



ENTREPRENEURSHIP

Beyond Silicon Valley

by [Alex Lazarow](#)

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High-growth tech start-ups are the business miracle of recent decades. So-called unicorns—private venture-backed companies valued at \$1 billion or more—have changed the fabric of our lives and transformed the way we do business. These firms, concentrated in capital- and talent-rich cities such as Palo Alto, London, and Tel Aviv, are a source of inspiration for entrepreneurs and corporate managers around the world. Most seem to follow the same playbook: Begin with a plan to “disrupt” an existing industry, use injections of capital to grow as rapidly as possible, and tolerate high risk in a rush for market domination.



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But that is not the only way to launch a thriving start-up. As a venture capitalist, I have worked for the past decade with high-growth tech companies in unlikely locations far afield from any innovation hot spot. Some are in developed economies (in cities such as Winnipeg and Provo), but many are in emerging economies (in Jakarta, Lagos, Nairobi, Guadalajara, and São Paulo, for example). Entrepreneurs outside tech hubs take a different approach from the one favored in Silicon Valley—and are achieving outsize success.

Start-ups operating amid conditions of relative scarcity, where capital and talent are hard to come by and economic shocks are more likely to occur, face unique pressures. Yet many have become superstars in their own right. Their formula involves a more balanced approach to growth, a focus on solutions to real problems, and investment in their workforce for the long term. These “frontier innovators” hold important lessons for companies of all sizes and in all locations—including Silicon Valley itself.

Balanced Growth

In Silicon Valley, the quest for growth all too often trumps sustainable unit economics and profitability. It is not unusual for start-ups to burn through millions of VC dollars a month as they chase ambitious growth targets, often subsidizing user costs to drive acquisition numbers. The hope is that in highly competitive winner-take-all markets, a firm’s revenue will increase exponentially as it dominates its market, and profitability will eventually sneak past zero and then grow rapidly. This strategy works well for start-ups that successfully make it through to the other side: If the number of users takes off, start-ups can indeed become very large, very fast.

But while it is acceptable in Silicon Valley to burn through capital, innovators on the frontier are less likely to tolerate losing money on each customer. It’s not that they aren’t trying to scale—many of these businesses benefit from the same network effects that make

Silicon Valley titans so wildly successful. But they tend to avoid the high-risk grow-or-die approach: They focus on both growth and profitability, build resiliency into their models, charge for the value they create from the get-go, and take a long-term outlook.

This is true even in wealthy markets. Mike Evans, the cofounder of food-delivery service Grubhub, a Midwest start-up, told me that when the company was starting out, he and other managers ignored what he called “growth-centric vanity metrics” and instead made sure that the business was sustainable (either profitable or close enough to achieve profitability through minor cost cutting) each time they set out to raise money. Even in its early days, it charged restaurants a commission for every sale made on the site, and customers paid a delivery fee. When Grubhub did take on outside capital, it raised comparatively meager amounts. In 2014, the company went public; it is currently valued at more than \$6 billion. (Ironically, it is only as a successful public company that Grubhub has had to subsidize customer acquisition to compete with new, VC-backed entrants such as Uber Eats and DoorDash.)

Even companies in emerging markets that serve very poor customers charge for their services from the start rather than subsidize the business until they’ve achieved scale. They’re able to do this because existing solutions are often so dysfunctional that customers are willing to pay for reliable, safe, and efficient products. Take Zoono, a Zambian start-up whose iconic lime-green booths dot many African cities. The company, which offers basic financial services to unbanked consumers, advertises its product around the values of “easy, quick, safe”—not “free” or “cheap.” It is offering a money transfer business for people without a lot of money, and its customers will pay for a service they trust. Despite the fact that over 60% of the Zambian population lives in poverty, Zoono serves more than one million customers and is expanding into other African nations.

