



Book

The Hard Thing About Hard Things

Building a Business When There Are No Easy Answers

Ben Horowitz

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Instructive tales from a tech survivor:
A Silicon Valley entrepreneur tells
what he learned the hard way.

Recommendation

Ben Horowitz guided Loudcloud through life-or-death struggles before selling it to Hewlett-Packard for \$1.65 billion. He argues that no formula can promise entrepreneurial success. Horowitz is a first-rate storyteller and a refreshingly irreverent teacher who uses allusions ranging from Jay Z to Clint Eastwood to Dr. Seuss. Any business leader will find worthy guidance in this exhortation to persist through “the Struggle.” *getAbstract* recommends Horowitz’s part autobiography, part tip sheet to anyone building a company.

In this summary, you will learn

- What Loudcloud’s struggles reveal about running a start-up
- Why it is important to put your people before products or profits
- What qualities a leader needs
- When you should consider selling your company

Take-Aways

- You may start a company with high hopes, but eventually – like Ben Horowitz at Loudcloud – you’ll experience “the Struggle.”
- Horowitz didn’t struggle alone; he enlisted the best minds in order to address his company’s problems.
- His advice: Put your people first, then your products, and then your profits.
- People with “the right kind of ambition” care about the team’s success.
- Don’t convey only optimism; be honest about threats to the company.
- Managers should deliver news of firings to their people with compassion; never outsource this task to HR.
- Minimize politics about pay, promotion and territory with well-designed processes.
- Company culture drives behavior that moves the firm toward its goals.
- Build your knowledge daily through small interactions with customers and employees.

- The founders of successful start-ups like Loudcloud share one quality: They don't quit.

Summary

“Hard things are hard because there are no easy answers or recipes...They are hard because you don't know the answer and you cannot ask for help without showing weakness.”

“There are no shortcuts to knowledge, especially knowledge gained from personal experience.”

“The Struggle is when you wonder why you started the company in the first place. The Struggle is when people ask you why you don't quit and you don't know the answer.”

Loudcloud, Opsware and “the Struggle”

Every start-up encounters the Struggle. Your product turns out to have costly flaws. Your cash runs low, and your venture capitalist tells you fund raising seems unlikely. A loyal customer leaves you. A valuable employee walks away.

There's no way around the Struggle and no formula for fixing your problems. Your company might not make it. Entrepreneurs who make it share one characteristic: They don't quit.

Netscape veterans Ben Horowitz and Marc Andreessen founded Loudcloud, a cloud services provider, in 1999 and soon hit a rocky road. Seven months after they launched Loudcloud – its name marked the first time “cloud” had been used popularly to describe a computing environment – Horowitz and Andreessen had booked \$10 million in contracts. They were hiring so fast – 30 employees a month – that workers had to sit in the hallways.

Then came the dot-com crash of 2000; the NASDAQ fell by 10%. Loudcloud needed capital but faced long odds. After Horowitz pitched one set of prospective backers, a colleague told him the skeptical investors “thought you were smoking crack.” Loudcloud raised a total of \$120 million, but with so many start-ups collapsing, the company's bookings fell far short of its forecasts.

Horowitz and his board, seeing few prospects for investment from the private market, decided to take Loudcloud public. It was a risky move, with just six weeks of cash remaining in the worst possible environment for a technology IPO. The company took a pounding in the press: *BusinessWeek* called it “the IPO from hell.” The offering debuted at \$6 a share and the company raised \$162.5 million, but nobody celebrated. As the dot-com downturn worsened, the company laid off 15% of its workforce and its stock fell to \$2.

Horowitz engineered a deal to sell the cloud business to EDS for \$63.5 million and remake Loudcloud as a software company built around its intellectual property, Opsware. Investors balked: Its share price plummeted to 35 cents before slowly recovering.

As Horowitz built the software business, he again responded to crises with bold moves. When a key customer threatened to defect, Opsware bought a North Carolina company that provided the client the software he wanted. When a major new competitor began pummeling Opsware in the marketplace, Horowitz launched the Darwin Project, during which staffers worked 14 hours per day, seven days per week, for six months.

