GROWTH LEVERS

AND HOW TO FIND THEM

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Y Combinator says you're supposed to do things that don't scale, but eventually, you need to find things that do. That's what this book is about.

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Dedicated to the many
entrepreneurs who trusted me
to help them find the path

01 NO PRIZES FOR EFFORT

PayPal's least valuable customer became our most valuable customer overnight. She showed me how to boost our activation by $100 million.

When I first got on the phone with her, I was trying to rescue the company's single most important project. It was 2005. PayPal had decided to expand and bet the whole company on a new product, which allowed merchants to process transactions on their own sites via card processing APIs. Even back then, it was obvious the world needed this product. I was in charge of launching it. Thousands signed up, but few used it: the activation rate was just 10%.

I couldn't blame the product team. The product was a "can't miss" opportunity—an early version of Stripe. Fixing some obvious stuff eventually got the activation rate up past 30%, but then progress flatlined. We brainstormed, tested, built, marketed. Nothing worked.

PayPal's execs were panicked. Wall Street saw it as a must-win battle, and we were losing. I remember an uncomfortable conversation with my boss: he wanted me to commit to reaching 40% activation, but I had no idea how to hit that number. I told him something about our approach didn't feel right. I thought we were aiming at the wrong target, but I couldn't explain why.

The answer found me in Omaha, Nebraska. I was visiting PayPal's call center to listen to some of these inactive customers. A friendly woman answered the phone with a warm Southern accent. She reassured us that she loved "the PayPal" and it "was all up and running" on her site.

So I asked, "Why haven't you processed any transactions?"

"Well, I don't have any customers yet," she said. Her website had been live for six months with zero sales. Her business was going nowhere.

I realized the problem: many of our customers had no customers of their own. And I couldn't "growth hack" my way around that.

That night, I asked my favorite analyst, Igor (Stanford engineering grad, of course): "How much of our revenue comes from our top 10% of signups?"

An hour later, he sent me a spreadsheet with the answer: almost all of it.

It didn't matter whether we activated 30% or 40% of our new customers. What mattered was activating the right 10%.

We changed our entire approach. We developed a predictive model to score new signups on their propensity to become

valuable customers. We'd try to increase revenue by giving high-scoring signups a white-glove onboarding experience, walking them through setup and teaching them to use the system.

A talented marketer on my team developed an experiment to test the idea: we randomly contacted half of the high-scoring signups and left the other half to our automated welcome emails. After a few months, we compared the groups. The test group had generated 40% more revenue than the control group.

Best of all, the revenue boost spread beyond the new product. It showed up across all of our payment flows. So we expanded the white-glove treatment to all our promising signups, increasing the revenue from new cohorts by 40% would eventually deliver over $100M in annual recurring revenue.

THE MOST IMPORTANT QUESTION

Years later, I told this story to a class at Stanford Business School during a guest lecture. A woman in the back of the class challenged me with the question that inspired this book:

> "Matt, it sounds like you discovered concentration in your customer base. That's common in business. In the gambling industry, most of the revenue comes from a handful of 'whale' customers. Same in the airline industry. How did you guys miss that for years?"

Brilliant question. How did PayPal—a company with some of the greatest business minds of our generation—manage to miss something so important?

People used to say that humans only use 10% of their brains, and if we could only tap into the other 90%, we'd all be super-geniuses. Neuroscientists debunked that myth. But I think something like it is true of organizations: they only use 10% of their collective brain power. Why? What blinds organizations to game-changing insights? And how can we all get better at spotting big opportunities hidden in plain sight?

That's what this book is about. It starts with putting a simple name on the things we're looking for. I call them *big growth levers*.

WHAT IS A BIG GROWTH LEVER?

In startups, they don't give prizes for effort. Every startup works hard; that's table stakes. The winners find and prioritize the *right* work and ignore everything else.

If you look back at the early days of any great startup, you'll see that 90% of their growth came from 10% of the stuff they tried. Some famous examples:

Airbnb wrote a script to automatically post each new listing to Craigslist bringing them loads of free qualified renters.

PayPal wrote a script to message eBay sellers, pretending to be a buyer, to ask if they would accept payments via PayPal. Sellers thought their buyers wanted PayPal, so they quickly added the payment option.

Canva created thousands of SEO-optimized pages with design templates and tutorials because they realized many basic design tasks start with a Google search like "award certificate template."

Facebook and **LinkedIn** created an onboarding process in which new users automatically invited friends and colleagues to join.

