



The Economic Club of New York

119th Year
836th Meeting

Jon McNeill
Chief Executive Officer, Co-Founder, DVx Ventures
Former President, Tesla and COO of Lyft

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Moderator: Frank Holland
Anchor and Transports and Tech Correspondent
CNBC

Introduction

President Barbara Van Allen

Hello everyone, and welcome to the 836th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club, and it's a pleasure to have you all here today, what is a beautiful, sunny day in New York City. I'd like to extend a warm welcome to students joining us virtually from Penn State University and William and Mary College down in Virginia.

The Economic Club of New York is proud to stand as the nation's leading platform for discussions on social, economic, and political matters. We've been doing this now for over a century. We think we've gotten pretty good at it. And we have a wonderful speaker today so we're continuing that tradition.

Jon McNeill is with us as part of our Author Series. I think you all have noticed we've done a number of authors over the last few years, and we find that those are quite popular with our members. Jon is CEO and Co-Founder of DVx Ventures. With a track record of founding and scaling six different companies, he's led teams that generated tens of thousands of jobs, delivered multi-billion returns for investors. At DVx, John and his team have launched 12 different companies targeting large market opportunities.

Previously he served as President of Tesla where revenue grew from \$2 billion to \$20 billion in just 30 months. He later joined Lyft as COO, where he helped double revenue and played a key role in taking the company public. He currently serves on the boards of General Motors, Lululemon, Asurion, CrossFit, and Stash. He also contributed to Lululemon's turnaround helping drive a five-fold increase in stock value and serves on the Liquid AI Advisory Council.

He began his career at Bain & Company after graduating from Northwestern University. A frequent speaker at Harvard Business School, MIT Sloan, and Stanford GSB, Jon shares practical insights on leadership, innovation, and scaling. His book, *The Algorithm: The Hypergrowth Formula that Transformed Tesla, Lululemon, General Motors and SpaceX*, offers a behind-the-scenes look at how iconic companies scale and provides a playbook for sustained growth which we're delighted to be discussing today.

The format will be a conversation moderated by Frank Holland. We're honored to have him with us. He's an Anchor, and Transports and Tech Correspondent at CNBC. The program is going to conclude promptly at 1:00. As a reminder, this discussion is on the record, and we do have quite a bit of media for the event and online. Now, without further ado, please join me in welcoming to the stage, Jon and Frank.

Conversation with Jon McNeill

JON MCNEILL: Hi everybody. It's nice to be here.

FRANK HOLLAND: That's it?

JON MCNEILL: You say something too.

FRANK HOLLAND: No, say a few words really quick. By the way, the book is obviously right there on your chair or your table right now. I read it. I got an advance copy. It is a great read. You've got to say a few words though.

JON MCNEILL: Yes, so, well today feels like, today is the release date and the launch date so it feels like kind of birthing a project that has been going on for a couple of years, but more than that in my head. In the book, I've been affected by several books in my career that I felt like really, really equipped me and groomed me as a leader. And it occurred to me, when I was getting to know Walter Isaacson, he was writing the Elon book. And he and I got to know each other and he invited me to interview him on his book tour which was pretty fun. So, like me, like a regular Joe getting to interview Walter Isaacson. Super fun.

And in prep for that, I discovered that Walter wasn't just the author that I knew, but he was an accomplished CEO in his own right. He ran Time, Inc. at its peak. Then he was asked to come turn around CNN, where in his words, his most famous, or most public decision was to fire Lou Dobbs and move him onto another network.

And so I asked Walter during his book tour, I said, hey, you write these great character books, but there is a specific way that Jobs runs Apple. There's an operating system inside of Apple that's very Jobs. And there's an operating system inside of SpaceX and Tesla that's very Elon. Why don't you tell the reader about these operating systems? And he said, Jon, I don't write management books, I write character books. I want to be the camera on the wall and let you decide what you want to take away from that character, but I'm not going in the management or business book business.

We walk off the stage and he said, "you need to write that book". And I said, I'm not your guy. I'm not an author. But he kept bugging me and nudged me pretty effectively. And so *The Algorithm* is the operating system behind the innovation that you see coming consistently out of these Musk companies. And I felt like that could be a book that maybe somebody could pick up and gain some insight from, from their own company. So that's the brief origin story of the book.

FRANK HOLLAND: A very humble gentleman right here. It is a great book. It's right

there on your table or your chair right now. Welcome. I'm Frank Holland from CNBC.

Thank you for coming here to The Economic Club of New York. I think it's going to be a very memorable conversation. By the way, this book is not about management either.

Some of you put it down, you're like, oh, a management book, I'm going to put that down. It is a book about innovation. It's a book about ideas. It's about inspiration. It's not even a book about tech. It's about how to think about things in a way that will make you more productive, more inspired, and more innovative. Really, that's what it's about.

So Jon is best known as an entrepreneur of course. We talked about some of the businesses he started. He's also a previous President of Tesla. But well before then he was a farm boy in Nebraska. As Barbara mentioned, he went to Northwestern. First job, consulting at a meat packing plant. He got some inspiration there. Then he went to be a leading voice in tech. And right now he is a leader in what a lot of people think is the top EV company and the top yoga pant maker. So a lot of range, the guy's got a lot of range. Why don't we go back to what you were just talking about, *The Algorithm*. That's the name of your book. We all know what an algorithm is, but what is *The Algorithm*?

JON MCNEILL: So we started to develop this framework so that frontline people could innovate and that they would have a framework to do that, and it would become an accelerant for innovation within our companies. And so this framework was developed literally through a series of almost fatal mistakes that we ran Tesla through.

