

The Economic Club of New York

489<sup>th</sup> Meeting  
111<sup>th</sup> Year

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Reid Hoffman  
Co-Founder, LinkedIn  
Partner, Greylock Partners

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Interviewer: Eric Schmidt  
Technical Advisor, Alphabet, Inc.



## Introduction

Vice Chairman Peter Henry

It is my pleasure to welcome everyone to the 489<sup>th</sup> meeting of the Economic Club of New York in its 111<sup>th</sup> year. My name is Peter Henry. I am Vice Chairman of the Economic Club and Dean Emeritus, Professor of Economics and Finance at the NYU Stern School of Business. The Economic Club of New York is the nation's leading nonpartisan forum for speeches and conversation on economic, social, and political issues. Over 1,000 prominent guest speakers have appeared before the Club over the last century and have established a strong tradition of excellence.

I'd like to recognize our, now 271, members of the Centennial Society, some of whom are seated in the front of the room. Their support of the Centennial Society ensures that the financial backbone of the Club remains strong and allows us to invest in key areas that enable the Club to better serve our members. Let's please give the Centennial Society a round of applause. Thank you for your support. (Applause) We are also delighted to welcome several of our ECNY Class of 2018 Fellows, who are in attendance today as well as students from Fordham University and the NYU Stern School of Business. We are now making applications available online for 2019 Fellows for the program and perhaps some of you might want to consider nominating a talented, next-gen leader from your organization to participate. It's an excellent opportunity to get to know the Club. There's information on each of the tables today about this and other Club

programs.

The Club has been diversifying its programming and membership to include better representation with thought leaders in the tech sector. And so we are particularly delighted today to welcome Reid Hoffman, Co-Founder of LinkedIn and partner at Greylock Partners. An accomplished entrepreneur, executive, and investor, Reid has played an integral role in building many of today's leading consumer technology businesses. In 2003, he co-founded LinkedIn, the world's largest professional networking service. LinkedIn is thriving with more than 500 million members around the world. In 2009, he joined Greylock Partners. Reid focuses on building products that can reach hundreds of millions of participants and businesses that have network effects.

He currently serves on the boards of Airbnb, Apollo, Fusion, Aurora, Convoy, Blockstream, and a few early stage companies still in stealth. In addition, he serves at a number of not-for-profit boards, including Kiva, Mozilla Corporation, Endeavor, and CZI Biohub. Prior to joining Greylock, he angel-invested in many influential internet companies, including Facebook, Flickr, Last.fm and Zynga.

Reid is the host of Masters of Scale, an original podcast series and the first American media program to commit to a 50-50 gender balance for featured guests. He is also the co-author of two *New York Times* best-selling books: *The Start-Up of You* and *the Alliance*. On each of your seats,

you should have a copy of his most recent book, *Blitzscaling*, based on his Stanford course of the same name, which I suspect he may refer to just a little bit today.

Reid earned a master's degree in philosophy from Oxford University, where he was a Marshall Scholar, and a bachelor's degree with distinction in symbolic systems from Stanford University. Our format today is a conversation and we are delighted to have as our interviewer someone who addressed the Club himself just a couple of years ago, Eric Schmidt. Eric is now technical advisor to Alphabet, Inc., where he advises its leaders on technology, business and policy issues. As many of you know, he joined Google in 2001 and helped grow the company from a Silicon Valley startup to the global leader in technology. He served as Google's Chief Executive Officer from 2001 to 2011 and its Chairman from 2011 to 2018. Prior to Google, Eric held leadership roles in Novell and Sun Microsystems. He holds a bachelor's degree in electrical engineering from Princeton University as well as a master's degree and a PhD in computer science from the University of California, Berkeley. He was a member of the President's Council of Advisors on Science and Technology, and he is Chairman of the Department of Defense's Innovation Board and was awarded the Medal for Distinguished Public Service by Secretary of Defense, Ashton Carter. Eric is also a member of NASA's National Space Council User Advisory Group, which is chaired by the Vice President. He is the co-author of *The New Digital Age* and *How Google Works*, and serves on the boards of the Mayo Clinic and the Broad Institute.

Reid and Eric, if you could please both come forward and take your seats. And could we please

give them a big round of applause. (Applause) I'd just like to remind everybody; this conversation is on-the-record and we do have media at the back of the room. Gentlemen, over to you. Thank you.

Conversation with Reid Hoffman

Co-Founder, LinkedIn, and Partner, Greylock Partners

ERIC SCHMIDT: I love the New York Economic Club and I love everything that you all represent, so thank you for having us back. And Reid, my good friend, thank you for publishing what I consider to be the most important business book in the last ten years because you articulate what's happening in Silicon Valley, what everybody wants to talk about. So, why don't we start by, why don't you just tell us what blitzscaling is?

REID HOFFMAN: So the concise definition of blitzscaling is prioritizing speed over efficiency in an environment of uncertainty. And to unpack that a little bit, it's saying that what you need in this hyper-connected world is first, to grow your market, to grow your customer base as fast as you can in order to get to be the first to scale, the first to global scale. And in doing so, you will do a bunch of things that are classically inefficient – inefficient in hiring, inefficient in capital spend, inefficient in management practice. And you're going to do so when you still have uncertainty about a number of things – uncertainty about, well, what your customer acquisition cost, your unit economics, your long-term value. Not complete uncertainty, but a bunch of

uncertainty that plays in to that. You may also have uncertainty about how competition is going to play out and a bunch of other kinds of questions. But because the prize of being the first to scale is so great, you're going to accelerate to being the first to scale through speed and do so with inefficiency or many inefficiencies in order to be the first to scale.

