like cars were the big thing of the 1920's. Anyone can start a startup and anyone can move fast and break things.

What is High Growth?

As Paul Graham noted, a startup is a "company designed to grow fast". Startup growth rate changes in phases. It usually starts slow, kicking into high growth mode and eventually slowing down (you can't grow 10% per week forever, otherwise you would become the economy itself). Together these 3 phases produce an S curve, with slope being your growth rate.

According to Graham, if there's one number every founder should always know, it's the company's growth rate. That's the measure of a startup. If you don't know that number, you don't even know if you're doing well or badly. The best thing to base the measurment of the growth rate on is revenue. The second (for startups without a clear revenue model) is active users.

How Fast Should You Be Growing?

According to Y Combinator, a good growth rate during YC is 5-7% a week. If you can hit 10% a week you're doing exceptionally well. If you can only manage 1%, it's a sign you haven't yet figured out what you're doing.

A company that grows at 1% a week will grow 1.7x a year, whereas a company that grows at 5% a week will grow 12.6x. So if you're making $1000 a month (a typical number for seed stage startups early in YC) and growing at 1% a week, 4 years later you will be making $7900 a month, which is less than a good programmer makes as salary in Silicon Valley.

However, a startup that grows at 5% a week will in 4 years be making $25 million a month.

Weekly Growth	Annual Growth	Monthly Revenue After 2 Years (if started at $1000 p/m)
1%	1.7x	**$2,750**
2%	2.8x	**$7,500**
5%	12.6x	**$142,000**
7%	33.7x	**$965,000**
10%	142.0x	**$16,000,000**

Of course, 10% growth can't last forever. However if you're hoping to be a public company one day, you should be growing faster the smaller you are. For example the median revenue multiple at IPO for most successful IPOs (Tableau, Workday, Splunk, ServiceNow, Marketo, LinkedIn, etc.) was as high as 7.3x, and that was already at the point of slowed down growth.

The growth of a successful startup usually has three phases:

1. **There's an initial period of slow or no growth while the startup tries to figure out what it's doing (that is finding a product/market fit, repeatable and scalable business model)**
2. **As the startup figures out how to make something lots of people want and how to reach those people, there's a period of rapid growth.**
3. **Eventually a successful startup will grow into a big company. Growth will then slow, due to internal and external limits.**

Y Combinator advises startups to pick a growth rate they think they can hit, and then just try to hit it every week. If they decide to grow at 7% a week and they hit that number, they're successful for that week. There's nothing more they need to do, according to Graham. But if they don't hit it, they've failed in the only thing that mattered, and should be correspondingly alarmed.

Focusing on hitting a growth rate reduces the otherwise bewilderingly number of problems with starting a startup and brings focus to a single problem. You can use that target growth rate to make all of your decisions for you, anything that gets you the growth you need is right. Should you spend two days at a conference? Should you hire another programmer? Should you focus more on marketing? Should you spend time courting some big customer? Should you add x feature? If it gets you closer to your target growth rate, it should be done.

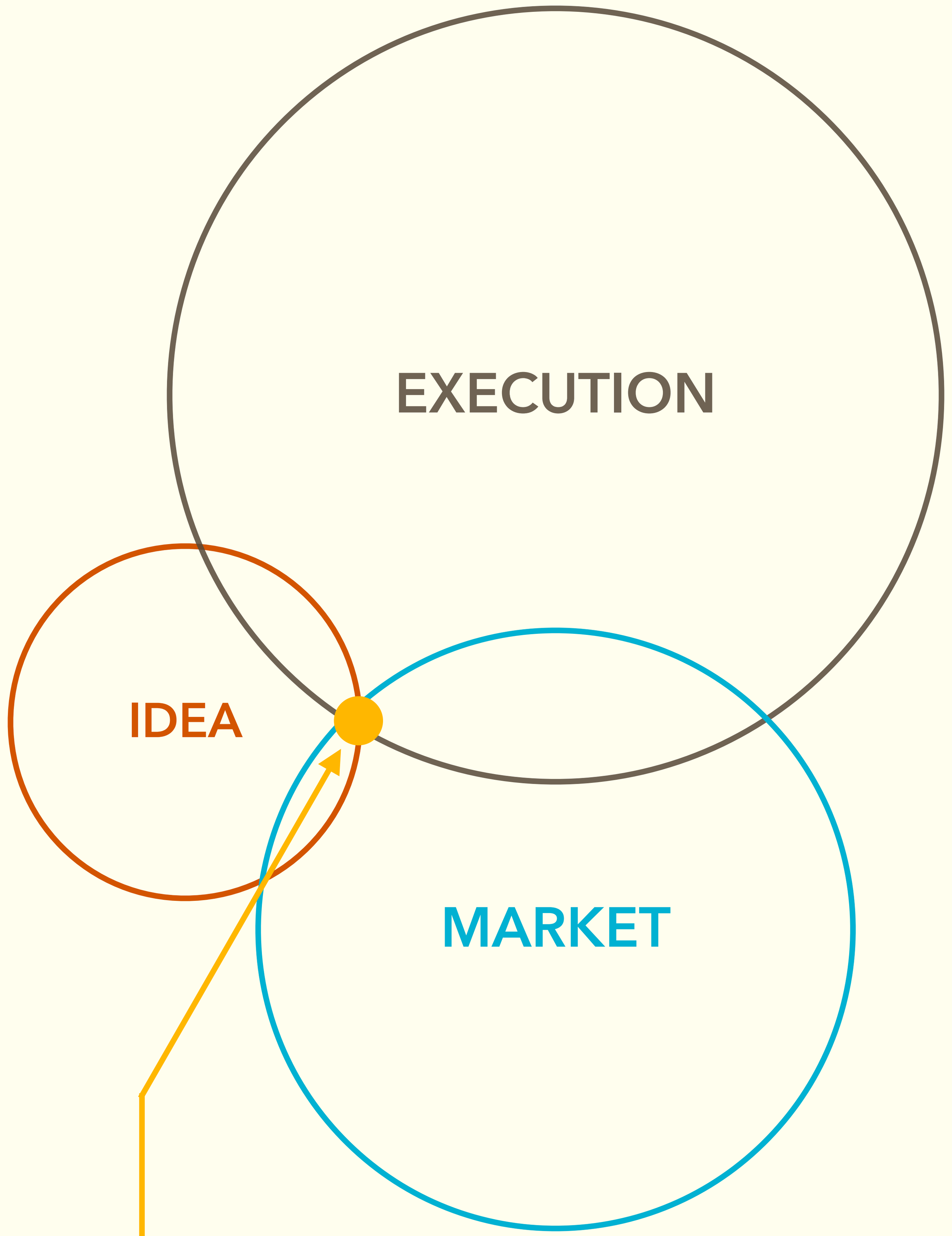
Foundations of Startups: Ideas, Execution, Market

When it comes to starting a business, the conventional wisdom is that the idea is everything. This is why US politicians and patent lawyers recently pushed for the America Invents Act, and why many people think they have “invented” Facebook, it's also why patent trolls are able to make money from thousands of shell companies without ever shipping a product. In other words, the conventional wisdom is that with the right idea, it’s just a matter of details to make a billion bucks.

