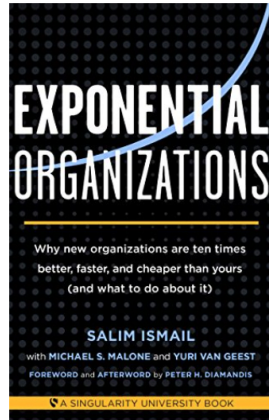# Exponential Organizations Summary

12min Team | Posted on March 2, 2017

<1 min read

MicroSummary: *In Exponential Organizations,* Salim Ismail *tells us about a new type of company that has been emerging. Exponential Organizations have revolutionized the way a business can grow and scale through technology. They ignore the limits of slow and linear growth and use factors such as big data, communities, and new algorithms to outperform their competitors' performance benchmarks. Let's learn together the characteristics of these companies in this* 12min *microbook?*

Why new organizations are ten times better, faster, and cheaper than yours (and what to do about it)

In the business world, performance is crucial; as you perform, you grow.

"Exponential Organizations Summary"

Welcome To The Age Of Exponential Organizations

An Exponential Organization (EO) is one whose impact is disproportionately large, generally 10x larger than other companies, through the adoption of new technologies.

While a linear organization (traditional companies) are restricted to scarce resources, exponential organizations amplify their potential through abundance.

While a large hotel chain like Hyatt, for example, needs to build new hotels and have more rooms to grow, new businesses start from the assumption that features are plentiful.

Airbnb, a startup that rents rooms in the houses of ordinary people to other guests, operates on the premise that room inventory is endless and uses data and technology to grow. Airbnb does not own any hotel buildings.

Its exponential growth allowed it to be valued at tens of billions of dollars. Ray Kurzweil, a researcher who has been studying this phenomenon for more than 30 years, says that exponential organizations have been strengthened by 4 main aspects:

The Law of Accelerating Returns: With the growth of computational capacity, companies can increasingly have disproportionate returns from their technology initiatives.

According to Gordon Moore, the processing capacity of a chip doubles every 18 months;

The speed of information: As knowledge about the most diverse disciplines spreads, the volume of information in the world begins to double almost annually;

Once the folded growth cycles begin, they do not stop. Today's computers are used to design tomorrow's computers and so forth;

The main technologies today depend on information. This causes them to follow an exponential trajectory.

Fields such as artificial intelligence, robotics, medicine and 3D printing are facing exponential growth now.

On the other hand, when experts find exponential growth, they tend to project it linearly, regardless of their current context. Ten years ago, we had 500 million devices connected to the internet.

Today, this figure already exceeds 8 billion. It is expected that by 2020 it will be 50 billion devices, and by 2030 the number is even more

frightening, with one trillion devices connected.

The internet has become the operating system of the contemporary world, but what many do not realize is that the technology we have available today corresponds to only 1% of what we will have in just 30 years.

Waze, the popular navigation application is an example of a company that relied on the growing adoption of GPS smartphones and users' GPS data to scale exponentially.

The most important asset for EO is information since the volume of information available doubles regularly.

To succeed, EO must be able to leverage available information sources at that time.

The grandfather of EOs is Google, which similarly to EO's does not own the pages it indexes, but was able to use this information, along with its computational ability, to become a $400 billion company.

The Massive Transformation Purpose (MTP)

EO's, by definition, think big and have audacious goals. Google's goal is to organize all the information in the world.

An EO never focuses on the technology itself or a limited purpose.

They focus on a daring purpose to capture the imagination and ambitions of those inside and outside the organization, the so-called Mass Transformative Purpose (MTP). To perform an MTP, you need to follow 5 essential characteristics:

Team on Demand: If a learned skill used to last for about 30 years, today a skill lasts only 5 years. In an industry where information is essential, having a large internal team becomes increasingly unnecessary;

Community: Currently, to be found, you need to lead an online community.

EO's take advantage of these communities to generate ideas, designs and promote their products and services;

Algorithms: Currently the world depends on algorithms for everything. From the online recommendation mechanisms to your car's systems, everything depends on algorithms.

Techniques such as machine learning are changing the way companies use the information to generate better algorithms.

Algorithms prevent companies from falling into human fallacies and cognitive biases and thus make better decisions;

Asset Leverage: Increasingly, it makes sense to own your company's mission-critical assets just as Tesla has its automobile factories and Amazon has its warehouses.

If an asset is scarce and rare, owning it is much better than opting for outsourcing;

Engagement: Engagement creates network ripples and feedback cycles that are far-reaching. Tools like game logic empower people so they can make progress on the scale.