ERIC SCHMIDT: So, is this why we have a gazillion companies that are worth billions of dollars but have never made any money?

REID HOFFMAN: Well, it's a part of that reason.

ERIC SCHMIDT: Well, why doesn't every business do it? I mean that sounds like a pretty good deal to me. No profit, infinite value, infinite growth, complete uncertainty. It sounds like out of control.

REID HOFFMAN: So I actually think part of what happens in terms of Silicon Valley, Silicon Valley is a learning network. And in the first, you know, kind of internet boom where you had a bunch of crazy companies – you had Webvan, you had AllAdvantage, you had all of these things which were, okay, all that matters is scale and that's it, and then, of course, a bunch of these cratered. And they were the ones that, ah, see, that's the craziness of these...(AUDIO MALFUNCTION)...what is the pattern by which you can actually impact blitzscale because you have actually a mature business that's very interesting and that people believe and will invest in

as being companies of the future. So, you know, modern, up and coming companies include Airbnb, Uber, you know, a bunch of the other ones, but then there was also, of course, you know, Alphabet, you know, Facebook, PayPal, a stack of these.

ERIC SCHMIDT: Let's unpack this because there's something actually crazy going on. You're now the most valuable companies in the world, so there must be some legitimacy to your argument. There must be some value being created in what looks like madness. You were one of the co-founders of PayPal, I think, founding team, you were a COO there after you got out of school and all that. Did this start with PayPal? When did these ideas get invented?

REID HOFFMAN: So, I think the ideas, part of what happens in the Silicon Valley network is there's a bunch of different components and PayPal is definitely an example.

ERIC SCHMIDT: It seems like a lot of the crazy companies now are where there's a group of people that came out of PayPal that all were incredibly successful. There must have been something in the talent that PayPal had that caused them to become so incredibly successful.

REID HOFFMAN: Well, so, it certainly has that, like a lot of the blitzscaling stuff, so, for example, first we said, hey, we're going to get people to adopt this payment service. We're going to do it by giving away money to people who adopt the service, and we're going to create free credit card processing, such in a way that you have an exponentiating cost line by which we can

predict the hour that the hundreds of millions of dollars of venture capital we raised, we'd go out of business.

ERIC SCHMIDT: And this was your pitch to these venture capitalists?

REID HOFFMAN: Yes, in the beginning.

ERIC SCHMIDT: And who funded you?

REID HOFFMAN: A whole bunch of people. Nokia Ventures, now BlueRun, Sequoia, Idealab. There was a stack of them. There were people lined up in the door to give us money.

ERIC SCHMIDT: To have a certainty of when they would go bankrupt. (Laughter)

REID HOFFMAN: Well, yes. Let me tell you the funniest part of the PayPal financing story, which was there was such demand at the \$500 million pre-round that Madison Dearborn led that we had firms figure out what our bank account number was, wire us the money, and tell us we had to let them invest in the round because we already had their money.

ERIC SCHMIDT: How good is this?

REID HOFFMAN: Yes. This is part of the internet boom craziness.

ERIC SCHMIDT: Bring it on! So I do think that PayPal was one of the reasons why this got started. (INAUDIBLE) What are some other examples of companies? Let's go through them.

You mentioned about Uber. Take us through Uber.

REID HOFFMAN: So, when Uber starts, it thinks, okay, we're just a way of hailing black cars, that's kind of what the total addressable market is. And it isn't really thinking about reinventing logistics as a service. And part of the thing that you frequently see in these blitzscaling markets is actually, in fact, there's an entirely new market that's going to be created – transport as a service – it's going to completely change what the actual, who the buyers are, the demand curve, the repeat utilization day by day, week by week. And so Uber begins to realize, as it's kind of launched this service, that it isn't just a, oh, it's mobile for black cars or mobile for black cars and taxis, but it's an entirely new transformation of how people logistics within the cities work. And it also realizes that its primary network effects are local cities and then a lot of people recognize it and then it has this kind of classic demand of it's going to have competitors from all around the world, and it needs to go as fast as possible. So, one of the benefits that you have with being a Silicon Valley startup is it can use what we call blitz capital, which just says we're going to raise a ton of money and we're going to go to multi-thread it. We're going to land in a whole bunch of cities. We haven't figured out our unit economics of what rides are. We haven't figured out...

ERIC SCHMIDT: Okay, so you're going to raise billions of dollars and you're going to lose it all at the same time in different cities?

REID HOFFMAN: Exactly. (Laughter) It's a winning business model.

ERIC SCHMIDT: This is a new economic theory. And my understanding of what Uber did is that they had a small team. They would go into a city and they would just sort of run and try to get it established. And what was interesting to me about Uber was they decided to do this in parallel globally, right? It was as though they had no time at all, which I think is the key point about blitzscaling. You essentially have zero time. Right?