So you might remember just six or seven years ago the daily prediction on the street was Tesla is going out of business, Tesla's going bankrupt. And there were a lot of shorts that were taking that position. They weren't wrong. If you read our balance sheet, it didn't take a genius to figure out we had 90 days of cash. And if you took the second order step there, you could quickly calculate that we had 70 days of payables. So we literally had three weeks of cash. And so we were constantly on the brink of dying. And we made some mistakes in the middle of that. And we kept asking ourselves, we'd do postmortems and say how did we arrive at this spot? How did we make this almost fatal error? And how do we not do that again? And *The Algorithm* came out of that.

So it's literally a five-step process that we work through as we're making decisions and as we're driving innovation, and that's a framework people can use. And then I talk about kind of three secret ingredients that you wouldn't know, that make this thing work, unless you were in the room. And so I wanted to bring the reader into those three secret ingredients.

FRANK HOLLAND: We're going to talk a lot about *The Algorithm* and also Elon Musk is going to come up just inherently because you worked with him and for him at his companies. But you also drew inspiration from another business titan, Sam Walton, of course, of Walmart. And his 20% rule, you actually credit that 20% rule with getting you the job at Tesla. Just walk us through that.

JON MCNEILL: So there's a 20% rule at Google that's really famous. And that is you can work on a special project to you 20% of the time, as long as you're getting your day job done. I had a different 20% rule that came from reading Sam Walton's biography, *Made in America*. And the hack that I learned in that book was a hack that Sam Walton learned. As he grew his company, he had this commitment to several days a week just going to his stores. And he would not go in the front door of the store. He would go in the back door of the store because he wanted to talk to the warehouse manager, because the warehouse manager knew what was moving, knew what wasn't moving, knew how the front of the house was screwing up and would tell Sam.

And so he would ask the warehouse managers, like what do I need to fix about the business? What product is moving fast? What product isn't moving? What product are people asking for? And then he was totally armed to go to the front of the house to talk to the manager and say here's what I just heard about your location. And that inspired me, because the hack is, people on the frontline of a business know everything that the executives should know. They know what people don't like about your product. They know what is driving them crazy because they're hearing about it all day. They know what the customer is asking for that you don't have.

And so the easiest hack in management is go to the frontlines. In tech, you go to your call centers. You go look at support tickets. And I would ask people one question, if you

had my job for a day, what's the one thing you would do? And I didn't get a list of 300 things in 300 conversations. I would get a list of like three to five. Like everybody saw the same stuff. So my teams knew I was doing this on Friday, somewhere in the world, unannounced if I could. It was harder in some places than others. And I would literally send them emails on Friday night on my flight back to say here are the three things that we're talking about on Monday. Be ready, because this is what I'm hearing from the front lines.

FRANK HOLLAND: Alright, I want to get into the Tesla part of the story. So you had someone introduce you to Elon Musk. You guys met, and then you decided on your own – it takes a lot of initiative here – to go to one of the stores and do a test drive. So how did that lead to your job at Tesla?

JON MCNEILL: Well, I wanted to make sure, like he and I share this phrase, and we discovered it, like I want to be useful. And he talks a lot about just being useful. And so I said to him, like we don't know each other, I want to make sure I can be useful to you. So we were getting to know each other and I decided I was going to do the 20% rule and apply it to Tesla. So I was traveling around the country, we were selling a business and so I was talking to investors. And at every stop I made I just went to a Tesla store.

And I had been told that, at that time, the unique thing that lot of Americans hadn't

experienced about an electric car was hitting the accelerator. Anybody here done this? It is literally like a rocket ship experience, right? You hit the accelerator and the torque takes immediate effect and you are flying. So everybody told me, hey, this is the crux of the sales funnel at Tesla, so you've got to go experience this. So I went to one store, then a second store in another city, and I had gone to seven stores in like eight days. Taken a test drive. To do the test drive, they take down your contact info and I used different email addresses at every stop so I wouldn't get flagged. Nobody knew who I was because I wasn't working at Tesla yet. And a week later nobody had called me back.

And so Elon had introduced me to the head of revenue, and so I called the guy. I said, I understand, like the most important part of your sales process is this test drive. And I've done test drives in eight of your stores and I haven't been called back. Am I like flagged on the system or something? And he looked it up. He's like, no. And I said, well, how many cars do you need to sell this quarter? What's your target to the street? He said 12,000. And this was like a month and a half into the quarter.

And I said, how many cars have you sold? He said 3,000. I said, "so you're not going to make your quarter". How many test drives have you done without a callback? He said, let me look it up, I'll call you an hour later. So he calls me in an hour. He said 9,000. (Laughter). I'm like you can make your quarter if you just call these people back. And

he's like, oh, you're right. I said, you're only halfway through the quarter so you're going to get a lot more test drives. Like if you do this right, you're going to beat your plan, which he, of course, wanted to do because that's his job.

I said, okay, do me a favor. Cut off the ability for any salesperson in a Tesla store to take a new lead until they call their entire test drive backlog back. Just do that. Can you do that? He said, yes, I can do that. He calls me a half hour later. He's like I shut off all new leads. He calls me the next day. He's like you wouldn't believe what's happening. Like we've made thousands of callbacks already, we're selling cars. A couple of days later he says sales are up 20%. And then it dawned on me, I was operating like my day job. I was a CEO in my day job, but I didn't work at Tesla. And I was making these changes in Elon's business and I hadn't talked to him.

So I called him up. I said, hey, look, we barely know each other. We're getting to know each other. Here's what I did. I visited eight of your stores. I didn't get any callbacks. I discovered why. Because you don't have a constraint in your system around this so I put a constraint in. And I said, I don't work for you, Elon, I'm really sorry, but I made this decision to do this, but here's the result. You're now going to make your quarter. And there's this long silence that I wasn't expecting, but now I've gotten to know it. And your colleague, David Faber, has gotten to know it. Because David will ask Elon a question and Elon just sits and he literally, it's the CPU processing the question in his brain and

then processing potential answers. And he's not uncomfortable with silence.

