



Speed to scale

\$50 million – valuation to headcount ratio of Snapchat in 2015 economy

25% – world population target for customers of Tata Group by 2025

Speed to scale

Greater global connectivity, growing consumer wealth and broader reach all combine to accelerate the time to 1bn customers and a \$10bn valuation for start-ups and new corporate ventures alike.

Founded in 2004, Facebook reached 500m users within six years and had a billion by October 2012. This may be the new norm: we are in a world where we are all increasingly connected, where new ideas spread globally overnight and where there is a plentiful supply of capital available to support the best new business concepts.

Looking ahead, as we move from 4.5bn to 7bn mobile phone users and reach 99% connectivity globally, many are expecting multiple new industry disruptions (first Napster and now Airbnb and Uber) to occur. Whether in banking, retail, logistics or transport, the ability to use data analytics and ubiquitous connectivity in different ways is driving a plethora of new business models; most based on achieving scale quickly. Reaching 100,000 customers within the first year is increasingly considered to be conservative. Why not 1m, 10m or even 100m?

But is this realistic? How quickly are we speeding up and what levels of scale are credible? In the first decades of the 21st century we have seen that the iPod, launched in 2001, took 12 years to reach 500m; Gmail, launched in 2005, took 7; and Facebook and Twitter both took 6 years. Following the launch of the iPad in 2010 it took only 3 years for the tablet user base to reach 500m. For some this acceleration is down to the fact that the global Internet infrastructure is now largely in place and so one barrier to scale has been removed. However, others argue that with far greater competition and multiple new businesses being launched, the achievement of reaching 500m users is no mean thing. If it was simply down to connectivity, then by now surely Skype would have surpassed its 300m active user figure, Tumblr would

be over its 420m and Linked-In would have exceeded its 400m current user base. Yes, there is the access issue, but there is also the all-important proposition and support.

In terms of financial support, a common theme in the investor community is associated with the signals from so called 'Unicorns' – start ups whose value exceeds \$1bn. Some are questioning whether we are in a second Internet bubble and so are seeing inflated valuations, but others suggest that the speed at which such valuations are being achieved is another indicator of how quickly scale is possible for the right proposition. Certainly the number of start-ups hitting the \$1bn threshold is rising. In 2011/12 there were 17, including the likes of Square, Spotify, Dropbox, Evernote, Pinterest and Airbnb; in the following two years there were over 70.

Looking beyond the unicorns to 'decacorns' - companies valued over \$10 billion - we can again see strong evidence of acceleration. Elon Musk's Space X was founded in 2002 and has taken 13 years to reach a \$10bn valuation and similarly Palantir, the data analytics specialist, was founded in 2004 and took 11 years to reach the same point. Move forward a couple of years and both DropBox and FlipKart were founded in 2007 and went on to reach the \$10bn threshold within 8 years. The following year saw the

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Changing business



launch of Pinterest and Airbnb that hit \$10bn valuation seven and six years later respectively. Launched in 2009, Uber got to the same point within 5 years and, more recently, Chinese electronic company Xiaomi rocketed ahead to become the world's 4th largest smartphone manufacturer and hit a \$10bn valuation within 3 years of its 2010 launch – an achievement only matched by Snapchat, launched in 2011.

What makes this escalating speed to scale so significant for some is the physical size of the organisations seems to have been decoupled from their reach and value. We are in a world where there is no longer a link between size, most often seen as number of employees or other resources, and scale. Whereas Uber has nearly 200,000 contractor drivers in its ecosystem, it actually employs less than 4,000 people; Airbnb has only 1,600 employees. Corresponding valuation to headcount ratios have been spiralling. When you consider that a successful company like Nike has 44,000 employees and is worth over \$110bn, then it has a ratio of \$2.5m per employee. Microsoft by comparison comes in at just under \$4m per employee. In the lead by this

ratio today is SnapChat; with only 300 employees and a 2015 valuation of \$15bn, it has a valuation to headcount ratio of \$50m, double that of Facebook, Airbnb, Pinterest and Uber, 5 times the likes of Google, over 10 times Microsoft and 20 times that of Nike.

In the past value was largely linked to a combination of brand and tangible assets such as resources and facilities. What has happened over the past few years, as the speed at which companies can scale has risen exponentially, is that the valuation of some companies has become increasingly linked to the intangibles. As such the ambitions for start-ups are growing; seeking to become a unicorn within 5 years is increasingly the norm.

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Equally for established companies, creating new ventures at significant scale is no longer a decade long target. In Mumbai, a new business created by conglomerate Reliance Industries, Reliance Jio, a mobile and fixed telecom business, launched in December 2015 and was aiming to have 100m customers within 100 days. Based in the same city, Tata Group's 2025 ambition is to be in the top 25 globally by market capitalisation and to reach 25% of the world's population. Already India's most valuable group and accounting for 8% of the Bombay Stock Exchange's total market capitalization, that means doubling its value from today, so probably a ten-fold increase, and adding 1.1bn new customers within ten years.

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Looking ahead, one can see a world where many of the world's most valuable companies maybe less than ten years old. The top 20 may have an average age of 20. By comparison, the top ten today is, on average, 75 years old. While this includes Google (17 years old), ICBC (31) Apple (39) and Microsoft (40) it is also has companies such as Wells Fargo, Johnson and Johnson, Exxon Mobil and Novartis, some of which go back up to 160 years. Whether making it to \$100bn or just \$1bn, what is clear is that we are in an era of faster scaling, where the case studies need rewriting every year and where traditional rules for company growth no longer apply.

Related insights

Autonomous transport



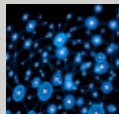
The shift to fully autonomous transport is an evolution via truck platoons on highways and small urban delivery pods. Connected cars create the network and test the technologies for the eventual revolutionary driverless experience.

Energy storage



Storage, and particularly electricity storage, is the missing piece in the renewables jigsaw. If solved, it can enable truly distributed solar energy as well as accelerate the electrification of the transport industry.

Everything connected



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Organisation 3.0



New forms of flatter, project-based, collaborative, virtual, informal organisations dominate - enabled by technology and a global mobile workforce. As such the nature of work and the role of the organisation blurs.