It takes time—and resiliency—to build an industry from scratch, and this too makes a growth-at-all-costs approach untenable. One of the leading technological innovations to emerge from Kenya is M-Pesa, a platform that allows its users to send and receive money through their mobile phones, as well as access other financial products through a network of over 100,000 agents. For M-Pesa’s customers, the concept of having money stored in a

format other than cash was a complete novelty. Thus, giving cash to a stranger with the promise that it would be sent via mobile phone to its intended recipient was unthinkable. To overcome this, M-Pesa had to invest in educating its customers.

In the mythologized view of Silicon Valley, start-ups rush to develop a minimum viable product, raise capital, and lay waste to entrenched inefficiencies in the process. But in my experience, a more balanced approach to growth doesn't hinder innovation. Take the case of Qualtrics, a Provo-based start-up founded in 2002. The company was run out of the basement of one of the founders in its early years. Profits, rather than outside capital, were used to fund growth. This was an extremely abstemious approach, caused partly by the local ecosystem—Utah had limited venture capital at the time and was off the map for many Silicon Valley investors—but was also a result of the founders' unique, long-term view toward innovation. Qualtrics's first line of business was to offer schools access to online surveys. Over time and without pressure from investors, the company refined and tailored its products and services for large, corporate clients.



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Qualtrics did eventually raise capital after 10 years of bootstrapping, when it was a highly successful company. As its cofounder and CEO Ryan Smith told me, “This is not a five-year game. It is a 20-year game. In the early days we had a good business, but our big breakthrough came in years 13 through 17, when we switched to enterprise.” For Smith, giving new initiatives time to mature was critical. “Everything took longer than we expected. The ability to wait and the flexibility to stick with it was crucial,” he says. Qualtrics was acquired by SAP in 2019 for \$8 billion.

Of course, some firms don’t have the luxury of choosing a balanced approach to growth and instead are forced to keep an eye on the top and the bottom lines. For example, entrepreneurs far from innovation clusters lack access to large amounts of venture capital, nor is there an investment class that will put up with growth without profitability for long

periods. But evidence is beginning to show that balance holds own advantages. A slew of aborted IPOs and scandals in Silicon Valley involving coddled founder-CEOs has shone a spotlight on the “foie gras effect,” as an article in the *New York Times* put it, in which start-ups are force-fed capital only to collapse under the weight of hypergrowth.

Venture capital can be a powerful tool that helps start-ups accelerate at critical moments. But too much of a good thing can distort the market. A study by PitchBook found that venture capital returns in the Midwest are among the best in the country, in part because companies there ingest less capital. Research from the AllWorld Network, an organization cofounded by Harvard Business School professor Michael Porter, determined that entrepreneurs in emerging markets have a better survival rate than those in the United States.

Solving Real Problems

A disproportionate number of the frontier start-ups I have worked with focus on providing services that meet universal human needs. That’s especially true for emerging market companies. A study by Village Capital determined that out of the nearly 300 unicorn start-ups in the United States, only 18% were focused on health, food, education, energy, financial services, or housing. Conversely, my analysis of leading start-ups in Latin America, sub-Saharan Africa, and Southeast Asia reveals that far more (up to 60% of a sample in sub-Saharan Africa) target those basic human needs.

By offering basic services, companies have the opportunity to become necessary to untapped customers. Take OkHi, a technology-driven start-up that creates postal and delivery addresses in the developing world. Some 50% the world’s population lives in slums, favelas, shantytowns, and other areas where the government does not designate official street names or numbers for residents. To solve this problem, OkHi offers crowdsourced digital addresses—a unique combination of a GPS point, a location’s photo, and text descriptors. A diverse group of partners (restaurant chains, appliance retailers, and public services) can access the database for a small fee. When they look up an address, they are given turn-by-turn directions to the GPS point and then are oriented to the proper home using the qualitative descriptors and photos.

Within existing industries, entrepreneurs often set up operations in new ways that improve people's lives. For example, Delhi-based start-up Rivigo focuses on the Indian logistics system. Road, rail, and coastal shipping is 30% to 70% more expensive in India than in the United States, costing India's economy an estimated \$45 billion every year. The country also suffers from an acute shortage of drivers, because of inefficiency in the system. For example, a driver might travel several days to a delivery location and upon arrival find that return shipments are unavailable.