But I get this long silence on the phone, and I'm like, oh, gosh, what have I done? And about a minute later, which seemed like forever, he came on and said, "I think you're going to do just fine here". And so we had broken the ice together and it turned out that that was indicative of the kind of partnership we were going to have.

FRANK HOLLAND: So, by the way, in the book you say it's like a minute, maybe a minute and a half of silence, so imagine sitting on the phone, and you're there holding. You're just waiting for this billionaire to say you did a good job, you did a bad job, I'm never going to hire you, or you're hired. So it had to be a pretty tense moment.

JON MCNEILL: It was a tense moment, and I was about to say, are you still there?

FRANK HOLLAND: So I've actually gotten to read Walter's book about Elon Musk. I'm sure a lot of you have had as well. I got to talk to Walter. So I've got to be honest, I can't remember which of the things that we talked about were on the record or off the record about Elon Musk, and we disagree about a lot of things. Number one, where the best cheesesteak in Philly is. If anybody's ever been to Philly, I'll tell you afterwards. Walter spent a lot of time at Penn.

But one thing we agreed on when it came to Elon Musk, and if you read the book I think you'll agree, he's very mercurial. So outside of that one situation, how do you handle a personality with so many wild swings? Genius, sometimes it seems a bit sophomoric, like the 420 thing. How do you manage that?

JON MCNEILL: So I don't know if it can be managed, but what I've learned over time is that you can't mimic somebody else's style. People pick that out as inauthentic immediately. So what I've learned over time is you've got to do your thing, and you've got to manage with your management style, your leadership style. And we became kind of like Frick and Frack. Like he was mercurial, he was very kind of, an impromptu way of surprising people. He's got a really, got a 14-year-old sense of humor, which is really interesting.

And I just had to; I was known as the steady hand. So while he was swinging back and forth, I literally would sit him down and I'd present the counter case. And I'd say, hey, look, if we make this decision, let's just steelman this out. Here's the other side of the argument. Here's the first order effect. Here's the second order effect. Have you thought about the second order effect? Have you thought about the third order effect? And he loves a rational discussion so he would engage, and we would work through it. And so he would sometimes just change his approach, which was great. And so we developed this kind of relationship of opposites really. We were kind of like The Odd Couple.

FRANK HOLLAND: You were the straight man in the situation.

JON MCNEILL: Yeah, I was the straight man oftentimes because he's so, like when he gets relaxed – you don't see this in his public persona because he's so nervous any time he's in public – but when he's relaxed, he's like the funniest person I've ever been around. And so like, literally I was his straight man in meetings and he would have people laughing so hard they were crying. And you don't get that sense of him in public, which is too bad because he does have this very fun side.

FRANK HOLLAND: Just on the same page, the 420 thing, Elon Musk talked about taking the company private at \$420 a share. It's also a cannabis reference. It didn't turn out to be real.

JON MCNEILL: National Cannabis Day is April 20, so 420 is this thing that shows up for him all the time.

FRANK HOLLAND: I assume some people here have dogs, right? Anybody have a pet? No, okay, if you don't, you don't. I do, love my dog. Have you ever tried to eat their dog food? Ever? No? Okay, I actually have eaten dog food, it was on TV, one time. It was human-safe, though, human-safe. This is not a real thing, but in your book you talk about eaten your own dog food. It's a philosophy. So explain why that's so important.

JON MCNEILL: So this is a Silicon Valley term. Eating your own dog food means using your own product. And the reason you use your own product is because it's a rapid feedback loop. So I was in New York with a group of bank, money center bank CEOs, a few months ago. And I asked them, we were a small group, I said, "raise your hands if you use your app, your bank's app on a weekly basis". No hands went up.

And I said, you know what, I knew that was the answer. Because I'm a customer to your banks, I use your app and it's terrible. And I used a different word. And I said the reason I knew you didn't use it is because if you did you wouldn't live for another day. You would be so embarrassed that you would immediately call your head of engineering and say you've got to fix this, it's terrible. But you don't use your own product. And therefore, you're not getting a feedback loop starting within your own company. And because you're not using the product, your employees know you don't care, and that's the message you're sending. So the opposite of that is eating your own dog food.

So we would literally take a car off the line every night, and we would drive that car home. So I would drive it from the East Bay to the West Bay to the Peninsula and then I would drive it back the next morning. And within a half hour of me being at the factory, the engineers would have notes on that ride. And Elon was doing the same thing. He was commuting to SpaceX in LA. And the head of engineering was doing the same thing. The head of manufacturing was doing it, and the CFO. That's kind of the

management team at Tesla.

And what that gave the engineers was a daily feedback loop on the product. So that meant we were compounding our improvement on a daily basis over our competitors, because our competitor management teams don't do that, believe it or not. And when you're doing that, then an engineer starts to get to the point where they want to be out ahead of you. They don't want a senior exec catching something before they do.

Because I used to, I'd kind of prod the engineers a bit and be a bit provocative, I'd say, like if I find out about this before you do, one of us is redundant and one of us is more senior than the other, so guess who wins? You don't want to be redundant. So they would then now hop ahead of us to say I'm going to drive the cars too. So we then gave engineers a fleet of about 100 cars so they could drive them and get ahead of us. That meant the organization was now starting to eat the dog food. And the example was out of the bag, which is use your own product.

And we would not only do that, we had a library of competitive cars. We would say go drive this car, go drive this car, go drive this car, tell us what you love about it, and what you would bring into our product as a result. So that's the first principle behind eating your own dog good. The first principle is feedback loop, and feedback loops help you go faster than competitors. And if you're going faster than your competitor, you can

compound advantage. A lot of us think about financial compounding, but there is advantage compounding too that occurs when you do that.