REID HOFFMAN: Yes. Because this is part of that, in that earlier definition, it's a hyper-connected world and so, you know, Uber didn't have the time to say, hey, let's perfect it in San Francisco, then we'll go to another five cities. We'll figure out what our customer acquisition costs are. We'll figure out exactly what are the right promotional things, what the unit economics per ride is. It was like, no, no, no, if this is going to be a very big market, we need to own as much of this market as possible because tons of competition are going to get created and we'll have difficulty breaking into these other markets. So what we're going to do is we're going to absorb a ton of capital. We're going to take a tech base, but then we're going to enable entrepreneurial teams everywhere and we're going to say, look, you figure it out. You subsidize

it. You figure out how to bring, you know, kind of more and more drivers in. And then, because they're also in exactly the kind of competition-driven blitzscaling that you see, they look over and they say, ooh, one of our big competitors is Lyft, we're going to start UberX right now. Even though we have this whole business going with the Uber Black Car, we're going to start UberX right now and we're going to sort it all out as we go.

ERIC SCHMIDT: So, this may also explain why there are these very large investment funds now for tech, these million-dollar funds, which are predicated upon the success that you started to invent when you did PayPal. In other words, the game just gets bigger, the periods of time get shorter. It's interesting that you chose the name blitzscaling because the original term, blitzkrieg, was, of course, a German tactic 100 years ago. And the way they arrived at it is they took a bunch of colonels and they said, here are your weapons – essentially tanks and so forth. And they said you can come up with, they had a competition for tactics, and you can do anything you want as long as it's not part of our current doctrine – it's the ultimate disruptive example. So, if we follow that sort of bad example of the origin of your term, blitz, do you think that you have to have a disruptive model for this to work? In other words, it's clear that Uber was disruptive. It's clear that PayPal was disruptive. Disruption is the core of everything.

REID HOFFMAN: So, I think you do need to have some key elements of disruption in order to break free of the pack at speed. It could be virality, in the case of, like LinkedIn or Facebook. It could be a question of, you know, kind of like transport logistics or a payment system within

PayPal on eBay. I think you need those kinds of things in order to make it work. But part of the parallel with kind of the blitz part of this is to say, what is the thinnest possible things that we can do in order to get to scale? Like what, we know we're going to have to hire a bunch of people or we're going to have to do that, but it's like what is the minimum set of things that allow us to do our accelerated growth curve. So, like for example, one of the PayPal stories that really made me learn this very early is in the very earliest days of PayPal, we were growing at a compound rate per day. This is when we were in an office, we had just taken over the offices from Google that had vacated those offices.

ERIC SCHMIDT: That was a mistake. (Laughter)

REID HOFFMAN: Yes. And we were growing at 2 to 5% compounding per day. And in a payment service, because you know when something goes wrong, it's money, it's transaction, etc., at that rate, we were going so much in the hole of our three customer service people, unable to do stuff, that people were discovering our phone number that was only listed in the Palo Alto directory, calling it, dialing extensions at random, such that 24/7 you could pick up any desk phone in the office and talk to an angry customer, because that was the transaction volume with no customer service was leading into that. What we did, and this is kind of the classic, kind of lesson from blitzscaling, we said, look, you know, the classic is, oh, go try to fix all the relationships with customers. I said, well, look these customers, we're really sorry about this, but it's the future customers or the future thing that matters. So we turned off all our desk phones,

started using headsets.

ERIC SCHMIDT: In other words, ignore the customer.

REID HOFFMAN: Ignore the customers, exactly, which is one of the things that's in the book.

ERIC SCHMIDT: Isn't there a whole genre of books about loving your customer? You didn't read any of those books.

REID HOFFMAN: Or we ignored them. (Laughter) And then said, okay, how do we get ahead of this? How do we get towards building a customer service center? So, we did a deal with the governor of Nebraska and the mayor of Omaha to announce that the internet was coming to Omaha. We flew a third of the company out on the weekends to interview people in groups of 20 to establish a, you know, kind of a customer service center. And within six weeks had, I think it was 150 people at desks answering phones in order to do that.

ERIC SCHMIDT: That's what it takes. And you were able to do it, and you were also young and you didn't realize you were not allowed to do that. You just did it.

REID HOFFMAN: Or it didn't matter.

ERIC SCHMIDT: It didn't matter. What's interesting is in your book you have a list of counterintuitive strategies, which I think are an indictment – I want to explore the question of traditional business teaching and traditional economics views of these kinds of things because I think blitzscaling proves, at least for some sectors of those markets, it's completely wrong. So that's why I think blitzscaling is such a fundamental discovery. There's a category of business where everything you're taught in business school is incorrect. So let's go through that. What are the counterintuitive strategies?

REID HOFFMAN: So, well, we probably don't want to spend the whole time just going through the list, but like, for example, we have “ignore your customer” which we've talked about.

ERIC SCHMIDT: Ignore your customer.

REID HOFFMAN: Which is really saying focus on your future customers, not on the...

ERIC SCHMIDT: So, ignore your current customers and love your future customers.

REID HOFFMAN: Yes, exactly.

ERIC SCHMIDT: You've got to be kidding.

REID HOFFMAN: Nope.

ERIC SCHMIDT: Okay, what's the next one?

REID HOFFMAN: Embrace chaos. This is the one that we interviewed you on Masters of Scale for...

ERIC SCHMIDT: Because I was chaotic.

REID HOFFMAN: Yes.

ERIC SCHMIDT: Oh, my God. My theory about embracing chaos is just do the best you can. Like in your case, you're growing at 3% a day, you don't have time to think. Just pick Omaha because you saw the ad for Mutual of Omaha. It must be somewhere in the middle of the country.