Within The Exponential Organization

The exponential organization operates through the following essential principles:

- **Interfaces:** Interfaces filter and organize complex processes for actors internal and external to the business. Google Adwords, for example, connects advertisers and users through contextual ads on Google search. That generates billions of dollars a year for the company. The same thing happens with Uber, connecting drivers and passengers.
- **Dashboards:** There has always been a tension between operating a business and collecting data on everything. It is difficult to keep up with the targets and companies often look at these numbers quarterly. EOs collect performance data for everything, and this allows them to be able to improve their performance in real time and less susceptible to human error.
- **Experimentation:** Experimentation is the adoption of quick and practical methods of validating ideas and products, such as the Lean Startup methodology, created by Eric Ries (read the microbook here). That gives companies speed and innovation.
- **Autonomy:** EO's have self-organized, multidisciplinary teams and have decentralized authority. These companies focus more on attracting the best talent and letting them shine than on creating mechanisms to control them.
- **Social Technologies:** Information and social technologies are widely available on the internet. EO's use this data and tools to increase their data-processing capacity, create communities, and make decisions faster based on people's preferences.

The Impact of Exponential Organizations

9 dynamics are created by EO's. They are:

Information Accelerates Everything: In 1995, 710 million films were produced for analog photo cameras. Already in 2005, just 10 years later, more than 200 billion digital photographs were captured, equivalent to 8 billion analog film rolls.

Today, internet users upload an average of 1 billion photos a day. The more sensors available, the more information is created at ever-increasing speeds.

Analyzing these data is a new need called Big Data, which, when used by companies, leads to exponential growth.

That also creates network effects, in which companies capture an unbelievable amount of data that leads to monopolies like Google and Amazon.

Focus on Demonetization: One of the most important and celebrated effects of the internet is that it took the marginal costs of marketing and sales to almost zero.

On the internet, you can promote a product worldwide for a fraction of the cost that existed 25 years ago.

In companies like Uber, for example, it costs almost zero to add a new driver to your platform. EO's can scale their companies with variable and non-fixed costs, different from linear enterprises.

Disruption becomes the pattern: Disruption is caused by EO's, and it comes in a series of steps:

- A market becomes data dependent;
- Costs fall, and access is democratized;
- Professionals and enthusiasts come together to create an open source movement;
- New combinations of technologies arise;
- New and better and cheaper products and services arise;
- A new disruption then occurs.
- That is what has been happening in industries such as bitcoin, 3D printing, and robotics, for example.

Beware of Experts: History shows us that seldom disruptive innovations come from experts. Usually, they come from people who have new perspectives on an established field;

The Death of 5-Year Planning: In the exponential world, long-term plans become counterproductive and ineffective.

To plan, EO's are based on your long-term vision and purpose, your data and annual plans;

The small one surpasses the big one: For EO's, speed matters more than size.

The important thing is to get to exponential growth as quickly as possible to become a platform because once this occurs, growth limits disappear;

Renting instead of buying: In an exponential world, it's no longer necessary to make big investments to get started.

Everything exists on demand, and the initial costs tend to be smaller, which makes access to capital less important;

Openness becomes an essential component: Open platforms inspire more confidence than closed platforms. What matters is the company's unique vision, business model, values, and attributes. What is predictable will become automated, and the human will play an increasingly important role in what is not predictable;

Everything becomes measurable: EO's measure everything and create ecosystems in which people can monitor their information more easily;

Starting An Exponential Organization

If you want to build an exponential company, you need to follow a set of well-defined steps:

Step 1: Choose a Mass Transformational Purpose (MTP). Get started with the question: What big problem is my company looking to solve? Understand space and create purpose aligned with it.

Elon Musk chose to revolutionize the automotive industry through electric cars and solar energy company Solar City.

Recently, Elon revisited his purpose and realigned his MTP to focus on revolutionizing the entire energy industry, not just the automotive industry.

Step 2: Create communities or join your MTP. Connect with people aligned with a vision similar to yours. Make the decisions of your company based on the interests of this community;

Step 3: Build a team. EO's have the following roles in its teams: Visionaries, user experience experts, programmers, finance professionals. You have to set up a team with discovery skills to generate good ideas and execution skills to bring ideas to the real world;

Step 4: Have a disruptive idea. Disruptive ideas bring a 10x performance improvement over existing solutions.

Besides, a good idea takes advantage of the information to reduce the cost of your operation.

Use Larry Page's Toothbrush Test: does the idea solve a problem that the customer often has so that users consume the product several times a day?

Step 5: Create your business template canvas (read the methodology microbook here). Use the methodology created by Alexander Osterwalder to map how your company will deal in the ecosystem and grow exponentially.

Step 6: Find a business model. Good business models use the following principles:

1. Immediatism: They help people get something faster;
2. Personalization: A product that adjusts to people increases its perceived value and retains customers better;
3. Interpretation: Even if the product is free, it needs people to be easy to use;
4. Authenticity: The value of the product is real and comes with real guarantees that it works;
5. Accessibility: The product needs to be available as simply as possible, ideally 24 hours a day, 7 days a week;
6. Embedding: The information does not have a form until we give it one. It could be a high definition TV, a mobile app or a smartphone. People want tangible things;
7. Sponsorship: People want to reward content creators. Incorporate sponsorship into your business because it creates connections and community;
8. Findability: Your product is worthless if people cannot reach it. Its distribution mechanism has to favor localization;

Step 7: Build your Minimum Viable Product, validate with your customers and work with fast user feedback cycles.