After Herculean labors, Opsware's software business “approached a \$150 million revenue run rate,” and its stock sometimes traded at a market capitalization of more than \$800 million. Horowitz decided to entertain offers for Opsware, but only at \$14 or more a share. Eventually, Hewlett-Packard agreed to acquire the company for \$14.25 a share or \$1.65 billion in cash.

Selling the company was wrenching, but Horowitz came to regard it as the smartest move of his career. “We'd built something from nothing, saw it go back to nothing again and then rebuilt it into a \$1.65 billion franchise.”

Getting Through the Hard Times

“Every great entrepreneur from Steve Jobs to Mark Zuckerberg went through the Struggle...so you are not alone. But that does not mean that you will make it.”

“Managers must lay off their own people. They cannot pass the task to HR...if you hired me and I busted my ass working for you, I expect you to have the courage to lay me off yourself.”

“The first thing that any successful CEO must do is get really great people to work for her.”

“Even with all the advice and hindsight in the world, hard things will continue to be hard things.”

As he guided Loudcloud and then Opsware through difficult days, Horowitz drew strength from the lessons he learned:

- **“Don’t put it all on your shoulders”** – As CEO, you can’t share everything, but remember that you don’t have to bear every burden alone. Muster as many brains as possible to attack a problem.
- **Remember “there is always a move”** – Running a company is like playing chess: When you think you’re out of moves, think again. You always have a move.
- **“Play long enough and you might get lucky”** – The technology environment changes so fast that you might find the elusive answer another day, if you can just hang on.
- **“Tell it like it is”** – At first, Horowitz thought his role as CEO required him to set a positive tone and avoid letting the workforce know the gravity of the company’s problems. Instead of motivating the troops, that approach compromised his credibility. As CEO, you’re better off sharing information about your firm’s problems with those who can harness their energy toward solving them.

Dealing with Layoffs and Firings

Horowitz’s company went through three separate layoffs involving a combined 400 employees. Few start-ups recover from consecutive layoffs of that magnitude, because they break the trust of those left behind. Horowitz believed Loudcloud was able to keep its best employees after multiple layoffs because “we laid people off the right way.”

If you must cut staff, begin the layoffs as soon as possible after deciding to do so, because word about dismissals leaking out may cause further and even greater problems. Have managers deliver the news to their own people; never outsource it to human resources. Managers should explain that the layoffs stem from a company failure, not the employees’ personal failures. They should make clear the decisions are nonnegotiable and should explain severance packages fully.

When you fire an executive, the first step is figuring out why you hired the wrong person in the first place, or you’ll be firing another executive soon. Maybe you hired “for lack of weakness rather than for strengths.” Or maybe you didn’t define the position correctly at the outset.

The Three P’s Jim Barksdale, Horowitz’s old boss at Netscape, once said, “We take care of the people, the product and the profits – in that order.” If people like working for your company and you look out for them, they will reward you with loyalty and hard work. If you don’t take care of your people, the product and the profits won’t matter.

Taking care of people means training them well and having managers regularly meet one-on-one with their direct reports. It also means avoiding “management debt.” That accumulates when you make a short-term management move that has costly, long-term consequences. Examples would be overcompensating an employee who has a competing job offer or putting two people in the same job because you want to keep both in the company. The best CEOs avoid acquiring management debt. Faced with cutting a popular project that’s not in the company’s long-term plans or keeping it for morale purposes, they’ll cut it every time. They make hard decisions that “ruffle the feathers.”

Running Your Growing Company

If you’re fortunate enough to see your company reach 1,000 employees, it will be a profoundly different organization than when you employed 10 people. You must cope with new challenges:

“Build a culture that rewards – not punishes – people for getting problems into the open where they can be solved.”

- **Minimizing company politics** – Political behavior can seep into a variety of corporate activities, including performance reviews, pay, organizational structure, territory and promotions. Curtail political behavior by designing strict processes and following them relentlessly. Be sure everyone understands your promotion process. When you decide to reorganize, do it quickly, without leaving time for lobbying.
- **Hiring employees with the “right kind of ambition”** – Go for candidates who see through a “team” lens and whose ambition focuses on being part of a winning company.
- **Promoting a strong culture** – Some start-ups boast about letting employees bring pets to work or offering yoga classes. Those are perks, not culture. True culture drives behavior. Consider Amazon: To keep costs down, Jeff Bezos declared that the company would make all its desks out of cheap doors from Home Depot.