An alternate view comes from Bob Metcalfe, the inventor of Ethernet and founder of 3Com: *“I don’t have this house because I invented Ethernet. I have this house because I sold Ethernet for a decade. That’s why I have this house. It had nothing to do with that brainstorm in 1973.”*

The reality is, that an idea alone has little to do with success or high growth in startups. In fact everyone from the average procrastinator to corporate managers have an idea with business potential. But most will never execute, and even if they do - 90% will fail. In fact most great startups started with a different idea - Paypal was a security company, Sony started with rice cookers, Twitter was a podcasting company, Shopify a snowboard store etc. It was really the fact that they started and, once in the market, began finding real problems and market imperfections as opposed to relying on fantasies and high hopes.

Great startups don’t start with great ideas, they start with finding a real problem and building a product that solves it - this can take many iterations.



In some ways this has become the new conventional wisdom: it’s not the idea, it’s the execution. You’ll see variants of this phrase repeated constantly in startup communities like Hacker News.

The rationale here is that it’s easy to come up with a trivial idea like “let’s build a social network”, but quite nontrivial to work out the many technical details associated with bringing that idea to market, from large-scale decisions like using a symmetric or asymmetric social network by default to small-scale details like how a “Poke” works. It’s also extremely nontrivial to actually turn a popular technology into a profitable business; just ask Second Life or Digg.

It really is the execution that matters: Facebook started after Friendster and myspace, Google started after search was already dominated by Yahoo plus 15 other search engines. Building a startup on the “sharing a flat” idea was considered stupid before AirBnB executed it into a multi-billion dollar startup.

There’s also a third view, that it’s neither the problem/idea or the execution but rather the market. Here’s Marc Andreessen on the topic:

Personally, I’ll take the third position – I’ll assert that market is the most important factor in a startup’s success or failure.

Why? In a great market – a market with lots of real potential customers – the market pulls product out of the startup. The market needs to be fulfilled and the market will be fulfilled, by the first viable product that comes along. The product doesn’t need to be great; it just has to basically work. And, the market doesn’t care how good the team is, as long as the team can produce that viable product.

So which is most important: product/idea, execution, or market? All of these factors (idea, execution, market, team, product) are important to varying degrees. Ideas range in quality from “a social network for dogs” to “Maxwell’s equations”, and execution ranges in quality from “I’ll start a company some day” to “a sold or IPO’d company”.

The Idea

Ideas are commodity, execution of them is not. Michael Dell

Beyond Just "Vision"

The conventional cliche used to be that startups were based on an entrepreneur's "vision". Few realize that Steve Jobs didn't "envision" building a top selling mp3 player when he joined Apple the second time. He merely reacted to the market opportunity, took what was already there (the mp3 player) and created a better version of it, beating all other products. Sergey and Larry also didn't "envision" building a search engine - there were plenty of search engines at the time, but all were cluttered with ads and corrupted results. So they created a clean and fast UI, that everyone chose over the rest. We can go on, Facebook - Myspace, Dropbox - hundreds of file-sharing startups at the time etc. The best startups are built on stronger stuff than just a "vision" or idea.

According to Steve Blank, the era of the "visionary founder" cliche is over. At least in startups. By building a business model canvas you can develop a more detailed version of your "vision" and validate it with the only possible "validators"- your potential customers. As you put your business model assumptions to test, you can collect and use customer's feedback and use it to build a real product that reflects actual market needs.

9 Most Important Elements of a Business

The first step to defining your startup concept is writing down each of the following:

- **Problem:** Describe the pain of the customer (or the customer's customer). Outline how the customer addresses the issue today.
- **Solution:** Define features that solve the customer's pain.
- **Key Metrics:** How will you measure your business progress?
- **Unique Value Proposition:** A single, clear compelling message that states why you are different and worth buying.
- **Channels:** How will you reach your customers? List all sales and marketing channels you will use to reach out to your target market.
- **Unfair Advantage:** What do you have that can't be easily copied. For example, a feature, technology or practice.
- **Customer Segments:** Who is your target market, define the specific user/customer you are trying to reach. Be specific and remember that "he who tries to please everybody pleases nobody"
- **Cost Structure:** List your variable and fixed costs to start/run the business. Be careful about confusing variable costs with fixed ones. You don't want to find out your costs rise with scale when it's too late.
- **Revenue Streams:** How will you make money? What will be your profit margin?

Testing The Model

Step two of Customer Discovery involves testing your above list of hypotheses with customers, preferably in face-to-face interviews. According to Steve Blank you should update the canvas at least once a week, to reflect any pivots or iterations, highlighting in red the changes from the last week. After you and your team agree on the changes to your business model, integrate them into what becomes your new canvas for the week (with accepted changes then shown in black). During the next week note any new changes again in red. Then repeat, repeat, repeat.

Don't expect every customer or channel prospect you interview to have a valid opinion on every aspect of the business model. Some users will know a great deal about the features they'd like to see, and perhaps about competition. Others will know more about how the company buys products, some will know about how much the company might pay, or how serious the problem actually is. Most will offer good feedback about the way they learn about new products in their industry.

Your team's job is to get as much feedback as possible using the Customer Discovery method to assemble a credible, validated "mosaic" that over time will affirm or validate all nine sets of business model hypotheses.

Recommended Reading

LeanStack: How To Create Your Lean Canvas
S. Blank, B. Dorf: Startup Owner's Manual

Problem

- **List the top 1-3 problems you aim to solve**
- **Outline how the customer addresses the issue today.**

Solution

- **List your top 1-3 features for each problem**

Key Metrics

- **Key number you will measure your business by** (e.g revenue growth, active users, engagement etc.)

Unique Value Proposition

- **Single, clear, compelling message that states why are you different and worth buying**

Unfair Advantage

- **Something that can't be easily bought or copied** (e.g feature or practice)

Channels

- **How will you reach your customers, list paths** (inbound, outbound etc.)

Customer Segments

- **List your target customers and users, be specific** (e.g moms 25-35)

Cost Structure

- **List your fixed and variable costs** (customer acquisition cost, recruitment, hosting etc.)

Revenue Streams

- **How will you make money? List sources** (e.g ads, subscription etc.)
- **Include margin, lifetime value of customer etc.**

Source: Lean Canvas

From Idea to Scale: Startup Growth Stages

Problem/Solution Fit

Purpose: Startups are focused on validating whether they are solving a meaningful problem and whether anybody would hypothetically be interested in their solution.

Events: Founding team is formed, many customer interviews are conducted, value proposition is found, minimally viable products are created, team joins an accelerator or incubator, friends and family financing round, first mentors & advisors come on board.

Time Scale: 5-7 months

Product/Market Fit

Purpose: Achieving product/market fit is the necessary prerequisite to kicking into growth mode. Product/market fit means being in a good market with a good product. According to Marc Andreessen "it's the only thing that matters."

Events: Testing, validation and determination of core features, driving initial growth, first paying customers, gathering product feedback and using it to build up a version customers will pay for and that can succeed in the market.

Time Scale: 3-5 months

Repeatable & Scalable Business Model

Purpose: 70% of startups fail due to premature growth. (They acquire customers at higher than sustainable burn rate) Finding a repeatable and scalable business model means determining how to acquire customers at an acquisition cost (ideally 3x) lower than the lifetime value of the customer.

Events: User acquisition and conversion funnel optimised, building a viral loop, retention strategy implemented, value proposition refined, user experience overhauled, finding repeatable and/or scalable user acquisition channels.

Time Scale: 5-6 months

Scale

Purpose: Step on the gas pedal and try to drive growth very aggressively.