Too often, Silicon Valley start-ups collapse under the weight of hypergrowth.

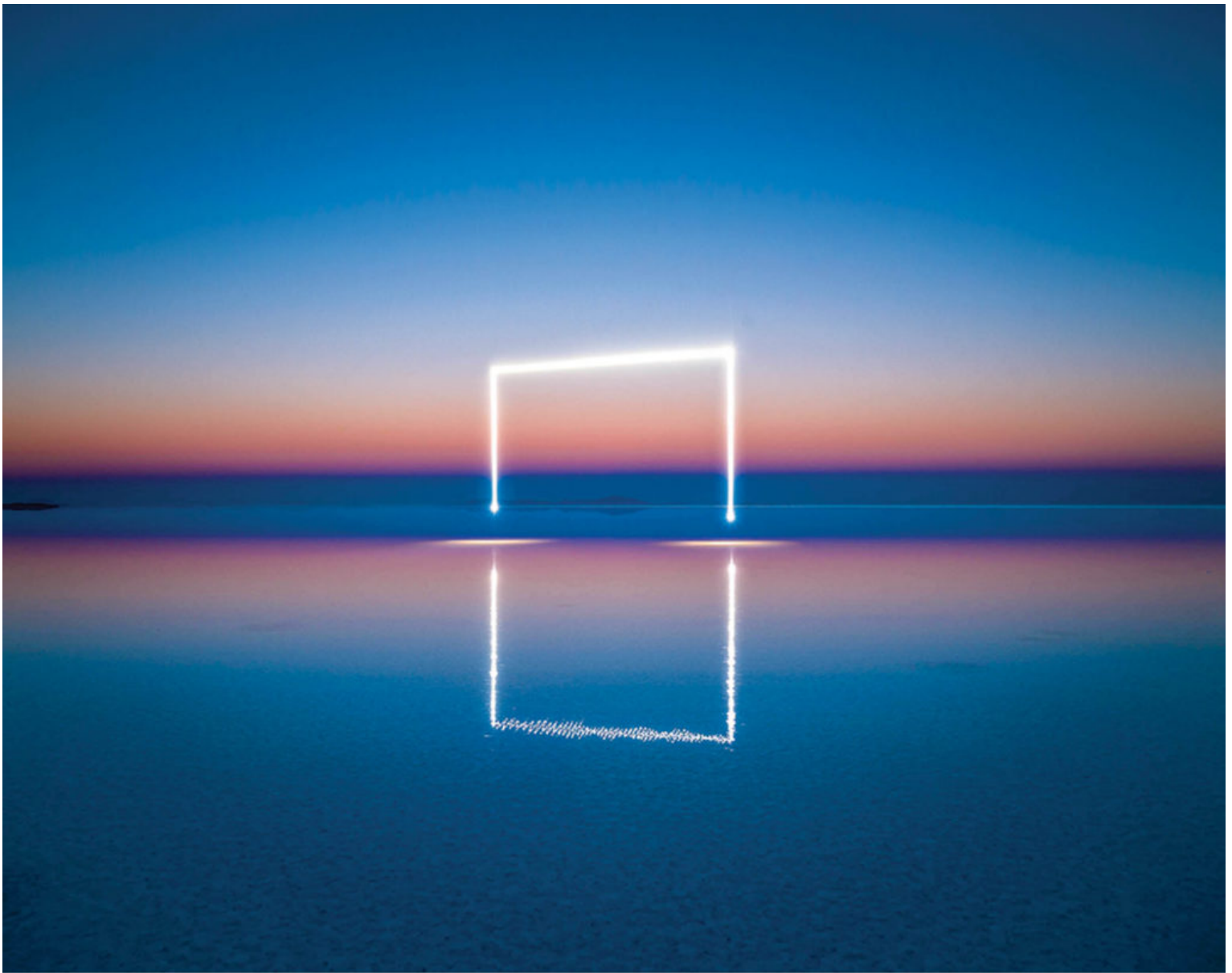
Rivigo uses a logistics model that centers on the drivers (referred to as "pilots") to transform the system. Rather than having to drive the entire length of a trip, they take their loads only five or six hours to a relay point. Another pilot then continues to the next relay point, and so on to the final destination. Each pilot swaps his or her load with the next pilot in the chain and drives the new load back to his or her original location, where it will again be transferred to another driver. Rivigo's complex daisy chain allows pilots not only to return home each day but to earn more: Thanks to the company's investment in shipment tracking and demand planning, the trucks are driven at higher capacity and with greater regularity, increasing wages for drivers. The strategy is working. By the fall of 2018, Rivigo had some 10,000 trucks in its network, serving suppliers in 500 micromarkets, and had expanded its logistics services to include cold freight storage, express brokerage, and a freight marketplace.