REID HOFFMAN: Right. Well, we did enough to say, hey, there's a bunch of customer service centers here that we can recruit from. It has good telephony. There are...

ERIC SCHMIDT: That took about 30 minutes of analysis.

REID HOFFMAN: Yes, exactly.

ERIC SCHMIDT: So there was not a lot of planning in that decision.

REID HOFFMAN: And someone in the office knew how to get to governor's office in Nebraska, so, you know, that counted.

ERIC SCHMIDT: There aren't that many people who visit Nebraska. You can just show up, right?

REID HOFFMAN: So, tolerate bad management. (Laughter) Right? That's another one.

ERIC SCHMIDT: Okay. So what happens when you tolerate bad management?

REID HOFFMAN: Well, so, and it's bad management, not terrible management. But it's, for example, the classic thing...

ERIC SCHMIDT: Okay, bad versus terrible. Terrible is like illegal? And bad is just going bankrupt.

REID HOFFMAN: Or bad is you're not doing one-on-one. You're not doing performance

reviews.

ERIC SCHMIDT: So that's a whole genre in business school too. Manage your people. Coach them. Give them reviews. You don't do any of that either?

REID HOFFMAN: Nope. (Laughter)

ERIC SCHMIDT: I love this. All that stuff that I learned, I don't have to do. Please continue.

REID HOFFMAN: All right.

ERIC SCHMIDT: Launch a product that embarrasses you.

REID HOFFMAN: So, this is one of the ones that I'm personally most known for because I started saying this early, which is if you're not embarrassed by your first product release, you've released too late. And this is, again it's an emphasis on speed. Obviously embarrassment is not what you want. But in this game, it's the first to customer engagement, the first to learning from your customers, the first to learning what it takes to scale, because again it's these future customers. And so, you know, when LinkedIn launched, it was a profile, a means of connecting, a search, and a way of communicating with the people you were connected to. That was it. Right? There's a not a lot you can do with this product. Like people say, well, what is this? And

you're like, no, no, we're building towards the thing that we're getting to which is, you know, obviously transforming the way that business is done, by which talent is recruited, by which people find out who to do deals with, who to get advice from. But none of that was there when the product released.

ERIC SCHMIDT: Okay, so hire Mrs. Right Now, not Mrs. Right?

REID HOFFMAN: Yes. Okay, so again a classic thing is, well, you've got this idea of what your business is going to be five or ten years from now, and you can say, well, these are the kinds of people we want as executives. This is the way that we want an organization to run. And actually, in fact, what you tend to do is hire highly talented generalists that fit with your culture right now, not necessarily the person who is the scale executive who is going to be your scale executive when you're large. You will do that as you go through the different levels. We start with kind of family. We go to tribe, village, city, nation. Each of these is an order of magnitude change in the number of employees and your entire organizational structure is going to change as you do that. So if you try to hire the executive for a city, 1,000<sup>th</sup> level organization, back when you were a tribe, that's going to be a failure. You're hiring the person for doing this job right now and then you're reorganizing as you go.

ERIC SCHMIDT: Let fires burn...

REID HOFFMAN: Yes. Clearly Eric gave us great feedback on earlier versions of the book.

ERIC SCHMIDT: You're supposed to put fires out as an executive.

REID HOFFMAN: Well, part of the whole thing is you're moving along so fast that you cannot put out all the fires so you have to triage. And frequently that means that you go home each day, each week, with fires burning that you know will kill the company. They just won't kill the company this week. And so that one can wait. And so, you know, the kind of classic one was, like for example, early stage in PayPal, was we knew we had a massive credit card fraud problem. And, for example, like in the kind of the funny storytelling, Max Levchin, who was co-founder of PayPal, speaks Russian. He was on these kind of Russian message boards where he would see the fraudsters who make a professional industry of stealing credit cards saying don't overuse PayPal. It's the golden goose. Try to keep it going so we can make all these credit card fraud transactions work. And he's like, oh, God. And we did fix that problem, but it was a sequence thing. We didn't slow down growth. We didn't stop giving out bonuses. We didn't stop processing free credit card transactions. Because we said, look, that's an economic cost. We can get the data and we can solve it. We want all of the fraud actually on the system early so we can build the systems and then essentially we ended up with the easiest system by which you can bring people into a credit card processing environment while also being, having very low fraud cost. And that was because we allowed it in, we studied it, and then we changed it.

ERIC SCHMIDT: So you were just on the edge of bankruptcy?

REID HOFFMAN: Yes. We could predict the hour by which we would go out of business.

ERIC SCHMIDT: And then the final one I wanted to talk about is raise too much money. Why would that be counterintuitive? You should always raise too much money.

REID HOFFMAN: Well, so, it's, well, sometimes it's counterintuitive to, particularly the founders who say, look, I want to minimize dilution. I want to kind of say I want to give out as little of my company as possible. Whereas actually, in fact, in order to succeed in these businesses, you want to actually have war chests and you want to have war chests so that you can actually go and actually take experiments and scale and take risks by spending capital in order to be the first to scale.

ERIC SCHMIDT: Now, this sounds so amazing I think everyone in the room should do it. So, what's the limit of this madness? Right? Are there any industries that should not be blitzscaled?

REID HOFFMAN: So, blitzscaling is relative to speed. So, the ones that really define it tend to be software-defined industries.

ERIC SCHMIDT: Because software scale is quicker because there's no hardware, right?