Events: Massive customer acquisition, back-end scalability improvements, series A round, hiring

Time Scale: 7-9 months

Conserve Cash | **Invest Aggressively**

The Market

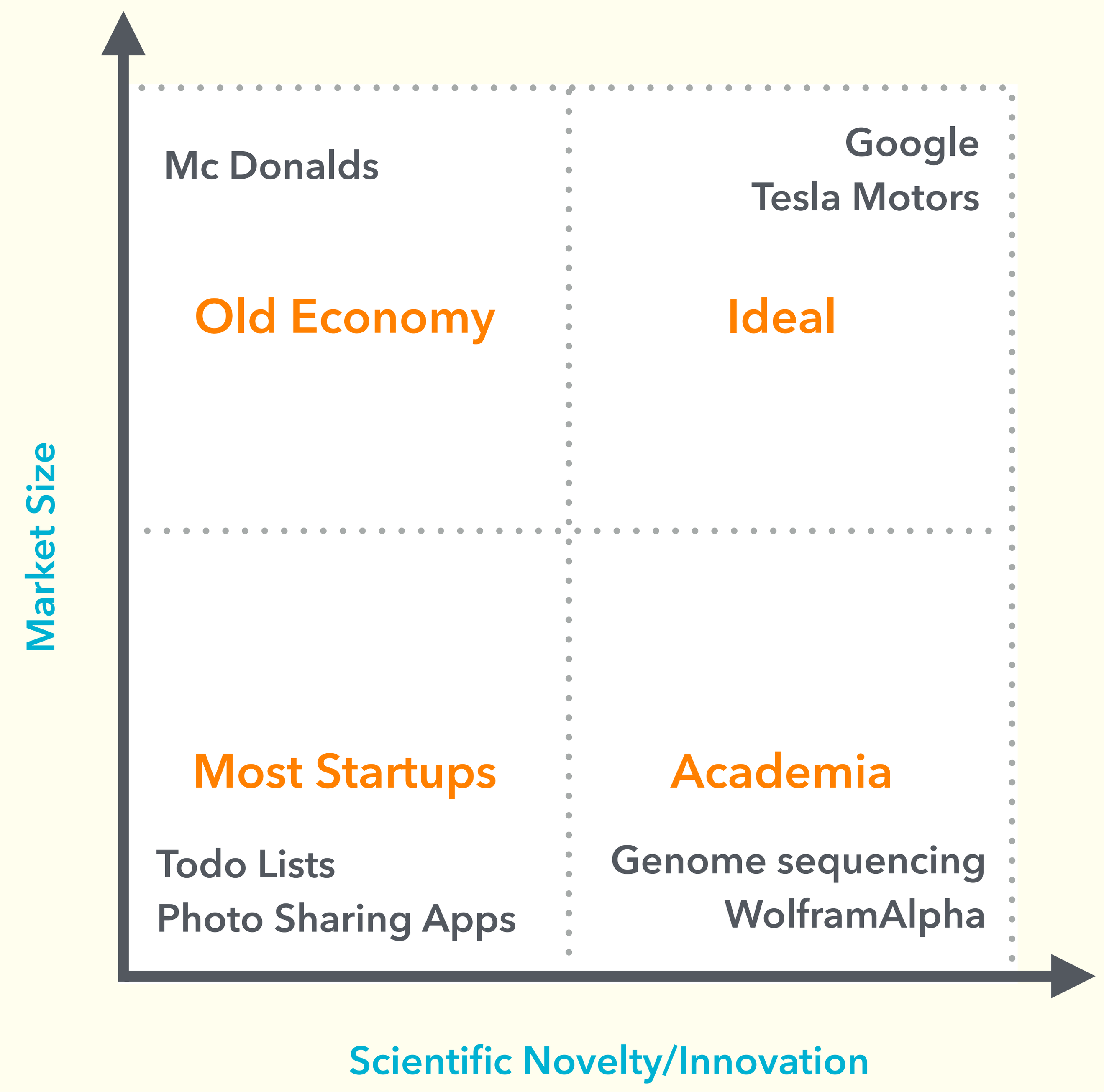
We don't have a monopoly. We have market share. There's a difference.
Steve Ballmer

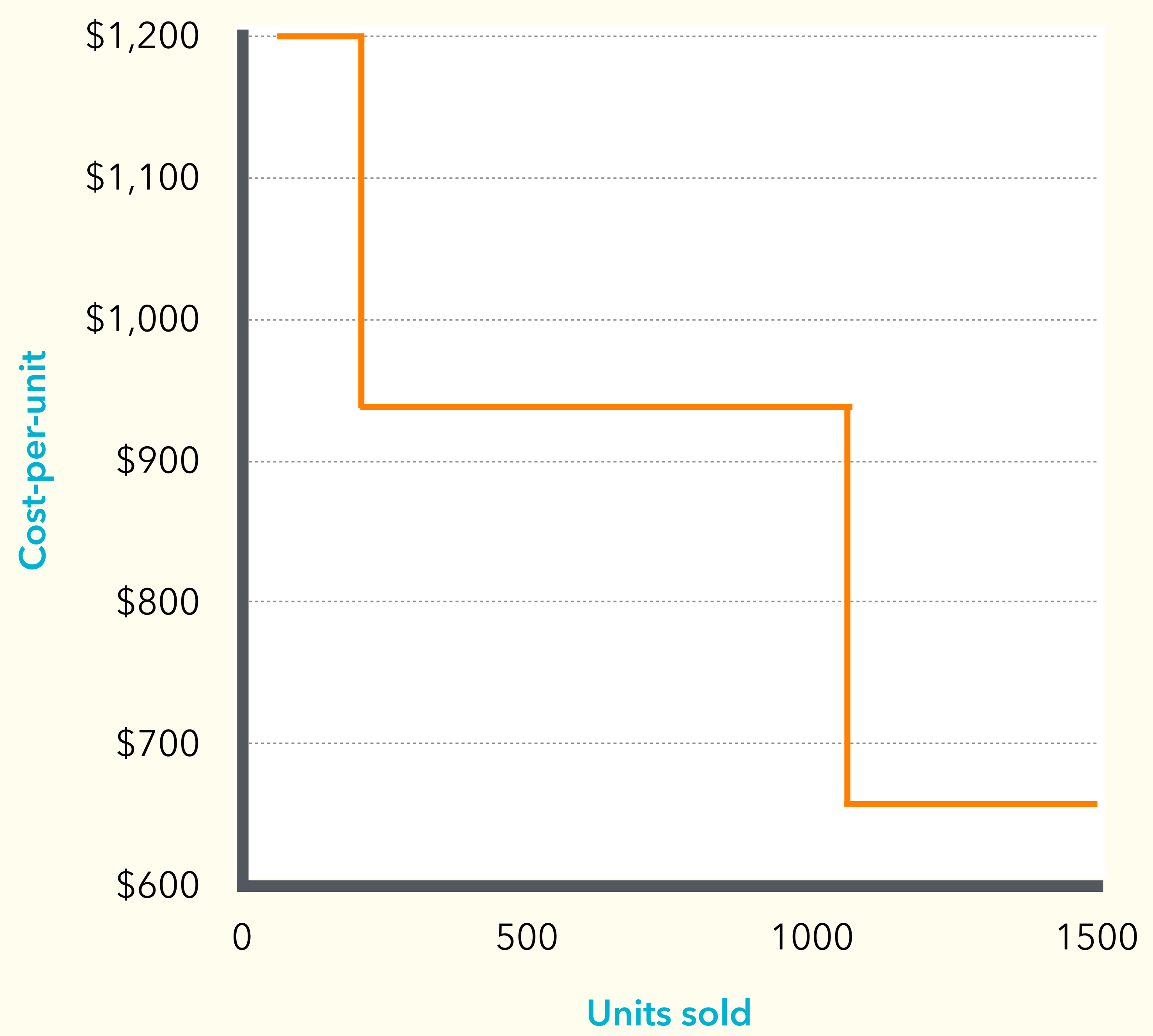
Economies of Scale / Market Size

Startups Must Exhibit Economies of Scale

A simple calculation can determine whether a business is capable of making it, namely whether it exhibits an economy of scale. Economies of scale means that with every new product shipped the cost of it decreases. Luckily web and app startups tend to demonstrate powerful economies of scale since shipping an app costs $0 in reproduction costs. However, the capital requirements to develop the first version (prototype) tend to be high, taking a startup into red numbers early on.

