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Scaling Up, Without Screwing Up: A Conversation With Skillshare's CEO

Image via CrunchBase

There are three distinct stages when disrupting any industry. The first phase is finding your company's product market fit, penetrating a market that is open for potential money-making ventures with a product that has demand. The second phase is scaling your business. There are various sub-stages in scaling your business which I like to refer to as early-stage and later-stage. The third and final phase is continued innovation. Once you have properly disrupted an industry, you need to make sure to keep your foot on the gas and keep innovating.

Two months ago I sat down with Mike Karnjanaprakorn, co-founder and CEO of Skillshare, to chat about his business. Our conversation moved to the topic of disrupting the education industry (something Skillshare is looking to do) and Karnj — as he is called by his friends — told me about a blog post he wrote, entitled "The Three Big Decisions Your Startup Will Make".

The first decision is deciding what to build. Karnj describes how you should think about what to build at your startup:

> Most startups (99%) fail in this stage because they build the wrong product for the wrong market. Are you building something of value that people will use and care about? Are you building the right product for the right market? A lot is written about what to build and how to reach 'product/market fit' as fast as possible.

Karnj stresses the importance of goal-oriented companies. Once you have figured out what to build it is crucial to think about the larger picture and whether there is a market for your 'product.' Ask yourself, "Can I get one dollar?" If you can get one dollar, start thinking bigger: "Can I get ten dollars? One hundred dollars? One thousand dollars?" And so on. Thinking in terms of key metrics can also put the scope into perspective. If you are a disruptive company like New York-based Birchbox, a subscription service that delivers beauty product samples to users on a monthly basis, you need think in terms of how many boxes you can sell. If you are Eventbrite, a San Francisco-based company that gives you all the tools to put together events, you need to think about how many tickets you can sell.

The next decision in the post: hiring. Karnj describes the biggest pitfall that startups may come up against once they have found their product/market fit.

> After you build something of value, the next major decision to make is on who to hire and what they'll be doing. The number one cause of death for a startup in this stage is not scaling properly (prematurely) and hiring the wrong people to work on the wrong things. It's an extremely tricky thing to balance as you'll be hiring people before your company becomes sustainable (if you have VC funding).

This decision exemplifies the second phase of disrupting an industry: scaling a company. Scaling is not easy; for a majority of startups, it is the most difficult phase. Karnj believes that the first fifteen hires that a company makes are the most critical for its success. The first employees determine the tone, message and drive of the company. Companies often have to reorganize early in their development stages for these reasons.

There are two distinct but broadly-defined stages of the scaling phase: early-stage and late-stage. Early-stage scaling is when a startup has found their product/market fit and have received enough traction to convince the team and outside capital to make a big bet on them (usually ranging from $7 to $15 million). Taskrabbit and Zaarly, community marketplaces for an assortment of general products and services, are reimagining what a modern marketplace should look like. Uber, a San Francisco-based technology startup that allows people to call private cars from their cell phones, has expanded to other cities including New York and Toronto. Votizen, a consumer technology company that harnesses social networks to create a connected electorate of voters, recently closed a round of celebrity funding. This will allow them to scale up as election season comes around. All of these companies are doing great things are I would watch out for them as they make the jump from early-stage to late-stage scaling.

Late-stage scaling usually happens once a company has mainstream attention. You are either taking the world by storm (full features in The New York Times, cover of the print Forbes, etc.) or in the midst of dethroning various stodgy leaders in your space. You haven't become a household name, but you are well on your way. You've also probably raised over $50 million in venture capital. Some companies in this stage include Foursquare, a geographical location-based social network that helps users explore the world around them, Kickstarter, a microfunding platform for artists and entrepreneurs to find support for their projects, and Airbnb, a global network of accommodations offered by locals that is disrupting the global hospitality industry. These companies and others, in the late-stage of scaling, could make the jump to the third phase at any moment — if they haven't already.

The final decision is where to innovate. Karnj discusses what happens after you have properly disrupted an industry and are one of its leaders.

> This is the biggest and hardest decision you'll ever have to make as a startup. If you look throughout history, most companies become irrelevant because they aren't innovating properly. Apple and Facebook have done a great job but companies like Yahoo, AOL, Myspace (I would even argue Google) have not innovated successfully to stay relevant in society.

It is crucial to remain a dominant player once you have successfully penetrated a market, and there is a good shortlist of companies in this position. Facebook has one of the most aggressive approaches when dealing with continued innovation. The newsfeed and profile revamp, coupled with Timeline, are a few examples that highlight Facebook’s desire to constantly update itself.

Apple is a classic example of a company that disrupted and defined its industry and has continued to innovate in countless others, including personal computers, music, videos, and more. They are continuing to put their feet on the pedal, potentially eyeing TV as its next target.

There are many others straddling the boundary between the end of late-stage scaling and widespread, continued innovation. Those companies include the likes of Zynga and Twitter. Zynga has clearly disrupted the traditional gaming companies such as Atari and EA with games like CityVille, Farmville, Words With Friends. Recently Zynga purchased OMGPOP for $180 million, which forebodes a potential environment for Zynga where they are buying hot and upcoming apps, as opposed to having successes internally. This does not sit well for innovation.

Twitter is at the tail end of the scaling phase and could be thrown into the third stage as they have disrupted the entire news vertical. At this point, breaking news happens on Twitter. While great things have been done, they have to keep pushing ahead and not be afraid to completely revamp how people use and interact with their product. As long as Twitter can continue to build something that users will love, they shouldn’t be afraid to flip it on its head.