FRANK HOLLAND: Were there any things that you found when you were eating your own dog food, driving the cars, that you had to go right to Elon Musk about? Is there anything he discovered that he came right to you about?

JON MCNEILL: Yes, I remember we both, within a couple of days, the early, early version of autopilot, we both had a similar experience where we could just by accident disengage autopilot. But there wasn't a haptic that told you you'd done that. So you think the car is driving itself. It isn't. It starts to maybe veer in a lane. And so we literally discovered this maybe the same day. And immediately I called him and said, "Look, I'm sending this note to the engineers but you need to know about this too". And he said, ironically it just happened to me today too. And so that was the first thing that pops to mind where we caught the similar thing almost at the same time.

FRANK HOLLAND: Well, it's good thing you didn't call and say, I found this before you did. You might be redundant.

JON MCNEILL: Right, exactly, good point. Really good point.

FRANK HOLLAND: I want to go to one of your principals. And this one's kind of mind-blowing, especially from someone like yourself that's a CEO. Question every requirement. Now I understand that in some processes that can be helpful, but that means people are questioning you and the decisions that you're making. How does that work as part of the algorithm?

JON MCNEILL: So like, I'll give you an example that will illustrate it. So we had, the principle is question every requirement. Is it a requirement of law, of physics, or safety? And not only that, who has developed this requirement because I want to go talk to them.

So here's an example. When we were trying to produce the Model 3, the company's cash flow depended on Model 3 coming out. And we could not produce these things to save our lives, and a lot of pieces of the car were going wrong. And one of the pieces of the car that was going wrong was a separator, basically a plastic shield between the battery and the passenger compartment of the car. And this thing was delaminating, warping, and so we kind of divided and conquered amongst the team. And Elon's like I got this one.

So he goes to the cell in the factory, the team that is producing this, and he works there for three weeks trying to get this thing not to delaminate, not to warp, etc. and they're

making slow progress. And after three weeks, he asked the question, who required this separator in the car? And so he happens to be in this area of the factory where the battery engineers are hanging out and so he said, “Did you guys’ spec this”? And they said, we didn’t spec it. The vehicle dynamics guys specced it because they wanted a sound dampener in the floor of the car.

He immediately calls the head of that team and says, “Did you guys’ spec this”? And they said no, we didn’t spec it. This is a heat shield that the battery guys wanted. He’s like, I’m with the battery guys. They said they didn’t spec this. They said you guys did. You’re saying you didn’t spec it. Who specced this? I want the name. So they get the name of the person and you should have seen, like his face, like the name of the person was a summer intern that wasn’t even at the company anymore, had specced this. And I saw the reaction; I’m like we just spent three weeks of our lives trying to fix a part that shouldn’t have even been in the car. Like we could have deleted this thing and been three weeks ahead, but we didn’t ask the question. So this is an example of how you learn by mistake.

So we started to codify this, like what went wrong there. Well, we didn’t ask about the requirement. We didn’t ask if it was a requirement of physics or law or safety? And we didn’t ask for the name. We should have done that before we spent three weeks on this part. And that became then the first step of the algorithm, which is if you’re going to

simplify a process, the best first step is to get rid of all the dumb stuff that you shouldn't have in the process to begin with. And that's the first step of the algorithm is question every requirement, which to your point, Frank, means people are going to come to you as a leader potentially and say, hey, you spec'd this thing? Why did you spec this? And that's absolutely fair game. You should ask that question because we are fallible, not infallible. So we should be held to the same standard. And that is also a principle piece of the culture, it's a really healthy piece of the culture. You can question leadership.

FRANK HOLLAND: So obviously that was just a detour that you didn't want to take when it came to who spec'd this part and you learn from it. One place where question every requirement became very helpful was actually buying a Tesla. So you saw the forms online, it had multiple pages. So talk us through how question every requirement actually works? Because I've got to be honest, in that other example you should have done it but you didn't do it. But in this one, after you figured it out, it really worked well.

JON MCNEILL: Yes, exactly. So we were trying to do something that nobody had ever done before, and that was sell cars online sight unseen. So nobody was selling \$100,000 thing sight unseen online. And one of the principles of selling things online is that for every click that you make the consumer go through, your odds of converting that to a sale go down. So that's called the conversion rate, and the conversion rate is

inverse to the number of clicks, if that makes sense.

So we started with that as a premise, like let's get friction out. So Elon said, "How many clicks does it take to buy a car"? And I said, 64. And he's like pull out the Domino's app. This is where his sense of humor comes in. How many clicks to get a pepperoni pizza? And so we went through it, 10. He's like, alright, let's see if we can get it down to 10 clicks. That's two orders of magnitude for you mathematicians in the room. And you know when you cut something in half and then half again, it's much more difficult in the second slice of the half.

So the first thing that I did was I went to the data and discovered that at the time we were a made-to-order company, and that was like our calling card. We were way different than other car companies in a lot of ways, but one of the ways is you could order any car you wanted. You spec the wheels. You spec the number of motors. You spec cloth versus faux leather. You spec whether it has Ludicrous Mode or not. Like all this stuff. And so I did the math and we had 360,000 roughly different combinations of potential cars we could build.

And so I looked at the data. It turned out that when you looked at what people ordered, they basically ordered two cars, two kinds of cars. They either ordered a standard, what we would call a standard today, or a performance. And so before trying this on with

Elon, I grabbed the head of engineering and the head of manufacturing and said, guys, like I know we've been a made-to-order shop, but let me show you the data. We were setting up our factories and our supply chain to do 360,000 different things, and it turns out the customer only wants two.

