

URL: <https://stvp.stanford.edu/clips/a-small-business-can-be-a-highly-profitable-company>

Asked to clarify the difference between a small business and a scalable business that hopes to earn a billion dollars, David Heinemeier Hansson, partner at 37signals, says they are the same thing. Scalable for Heinemeier Hansson means there isn't a direct correlation between profit and employee count: I can earn 5 million dollars and not hire five people. Many large companies give the impressions that that there is a connection — i.e., for every \$500,000 earned, a company must hire two people — so smaller companies wrongly focus on organizational charts and meetings. He points out that 37signals is both a small business (15 employees) and a highly profitable company.



Transcript

Your comment about a small business versus what I'll call a scalable startup which runs by design to be a billion dollar company.. I think those two are the same thing.. You think they're the same.. Well, that's what I want to ask.. Do you believe 37signals also has the possibility of being a billion dollar company by growing this way? Absolutely.. OK.. Can you expand on ...? Absolutely.. Yep.. I think that there is no inherent correlation between revenues and employee count.. There's no inherent correlation between number of stupid policies and revenue growth..

But yet it seems like there is because a lot of big companies work in really silly ways.. And people think that, "Well, I guess I got to be that.. I guess I got to do the meeting thing and hire the business development guy", and all this other chrome that most businesses, in my mind, do not need but think they need to get there.. I think that these two things can be absolutely disconnected.. We're serving, over three million people have been using our products.. Wow.. We're 15 people.. There's no way you can get that without being scalable.. And I think this is exactly the point.. I think exactly the point is you should build something scalable and scalable in my mind means that there's not a direct correlation..

It's not a one to one.. You don't add another \$500,000 in revenue and then you have to hire two guys.. And then you add another \$500,000 in revenue and then you have to hire another two guys.. That to my opinion is not a scalable business.. I want it to be disconnected.. I want to be able to add another \$5 million dollars in revenue and not hire anybody.. And that's how we're trying to design our business, that there doesn't have to be a correlation between these things.. There doesn't have to be a correlation between the structure and your revenues...