A simple calculation as above illustrates many things about the startup world. For example, one can determine how much capital is needed before the business breaks even, and how important pricing is. A seemingly insignificant change from $1000 up to $1200 would completely change the economics of this business and make it unnecessary to take on outside capital. Moreover, free or heavily discounted customers generally don't value the product and are counterintuitively the most troublesome; paying customers are surprisingly more tolerant of bugs as they feel like they're invested in the item.





Startups Must Pursue Large Markets

Even if you can build a product with economies of scale, you need to ensure that it serves a large market. The annual market size is the total number of people who will buy the product per year multiplied by the price point. To get to a billion dollars in annual revenue ($1B), you need either a high price point or a large number of customers.

Among other things, market size determines how much money you can raise, which in turn determines how many employees you can support and how fast you can grow. As a back of the envelope, suppose that the average Bay Area startup employee costs $100,000 including not just salary but health insurance, parking spaces, computer equipment etc.. Suppose further that you need five employees for three years to come up with the cure for a rare disease. Then to support just five employees per year is $500,000 per year, not including any other business expenses. But if your market size is only $50M, then you have a problem, because it is going to be very difficult to find someone who will invest $1.5M for three years of R&D to pursue such a small market. Among other things, you won't capture the entire market, but only a portion.

To estimate your market size you can use tools such as Google Keyword Planner and SEC filings or simply put up a landing page and test it with a small Adwords budget.

Crossing The Chasm

What does Facebook, Dropbox, iPhone, Twitter and AirBnB (and many other billion dollar startups) have in common? Aside from high early growth and some other characteristics, none of them started as a mainstream product right away. Facebook was scaled on ivy league universities and then colleges before going mainstream. iPhone was first bought by all the cool kids before others started to view it as a desirable product instead of a fad. Dropbox, Twitter and AirBnB were initially used by early adopters who were enthusiastic about the product until the rest of the market gained confidence in these new products and started to use them.

Most founders naively make the mistake of trying to build the next Facebook, Google or Apple by building a product that serves exactly the same market. The reason they rarely succeed is that neither Facebook, Apple or Google started this way. They all won the hearts of early adopters first, perfected their product within that market and once the mainstream gained confidence by seeing all the early adopters using them, they became multibillion dollar companies. According to Geoffrey Moore, they crossed the chasm.

New Technology Adoption Curve

According to the Diffusion of Innovations theory, each market consists of 5 segments:

- **Innovators (2.5%):** Innovators pursue new technology products aggressively, because technology is a central interest in their life, regardless of what function it is performing. This group is the easiest to persuade to try out your product.
- **Early Adopters (13.5%):** Early Adopters buy into new product concepts very early in their life cycle, they like, understand, and appreciate the benefits of a new technology. These individuals are often influential and will help give credibility to your product in your attempts to move to the mainstream public. They are also forgiving making it easy for you to ship an imperfect product and fix it up along the way, with feedback they provide.
- **Early Majority (34%):** These are people looking for practicality. They know that many of these new-fangled inventions end up as passing fads, so they are content to wait and see how other people are making out before they buy in themselves. They usually draw confidence from product success among early adopters.
- **Late Majority (35%):** These people wait until something has become an established standard, and even then they want to see lots of support and tend to buy, therefore, from large, well-established companies.
- **Laggards (16%):** These people simply don't want anything to do with new technology. This is someone using Nokia in 2014. Don't waste your efforts on this group.

Disruptive products reach each of these markets in consecutive order.

Many new entrepreneurs think they can conquer the mainstream market right away. However, mainstream is not interested in a new product until they completely succeed among early adopters, since these customers look for stability and convenience.

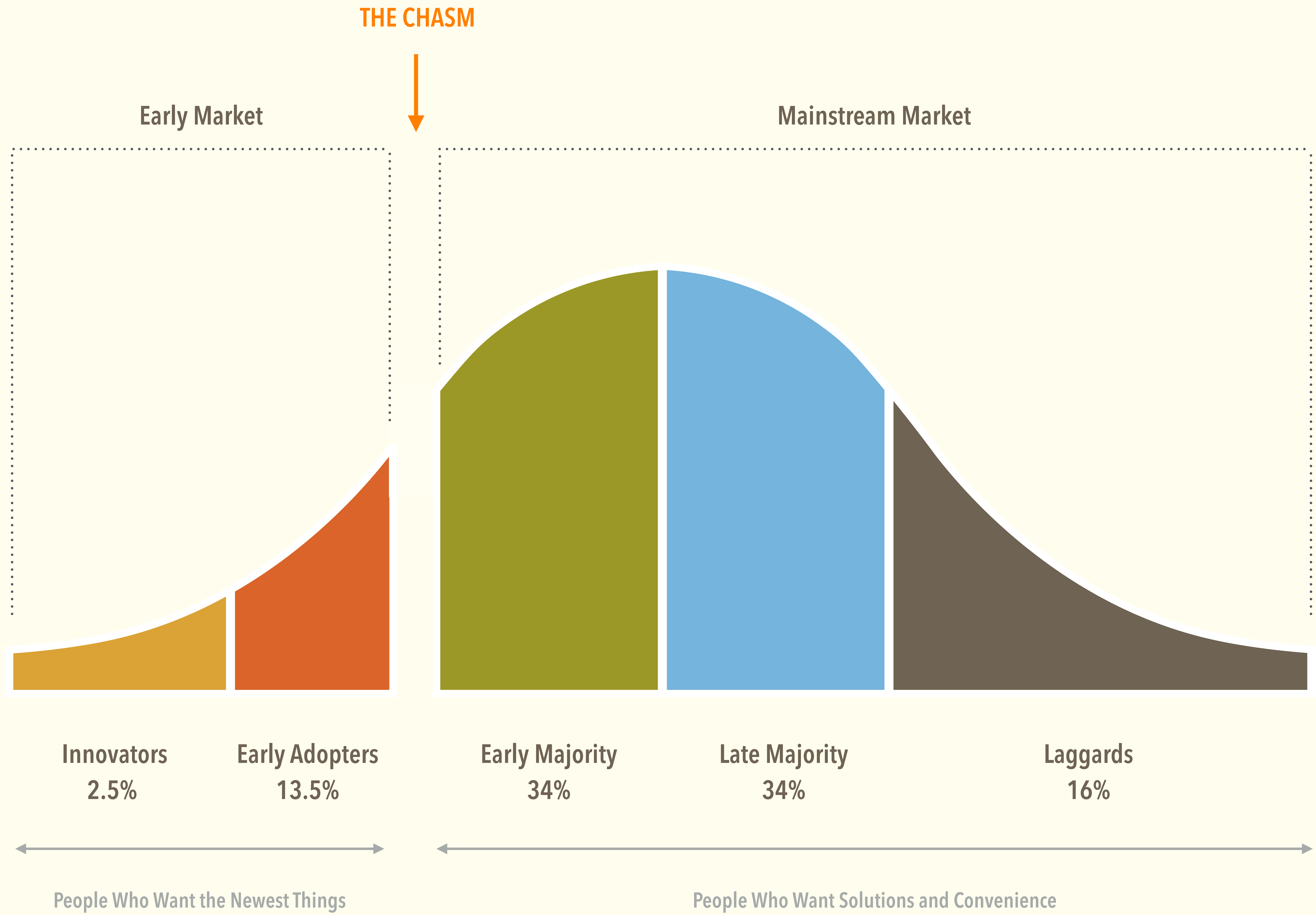
Another problem with shipping directly to mainstream is that new technologies are rarely ready and if you screw it in this market, you have likely lost them forever. However, early adopters tend to be forgiving, providing you with feedback you can can use to perfect the product. A great example is Tesla Motors. They initially started with a roadster intended for a small market of affluent early adopters, this allowed them to gain credibility and develop their more mainstream models.