Early growth at startups comes down to a few insanely successful tactics. That's no coincidence; it's physics: a startup needs a small number of people to deliver enormous results with only a little time and money. Big companies can grow by deploying heaps of cash and armies of people, using every channel, hoping one will work, and not really understanding which ones do. But startups with a few employees, a couple million dollars, and 1–2 years of runway don't have that luxury. They need to find the small actions that bring huge numbers of customers quickly – their growth levers. And startups can succeed only if they *find their growth levers fast*.

I was lucky. I'd found a big growth lever. But my discovery meant much less to PayPal than it would to a startup. PayPal would've been fine without my discovery. They'd have lumbered on without that hundred million (now less than 1% of their revenue). But for startups, finding big levers is a matter of life or death. Most startups never find them, and they die.

I left PayPal in 2015 to become a VC, joining the Silicon Valley fund 500 Startups as their UK partner. There, I got a rare glimpse into a vast data set. I saw hundreds of startups of every imaginable type and stage, so I could zoom out and see patterns. In one pitch meeting after another, I saw every startup making the same mistake—missing big opportunities and recycling a tired list of basic growth ideas that would never amount to much. Instead of finding big levers, they were pulling the small ones harder and hoping for the best.

Inspired, I founded my own company, SYSTM, to help startups find their big growth levers fast. We've spent years refining our approach with over 200 companies, including several Y-Combinator alumni. When the process works, teams see growth of 10X, 50X, or even 100X in just a few years. And when it doesn't work, it comes down to one of 3 patterns of failure, depending on the founder's operating style.

THREE PATTERNS OF STARTUP FAILURE

We all revert to our default operating modes under stress. Here are the three failure modes I've noticed within founders.

1. Overthinkers are bright and analytical, often former consultants who always think before acting. Their motto is, "Measure twice, cut once." They surround themselves with bright, experienced minds and get their advice on developing plans and making important decisions before deploying resources.

These founders are easy to spot because the intro email says something about buying me coffee to "pick my brain." But when we meet, they spend 80% of the time talking instead of picking. When I do suggest something, they already have a list of reasons it would never work, even though they haven't tried it.

Unfortunately, if you're truly blazing a new trail, advisors won't have the right answers. They'll have ideas and warnings, but you won't know which ideas to trust in any given situation without some form of external validation. That leads to hours of debates, often revisiting the same topics again and again. But

there's no point in debating, as these aren't matters of opinion. And all that conjecture comes at the expense of execution.

2. Underthinkers are impatient and decisive. They know that action is the sine qua non of startup success. They push everyone to build, ship, and execute. *Perfect is the enemy of done*. When things fail, they gather the lessons and try the next thing until something shows promise. When things aren't working, they try more things.

These founders are easy to spot because their website promises an "All-in-one solution for…" That's because they spent the past 3 years building features based on their "sense of the market," and now the product is too complicated to even describe, let alone use. And the engineers spend most of their time managing technical debt for a handful of customers.

Unfortunately, the set of possible solutions is so vast that there simply isn't time to brute-force your way to an answer. Build-measure-learn cycles can take months. How many can you get through given your runway? Plus, building adds complexity. Each new feature you build, each campaign you run, each project you try makes the business harder to run: a larger codebase, a more complicated user experience, a harder product to explain and sell, more legacy customers and use cases to support. That complexity slows you down when you need speed above all.

3. Delegators understand that their own skills are limited, and a great company is built on a strong team. Their motto is the Jim Collins quote, "First who, then what. Get the right people on the bus." To them, being a leader means they hire the best people for each function, clarify the goal, and give each person the resources to do their best work. If things aren't working,

maybe the goal isn't clear enough, or maybe you have the wrong people on the bus.

These founders are easy to spot because their email to me says, "Do you know a good Head of Growth?" That's because they've just fired their third Head of Growth and still can't find a magical growth wizard for their startup.

Jim Collins wasn't talking about startups; he was talking about established companies. And here's how the hire-and-delegate movie plays out when you try it on a startup: as you fill each seat on your bus, each superstar will bring a strategy based on their previous success and the generic "best practices" of their discipline. You'll get a product strategy, a marketing strategy, sales strategy, a customer success strategy, and a compliance strategy. Each VP will request resources and begin to pursue their strategy relentlessly.

But they can't all be right. Some startups grow through sales, others through marketing, yet others through the product itself, and usually through a combination. In any case, you won't have the resources to fund even a fraction of these proposals. In the resulting fight for resources, the actual strategic decisions will bubble right back up to the founder who was hoping to delegate.

