

Power to the People

Revolutionizing Businesses with Transformative Ideas

It has been more than 30 years since I first saw the Apple commercial directed by Ridley Scott (*Blade Runner*, *Alien*) that aired during Superbowl XIII, which introduced the Macintosh to the world. The ad shows a young woman, a “revolutionary,” breaking free of the homogeneous life that George Orwell portrayed in his novel *1984*. She takes it upon herself to step outside the lines and to break through the boundaries of order by taking a mallet to a giant screen that is projecting Big Brother’s talking head as drooling drones are staring at him blankly and nodding.

The commercial aired only once. The imagery and words clearly stated that Macintosh would show us “why 1984 won’t be like 1984.” With that one commercial, Steve Jobs told us Apple would not conform and was set on changing the world. *Revolution*.

I was 16 at the time, and that TV spot moved me. As a young man growing up in a sleepy suburb of New York City, I was in search of my own revolution. I was struck by how powerful freedom—or a lack thereof—could be. Why? Because freedom is innate to our species. People don’t want to be drooling drones. We want to be free.

This instinctive need for freedom has been a catalyst and an inspiration for revolutions around the world for centuries, and we’re seeing this play out in many economies today.

At a more mundane level, revolutions are also taking place in industry after industry around the world: travel, financial services, employment, newspapers,

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retail, movies, music. Technology is the driving force behind these revolutions. Just about every industry has been, or is in the process of being, revolutionized by young companies wielding new technologies as their weapons, which they are using to take power away from the incumbents and give it to the people—to everyday consumers.

This hunger for freedom and an innate drive to empower consumers is also the spark of the ideas behind my philosophy of company creation and investment—what I call “power to the people.” Revolutionary companies give power to the people, which they use to disrupt entrenched incumbents and usher in a new order.

THE EXPEDIA CONCEPTION

Ten years after I saw that Apple commercial, I found myself in Redmond, Washington, working for Microsoft as a product manager. It was there that I first became enamored of the revolutionary possibilities of the Internet. This was in 1994 and before Mosaic and Netscape, so the graphical World Wide Web had not yet happened. Back then, the Internet was a command-line thing primarily for geeks, academics, and the U.S. government.

During that time, I became a frequent business traveler and was incredibly frustrated by how hard and time-consuming it was to purchase airline tickets, hotel rooms, and rental cars. I would talk on the phone to a travel agent and hear the “click click” of her fingers on the keyboard as she browsed the mainframe reservations systems. I remember feeling incredibly powerless. What did she see that I couldn’t? I wanted to jump through the phone and turn the monitor my way so I could do it myself. I wanted the power. I wanted the information set free. My frustration led me to the conclusion that one of the first major markets that would be revolutionized by the Internet would be travel, and an idea was ignited.

Microsoft was still relatively small at the time, and even though I was only 26, I was given a chance to pitch the Expedia idea directly to Bill Gates and Steve Ballmer. With my business plan in tow, I told them about my big dream of how connected PCs would eventually empower people all over the world to make and take better trips, and how this could dramatically reshape a trillion dollar industry. I told them that Microsoft could one day become the largest seller of travel in the world. Of course this sounded crazy, but it was also crazy interesting. After a little contemplation, Bill Gates gave me the green light and funded what would become Expedia. To this day, I think of him not only as a mentor but also as my first venture capitalist.

Because I knew that a big travel agency was not going to be at the core of Microsoft’s software mission, I quickly pitched Bill on allowing this new venture to operate as a separate company. We instead decided to incubate it within Microsoft and would reevaluate spinning it out later if it took flight. I was fortunate to be able to hire the smartest, most entrepreneurial people at Microsoft to join the Expedia team. Selecting the right team can mean the difference between

success and failure, and when you have the right team, it is vitally important to make them meaningful owners of the company. In fact, I've learned that, at least to a point, the more of the company employees own, the bigger the outcome for everyone.

We officially launched Expedia in 1996 on the very young graphical World Wide Web, and it took off immediately. We grew significantly over the next three years, and we were confident that we could actually become the largest seller of travel in the world. But, we needed capital—lots of capital—to invest in marketing and television advertising to increase awareness of the Expedia brand. That is when Microsoft set us free. In 1999, 148 of us spun out of Microsoft in an IPO that raised approximately \$80 million in growth capital, and we took flight. Expedia now sells about \$40 billion in travel each year.

I left the company in 2003, when it was bought by Interactive Corp., and I have since taken the power-to-the-people approach in creating other new companies. In 2005, a number of former Expedia compatriots and I started Zillow to tackle the information asymmetry that existed in residential real estate. Then, in 2007, again with former Expedia colleagues, I cofounded Glassdoor, which introduced a new level of transparency around jobs and employers.

