The Single Biggest Reason Why Start-Ups Succeed

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TEDtalk: https://www.youtube.com/watch?v=bNpx7gpSqbY

Transcript of TEDtalk

I'm really excited to share with you some findings that really surprise me about what makes companies succeed the most, what factors actually matter the most for startup success. I believe that the startup organization is one of the greatest forms to make the world a better place. If you take a group of people with the right equity incentives and organize them in a startup, you can unlock human potential in a way never before possible. You get them to achieve unbelievable things. But if the startup organization is so great, why do so many fail? That's what I wanted to find out. I wanted to find out what actually matters most for startup success. And I wanted to try to be systematic about it, avoid some of my instincts and maybe misperceptions I have from so many companies I've seen over the years.

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

So I tried to look across what factors accounted the most for company success and failure. So I looked at these five. First, the idea. I used to think that the idea was everything. I named my company Idealab for how much I worship the "aha!" moment when you first come up with the idea. But then over time, I came to think that maybe the team, the execution, adaptability, that mattered even more than the idea. I never thought I'd be quoting boxer Mike Tyson on the TED stage, but he once said, "Everybody has a plan, until they get punched in the face." (Laughter) And I think that's so true about business as well. So much about a team's execution is its ability to adapt to getting punched in the face by the customer. The customer is the true reality. And that's why I came to think that the team maybe was the most important thing. Then I started looking at the business model. Does the company have a very clear path generating customer revenues? That started rising to the top in my thinking about maybe what mattered most for success. Then I looked at the funding. Sometimes companies received intense amounts of funding. Maybe that's the most important thing? And then of course, the timing. Is the idea way too early and the world's not ready for it? Is it early, as in, you're in advance and you have to educate the world? Is it just right? Or is it too late, and there's already too many competitors?

So I tried to look very carefully at these five factors across many companies. And I looked across all 100 Idealab companies, and 100 non-Idealab companies to try and come up with something scientific about it. So first, on these Idealab companies, the top five companies -- Citysearch, CarsDirect, GoTo, NetZero, Tickets.com -- those all became billion-dollar successes. And the five companies on the bottom -- Z.com, Insider Pages, MyLife, Desktop Factory, Peoplelink -- we all had high hopes for, but didn't succeed. So I tried to rank across all of those attributes how

I felt those companies scored on each of those dimensions. And then for non-Idealab companies, I looked at wild successes, like Airbnb and Instagram and Uber and Youtube and LinkedIn. And some failures: Webvan, Kozmo, Pets.com, Flooz and Friendster. The bottom companies had intense funding, they even had business models in some cases, but they didn't succeed.

I tried to look at what factors actually accounted the most for success and failure across all of these companies, and the results really surprised me. The number one thing was timing. Timing accounted for 42 percent of the difference between success and failure. Team and execution came in second, and the idea, the differentiability of the idea, the uniqueness of the idea, that actually came in third. Now, this isn't absolutely definitive, it's not to say that the idea isn't important, but it very much surprised me that the idea wasn't the most important thing. Sometimes it mattered more when it was actually timed. The last two, business model and funding, made sense to me actually. I think business model makes sense to be that low because you can start out without a business model and add one later if your customers are demanding what you're creating. And funding, I think as well, if you're underfunded at first but you're gaining traction, especially in today's age, it's very, very easy to get intense funding.

So now let me give you some specific examples about each of these. So take a wild success like Airbnb that everybody knows about. Well, that company was famously passed on by many smart investors because people thought, "No one's going to rent out a space in their home to a stranger." Of course, people proved that wrong. But one of the reasons it succeeded, aside from a good business model, a good idea, great execution, is the timing. That company came out right during the height of the recession when people really needed extra money, and that maybe helped people overcome their objection to renting out their own home to a stranger. Same thing with Uber. Uber came out, incredible company, incredible business model, great execution, too. But the timing was so perfect for their need to get drivers into the system. Drivers were looking for extra money; it was very, very important. Some of our early successes, Citysearch, came out when people needed web pages. GoTo.com, which we announced actually at TED in 1998, was when companies were looking for cost-effective ways to get traffic. We thought the idea was so great, but actually, the timing was probably maybe more important.

And then some of our failures. We started a company called Z.com, it was an online entertainment company. We were so excited about it -- we raised enough money, we had a great business model, we even signed incredibly great Hollywood talent to join the company. But broadband penetration was too low in 1999-2000. It was too hard to watch video content online, you had to put codecs in your browser and do all this stuff, and the company eventually went out of business in 2003. Just two years later, when the codec problem was solved by Adobe Flash and when broadband penetration crossed 50 percent in America, YouTube was perfectly timed. Great idea, but unbelievable timing. In fact, YouTube didn't even have a business model when it first started. It wasn't even certain that that would work out. But that was beautifully, beautifully timed.

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

you love, you want to push it forward, but you have to be very, very honest about that factor on timing. As I said earlier, I think startups can change the world and make the world a better place. I hope some of these insights can maybe help you have a slightly higher success ratio, and thus make something great come to the world that wouldn't have happened otherwise. Thank you very much, you've been a great audience.