Another example is LinkedIn who took this challenge and started with the early adopter Silicon Valley scene. They started to invite their friends, VCs, lawyers, bankers, etc. until it eventually spread so that many professionals used it.

Many marketers and founders believe it is easy to transition from one group to another. However, according to Moore, this is not so - the curve contains "cracks", with the main one being a chasm between the early adopter and mainstream market. This is a point at which the majority of new products fail.

The strategy to cross the chasm is as follows:

- **Instead of trying to move the whole herd at once, try to move smaller herds.**
  This is the place where the tribes are formed and where you can get small populations excited and talking to the larger population.
- **Instead of trying to create a new community, consider converting a community.**
- **Once you've established a tight community, saturate it until it tips and spills over into the rest of the pragmatic population.**
- **Be warned, you have to be #1 here.**


THE CHASM
Early Market
Mainstream Market
Innovators
2.5%
Early Adopters
13.5%
Early Majority
34%
Late Majority
34%
Laggards
16%
People Who Want the Newest Things
People Who Want Solutions and Convenience

Execution

(Elements of High Growth Startups)

"A good plan, violently executed now, is better than a perfect plan tomorrow"

Gen. Patton

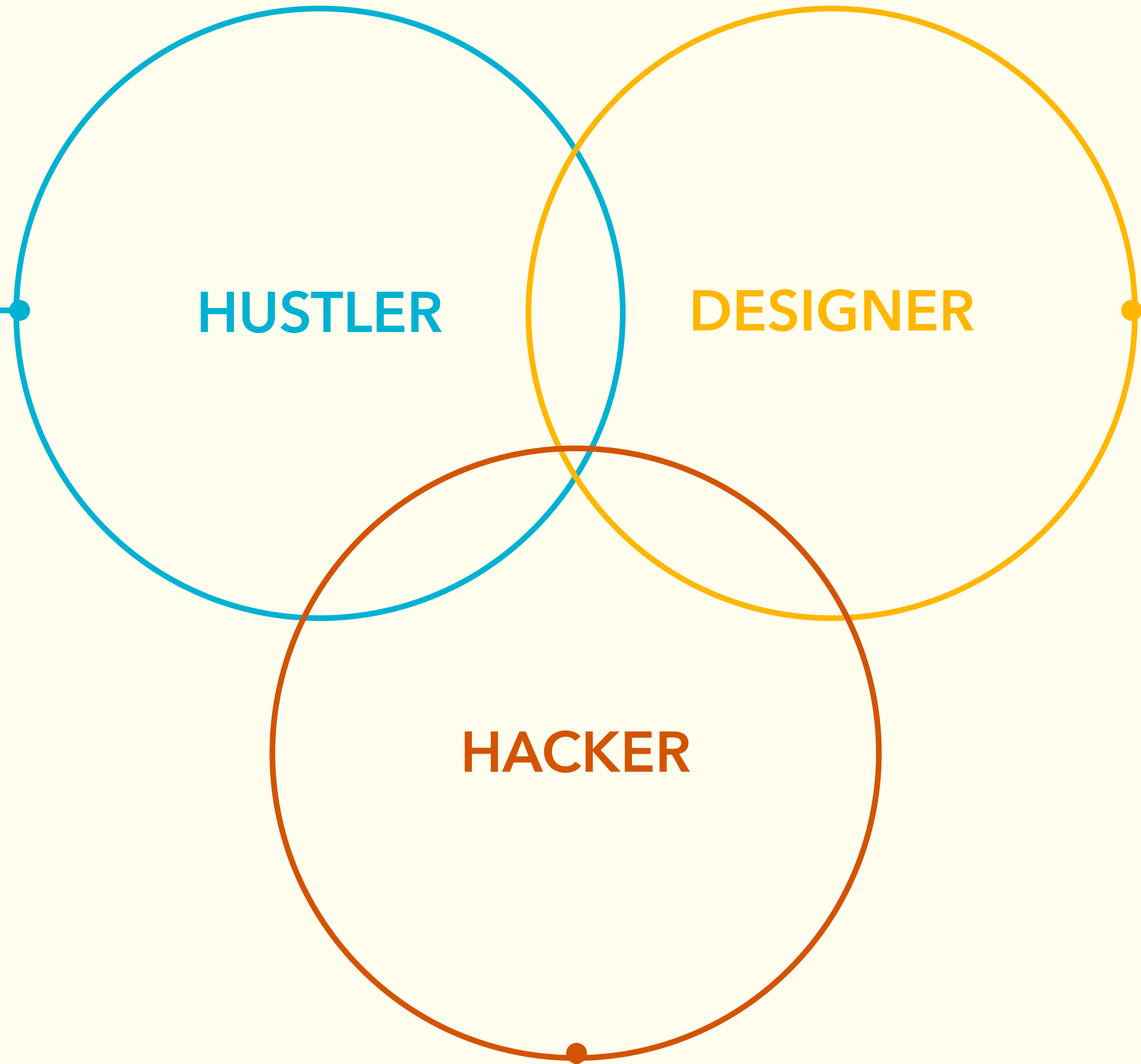
Team DNA

Founding team is what makes a startup successful and generally most investors expect you to have one. Top accelerators such as '500 startups' generally require their companies to have a founding duo composed of a hacker and a hustler. Much like Woz and Steve Jobs, Mark Zuckerberg and Sean Parker etc.

According to Steve Blank startups are inherently chaos and finding product/market fit in that chaos requires a team with a combination of skills. The kind of skills depend on the industry you're in, but they are generally great technology skills (hacking/hardware/science), great hustling skills (to search for the business model, customers and market), great user facing design (if you're a web/mobile app), and long term vision and product sense. Most people are good at one or maybe two of these, but it's extremely rare to find someone who can wear all the hats. The team is absolutely key but there are cases when the market is so hot the startup will succeed anyway.

A Hustler is a relationship builder. Someone who can build direct relationships with customers, partners and investors. They aren't really promoters, although they do a lot of promotion. They can sell, speak at conferences, negotiate and build marketing campaigns. They have the ability to articulate their passion clearly and in a way that gets others equally passionate.

A true Hustler can get people using their product, or raise money, with little to no capital expenditure. Any one can run a Google Adwords campaign, or buy a billboard. Only a Hustler can get you to love their product in a way where you will speak passionately about it to your friends. A true Hustler is patient zero in a viral campaign.