THE RISE—AND VALUE—OF POWER-TO-THE-PEOPLE COMPANIES

By setting information free and putting valuable data and tools in the hands of consumers, people are empowered and marketplaces thrive. This approach is revolutionizing a number of industries and building big businesses. For example:

- Amazon has completely changed the face of retail by empowering people to shop wherever and whenever they please for whatever they want, and delivery happens as fast as they desire. Amazon is now the ninth largest retailer in the world, and I expect it to become the largest in the not too distant future.
- Yelp and TripAdvisor have collected millions of user-generated reviews, which enables just about every business in the world to be indexed and rated. I firmly believe that if something can be rated, it will be rated. The people's voice will ultimately be heard, no matter how uncomfortable that may be for those being rated. User-generated content ratings models are particularly interesting because they create a virtuous cycle—that is, the more reviews TripAdvisor has, the more visitors they get; the more visitors they have, the more reviews they get. And so the virtuous cycle turns.
- Netflix, where I serve on the board of directors, has revolutionized the way people shop for and watch filmed entertainment in a growing number of countries around the world. It started with a simple disruption model of shipping DVDs, which changed how consumers thought about in-home entertainment. A trip to Blockbuster was no longer required; all people had to do was open and close their mailbox. Netflix now has 50 million subscribers who stream movies and television programs, including a growing slate of original productions like the Emmy-award-winning *House of Cards*, to their televisions, tablets, PCs, XBoxes,

and smartphones. In the U.S., one-third of all prime time downstream Internet traffic now consists of subscribers streaming Netflix.

- Zillow, where I am now executive chairman, gives regular people access to comprehensive real estate information on every home in the United States. This is anchored by the “Zestimate,” an estimated market value of every home in the country that is updated every night. Before Zillow’s launch there were commodity “for sale” listings websites, which were owned by the industry, but Zillow was the first site to pull back the curtain on a world of information that had previously been hidden from consumers. Zillow is now a public company and the largest U.S. real estate marketplace. Nearly 89 million users visit our website and mobile apps each month.

Building products that empower consumers can lead to large businesses. These five companies and others like them have succeeded because they have leveraged new technologies to make new information and services available to consumers. If you can attract and serve a large audience of consumers, you can attract capital and investors. The power-to-the-people companies described above together have more than \$53 billion in market capitalization.

LEVERAGING BHAGS

A critical ingredient for turning ideas into successful businesses lies in management’s ability to define and motivate the team around a “Big Hairy Audacious Goal,” or BHAG. Author Jim Collins, who wrote the iconic business book, *Good to Great*, talks about this principle in detail. At Expedia, our BHAG was to become the largest seller of travel in the world. In Microsoft’s early years, Bill Gates provided a clear vision of what he thought the future could and should look like when he spoke of the company’s BHAG: a computer on every desk and in every home running Microsoft software. At Google nearly two decades later, Larry Page and Sergey Brin’s BHAG was to organize the world’s information and make it universally accessible and useful.

And, BHAGs go beyond business. In 1960, President John F. Kennedy challenged the United States to “land a man on the moon and return him safely to earth.” Less than a decade later, astronaut Neil Armstrong stepped onto the surface of the moon and uttered the timeless words: “That’s one small step for a man, one giant leap for mankind.”

When communicated clearly by passionate leaders, BHAGs can work. To a certain extent they are self-fulfilling. Creating a BHAG for a company is somewhat like painting a mental picture of Mt. Rainier, a 4,400-meter peak near Seattle. It is about creating a vision so compelling and important that people—employees, recruits, partners, customers, the press, investors—want to join you in your effort to reach the summit. The reality is, we all want to be a part of something larger than ourselves, and a BHAG can galvanize people around a common mission and help them visualize standing together at the mountain top high above the clouds, arms raised in triumph.

The Global Rise of Entrepreneurship

Participating in the fourth annual Global Entrepreneurship Summit in Kuala Lumpur was an incredibly rewarding experience. In addition to giving the keynote speech, I was invited to participate in multiple events that exposed me to a large number of the young entrepreneurs participating who came from all corners of the globe. I also participated in a press conference and round table with the U.S. Secretary of Commerce, Penny Pritzker, and judged the final competition of the Global Startup Youth—which was possibly my favorite part of the conference. Global Startup Youth brought 500 young people, ages 16-25, from around the world and broke them into 50 teams. Each team had 48 hours to dream up and build a smartphone app, which they then presented in a Shark Tank-like competition in front of the crowd. The raw energy and creativity emanating from the participants was truly awesome. I admit that I found myself sneaking out of the dignitary dinners with the guys in suits to find the Malaysian satay buffets that fueled the kids wearing T-shirts and flip-flops. The rise of entrepreneurship in that part of the world felt like destiny to me, as long as some modicum of political stability predominates.