Typically, companies that create truly new offerings have a long, arduous path to growth that may include educating customers about how to use the product or service. But there are advantages to addressing basic needs in a new way. The market—and thus the payoff—can be enormous: Consider the billions of structures without fixed addresses available to OkHi, or the billions of unbanked people in the world available to M-Pesa. And first movers often find that once they gain people's trust, their consumers welcome the addition of high-margin services to the platform. Indonesia's Gojek started as a ride-hailing app for low-cost motorbike taxis. Many of its early customers were unbanked, so

they paid for rides in cash. Because Gojek introduced many customers to online services, the platform became an ideal place to offer a range of financial products. Today, drivers act as human ATMs: Riders deposit and withdraw money from GoPay, Gojek's mobile payment ecosystem, directly through their drivers. Customers can then use GoPay to make payments and accumulate savings. Beyond financial products, the app offers more than 20 services, including food delivery, shipping, doctors' appointments, massages, and cell phone minutes. "In the mornings, we drive people to work," Gojek founder Nadiem Makarim told me. "At lunch, we deliver meals to them at the office. In the late afternoon, we drive people back home. In the evenings, we deliver ingredients and meals. And in between all this, we deliver e-commerce, financial services, and other services."

Investing in Global Talent

Silicon Valley has one of the richest talent pools in the world. Every year, Stanford and Berkeley each graduate about 1,500 engineering students, who refill and expand the ranks of the 150,000 computer scientists and software developers working in California. But an unintended consequence is that Silicon Valley and other innovation clusters now have high employee turnover built into the business model. Companies operate under the assumption that employees are replaceable—highly skilled labor is as abundant as workers' opportunities—and thus high churn is an accepted by-product. In their book *The Alliance*, Reid Hoffman, Ben Casnocha, and Chris Yeh even go so far as to suggest that Silicon Valley start-ups should think of employees as being on "tours of duty."



Reuben Wu

Away from innovation clusters, however, recruitment is a universal pain point. In a study of 628 entrepreneurs in emerging markets, 75% of those whose firms were rapidly growing identified lack of available talent as the biggest barrier to their business. One way frontier innovators overcome shortages is to build distributed workforces that tap the best talent everywhere. Fully remote working arrangements (an extreme form of the distributed workforce) are increasingly prevalent among start-ups outside Silicon Valley.

Zapier, a website automation venture founded in Missouri, was an early pioneer. Its staff of 250 is scattered across 25 states and 17 countries. Wade Foster, Zapier's cofounder and CEO, says that the strategy has a serious advantage: "You have access to a worldwide

talent pool. If you restrict yourself to 30 miles from your headquarters, you're going to have a hard time hiring." In the first year since instituting a "delocation" package, Zapier's job application rates have increased 50%, and employee retention is up as well.