The role of designer at startups is becoming much more prominent and recognised. The fact is that if you are going to produce something that humans will have to look at and use, then you are going to need someone who can design a high quality experience. Great user experience is why some products become viral and why users keep coming back to them, increasing retention rate and even building a habitual behaviour.

According to Micah Baldwin of Techstars, a hacker is more than a code monkey, they are someone who can quickly build software and find interesting ways to hack together code. They are a developer who is definitely an important part of a startup, but not critical to its success. A Hacker is someone who looks at the problem, and solves it in a unique and special way. They find the process of problem solving exciting and interesting, and spend the majority of their time looking at the problem in multiple ways, finding many potential solutions.

Often the Hacker is a coder, but not always the best coder you have on your team.

Viral Growth

When Hotmail launched there were only 70 million internet users. Using a tagline "PS: We love you, get your free email at Hotmail" sent with every email, Hotmail created one of the first viral loops in startup world. With no marketing they were getting 3000 new users a day, until they literally exhausted the market at the time, reaching 66 million users with $0 spent on marketing.

You can pick any extremely fast growing startup and you will likely observe a case of a viral loop - e.g Dropbox (refer a friend, get free space), Groupon (get friends to buy it, in order to activate deal), Facebook (email invites to everyone in your mailing list), Instagram (cross-posting to Facebook and Twitter) etc.

Viral Growth

A viral loop is a marketing term that's been around for a few years. It describes the phenomenon of how a product or service can experience exponential growth over a short amount of time.

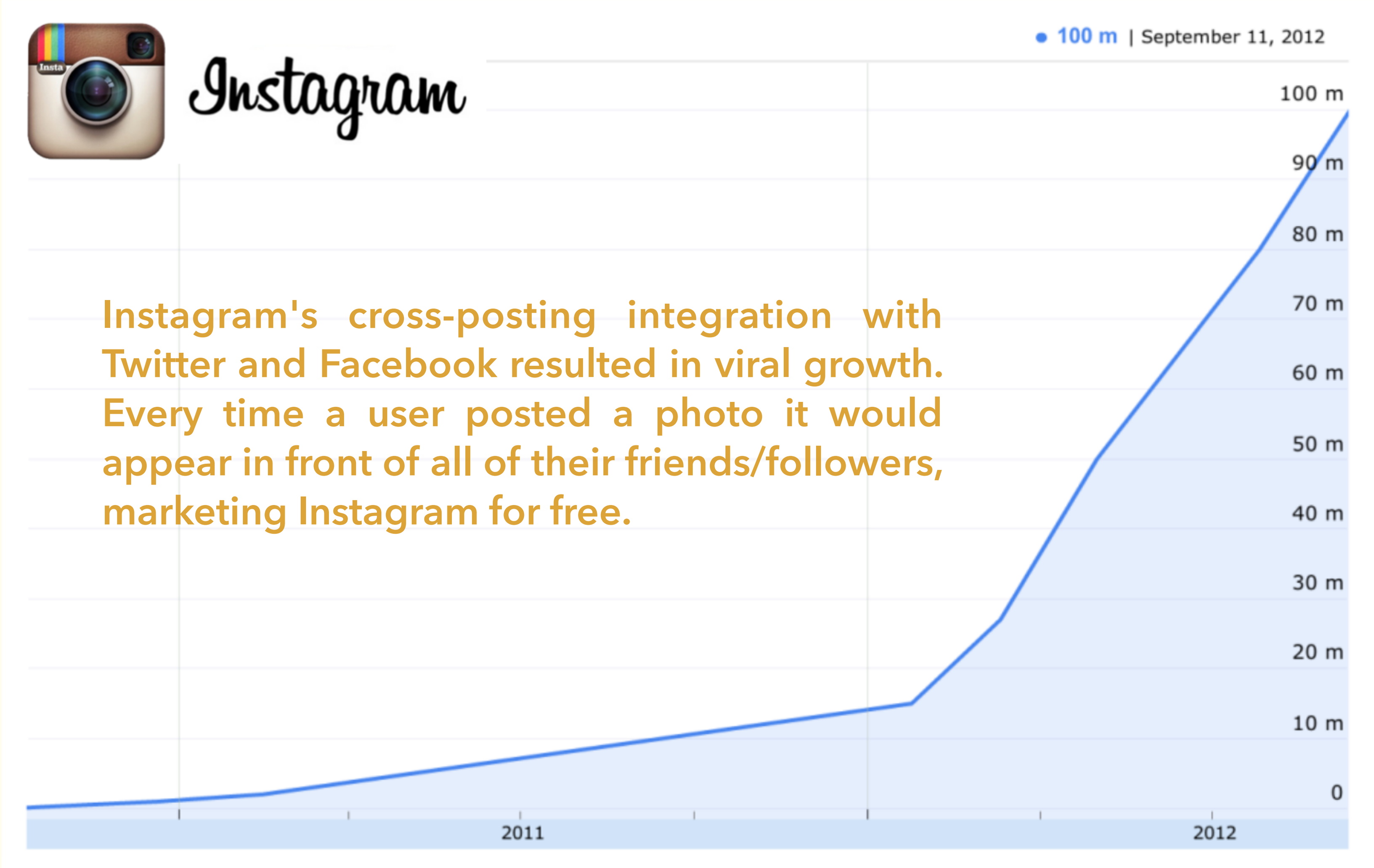
A viral loop is a situation, where every acquired users brings more than 1 new user to your product. It can be best measured by "viral coefficient" K, which is the number of invitations each new user sends out to their friends, multiplied by your conversion rate:

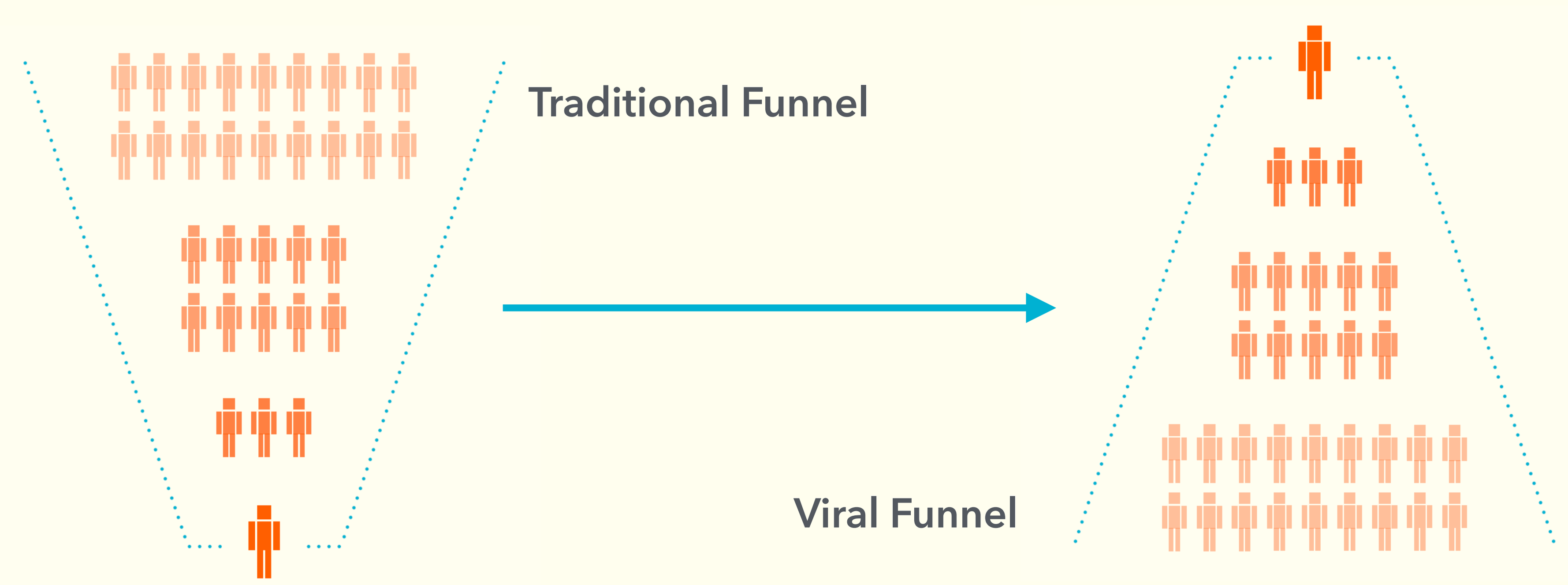
$$\{ K = i \times conv\% \}$$

Suppose, each of your users invites 10 people to use your product and on average 1.5 users convert into paying/active users . This gives a viral coefficient K = 1.5.

With this number your startup will experience an exponential growth, much like Instagram, for example.

The reason why viral products generate exponential growth is that, unlike the traditional marketing funnel which is about reaching masses in order to convert small amount of users, the viral funnel leverages each acquired customer and builds a self sustaining user acquisition machine.





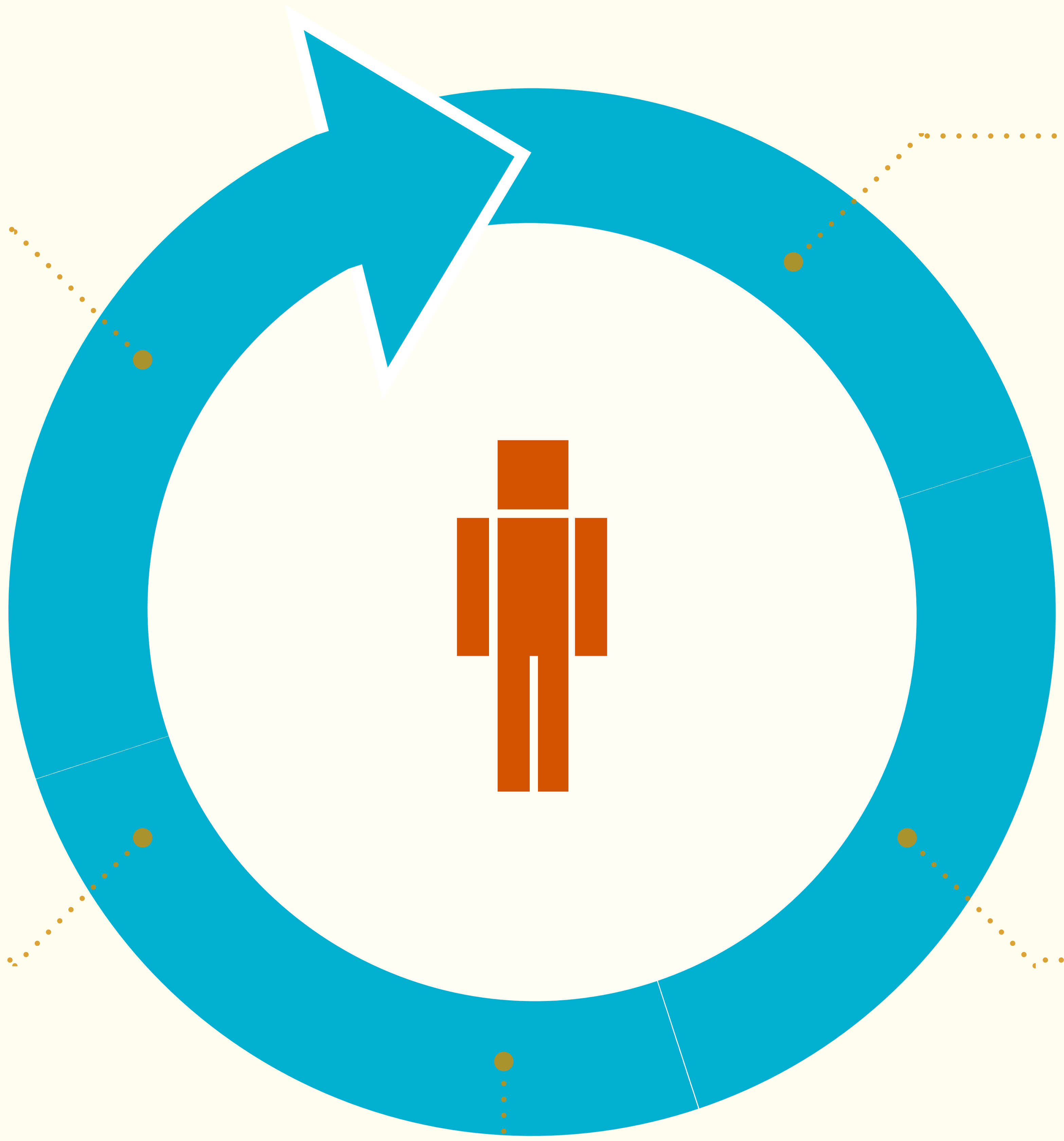
The key features of viral loops involve having a:

Great Product: If you spread virally without providing value to users you are merely spam.

Sharing/Invitation Mechanism: This is usually built into the product, for example Dropbox "invite a friend and get free space". Similar to dropbox you want your sharing mechanism to reach users at the point of highest engagement (running out of space) and provide highly valued incentive in return.

Retention Strategy: Without ability to retain users your growth rate will drop, no matter how high your viral coefficient is.

Viral Marketing Funnel



Traffic

People come to your homepage or other landing pages from various channels. From press to blogs to search engine traffic to the powerful word of mouth.

Activation

People have a happy first experience while on your site, usually culminating in some action like the creation of an account or giving you their email address for more information.

Retention

People become active users of your product, coming back to use it multiple times and staying engaged each time.

Revenue

You monetize people using your product, either through ads, sales, subscriptions etc.

Referral

People share your product with their friends, who then have to be activated, retained, etc.

Note that referral is separate from acquisition and doesn't have a fixed place in the funnel. Ideally you want referral to happen just before people use and evaluate the product - e.g Spotify gets in your Facebook feed right at the point of sign up.

Habit Forming Design

Retention is key to growth. You can build a user acquisition machine, but without retention you will eventually lose users and burn cash. Retention is also hard, for most apps only about 4% of users stay longer than 12 months. Most users use a maximum of 7 apps (including email and Facebook) on a daily basis - becoming a member of a club as small as that is a true challenge.

You can take any popular product and attach a word "addict" to it - e.g Facebook addict, Instagram addict, Quora addict etc. and it wouldn't sound unfamiliar. The secret of most of these apps is that they often encourage habitual behaviour and the thing with habits is that we perform them mostly automatically. Today, for some people checking their Facebook is as normal as brushing their teeth every day. This is the main reason why these startups can grow - they are used often and as a result they become a norm eventually adopted by other market segments (think early adopters –> early majority).