THE ROOT CAUSE

Deliberation, execution, hiring, and delegation are all *critical*; no business succeeds without a healthy blend of those. However, in early-stage startups, these strategies consistently fail for one important reason: missing information.

"A problem well stated is a problem half solved."

– Charles Kettering

These strategies are only as good as the information they're based on. They work well in mature companies since those already have good information. They already know who buys their products and why, where to find those people, what to say to them, how to onboard them, how much to charge, and a hundred other little details. They have a working customer acquisition system. They employ strategy, execution, hiring, and delegation to *optimize* their performance.

But startups aren't ready to optimize. They still need to figure out the basics, quickly. And while strategizing, executing, hiring, and delegating are great ways to optimize, they're inefficient ways to learn. When fast learning is the goal, you need a different process—a process of *discovery*.

A startup needs to discover, as quickly as possible, who will buy their product, when and how they'll use it, where they'll look for it, and how they expect it to work. Only then is it possible to find big growth levers. They need to shift into *discovery mode*.

DISCOVERY VERSUS OPTIMIZATION

A business operates in optimization mode when its fundamental ins and outs are already well understood and working. The goal isn't to discover the fundamental operations; it's to make those operations more efficient by compounding marginal gains. For example, Walmart didn't have to discover the fundamentals of mass-market retail to dominate that arena. It needed to optimize cost and logistics relentlessly. Likewise, budget airlines didn't need to invent airplanes or discover the fundamentals of air travel. They needed to optimize costs and route planning to secure a competitive position. In optimization mode, you win by compounding marginal gains: 5% here, 5% there, until you establish a large advantage.

A business operates in discovery mode when its fundamental ins and outs aren't well understood. The imperative isn't to optimize well-known operations, but to discover those operations—to create a new system, not run an existing system more efficiently. It's not yet possible to begin optimizing because you don't know what the right processes are. You're in a race to acquire and validate information about the system as quickly as possible. *Your success depends on the pace and quality of learning*.

Optimization pursues marginal gains. But discovery isn't about getting marginally better; it's about becoming categorically different. Google didn't beat Yahoo by being 1% better. The iPhone wasn't 1% better than a Nokia 6300, and Netflix wasn't 1% better than Blockbuster. These startups succeeded by finding an entirely new approach, not nudging along an existing one. Their desired outcome wasn't incremental but binary. Optimization can't yield binary outcomes like this. Discovery demands a totally different kind of thinking. Instead of doing 100 things 1% better to get a small advantage, you're looking to do just a handful of things really well to quickly dominate an underserved market.

Mature businesses operate in *optimization mode*, but startups need to operate in *discovery mode*. The table below summarizes some of the differences between the two.

	Optimization Mode	Discovery Mode
Hire	Seasoned experts	Resourceful generalists
To	Run a playbook	Write a playbook
To uncover	Marginal gains	Exponential gains
While maximizing	Revenue / cost	Learning / time

Optimization Mode versus Discovery Mode

THE INEVITABILITY THOUGHT EXPERIMENT

Try this thought experiment: Imagine you're right.

Imagine the grand promises you made to your investors are true, and the opportunity is bigger than anyone realizes. A huge mass of people are *desperate* for your product, if only they knew it existed. Your business is *inevitable*.

The best startups are inevitable. It's obvious in hindsight:

Google: As soon as people had the Web, they'd need a way to search it.

Uber: As soon as people had smartphones, it was inevitable they'd use them to hail taxis.

YouTube & **Netflix**: And as soon as people could stream video, they'd watch movies on the go.

So, assume your idea is inevitable too.

That means *somebody* will make this business a massive success. But who?

The winner probably won't be the first to market. It almost never is: Google didn't invent search, Facebook didn't invent social media, Airbnb didn't invent the vacation rental, and Apple didn't invent the laptop, the MP3 player, the tablet, or the mobile phone. So who will it be?

The winner will be the first to figure out how to do it *right*. It will be the first team to figure out all the thousand little things that will make this a successful business. Your product and engineering teams need to discover user requirements to define the ideal product. Your sales and marketing teams need to figure out where to find loads of customers and how to attract them. Your support team needs to figure out what problems customers will have and the most efficient way to address them. Your compliance team will need to figure out how to satisfy legal requirements quickly without burdening your customers or employees. And somebody will need to figure out how to turn all that customer enthusiasm into a solid, predictable stream of revenue. Bottom line, your success depends on your ability to figure out lots of things quickly—your team's ability to discover.

And that's my whole point: hard work is not enough. The success of any startup depends on the pace and quality of learning. Therefore, to succeed, an early-stage startup needs to *become an instrument of discovery.*

"A startup is not a small version of a large company."

