How to Reach a $3 Billion Valuation In 5 Years

I am not sure if I have ever heard a bigger startup success story than this--a data storage company opened its doors in 2009 and by April 2014, it had raised a total of $470 million in outside capital, valuing the company at $3 billion.

Without reading about them, this company is a living example of how making six key choices of start-up strategy can help a start-up beat the odds and succeed. I discovered that these choices are crucial after interviewing about 160 entrepreneurs and a dozen venture capitalists for my latest book, *Hungry Start-Up Strategy*.

The company that made these right choices is Pure Storage--an 800-employee, Mountain View, Calif.-based provider of so-called flash storage for organizations seeking to store and retrieve data. And its CEO, Scott Dietzen, explained to me why Pure is growing at 400% a year in a November 5 interview.

While your start-up may not be able to achieve Pure's level of success, you can benefit from turning its six keys to a $3 billion valuation in five years.

1. Set goals that inspire employees and attract investors.

Pure is having tremendous success recruiting talented employees. As Dietzen explained, "Talented people want to work for a company that is making the world a better place. And our plan to do an initial public offering gives those talented people additional motivation to work here."

If your start-up's mission attracts talented people working on a big problem in an exciting new way, there is a better chance that investors will follow.

2. Pick markets for which you have a passion that can benefit from what you offer.

Pure decided to target a huge market that is hardly growing at all--partially because the big players do not make customers happy.

"Our competitors have net promoter scores--a measure of how likely a customer is to recommend their vendor to another--in the 30s. The market for Tier I storage that we target is huge--about $15 billion a year but is hardly growing because customers are not too happy with the incumbents. But we are growing because our NPS it at least 30 points higher than incumbents'," explained Dietzen.

The lesson here is to pick a market that you care about and that is big enough to turn you into a big player without being the biggest player.

3. Raise capital from investors whose interests align with yours.

Raising capital is a huge challenge for companies who want to get the money they need to make their dreams real without giving up control.

Pure has done a great job of this. According to Dietzen, "In April we raised $225 million from mutual funds like T. Rowe Price. They see us as having potential to go public and by investing in us, they get a closer look at the trends that might affect their investments in publicly-traded companies in our industry."

You should match the source of capital to the stage in your start-up's development as I describe in my book. But if you are close to doing an IPO, Pure's fund-raising strategy can be an effective one.

4. Build a team of missionary talent.

Many start-ups today depend on hiring top people. That means that there is a serious competition underway for the most talented engineers and sales people.

Pure is winning the recruitment battle. As Dietzen explained, "We receive 200 resumes for every person we hire. We want people who are missionaries not mercenaries. They are people who want to change the world. And our competitors are two decades behind us when it comes to innovation. We have an esprit de corps here and people like the idea that we are pre-IPO."

While you may not be able to offer talent this basket of goodies--you ought to be focusing your company on a similarly inspiring mission.

5. Win by delivering customers a quantum value leap.

Companies are afraid to deal with start-ups because most of them go out of business. But if you can make a big pain go away that rivals are not healing, you can get those companies to give you a try.

Pure is doing that and plenty of companies are signing up. "We are growing at 400% a year--50% each quarter. We cost about the same as rivals like EMC's XtremeIO but we win 70% of the time when potential customers try out our product. That's because they find that our product is faster, more resilient, and easier to install and manage," said Dietzen.

If you want to grow fast, your product should deliver a huge increase in value compared to competitors'.

6. Stay ahead of rivals.

No company can survive if it rests on its laurels. And with big companies and other venture-backed start-ups eager to chase after any market that a successful venture is exploiting, staying ahead of the pack is vital.

Pure has been able to sustain a lead. According to Dietzen, "We are always ahead of our cohorts. We are looking around the corner. We ask what we should be doing to stay six to 12 months ahead of the industry and what resources we need to be there. Five years ago, we had the insight that economics would win. That market has proven us right and we must continue to stay ahead."

Pure has done a masterful job of making these six start-up strategy choices. If it continues to do these well, an IPO could be just around the corner.

And you can learn from its example.

By Peter Cohan