REID HOFFMAN: Exactly. Software also tends to be businesses with network effects, because the high spend of capital still ends up with a very valuable business at the end as a way of doing it. So you tend to, if it's a slider. As the slider tends to go to 10, or if you want to do spinal tap, 11, in terms of how this goes, it tends to be software businesses, consumer internet. You know, business with network effects, businesses with massive scale effects where the scale, a minimum scale is what's required, so not network effect, but still a very valuable kind of competitive mode. Now, that being said, as more and more businesses become technology businesses, as more and more businesses are transformed by software and software becomes an integral part of it, that moves them on the scale. And you do see folks, I mean, for example, you've got like Xiaomi coming out of China, that are blitzscaling hardware businesses. Right? So it's not only software. And so you have to think about, like what are the different ways to do that.

ERIC SCHMIDT: So, if I take sort of, this sort of software is eating the world, which is an Andreessen quote, and then your view, it's reasonable to say that at least pieces of businesses are going to have aspects of this in many, many industries.

REID HOFFMAN: Yes.

ERIC SCHMIDT: So I was trying to think about a blitzscaling example that's well known today and I could argue, I think, Tesla, because Tesla is clearly not following any of the traditional

rules, right? Are they a hardware version of the software version of blitzscaling?

REID HOFFMAN: Yes. And they've had some good fortune, like getting a Toyota factory really cheaply and everything else. But what they're trying to do is say, look, here we're taking the kind of the blitzscaling approach to how are we doing a sequence of different vehicles? And how are we massively scaling our production lines in order to establish an entirely new giant, you know, auto company.

ERIC SCHMIDT: Well, most people, for example, would say maybe you should get the Model 3 to work before you add trucks, sports cars, and all the other things they're doing. But blitzscaling would say do it all at the same time.

REID HOFFMAN: Or do it, don't wait and tune it, get it started. Right? So, get to that multi-threading. So it's like, okay, we do the roadster first, but immediately as we do the roadster, we move to the sedan, we move to the SUV.

ERIC SCHMIDT: So, again, I'm looking for analogies for non-tech businesses. So it would seem to me that if you get a softer point somewhere in the business, and you can get it started, then you can spread the software through, then you can accelerate growth for a second, third, fourth in your business lines.

REID HOFFMAN: And you can even figure out hardware. Right? That's part of what Tesla is doing.

ERIC SCHMIDT: So, why don't traditional businesses do this?

REID HOFFMAN: Well, so I think, look, in order to do it, you have to have the willingness, you have to have the right pitch to the right investors.

ERIC SCHMIDT: These are public companies. You're going to tell the public company we're going to run the business such that within one hour we might go bankrupt? This is not exactly positive shareholder value.

REID HOFFMAN: Well, usually it's not bankrupt, but like for example, Amazon, as you mentioned, right? I mean this is kind of the classic story. If you say, well, okay, you know, at one point Amazon was this \$20 billion public company with 17,000 employees that said I'm going to do Amazon Web Services. Right? There was a cover of a magazine saying, you know, this is stupid. Bezos should just mind the store. He shouldn't be going off and trying to invent this new category that nobody knows about. And yet, of course, Amazon Web Services is one of the massively valuable parts of Amazon and that caused it to accelerate. And that's because he said, no, I'm going to go invest in this new tech business and I'm going to do it as a public company. And I think this is the kind of thing where when people say, ooh, I learned that this action, in

fact, could be very good for me as a public shareholder to enable certain kinds of teams, certain kinds of businesses to go do this. It isn't just a private company game. It's also a public company game.

ERIC SCHMIDT: What's interesting is that for 25 years Amazon had essentially no profits and no way to get to profits. And there were analyst report after analyst report after analyst report saying this was a terrible strategy. And the way their model worked is that they essentially lost money and then they had the brilliance of doing AWS, which is now both their source of profits as well as Prime, and the combination of the two which occurred 20 years after they established this sort of lose everything model. I think you can argue that Amazon is the first blitzscaler as we know it today.

REID HOFFMAN: Yes. It's certainly a canonical paradigm.

ERIC SCHMIDT: And with no apparent limit to its ability to blitzscale going forward into other industries, at least at the moment. So they may prove your model in many other industries besides the ones that we have talked about. You talked in the book and you've talked publicly and to me about this issue of "pirate" to "navy." Explain the analogy and then use some examples of pirates that need to become navies.

REID HOFFMAN: Well, so, we actually came to this analogy in part because it started with a

quote from Steve Jobs, who said, look, it's better to be a pirate than an admiral, and that actually part of this whole innovation and invention and disruption is through this kind of breaking the rules, you know, being a pirate. And then what we realized when we were commenting on kind of the goods and bads of Uber, and part of what we thought was a strong transition from Travis to Dara, was that part of these blitzscaling companies is you actually want to transition from being a pirate to being an admiral. It isn't always just this kind of swashbuckling pirate. And that part of the many different kind of things that layer into this massively scaling company is you're changing from an informal to a formal culture. You're instituting, you're moving from tolerating bad management to instituting good management. You're moving from a, you know, kind of like where you just have a bunch of people who are doing, doers, to actually putting in managers and executives. And this whole systemization process is part of what is the shift from being pirates to a navy. And this is probably a good point to also mention that one of the things that we have a chapter in the book is this notion of responsible blitzscaling, which is when you start as a pirate, you know, you care about kind of like what's our impact on society, what's our impact on customers, and you should always be responsible to that. But as you scale, you invest more in that. You invest more on, like, okay, so now that we are a piece of logistics infrastructure, a piece of communications infrastructure, our responsibilities grow. And we, also as we're growing the company, we should be investing more in making sure we're doing the right thing there and that this is also becoming part of the how to blitzscale well purpose. And that is another part of the move from a pirate ship or a band of pirate ships into a navy, is we're actually now also investing in risk mitigation and social impact, these sorts of things.