So if we were to take a step and just offer two models rather than 360,000 models, what would that mean for you guys? And I was looking for their objection. And the head of manufacturing looks at me and he goes, thank God. I said, "What do you mean"? He said, do you know how much simpler the factory would be, the supply chain would be, training, hiring, quality management, like the whole thing gets better. And the head of engineering said the same thing. If I don't have to spec 360,000 different things, test 360,000 different permutations, the engineering team can actually work on stuff that matters. So they were fully supportive.

So then we went into the senior management team meeting and I said, Elon, look, I'm the new guy here, I know this is going to sound crazy, maybe offensive, but here's what the data says. The data says that people are buying two cars and we're set up to be made-to-order. And he's, because he's so rational, he was, like, that makes perfect sense. But the co-founder was like, no, we're a made-to-order shop. That was a religious issue for him, and he was harder to convince.

So we eventually convinced him and we got roughly, I don't know, 10 or 14 clicks out of the process. But the remaining clicks were in the financing process. And it turns out that an auto loan and an auto lease document are about 12 pages long, depending on the state a little bit more. And so I asked our senior counsel, I said, I'm going to question the requirements of having a 12-page loan document. Can you have your team analyze for me how many of these paragraphs in this document are a requirement of law, of regulation, of physics, safety?

And he came back a few days later. It didn't take his team very long. And he said none of them are a requirement of law. And I said we have 12 pages of stuff that is not a requirement of law? And he said, no, these are well-meaning corporate attorneys who are protecting their bank and they've added in – it's almost Talmudic – they've added like new rule after new rule after new rule so much so that you get this whole garden of rules and you can't even look over the weeds to see what the original context was. So he said I think we can eliminate all these things.

So I went in, I said, Elon, like you wouldn't believe this, but 12 pages of loan docs and 44 clicks could collapse to one click. And he said, what do you mean? I said, well, I think we just need one paragraph. Because the essence of an auto loan is I'm going to pay this much for the car, this interest rate over this period of time, therefore, here's my monthly payment. That's four sentences. I was like, we could add a fifth just for fun but

that's pretty different than 12 pages. He's like, this is genius, okay, so that takes out 44 clicks. I'm like, yeah. He said, okay, go make it happen, which I thought was going to be easier than it was.

So we went and talked to every money center bank and they laughed us out of the room. And we talked to ten more banks and they laughed us out of the room. And then finally I found the CEO of a very entrepreneurial bank in Minneapolis called US Bank and he said, I'll do it. And I almost fell out of my chair, I'm like, you'll do it? He's like, I'll do it. I'll give you a one-click loan or a one-click lease. And so we did that and we got down to 12 or 13 clicks, which is what you see today. If you pull up the Tesla app and you try to order a car – don't hit order – but you can do it and you'll see that it's like 12 or 13 clicks. That took digital sales basically from zero to about 20 to 25% of sales. So it really helped us grow. We were doing this doubling every eight months and so we had to keep pulling rabbits out of the hat to double every eight months. This is one of the rabbits we pulled out of a hat by questioning loan docs. Every one of our competitors just took it as a given, and we said it's not a given. Question every requirement and you discover really cool stuff, that a lot of the stuff isn't really a requirement.

FRANK HOLLAND: Yes, I mean it's hard to get somebody to make a \$100,000 commitment online but simpler, I would imagine the more often it's going to happen.

JON MCNEILL: Well, if you give them 64 clicks, they're going to think of 64 reasons not to do it. If you give them 10, you've got a better chance of actually...

FRANK HOLLAND: I want to talk about field promotions and finding talent. So you have a part in the book where there's a manager that keeps addressing imperfections on the Teslas when they're coming, getting ready to be delivered to customers. It became very costly. And so you gave this person, almost like on a battlefield, a field promotion. They went from just this site to the whole company doing quality control. That's a really big step. So what did you see in this person? How do you find talent? And especially in this age of AI, I think everybody is trying to find the difference makers as opposed to just a body. So how did you figure it out then?

JON MCNEILL: So this person, her name is Nikki, and Nikki ran our factory delivery center. So people, like to get a cool experience, they would fly from around the world to pick up their Tesla at the factory and get a factory tour. It is a really cool experience to have. And she went from delivering like 20 cars a day to delivering close to 200 a day as we were ramping Model 3. So her world was going up 10X. And I would walk through our delivery center on my way in and out of the factory. So I was walking through there at least twice a day. And I watched her, like redo the process and redo the process and redo the process and watched her create this ability to 10X her team's throughput.

And so I went and talked to her about it. I said, Nikki, like I'm just peripherally watching your work. I see you completely changed the way that we work so that with the same people you can get 10X throughput out, and our customers are satisfied. She pulled the data out. She said customers are actually more satisfied. We're getting better at this. So my Spidey sense went off, I've got a pretty special talent here. And I was just walking into a meeting where we were trying to figure out how to do this globally, as we were launching Model 3 globally.

And just as context, the Model 3 launch is the largest – by volume and by dollars – launch of a consumer product in history. It has outdone every iPhone. And so this was a huge step up for the team. We were going from 4,000 people to 40,000 people. We were going from delivering 20,000 cars a quarter to delivering 200,000 cars a quarter, and now more.

And I was walking into a room where we're now trying to figure out how to deliver these cars and get them into customers' hands and distribute them globally. And the person running this process I could tell was getting over their skis, like the process was starting to get too big for them. And so I went down and I said, Nikki, I need your help on this team. And she said, what do you mean? I said, "you're getting a battlefield promotion. I used your words, Frank. I said, "you're getting a battlefield promotion". I can tell you're talented and I believe you're going to be scared by this job, but I believe you can do

much more than you think you can.

And so she came and led a team to architect a process to 10X the world throughput of delivery of cars. And then she went on to do amazing things where she was like running the back end of the Model 3 manufacturing line. It turned out she was an incredible talent. But the clue to that was that on her own initiative, she had redesigned and redesigned and redesigned a process to yield 10X. And just seeing that was the clue that she could be in much bigger shoes.

