

# Breaking through the start-up stall zone

**Ted Callahan, Eric Kutcher, and James Manyika**

An early rush of revenue growth is necessary—but not sufficient—for long-term survival.

The rapid pace of creative destruction in today's global economy makes the ability to launch and grow (or to shut down and move on from) new businesses critical for companies large and small. Competitive dynamics have long been in overdrive in the software and Internet sectors, where we have studied patterns of birth and death for nearly 3,000 companies between 1980 and 2012. Seventy-two percent of them failed to reach the \$100 million mark. Only 3 percent made it to \$1 billion in sales (exhibit).

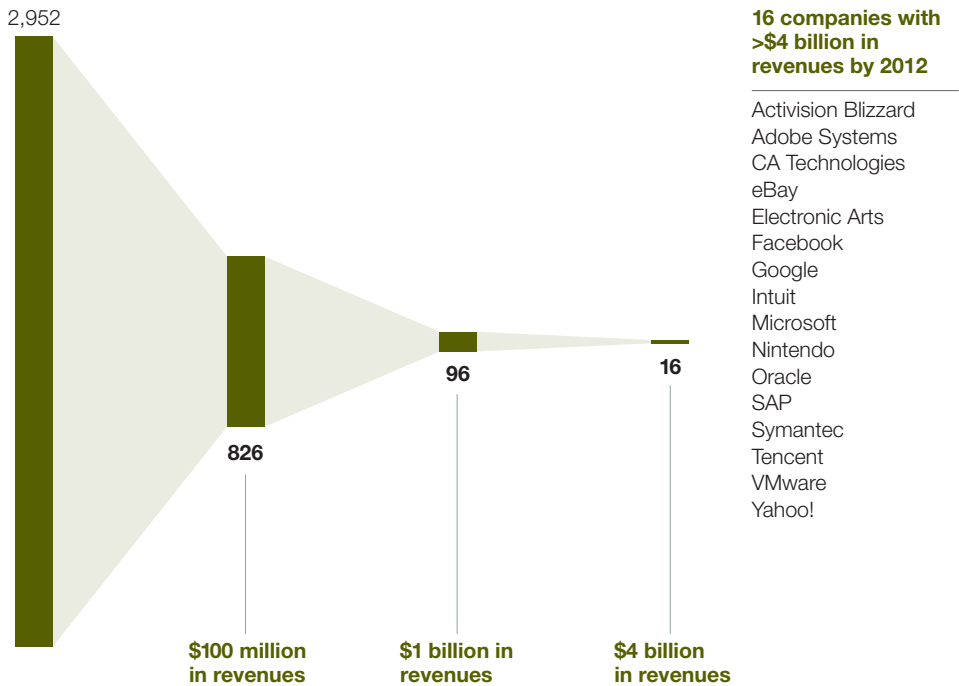
Typically, the small minority of companies that grew from \$100 million to \$1 billion did so rapidly. Ten percent of companies in the \$100 million club grew at annual rates of 60 percent or more within two years of achieving that milestone. This group was eight times more likely than the remaining \$100 million companies to hit \$1 billion in sales. Staying in the high-growth club appears to depend on a company's ability to create new markets with hundreds of millions of users (think

Facebook, Google, or Microsoft), disrupt existing markets through new business models (eBay or salesforce.com), set new and revenue-rich technology standards (Adobe Systems), or develop truly innovative products (Citrix Systems or Electronic Arts). Furthermore, some of these companies (such as Oracle, through a series of acquisitions and industry-consolidation efforts) have been able to transition to an "Act 2" product or market before their "Act 1" was tapped out—a tall order in software or any other industry. [o](#)

**Ted Callahan** is an associate principal in McKinsey's Silicon Valley office, where **Eric Kutcher** is a director; **James Manyika** is a director in the San Francisco office and a director of the McKinsey Global Institute.

Very few software companies grow beyond \$1 billion in revenues.

Number of software companies<sup>1</sup> that reached given revenue point, 1980–2012, n = 2,952



<sup>1</sup>Companies that are currently public and fall within 1 of the following categories: applications, gaming, Internet, and systems (excludes pure network providers).