ERIC SCHMIDT: Very few people have the skills to go from pirate to admiral in the analogy that you...I was thinking about, in Steve Jobs' case, he did Apple the first time. He was fired. He did NeXT, and then he was hired again, and he did this extraordinary recovery, which has never happened. It's an extraordinary skill. But he had to be fired to become a phoenix rising. If you look at an Uber, you have Travis and now Dara. Travis is now on the board. If you look at Amazon, Amazon managed to make it in the sense that Jeff had enough control. There were times with Larry in Oracle where Larry Ellison did not really have control over the company, as a pirate. But he had enough voting control, way back when, that he was able to get through a tough time in the late 80s. And I remember that because I was working with him at the time. It looks to me like, in these companies you need a pirate as your CEO that can make it to admiral.

REID HOFFMAN: Yes, and so one of the characteristics we talk about with founders and executives in the book is infinite learners. Right? And so what you want is you want people who, because the game changes – what gets you here won't get you there – and so you need to have people who constantly go, okay, how's the game changing? How do I learn the new game? Not how do I just apply the lessons from the old game that I won, but how do I learn the new game? And that's fundamental. And that's part of having, you know, the next generation of founders understand this and say, okay, I need to be learning, not just how to be a really good pirate, but eventually how to be a really good admiral.

ERIC SCHMIDT: Yes, in my case, working with Larry and Sergey, as a traditional business executive, what I learned from them and watched them do this transition is I learned to be skeptical of common wisdom. And that what happens is that in business, most everything people do in businesses is common wisdom. Right? And what this model says is you question everything, which is an Andy Grove term, from Intel. So there are antecedents to your work that we can see inspired your invention, if you will, of blitzscaling. Now, it's interesting that you've spent a great deal of time in China and you influenced me to go back to China. And we both, I think, are beyond impressed by the scale of Chinese entrepreneurialness and its likely competition as companies – I'm not talking about the country, I'm just talking about the companies – against the Silicon Valley model. You told me a story. We were in China and you said, you know, what these guys do? And I said, what? And he goes, look, they were late and so they took over a hotel. They put all of their employees in the hotel for two weeks until they could get the product done, seven days a week. And I said, they did? And you said, yes.

REID HOFFMAN: Actually let me tell the specific version. So, as an investor, I invest in a lot of entrepreneurial groups and so I usually have a pretty good sense when someone presents to me a plan saying we're going to get this done in four weeks, eight weeks, you know, three months. And I go, well, that seems reasonable or not. So, my head of LinkedIn-China shows me the draft of a new product that we're going to create for LinkedIn-China called Chitu, which means red horse. It's a version of LinkedIn just in China. He said we're going to have this out in eight weeks. And I looked at the plan, I went, oh, no chance.

ERIC SCHMIDT: Eight weeks? From plan to close.

REID HOFFMAN: I was like no chance. And he said, no, no, we'll get there. I said, no, no chance. He's like, look, whatever you think, could you come back in four weeks. It would be really helpful for the team. We could check in with you. I said, okay, I'm the guy who's committed to China, I'll be back here in four weeks. I'll come visit. Then what he did is he took the entire product team, the entire engineering team, the entire design team and checked them in to a hotel, two weeks on, two days off, two weeks on, two days off. And they had breaks for, you know, kind of...

ERIC SCHMIDT: To sleep...

REID HOFFMAN: To sleep, to eat, and kind of, like to walk around the building quickly. And then they worked. They hit the eight weeks. When I came back in four weeks, I was like, holy shit. Right? Like you guys have made a ton of progress.

ERIC SCHMIDT: I went to visit one of the fastest-growing startups in China, which I guess is the fastest-growing company in the world a bit ago. And we're chatting with the founder who is, you know, super impressive and very Silicon Valley-like. And I said tell me about your culture. And he said, well, everyone shows up at 10. And I said, what do they work to? And he said until

10 p.m. And I said, well, how many days a week do you work? And he goes, six days of work, six days a week. And so it was 9:45 and so I said let me see what happens. And so at exactly 10:00, the building is full. And this is a company that's adding, you know, some number of thousands of people per month. So it looks to me like China is the land of blitzscaling.

REID HOFFMAN: It is, and we actually call it the land of blitzscaling in the book.

ERIC SCHMIDT: What is special about China and what should we draw from this, aside from being concerned about competition?

REID HOFFMAN: So, look, they're all acting with a kind of the here's the aggression, here's how we build industries of the future, partially intensive competition. Competition is also what drives the techniques in blitzscaling. Is it the thing that leads to it because they compete with each other ferociously? I mean there was something like 10,000 Groupon clones. There wasn't just one in China. There was like 10,000, like everyone trying to do these things. And there's a bunch of things they do in blitzscaling because of the size of the labor market and other kinds of things that we can't do. So, like when one of their scale companies like, you know, Tencent, will say, okay, we need to do something mobile, they created multiple different groups all working on the same project, competing with each other. Like, okay, this group, this group, this group, this group in different cities and they all have a mandate to own it...