The Hooked Model

Habits are an automatic, often subconscious behaviour. Whenever we perform a habitual behaviour our neural activity is lower, ruling out other parts of our brain, such as willpower in order to perform a routine. Our brains create habits to save energy. Habits are formed by repetition and all contain a trigger, routine and some form of reward.

Nir Eyal of Stanford found that products such as Facebook, Quora or successful apps contain these elements in their product design. If you are building a product that relies on users coming back to it you should follow the same structure.

- **Trigger:** The trigger is what stimulates users to take action. There are 2 types of triggers: external and internal. An internal trigger is for example hunger or boredom. Hunger triggers eating and boredom triggers Facebook browsing. An external trigger comes from your environment. For example, a picture of a tasty sandwich when you're passing Subway or a Facebook notification.
- **Action:** Action is simply what users do to start using a product, e.g. login to gmail, tap the Facebook app and start browsing etc. However, whether users take action or not depends on their current motivation and ability. The best product designers aim to simplify this process to the degree that it becomes ridiculously easy.
- **Variable Reward:** Every time we expect a reward from our action our brain experiences a dopamine high. Dopamine is a hormone among other things responsible for cravings. Once we learn there is a reward the trigger stimulates stronger motivation. The trick is - it has to be variable. Variability multiplies this process and even stimulates a gambling-like behaviour.
- **Investment:** When people are invested they become more likely to stay. You are less likely to cancel your social account after you spent hours pinning photos or adding friends.

Source: NirAndFar

For example:

- **Quora:** The external trigger is the weekly newsletter or notification, the internal trigger is usually boredom or a need for knowledge. Quora makes it extremely easy to log you in, in fact you're never logged out - a link from the newsletter goes straight to your account even if you are logged out. Once you're in, you get to infinitely scroll and find answers of all kinds from all topics. By interacting and posting comments, questions and answers you're building up your profile and you gain Quora credits. The upvotes/comments on your content load external triggers: another notification, leading to the next loop.
- **Netflix:** Ads, newsletters and boredom work as external and internal triggers. 'Turn on and watch' is a routine we all know too well. By allowing users to build up their playlists and queue up shows, Netflix makes it easy for them to invest their time and build a valuef for themselves eventually bringing them back to the app.

Elements of Great Products

Needless to say, one of the core characteristics of the fastest growing startups is that their products are simply great. They may not often be flawless at first (that is why you launch among early adopters) but they are always good enough for users to love them. Some products don't have to be great as long as they solve a problem. But history has taught us that at some point someone comes along who does it better, so we need to continue to remain great as other products come out.

Building great products is hard. Winning users can be even harder, but great products make it much easier. Great products spread virally, they are used often and eventually become habits. Here are some qualities we found most of the great products share:

Innovative

The possibilities for innovation are not, by any means, exhausted. Technological development is always offering new opportunities for innovation.

Innovation can often be simple, such as designing a new way to shop (Groupon) or removing unnecessary features to enhance functionality.

Simple

The best products are simple. The fastest growing products are simple too. Groupon, Instagram, Snapchat, Stripe. Startups have to be simple to grow because if you come up with something new you want your users to "get it" fast.

Moreover, we live in a world of distraction and overflow. Users crave simplicity.

Intuitive and Easy to Use

With every new product startup there is a limited amount of time to win the trust of users. Intuitive design makes the experience natural and creates less frustration from learning to use something new, thus increasing the adoption rate of the product.

Engaging

Engagement is absolutely necessary to retain users. Unengaged users bounce and make startups lose money.

Products can boost engagement by creating feedback loops adding rewards and gamification features.

Telling a Story

Successful products create a strong narrative about the way their features come together, not the features themselves. Instagram isn't a camera app with a newsfeed, it's a way to "share moments with friends". Simple isn't a bank with a goals feature, it's a way to "solve all your banking woes". Evernote isn't a notepad across multiple platforms, it's "your brain in the cloud".

Useful

Some products succeed without being useful to their users, however they don't usually last long.

By providing users with real value, your product will stay around for longer.

Great Support

Some startups succeed only because of great service. Zappos or Amazon are great examples. People love the experience, they love being treated well and as a result they get excited about the product and recommend it to their friends.

Aesthetic

As Dieter Rams, whose design inspired many Apple products, stated in his manifesto: "The aesthetic quality of a product is integral to its usefulness because products we use every day affect our person and our well-being. But only well-executed objects can be beautiful."

Mistakes

”Experience is merely a name we give to our mistakes”
Oscar Wilde

11 Mistakes That Kill Startups

1. Keeping Your Idea Secret

As previously stated getting feedback as early as possible is the most crucial element of getting your initial idea off the ground. Some founders are concerned with investors or someone else stealing their idea, but the reality is that nobody cares. It's the executed startups who make money that are copied. Don't deprive yourself of the feedback you can get as early as possible.

2. Product For Everyone

When you're building a product, have a specific user in mind. Many entrepreneurs want to build a product that will satisfy different kinds of demographic. They often add features and end up with a Frankenstein product that nobody wants.

Build a great product for one segment, nail it there and move to another one afterward.

3. Lack of Focus

Most entrepreneurs suffer from the disease of too many ideas. You want to become a tycoon and can't give up on another great idea you've had, you would like build an empire all at once.

But guess what, energy can be neither created nor destroyed, it can only be transferred and you only have a limited amount. Use it wisely.

4. Ignoring Cash Flow

Too many times companies don't know or don't understand the importance of cash flow. Money is the lifeblood of the business and cash-flow reflects how healthy it is.

Entrepreneurs often tend to confuse sales or profits with cash-flow, this can leave them out with nice numbers but no money to pay bills.

5. Giving Up Too Early

Well this is self explanatory. What's important to note is that with the rise of lean startup, failure and subsequent pivots gained prominence. Failure is OK, but giving up is not.

Giving up is when you know you can succeed but you give in to circumstances instead of pushing a little longer.

6. Focus on Competition

Knowing what competition does is good, but being overly concerned with it is not. Entrepreneurs should follow their own product development path and only make sure they reach customers sooner.

As someone pointed out: If you spend all your time looking at your competition, your product will end up looking like your competition's ass.

7. Wrong Co-Founder

This could easily be a top reason why startups fail. You may think starting with your best friend would make it fun, but in reality it can turn out bad, ruining your startup and your friendship.

The ideal co-founders should share the same vision and enthusiasm, have complementary skills and great work ethic. Everything else is secondary.

8. Issuing Equity Too Early

You gave your co-founder 50% and they quit 2 months in. How does that make you feel? Will you keep working your ass off, making them rich while they enjoy the safety of their new 9-5 job?

Make sure you have at least 2-4 years of vesting agreements in place and specify all if-then scenarios in contracts you sign with your partners and early employees.

9. Too Many Features

Sometimes founders keep adding features and delaying launches out of fear, without even realizing it.

Often building too many features does not make a product better, actually makes it worse. The best products (Apple, Google etc.) are simple. As Einstein said "any darn fool can make something complex, but it takes a genius to make something simple."

10. Not Using Customer Feedback

As Bill Gates once said: "they can't always tell what they want, but they can always tell what's wrong"

Customers should be at the core of all products. After all it's the customer for whom the products are made. Getting and valuing their feedback all the time is an absolute must.

11. Not Failing Soon Enough

This may appear contradictory to no. 5 but failing soon is about finding out which features/activities don't work and making necessary improvements. By failing fast entrepreneurs can achieve product/market fit and beat their competition much faster. Edison famously said he failed at 1000 prototypes of the light bulb.

Giving up too early would be if he quit.

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