As our world gets ever smaller and the entrepreneurial spirit breaks through the binding chains of legacy infrastructures that have stifled innovation and competition, inspiration and innovation will rise. In fact, I had the opportunity to look into the eyes of those making it a reality already.

In April 2014, I was honored to be named a Presidential Ambassador for Global Entrepreneurship by President Obama, and am now working closely with Secretary Pritzker and my fellow ambassadors to help spread Western-style entrepreneurship and capitalism to other parts of the world. This work has reminded me that none of us should take good government for granted. Despite being frustrated at times, we in the U.S. owe a great deal of our own business success to an unusually fair and transparent government.

Whether as a fellow entrepreneur, investor, educator, media representative, or government official, I highly recommend plugging in to the global rise of entrepreneurship.

THE IMPORTANCE OF VIBRANT ECOSYSTEMS IN CREATING ENTREPRENEURIAL OPPORTUNITY

Another critical factor in turning revolutionary ideas into thriving businesses is the market in which a startup is operating. Obviously not every entrepreneur and idea is born in Silicon Valley. Seattle, for example, where I started Expedia and Zillow, offers entrepreneurs a healthy idea startup ecosystem. In fact, burgeoning startup ecosystems are being created and nurtured around the globe. As I travel around the world, I see more and more markets ripe for development.

I regularly observe three key ingredients in a vibrant startup ecosystem, regardless of the location: good government, access to talent, and access to capital. I think of these ingredients as a metaphor for what you need to grow a healthy garden: soil, water, and sunshine.

- **Good government:** The soil. Fair representation in government policymaking is crucial to enable startups to compete on a level playing field with more established incumbents. Startups cannot thrive in an ecosystem where the corporate heavyweights control taxation, regulation, and law. A startup ecosystem must offer a level playing field and provide fair access to entry.
- **Access to talent:** The water. A continuous flow of well-educated graduates is fundamental to startup ecosystems. Silicon Valley, for example, has Stanford and Cal Berkeley, while Seattle has the University of Washington. Local businesses and startups should reach out to partner with the professors and graduate students at local universities. They can hire undergraduate interns during the summer, cultivate the supply of potential talent, and give students reason to stay in the area after graduation.
- **Access to capital:** The sunshine. At some stage of a startup, the founders need to determine if and when they will raise money, and how much. Any money is good, but smart money is much better. The experienced people behind smart capital will be helpful in building and growing a company. In Seattle, for example, Microsoft, Amazon, Starbucks, Boeing, Expedia, and others have created huge amounts of personal wealth among founders and employees. Some of this money has been recycled through angel investors into seed investing, which encourages new company creation, and through professional venture capitalists, who are needed to get most startups beyond the seed stage. For entrepreneurs, networking and building relationships with angel investors and venture capitalists before they are needed can make all the difference when they do.

Another vital aspect of attracting smart capital is the likelihood that investors will have a positive exit, whether through an IPO, acquisition, or buyout. If an angel investor or venture capitalist sees no likely opportunity to make a positive exit, they will have no reason to invest in the first place.

THEN THERE WAS MOBILE: THE DEVICE THAT HAS CHANGED EVERYTHING

When Steve Jobs introduced the iPhone in 2007, he said, “Every once in a while a revolutionary product comes along that changes everything.” Apple was at the forefront of the personal computer revolution when it introduced the Macintosh; with the introduction of the iPhone, Apple changed everything—again. It essentially created a new Internet and a new platform—the mobile Internet.

During one three-month period in 2013, 250 million new smart mobile devices were activated worldwide. This is larger than the entire Internet at the time Expedia launched. Today there are seven billion Internet-connected mobile devices—more than the number of people on the planet—with much of the

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growth occurring in Asia, the Middle East, and Africa.

As an investor, I no longer consider investments in companies without a mobile strategy, as any company not focused on mobile will not be around in three years to wonder what went wrong. Accessing the world through a handheld device is one of the most significant forms of power to the people we have ever seen. Mobile is not the future: the future is here.

GO FORTH TO CHANGE THE WORLD

Revolutionaries love disruptive new ideas that empower people to overthrow the old guard. New entrepreneurs start revolutions every day. I challenge today's young entrepreneur-revolutionaries to explore the globe's unlimited possibilities, define a BHAG, shape their own ecosystems, and go forth to change the world. Power to the people!