ERIC SCHMIDT: And this is within the company?

REID HOFFMAN: Within the company. And so there's a whole bunch of different ways that they do blitzscaling that I just don't think are available to us, and are part of how they do this really well.

ERIC SCHMIDT: But they have more engineers, they apparently have more money. Their internet, as a percentage of their GDP is greater than the equivalent in the United States. What's going to happen? Will their entrepreneurial, the Chinese, I guess, are naturally entrepreneurial culturally. So you have the combination of a big market, lots of labor, lots of money, and entrepreneurial, what will happen?

REID HOFFMAN: Well, more and more interesting tech companies that will have global relevance will come out of China.

ERIC SCHMIDT: Is there some reason, in your view, why they have not so far? They're largely Chinese-focused.

REID HOFFMAN: So I think part of that is because there's such a unique shape to China and the competition is so fierce that they have to be very focused on winning China. One of the benefits of what happens in Silicon Valley is that there's this intense competition within Silicon Valley.

Most people don't realize how competitive all the different startups and large companies are with each other. But it goes to a global focus very quickly. And how do you do global is actually one of the skill sets that Silicon Valley is still better at than China today. That could very easily change.

ERIC SCHMIDT: When I started as CEO at Google, we didn't have any presence outside the United States, so I told the sales guy to go – this had been done to me when I was younger, when I was at Sun – I told him to go to Europe and create our subsidiaries and don't come back until he had done so. And he actually took me literally and it worked. And today that's, you know, 50 or 60% of the profits of \$100 billion corporation. So, you know, it works. And that's why I'm surprised that they're not more global.

REID HOFFMAN: I think that they're learning it. I think most of the smart ones know that it's like we don't try to go fight the US, we go and try to fight South America, Southeast Asia, India, and that's where the actual battle is.

ERIC SCHMIDT: So they may come, but not anytime soon.

REID HOFFMAN: Yes.

ERIC SCHMIDT: So, let's make the same argument now because we've talked about China,

we've talked about Silicon Valley. Let's talk about non-Silicon Valley. As you know, New York aspires to be a strong competitor to Silicon Valley. If you look at venture funding, New York and Cambridge, Boston are roughly equal in the position of number two. And there are people who make claims on one side or the other. What is your view about non-Silicon Valleys and let's list them – Israel, London, Cambridge, New York, Austin, Chicago and so forth. Obviously, Seattle has two of the five most valuable companies in it. Do these techniques apply? Why are we not seeing more blitzscaling in these places?

REID HOFFMAN: So, I think the techniques do apply. Obviously Amazon, Microsoft in Seattle, SpaceX, Snap down in LA. So it's kind of, we have this broadening on the west coast. And part of the reason for both doing the book and also the podcast on a national scale, which you were, I think, guest two or three, is to try to get the knowledge of these techniques more spreading because I think the world is better off and these economic regions are better off to know how this global game is played. And so, you know, I invested in a company in London called Entrepreneur First, which is trying to get more incubated startups.

ERIC SCHMIDT: If I can interrupt, it seems to me that Europeans probably don't like this model of we might be bankrupt in an hour. (Laughter)

REID HOFFMAN: They're going to need to learn it.

ERIC SCHMIDT: But that's a pretty big insight. If it's true, it's a pretty big insight for the change that will have to happen in many countries if they want to compete with the blitzscaling businesses. If you assume that China and Silicon Valley are blitzscaling, and let's assume this is going on as we speak here in the room, and everything you're describing is happening perfectly, then the other regions are going to have to figure out a way to change their laws, change their culture, or what have you, in order to be competitive or they will be left behind, if you will.

REID HOFFMAN: Yes, 100%. Now one of the ones that we cover in the book is actually a fast fashion retailer called Zara.

ERIC SCHMIDT: Zara is a very good example.

REID HOFFMAN: Yes, and so that's out of Spain. And the basic idea...

ERIC SCHMIDT: And what's interesting about it is it's not even in Madrid. It's in Galicia.

REID HOFFMAN: Yes, exactly. So it is being done in other places, but the idea is they have to learn this and do more of this as part of creating an industry.

ERIC SCHMIDT: And I think folks here know that Zara basically changed fashion because they went into a fast-iterative model of styles.

REID HOFFMAN: Yes.

ERIC SCHMIDT: Customers can purchase things that are essentially current very quickly. Their entire supply chain, much, much faster than the rest of the industry.

REID HOFFMAN: Exactly.

ERIC SCHMIDT: And the founder there is the most successful Spanish entrepreneur, and may be the most successful European entrepreneur today. One of the things that happens when you start blitzscaling, and this sounds great to me, you know, you have China, you have Silicon Valley, you have these other regions, is that the people who are being blitzscaled don't like it. Right? And so let's say...

REID HOFFMAN: You mean the competitors?

ERIC SCHMIDT: The competitors. And in particular, the people who are being disrupted don't say, hey, I love being disrupted, what a nice person you are, Reid. So this is leading to all sorts of complications – globally for the tech industry and so forth. So, why don't we talk about tech in Washington, tech in Europe, what you think the response should be to a blitzscaling success because we celebrate entrepreneurs, but we don't want them to be so successful that they disrupt

entire industries, loss of jobs, so forth and so on. How do we talk about that?