FRANK HOLLAND: Is Nikki still with the company?

JON MCNEILL: Nikki now works at DVx.

FRANK HOLLAND: Oh, she's at your company.

JON MCNEILL: She's a member of our team. And she wrote me a note just the other day, because I told a story about her in the book, and she wrote me a note the other day, and she said, so she worked at Tesla for a partner of mine named Karim. Karim ran Worldwide Operations at Tesla for us. And she said, like I look back at those days when I was managing a team of 20 people and what I can do now and what that chance and that opportunity has meant to me. And I wrote back and said, like we all feel that

way. We all get a chance, and multiple chances hopefully to step up in life. And hopefully you've got a leader that's looking at you and saying that person has potential, I've got to get a way to get them opportunity, and they're not letting that sit. And yes, so she works with us today. It's really awesome.

FRANK HOLLAND: So poach a little talent from Tesla there. You mentioned Karim. Karim Boust, also someone I've gotten to interview on CNBC. French guy, very chill. I want to talk to you about a really highly intense situation that he was in that I think he let you know about a little bit later. I'm going to give you the short version of the story.

There was a hurricane coming to Florida. People were trying to get out of Florida. Many of them had bought Teslas that only had 30% battery capacity. So Karim, on his own, again, I'm cutting out a lot of steps here, makes the decision on his own to upgrade the software so they can have more battery capacity. However, it was a big leverage moment because it could have disabled every one of those Teslas and those people would have been stuck in the path of the storm.

Just talk to me about that, taking chances. You're someone who has taken a lot of chances in your career. You mentioned that story in particular even though you weren't directly involved because obviously it resonated with you.

JON MCNEILL: Yes, so one of the things, as Karim was being brought into the organization, so Elon and I would do the last interview of anybody who was manager or above in the company, and we did that to preserve culture. We wanted to be the last check to make sure that this person was going to be a cultural fit. And a lot of people talk about it, as you scale companies you lose culture, and we had this little hack approach to not do it.

But what that meant was, if I was hiring like an officer level, which this was in Karim, he would do the last interview for me and I would do the last interview for him. And so he's interviewing Karim, and he says to Karim, what creates competitive advantage here and in my companies is speed of decision making. If we're making decisions faster than the competition, we're winning over time. So I want you to be imprinted with one thing in this discussion. You're going to come in here as a senior officer, your job is to make decisions fast, which is really cool because you're essentially having the founder tell you or the CEO telling you, you have agency. So Karim had agency.

And so when Karim saw that we had, I don't know how many thousands of people in Florida in the eye of the storm and we could software upgrade their batteries and get them out of the eye of the storm, and he weighed the downside of, like if this didn't work, if we messed up the software upgrade, they could be stuck by the side of the road and then the headlines would be Tesla strands thousands of their customers. So this

wasn't an asymmetrical upside to downside. The upside was about even with the downside in this decision.

But he decided to do it anyway. He didn't tell me. He didn't tell Elon, because he had the agency to do that. Like that was what we were trying to do, push decisions to the edge. Because the more decisions that have to come up the tree, communication gets messed up, and more important, timing gets messed up. So he made the decision and did it, and then he came to Elon and I and said here's what I've done. And it actually worked. And the press was just super positive about it. Like the press picked up on this and we got a lot of kudos for, can you believe this happened in a few hours.

And it wasn't just Karim making a decision, he had to go to our software leader and say could you develop the script that we could run on the cars that releases this battery, that we can the pull back a week later once the storm has passed. So these guys had to develop the code. They had to test the code. They had to get ready to deploy the code across thousands of cars. And they did this in two and a half hours.

And so it was just a great example of how that company runs because you have super-capable people that have been told to make decisions rapidly and do your best. And we won't be right all the time, but if you're right most of the time, we're going to get ahead. And this was one example where the stakes were high, but Karim led the charge and it

turned out right.

FRANK HOLLAND: I mean Karim is the most laid-back guy in the world. I can't even imagine the situation where people were running around screaming so I have to ask. Were you upset that he made this decision? I know it worked out. But were you upset that he didn't at least call you?

JON MCNEILL: That's a good question. Like actually my first reaction as I think about it, Frank, I was just so proud of him. Like my first reaction was I wouldn't have thought to do that. And I felt like I was so lucky to work with people like this that are so bright and so earnest, wanting to do the right thing for the customer. I was just like proud of him.

FRANK HOLLAND: I think you're eating your own dog food when it comes to philosophy as well. You gave him some agency.

JON MCNEILL: Exactly, yes.

FRANK HOLLAND: By the way, we are going to have a question and answer. So if you have any questions, please get ready. One other thing I want to talk to you about is your philosophy of make them talk about you at dinner. Now this also happened, I think it also happened in Florida. There was an incident that really, a lot has happened in

Florida clearly. Long story short, I'm going to give you a very short version because you should read this.

There was a sales manager. He got a call from someone whose wife went into labor. They had an issue with their Tesla. He goes to the house. Gives them another Tesla. Goes to the hospital. Gives them another Tesla, buys them groceries, he does a lot. He goes well above and beyond. Why is it so important to make them talk about you at dinner?

JON MCNEILL: So we had this, we had this month-long training program. And as we're going from 4,000 to 40,000 people, like I just did the math, and we could not train people for a month and have them be productive in time for this growth we were going to see. So I challenged our team. I said you've got to get training down from 30 days down to like three hours. And so they went to work on that and they came back and they were smiling ear to ear and they said you're going to be proud of us. Training isn't three hours now. It's less than a minute. And I said, how can that be?