Step 8: Validate your marketing and sales model. For exponential growth, you have to prove that the product can reach the customer at a cost-effective price. Track metrics for user acquisition, retention, revenue, and ask your customers to recommend more customers;

Step 9: Scale your ideas. Pursue your transformational purpose in a scalable way, using digital communities, on-demand employees, algorithms, and dashboards.

Step 10: Establish the culture. Create a continuous learning and execution environment, based on monitoring and experimentation;

Step 11: Evaluate yourself periodically. Ask yourself: Who is the customer?

What problem do we solve? Is our solution 10x better than the previous one? Use monitoring metrics to see if the company's performance continues to grow exponentially;

Step 12: Create a real platform, collect data with sensors, find partners who want to integrate with you. Organize this data openly and use large-scale data processing to identify trends and opportunities;

Medium And Large-Sized Companies Can Become Exponential

It is possible to transform mid-sized companies into EO's. Organizations like Github and GoPro are examples of companies that have made this transition using the principles listed by Salim Ismail.

In large companies, which already have established models and cultures, it is more challenging, but it is also possible. Apple and IBM are examples of companies that have made the transition.

To transform, you need to invest in transforming company leadership through education, executive training, investment in staff diversity, and skill development.

Adopt modern management practices like OKR's, hire professionals with different profiles and challenge your company to think outside the box.

Another good idea might be to partner up, invest or buy smaller EO's and join start startup acceleration programs.

The Exponential Executive

To become an EO, executives need to be empowered and familiar with the technologies that will enable the next major disruptions.

There are 5 large groups of technologies that need to be known and exploited to achieve exponential growth. They are:

- **Sensors and Internet of Things:** By the year 2020, we will have a huge leap, with more than 8 billion devices connected to the Internet. They all have different sensors and collect data all the time. From smartphones to devices like Snapchat glasses and Google Glass, everything captures data. That implies an infinite computing and data storage potential with a cost close to zero. That will make individuals measure everything from their health to their performance at work. Increasingly, there will be metrics-as-a-service platforms, focused on data analysis, available to everyone. Besides, new hardware and disruptions will always arise, such as Arduino computers, which cost less than $10 and have high computing power;
- **Artificial Intelligence, Data Science, and Analytics:** The use of machine learning and Big Data analysis techniques will become ubiquitous. That will make algorithms increasingly capable of making business decisions. Another phenomenon will be a great replacement for the information professionals by machines. Artificial intelligence will fetch and process business data and analyze it for people. Besides, more and more algorithms will be present in the product as an essential element;
- **Virtual and Augmented Realities:** In a few years, companies like Oculus will be coupled to most computers, making it possible for people to experience virtual worlds modeled by computers. It allows remote operations of airplanes, surgeries, heavy machinery, can be done at a distance. Medicine will become increasingly remote, and this makes the workforce increasingly global.
- **Bitcoin and BlockChain:** Bitcoin is a decentralized, ultra-safe, low-cost currency that is not issued by any government. It is created by computer networks, through the Blockchain, a system capable of ensuring that transactions occur in a legitimate way, without the need for banks. In the future, the Blockchain will become a mechanism of trust for the people, auditing votes, elections, fraud, audits, etc. Micro financial transactions will also become a reality;
- **Neural feedback:** Understanding how our brain works and what impulses occur within it will allow new classes of applications to be created, such as psychological treatments, creativity applications, and sleep and stress improvement tools.

What's Next?

The new large waves of technologies will allow the emergence of 5 large macro trends.

- **Perfect Knowledge:** Through the use of sensors, satellites, and computers, we will be able to consult all information at any time;
- **Virtual worlds:** The perfect virtual reality is ever closer, and it will deliver extremely real experiences to its users. That will transform the way people travel, shop, live, and also work environments;
- **3D Printing:** 3D printing is not going to revolutionize the manufacturing industry, but it will enable a new class of highly customized products, as well as allowing anyone to print products that they want, which will lead to an exponential growth of innovation;
- **Disruption of the Means of Payment:** In 2012, Visa and Mastercard transacted more than 1.5 trillion dollars in the United States only.

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The modern rule of competition is whoever learns fastest, wins. **CLICK TO TWEET**

The world has over a trillion hours a year of free time to commit to shared projects. **CLICK TO TWEET**

Any company designed for success in the 20th century is doomed to failure in the 21st. **CLICK TO TWEET**

The modern corporation takes great pride in how fast it can bring products and services to market compared to companies in the past. **CLICK TO TWEET**

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Final Notes:

The traditional recipe of how to build companies is no longer enough. It works to create companies that grow linearly.

The next big companies are born differently, focused on growing exponentially at high speed.

To this end, they take control of high-scale information analysis as well as increasing computational capacity.

Find ways to leverage these assets and use the principles of exponential companies to create a great company with massive potential for transformation of society.

12min Team
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