— Steve Blank

THE SOLUTION: DISCOVERY MODE

02

To grow, startups need to operate in discovery mode. This means your entire organization needs to become an instrument of discovery—one that's designed to find your big growth levers fast. The rest of this chapter outlines a process for doing that. The rest of the book details each phase of the process step by step so you can run it too.

At the highest level, there are four steps to becoming an instrument of discovery:

Step 1: Understand the journey that leads customers to you.

Step 2: Map your growth model to find points of leverage.

Step 3: Run growth sprints to test ideas quickly.

Step 4: Shift your team's mindset from optimization to discovery.

Let's look at each step more closely.

STEP 1. UNDERSTAND YOUR CUSTOMER'S JOURNEY

Your customers' journey begins long before they realize they need your product. It starts with problems they're trying to solve or goals they're trying to achieve. It continues through researching and comparing possible solutions and ends with them choosing one. I call these stages in the journey *Struggle*, *Search*, and *Selection*.

Struggle: Every action we take, product we buy, and decision we make is fueled by some kind of struggle—either a problem to solve or a goal to achieve. Often, we're not consciously aware of these struggles and goals, but we're still busy trying to overcome them. You'll need to figure out what struggles initiate your customers' journey.

Search: At some point, your customers will take action to reach their goals. They may start looking for information, or they may already have an idea that they'll go ahead and try. You need to understand why they spring into action when they do. If they're looking for information, you want to know where they look and make sure you're the one providing it, and if they're trying something, you want to make sure it's your thing.

Selection: Before your customers feel comfortable choosing a solution, they'll have some specific questions and worries that need to be addressed, along with some switching costs—non-financial factors that make it hard for them to adopt your product. Examples include needing to learn a new skill or getting "stakeholder buy-in" from a coworker or spouse.

You'll have prospects at *every stage* of this journey and will deploy different tactics at each stage. For example, if a customer isn't particularly bothered by the struggle, you might run ads

that "poke at the pain" to prod them into action. Or, for customers who are already comparing solutions, you might talk about the distinctive advantages of your solution versus the popular alternatives (e.g., "no coding required").

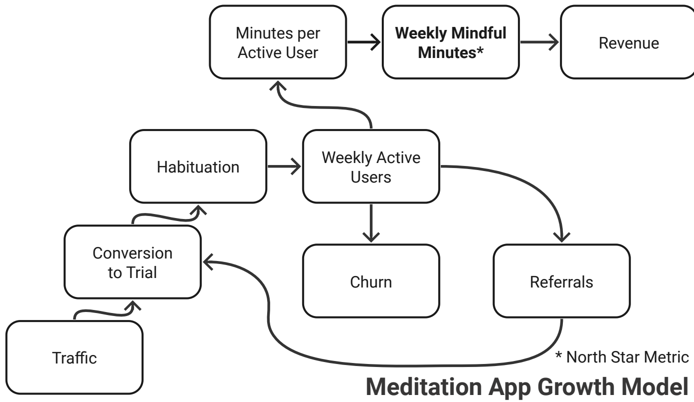
When you understand customers' struggle, search, and selection, you'll start uncovering promising growth ideas. Next, you'll map a growth model to help sift through those ideas and determine where to focus for the greatest leverage.

STEP 2. MAP YOUR GROWTH MODEL

A growth model is a flowchart that maps out how your business finds, acquires, and delights new customers. It will show you where your limited resources can have the greatest impact, mathematically, on your growth.

In most startups, teams compete for scarce resources: sales, marketing, and product all want cash and engineering, and those debates bubble up to the founder. A growth model will help your team align their work toward a common goal and provide a framework for everyone to agree on priorities without having to escalate every resource decision to the founder. It also enables you to spot bottlenecks that need unblocking and feedback loops that need to be nurtured.

Below is a simple growth model for an imaginary meditation app.