REID HOFFMAN: So, one of the key things that I think is important is to realize it is a highly connected, global market and so the competition on this is global. So when I, for example, get asked about, well, are you worried about kind of how robots and automation are going to change industries and jobs, which I do care a lot about, I care about the transition, I care about what the various jobs of the future look like. You know, I, myself, with LinkedIn, have dedicated a bunch of energy to having kind of software be a force helping people on this. But you say, okay, well, we should regulate robots. Well, are you talking about Chinese robots? American robots? German robots? Which robots are you talking about regulating? Because once you begin to realize, that re-framing, that question of that, you say, well, actually in fact if we care about the industries of the future, we care about manufacturing of the future, we care about having really good American robots, and we should sort out how this, what the transition of, like it's similar to going agricultural to industrial, and industrial to automated. And kind of the software industry, we should help sort out what the transformation of these industries are. But the answer isn't slow down. The answer isn't cede the market to global competitors. The answer is shape it and then try to help with the transitions. And so, the dialogue between the tech industry and government needs not to be how do you slow down. The dialogue needs to be how do you have the right positive impacts and how do we keep iterating on that to help with the transition and make that work.

ERIC SCHMIDT: So this audience probably does not know that you also – working with me – are trying to help out the DOD at the Pentagon with some of these issues. Why are you willing to help out the government? Why are you willing to take these ideas and try to address some of the challenges that they have?

REID HOFFMAN: Well, several reasons. I mean a baseline reason is when you're a citizen, it's not just, you know, entitlements. There's responsibilities and your responsibility as a citizen. It's also the question of technology drives more and more of how kind of the changes in the future look. So Eric and I work together on this Innovation Board, which is how do you take kind of technologies and innovation and how do you help, you know, the mission of the government, and specifically in this case, the DOD, in order to operate better on a large variety of vectors. And I think that part of, you know, as an example, artificial intelligence and how that applies across it, is one of the things that we've been helping with. Part of, I think the key thing is to say, well, if technology is what's driving the clock on new products, transformation of industries, transformation of opportunities, of workforces, of how capital is deployed, all of that also applies in the governmental context. And we need to be helping with that because the speed at which, as is necessary, blitzscaling, at which the tech industry is operating, and the tech industry is evolving, we need to kind of pick up the speed and the engagement with that, from a government context, because this is the society we live in.

ERIC SCHMIDT: So, it's interesting that you're also working on democratic politics and you

bring a different sensitivity to democratic politics. When I talk to you about that, it seems like you're a venture capitalist there. Can you take us through, does any of the ideas of blitzscaling apply to the way our political process works? It seems like our political process, everyone I think would agree, is pretty broken. Is there something that can be done that would actually make it better? Or some new, everyone seems to be stuck in their positions.

REID HOFFMAN: Well, you know, obviously we have a fairly serious kind of partisan divide which is unfortunate. I do think that one of the things that's happening is campaigns that tend to succeed more tend to apply some of the blitzscaling techniques. We actually cover a little bit of the Obama campaign in the book. Obviously the way that the Trump campaign did advertising on Facebook and kind of recognized that digital transformation was another...

ERIC SCHMIDT: That's a good example of applying blitzscaling to...in a surprising way.

REID HOFFMAN: And since, you know, my own point of view is I actually made – for anyone who is entertaining it – I am so negative on the Trump administration that during 2016 I created a game called Trumped Up Cards, which is modeled off of Cards Against Humanity. You can buy it if you're entertained or anyone that I know, I'm happy to send it to you. And I think that's because it's a reality television star modeled governance, which is not what I subscribe to. And so I've actually been approaching politics in the last couple of years with a venture model of saying well, which technologies, which organizations should I be investing in, both from kind of

the question of like how do we heal and try to fix some of the dialogue. So I did this investment in this thing called Cortico, which is trying to understand the patterns of how blues and reds only listen to blues and reds and how we can get more stories flowing across them as a precursor step to trying to return to truth and facts and discourse, because I don't think there is any such thing.

ERIC SCHMIDT: So maybe the goal should be to disrupt the current, sort of battle lines, in a way that actually serves the nation better.

REID HOFFMAN: Yes, and then also what is the new face of politics look like. So we set up an organization that does polling in a new way, using online as a way because obviously the intelligence of what's going on is more relevant to you in terms of how are you able to deploy capital within a political campaign. So there's a whole stack of things we're doing.

ERIC SCHMIDT: So my ad for *Blitzscaling* is I read an early version of it and I told Reid it's so important that he's got to get it out, right? Because I want the sum of what we've done in our industry, which many of us just sort of stumbled into – he, more or less invented it – I just sort of lived through this – but now I have a book that explains what happened to me. Read it. Thank you very much, Reid. (Applause)

PETER HENRY: We hope you enjoyed the conversation as much as we all did. We know that Reid has to leave presently. So, let's thank him again for being here. (Applause) And as Reid is

making his way out of the room, just a reminder to all of you that we have a very robust schedule of events coming up, including next week. On October 16, we have Barry Diller, Chairman and Senior Executive, IAC and Expedia. On October 18, we have Randy Quarles, Vice Chairman for Supervision in the Federal Reserve System. And on October 19, we have Mark Carney, Governor of the Bank of England. So we hope to see you at many of these upcoming events. And now please enjoy your lunch. Thank you.