And they said here's the principle. You're always talking about, and Elon is always talking about just surprise people with awesomeness. And that was his kind of description. Like just surprise people with awesomeness and be kind to them. And we're going to create buzz in the market that will go viral. And so they said here is the one

principle that we're going to train people on and then we're going to allow them to get product knowledge over time.

But here's the principle. The principle is make them talk about you at dinner tonight.

Now, some of you who have read Will Guidara's book, *Unreasonable Hospitality*, this is just a version of that. If you haven't read that book, I highly recommend it. It's my most recommended book in the past year. But we wanted people to just talk about you at dinner tonight.

So Frank, you gave this example. I get a call from a customer and they're like, you would not believe what your person just did for us. They took us to the hospital. They saw that our kids were home alone with grandma. They came back with groceries and a spare car for grandma. And so I said, oh, my gosh, I've got to call this person. So I called the person, our person in Florida who had done this. And I said, I'm so proud of what you did for this family, and I just got this call from the father, and he's like still choking up, explaining to me, like everything you did for him. Whatever possessed you to do this? And he said, well, your training. You told us to make them talk about you at dinner tonight. I wanted to make them talk about me every holiday dinner for the rest of their lives. And so it turned out the principle worked.

FRANK HOLLAND: Certainly every birthday for that kid.

JON MCNEILL: Exactly.

FRANK HOLLAND: Everybody here has the book. A lot of people are going to read this book. What's the one big takeaway you want them to get from this?

JON MCNEILL: That you don't have to be Elon Musk to do this. You will see how simple this is. And if a knuckle-dragging farm kid from Nebraska can do this, you can too. And so that's really the point of this book is that I wanted companies and leaders to know that they have the tools to innovate. And you can out-innovate what you think you can do. You can out-innovate your competitors. And you can do this, and that's really the net takeaway I want from the book. And so you'll see that each example, each chapter is one of these principles. And you'll see that there are two to three examples of this being applied in different contexts – small company, large company, apparel company, car company, space company. And it's told through the eyes of the people who are out on the edge doing the work. So you will get the sense that, yeah, I can do this. And that's my hope.

FRANK HOLLAND: Incredible, incredible. Alright, I think we're at the Q&A portion of this. I'm going to wait until the mikes get there. I have a quick question for you. Yoga pants. Why are you on the board of Lululemon? Like why are you there?

JON MCNEILL: Lulu, at the time, was curating their board. And they had literally a map of every seat around the board table, and they wanted each seat to represent a skill set that they felt like could help the CEO. And so it's an apparel company, so there's a merchant seat there. There's a product seat. The product seat at the time was held by the founder of Jimmy Choo shoes. There was an international seat. The woman that runs Apple's China business sits in that seat. She runs a \$90 billion business in China.

And then there was a seat for a direct retailer meaning that it is a company that produces their own product and owns their own stores. So Lulu does that. Lulu produces its own product, owns its own stores. That's a different animal than Nike who produces product and sells it to a lot of different retailers. And so they wanted somebody on the board that fit that model. Produce your own product, own your own stores, and Tesla was one of the few in the world that did it at the time. It was Tesla or Apple, and they already had an Apple person on the board.

So I get this call, and I'm like, man, I don't know anything about yoga pants. And my wife who is here said, "if you don't take this board role, I will divorce you". So that's why I'm on the board.

FRANK HOLLAND: I'm hoping that she gets plenty of stuff. By the way, he has a Lululemon suit on right now. You've got to see the detail. Okay, let's go to the

questions.

QUESTION: Good afternoon. Thank you for the wonderful talk. Do you have any advice for transforming R&D engineers into production stage engineers?

JON MCNEILL: Yes, so one piece of advice is not to have R&D engineers. Here's what I mean by that. You put your best engineers on the line in real problems, real work, real responsibilities, and you use their brains to actually reinvent the product or the process. So an example of that is there's a guy named Kurt Kelty. Kurt is the gentlest guy you'll ever meet. Kurt is the world's leading authority on batteries. Like if you want to know anything about batteries, go find Kurt. And Kurt didn't run, I mean he ran a small R&D lab at Tesla where we were testing new battery chemistries and testing new form factors and thermal issues, etc. But all of his engineers were dispersed into groups – Powertrain Group, Propulsion Group, Thermal Group. And they would come back together to work on core central R&D problems, but 90% of the time they were in these groups.

So when I was getting to know Mary Barra, and Mary and I were introduced by a mutual friend because she was having a problem with battery cell manufacturing that was a similar problem that we had. So we were getting to know each other, and over time as we got to know each other, we got deeper and deeper into the problem, which was fun

for her because she's an engineer. And we were getting in-depth into these form factoring and chemistry problems.

And I said, look, if you really want to talk to somebody who is the world's authority on this, let me introduce you to Kurt. And so Kurt now runs the entire battery and propulsion teams at GM. But his engineering headcount for R&D is similar to what it was at Tesla. He's done this to himself. It's very small. Take those engineers and put them into actual problems so that you're making progress on actual problems.

Because the lesson that we had learned at Tesla from looking at Bell Labs or Microsoft's research or PARC, Xerox PARC, was that almost always those labs came up with ideas and the companies that were funding the labs were too dumb to implement the ideas. And so the ideas turned into somebody else's goal. And we're like why would we ever follow that model that's got three very public ways of failing? Why don't we find another model? First principles are, you want to adopt those advances. How do you adopt those advances? You put those advances into the teams that actually have specific responsibilities and that's how you do that. So we dispersed R&D engineers. And that's what I mean.

So the first thing I would do is just follow the algorithm. Question the requirements. You asked me what should I do with R&D engineers? I said delete them. Because the

question is do you really want to follow a model that everybody else believes is a requirement to have R&D? Or do you want to disperse that R&D? And that's the first question you ought to wrestle with and then how would I do that in your specific area. Hope that's helpful.