What Makes a Leader?

A CEO should have some combination of the following traits:

“The most important thing I learned as an entrepreneur was to focus on what I needed to get right and stop worrying about all the things that I did wrong or might do wrong.”

- **“The ability to articulate the vision”** – Steve Jobs persuaded Apple employees to believe in his vision even when the company was near bankruptcy.
- **“The right kind of ambition”** – A leader creates an atmosphere of shared ambition and trust, a quality Bill Campbell exemplified at Intuit and other organizations.
- **“The ability to achieve the vision”** – This quality helped Andy Grove win the trust of Intel employees as he led them through a brilliant gambit: moving from the memory business to the microprocessor business.

As CEO, work on all three qualities, even though you might be stronger in one or two. Each quality enhances the others. If you can persuasively articulate a vision, for example, employees will trust you and be patient with you as you lead them toward it.

“Every really good, really experienced CEO...tend[s] to opt for the hard answer to organizational issues... They’ll ruffle the feathers.”

Ask three questions to judge how well a CEO performs: 1) “Does the CEO know what to do?” 2) “Can the CEO get the company to do what she knows?” and 3) “Did the CEO achieve the results against an appropriate set of objectives?”

Knowing what to do involves using strategy and sharp decision making. Acting strategically takes courage, because you’ll never have enough time to gather all the information you really need. That’s why you must keep acquiring knowledge, day by day, from many small interactions with customers and employees. When you must make a decision, you’ll be better prepared to answer questions like: How might our competitors respond? What’s the financial risk? How will employees take this?

To get the company to “do what you know,” build a workplace where employees can get things done. “The employees must be motivated, communication must be strong, the amount of common knowledge must be vast and the context must be clear.” The scale of your objectives should align with the scale of your company’s opportunities.

“Peacetime CEO focuses on the big picture... Wartime CEO cares about a speck of dust on a gnat’s ass if it interferes with the prime directive.”

During the toughest times, take care of your own psychological state. “Techniques to calm your nerves” include recruiting trusted confidantes, putting your thoughts on paper, and focusing on your destination rather than on what might go wrong.

When to Sell Your Company

One of your toughest decisions may be when to sell. Consider two questions: Are you very early in a potentially large market? Do you stand a good chance of reaching number one in that market? If the answer to either question is no, you

should consider selling. When Google was young, the company received multiple purchase offers for more than \$1 billion. But Google did not sell. Its answer to both questions would have been yes. Google was very early in a market that would be larger than all the markets the would-be buyers owned. And Google had built a high-quality product that would be number one.

“Focus on where you are going rather than on what you hope to avoid.”

When Horowitz first fielded inquiries about selling Opsware, the company had fewer than 50 customers. Horowitz believed Opsware had at least 10,000 potential customers and could reach number one. By the time Opsware had attained several hundred customers, it became clear that a company called BMC was going to acquire either Opsware or a competitor, BladeLogic. In order to be number one, Horowitz concluded, Opsware would have to beat BMC and BladeLogic together. A new technology, virtualization, was transforming the market, which would push the company into a costly R&D race. In the end, Horowitz decided to sell.

Andreessen Horowitz

“If you don’t want to be great, then you should never have started a company.”

After selling Opsware to Hewlett-Packard, Horowitz joined with Andreessen to form a venture capital firm that would aid technology entrepreneurs. Besides investing in companies, their firm, Andreessen Horowitz, advises CEOs on the skills that company founders sometimes lack – managing executives, designing an organization and running a sales force. The most important lesson Horowitz tries to convey to entrepreneurs is that running a company is hard, a tough process with no easy answers. “The only thing that prepares you to run a company is running a company.” The solutions lie in the executive’s instinct, in the confidence that comes from experience and in the performance of this vital duty: “Embrace the struggle.”

About the Author

Ben Horowitz is a co-founder and general partner of Silicon Valley venture capital firm Andreessen Horowitz.

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