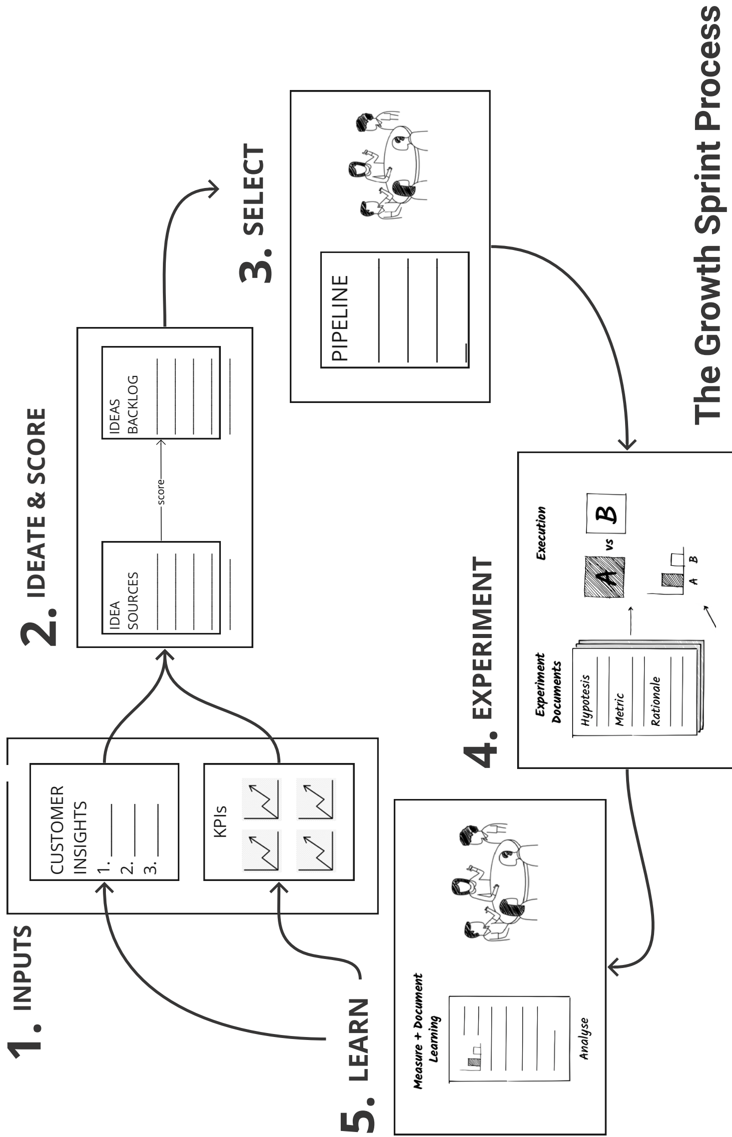


The model looks simple, but agreeing on the right metrics to include is tricky. Chapter 5 discusses building a growth model, including finding the right metrics for it.

STEP 3. RUN GROWTH SPRINTS

A growth sprint is a process in which you prioritize ideas with the greatest potential upside (regardless of cost), and then rapidly test the most promising ones with experiments. Each experiment aims at testing a specific hypothesis. These go beyond simple A/B tests; you can use them to validate new product or feature ideas, possible new customer segments, or even business processes, like the experiment I described from PayPal where we contacted high-value signups.

Most of your experiments will fail. But your aim is to learn from every experiment—especially the failures. If the experiments are well designed, failures will help you eliminate bad options and focus your efforts. With enough persistence, patience, and a bit of luck, you'll find winners, and your data will give you the confidence to double down on them. The diagram below outlines the steps of a growth sprint.


The Growth Sprint Process
1. INPUTS
CUSTOMER INSIGHTS
1.
2.
3.
KPIs
2. IDEATE & SCORE
IDEA SOURCES
score
IDEAS BACKLOG
3. SELECT
PIPELINE
4. EXPERIMENT
Experiment Documents
Hypotesis
Metric
Rationale
Execution
A
vs
B
5. LEARN
Measure + Document Learning
Analyse

STEP 4. SHIFT THE MINDSET

Steps 1–3 are the practical steps to finding your growth levers. But remember: spotting those levers is fiendishly hard. It requires shifting from an optimization mindset to a discovery mindset. That mindset shift often makes people uncomfortable. But without the mindset shift, the rest of the process can't work.

The discovery process involves being wrong a lot (and realizing where you've been wrong all along). It asks you to fail multiple times per week in a very public way. Diligent, conscientious people find this unsettling. In addition, growth sprints push people to move fast. They'll often need to cobble together solutions, ignore details, and do work they're not proud of. Perfectionists don't like this.

As a leader, you'll need to help everyone overcome their conditioning and embrace the new approach. Otherwise, you and your teams might revert to optimization instead of discovery. The good news is that simply having your teams go through Steps 1–3 will start to change their mindset. To keep the momentum, Chapter 7 offers a set of simple tools you can use to reinforce the mindset shift across your team.

I've just described how to become an instrument of discovery. It's time to discuss each step in detail so you can run this process yourself.

Get the whole book:
systm.co/levers