QUESTION: Jon and Frank, thank you so much for being here today. It's been a wonderful discussion. Cathy Nolan. My question is at DVx, how do you set the priorities for your team? And how do you make sure that on a day-to-day basis everyone is working on the right things that are moving the business forward?

JON MCNEILL: So we tend to, we tend to set high level objectives. And in each business I'm a part of we do this. So this is kind of interesting for people that are into metrics. At Tesla, for an example, like a real simple example, we gave the company three metrics, and it could have really been two. And the three metrics were we're going to sell this many cars for this much revenue at this gross margin. That's it. You, as an individual, figure out, and as a team leader, you figure out your contribution to that. We did not use OKRs. And OKRs, for those of you who aren't familiar, is a Google method of management where everybody has their own set of objectives, key results, and key metrics basically.

What we found was, we banned OKRs. And the reason we banned OKRs, and I ban

OKRs in our companies too, is that OKRs have people think in little incremental improvement steps, in their own little world, which may have nothing to do with the overall forward progress of the company. And so we banned OKRs on that basis, and we also said these are, by nature, an incremental approach and we want quantum improvement and quantum leaps and innovation. And OKRs don't lead to quantum.

So in all my companies that I'm involved with, I advocate, just determine the two or three metrics that move the company forward and measure that. And people, as adults, can figure out how they contribute to that. And they can organize around those principles. And don't get so prescriptive that you have OKRs implemented in a business that is literally going to constrain your ability to take quantum leaps in innovation. It's going to do the opposite of what you want. And so that's my general approach, whether it's at DVx or if I'm sitting on a board and I start to see OKRs pop up on the screen, I'm usually the one weird voice in the room saying I wouldn't do this.

FRANK HOLLAND: Any other questions?

QUESTION: Thank you very much for the talk. Going back to your point on manufacturing, just going at a macro level, how do you think about return of manufacturing to the country, re-industrialization? It goes back to how much of the innovation is actually in production processes. And can that edge actually come back

given your own micro level experience, but in a very, very important industry?

JON MCNEILL: So the auto industry is 5% of our GDP. Germany, it's 29% of GDP and Japan, it's close to 20% of GDP. So this is a really important industry for people, and it's an important industry for _____. And we kind of had no choice when we were doing this because we had one factory in the world and it was out in Fremont, California. And so we were doing this with American workers and American ingenuity, etc. And then we started, then we launched, our second factory in the world was in Shanghai. And we saw how capable and diligent and well-funded the Chinese were in a focused area of advanced manufacturing.

And Tim Cook has said this, like if you go to find a manufacturing engineer hire in the U.S., you can fill a business school auditorium with the number of candidates that are qualified. If you go to China, you can fill three football stadiums with manufacturing engineers that are qualified at a high level. They've invested in every layer of the problem. They've invested in education and talent and process and technology.

And so it's not just a matter of wishing that you could bring back manufacturing to a specific geography. Like in the U.S. you've got to bring everything. You've got to bring the talent. You've got to bring the supply chain. You've got to bring the cost level. You've got to bring sort of the diligence and the earnestness of people. And it's a very

tough equation to solve. It's not like you can pick up a factory and move it over here and you have the same productivity and you've seen some of this.

Post the CHIPS Act, when TSMC came to the Phoenix area and starts to build a fab, and the Taiwan engineers are over trying to train the American engineers and they're getting so frustrated with the lack of experience and lack of pace. And that's indicative of the challenge that we're up against because we took 20 years off here in this country on manufacturing. And that meant that we weren't training manufacturing engineers, and we're not training mechanical engineers, and we're not training electrical engineers at the appropriate quantum.

And so we've got a real stack of challenges that goes way beyond just wishing factories came back, and I think that's why you see the metrics the way they are. Factories haven't come back. In fact, manufacturing jobs have declined over the past year and a half. And so it's a really difficult problem to solve and you have to have really thoughtful people, policymakers thinking through each of those layers. So how do we attract more mechanical engineers, more manufacturing engineers? How do we encourage immigration in those areas so that we get that talent in play as fast as we can? There's a whole lot of layers to that problem.

FRANK HOLLAND: And, by the way, if you read the book, you actually went to China to

negotiate Tesla owning its own factory in China, so certainly an expert when it comes to all of that.

JON MCNEILL: Yes, we saw it firsthand.

FRANK HOLLAND: Jon McNeill, thank you so much for an amazing conversation.

PRESIDENT BARBARA VAN ALLEN: Well, thank you both. That was fantastic. I think we'd like to have Jon and Frank for the whole afternoon, but we know we can't do that. Again, do read the book. I think it's a great one.

Next up for the Club, just for everyone to mark their calendars. It's also on the back of your programs. We have Chris Bradley, Senior Partner at McKinsey, on some amazing research that they're going to share. That's on the 30th. On the 31st, Tyler Goodspeed, the Chief Economist from ExxonMobil. In April, we've got Sebastian Mallaby coming over, the Volcker Fellow at Council on Foreign Relations. Lloyd Blankfein, the Former CEO of Goldman, also with his new book.

We'll be going down to Palm Beach, Florida to host Jenny Johnson, the CEO of Franklin Templeton. And Salim Ramji, the CEO of Vanguard, is going to join us also as well as Lloyd Blankfein during the month of April for luncheons. And there's actually much more

coming. David Solomon is in our future and a number of others. I didn't get into May and June.

So before we close, as I always like to, I want to thank those in the room that are part of the 444 members of the Centennial Society that provides the financial backbone for the work we do at the Club. Thank you for that. And as always, thank you to everyone for joining us today. For those in the room, please enjoy your lunch. And for those joining us virtually, thank you, and we'll see you next time. Thank you.