In emerging markets, a distributed workforce is often a forced choice. The founders of Zola, which provides solar power to off-the-grid homes in Africa, initially struggled to find the right place to start their business. Tanzania, the first market they focused on, lacked the necessary infrastructure and specialized talent base. The battery and solar panel expertise they required was clustered in Silicon Valley. It also made sense to source hardware components from Asia. So the founders spread their operations across the globe: The initial product was developed in Tanzania, in close proximity to users; R&D then moved to San Francisco. Manufacturing is done in Asia, operations oversight is in Amsterdam, and distribution on the ground takes place in Africa.

Another response to a lack of readily available talent has been for companies to build and train their own pipelines. Shopify, an e-commerce enabler based in Ottawa, launched a "dev degree" in partnership with nearby Carlton University. It marries traditional education with on-the-job experience. Over four years, students complete an honors degree in computer science and gain some 4,500 hours in practical work experience at Shopify. The company covers the four-year tuition cost and pays the students a salary for the time they work. All graduating students receive offers to work at Shopify full-time. Although still in its infancy (the first cohort graduates in 2020), the program seems to be working. Impressively, gender diversity in the program is much more balanced than in traditional engineering programs. In recent cohorts, 50% of students are women, compared with fewer than 20% in computer science degrees on average.

Perhaps because innovators at the frontier invest so much more in finding and training candidates, they take a longer-term view of the employer-employee relationship. As Brittany Forsyth, senior vice president of human resources at Shopify, explained to me, "unlike companies in San Francisco, where talent is plentiful and as a result people move around from company to company, we want our employees to know that they can do their life work here. We want them to know: If you invest in us, we can invest in you."

Finally, frontier innovators take a different approach to retention, focusing less on workplace perks and more on incentives that reinforce values such as global connectivity. Branch, which makes microloans to customers in emerging markets, is headquartered in Silicon Valley but offers employees the option to work from any of its many global offices and pays for flights between locations. Teammates are thus better integrated across the geographies, know their colleagues around the world, and understand the different local markets. Basecamp, a start-up headquartered in Chicago whose workforce is almost entirely remote, offers its employees annual travel vouchers for vacations so that they have the opportunity to connect with their families and to travel.



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About the art: Influenced by ideas of planetary exploration, photographer Reuben Wu uses a modified drone to illuminate and reimagine remote locations at night.

Stock options, Silicon Valley's de facto financial retention tool, are challenging to replicate on the frontier—in part because exits (in the form of either IPOs or acquisitions by larger firms) take longer and are less proven. My analysis of start-ups across Asia, Africa, and Latin America found that the time to exit is, on average, 13 years—about double the average exit time in Silicon Valley (though among unicorns there, exit times have increased as well). To complicate things, in many emerging markets stock options are not well understood by employees, and sometimes the legal structure for them does not even exist. As a result, many founders are experimenting with new models of employee ownership that are better aligned with the frontier context.

Lyndsay Handler, the former CEO of Fenix International, an energy start-up based in Uganda, created phantom shares called “Fenix Flames.” Part of her motivation was to channel the commitment of many of her employees back into the company while offering them a financial benefit. “Many of our employees in Africa were not rich by any standard,” Handler told me, “yet they were asking to invest their savings in the company.” The Fenix Flames approach resembles direct stock ownership more closely than options, which means the shares both are easier to understand and benefit employees even if the company doesn't have exponential growth. Handler granted Fenix Flames to every employee, all the way down to the installers in remote Ugandan villages. The shares represented a transformative financial gain for many when the company was later sold to Engie, the French energy giant.

It is too early to tell what the best emerging practices for employee ownership will ultimately look like, and models are bound to evolve further. It is clear, however, that the entrepreneurs of the frontier will continue to experiment with perks and compensation designed to retain employees over longer-term horizons.

CONCLUSION

Thus far, companies in tech clusters like Silicon Valley have overshadowed a growing and impressive cohort of high-growth ventures that have taken root elsewhere. But that is changing. Successful start-ups on the frontier have critical lessons to teach us—indeed, their model may prove to be the most enduring.

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