Global Entrepreneurship
and the Successful Growth Strategies of Early-Stage Companies

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World Economic Forum USA Inc.
3 East 54th Street
18th Floor
New York, NY 10022
Tel.: +1 212 703 2300
Fax: +1 212 703 2399
E-mail: forumusa@weforum.org
www.weforum.org/usa

World Economic Forum
91-93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland
Tel.: +41 (0)22 869 1212
Fax: +41 (0)22 786 2744
E-mail: contact@weforum.org
www.weforum.org

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IMPROVING THE STATE
OF THE WORLD

Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies

A WORLD ECONOMIC FORUM REPORT

In collaboration with

STANFORD UNIVERSITY, GRADUATE SCHOOL OF BUSINESS, SPRIE and STVP

The World Economic Forum would like to thank Endeavor for their contribution to this project and the report.
A full list of contributors can be found on pages 370-375.

Core Project Team and Authors

Lead Academic,
Professor George Foster,
Stanford University, USA

Professor Antonio Davila,
IESE, Spain

Professor Martin Haemmig,
CeTIM (Centre for Technology & Innovation Management),
Germany and Stanford University, USA

Professor Xiaobin He,
Huazhong University of Science and Technology,
People's Republic of China

Professor Ning Jia,
Tsinghua University, People's Republic of China

From the World Economic Forum

Max von Bismarck,
Director and Head of Investors Industries,
World Economic Forum, USA

Kerry Wellman,
Senior Community Manager, Investors Industries,
World Economic Forum, USA

Project Administrator

Diane Lee,
Stanford University, USA

From Endeavor

Shaun Young,
Senior Manager,
Endeavor, USA

David Wachtel,
Senior Vice-President, Marketing, Communications and Research,
Endeavor, USA

Steering Committee Members

Calvin Chin,
Chief Executive Officer, Qifang,
People's Republic of China
(Technology Pioneer and Young Global Leader, World Economic Forum)

Kevin Comolli,
Partner, Accel Partners,
United Kingdom

Howard Cox,
Advisory Partner,
Greylock, USA

Dan'l Lewin,
Corporate Vice-President for Strategic and Emerging Business,
Microsoft Corporation, USA

Bernard Liautaud,
General Partner,
Balderton Capital, United Kingdom

Linda Rottenberg,
CEO and Co-founder,
Endeavor, USA
(Social Entrepreneur and
Young Global Leader Alumni, World Economic Forum)

Jean-Bernard Schmidt,
Founding Managing Partner,
Sofinnova Partners, France

Helmut Schühsler,
Managing Partner,
TVM Capital, Germany

David Spreng,
Founder and Managing Partner,
Crescendo Ventures, USA

Niklas Zennström,
Founder,
Atomico Ventures, United Kingdom
(Young Global Leader Alumni, World Economic Forum)

Contents

4 Preface

6 Executive Summary

10 Section 1 – Alternative Strategies of High-Growth New Ventures

30 Section 2 – The Early-Stage Entrepreneurial Company Journey

50 Section 3 – Early-Stage Company Growth and Decline: Creation and Destruction Evidence for Revenue and Jobs from 10 Countries

70 Section 4 – Early-Stage Company Growth: Evidence and Analysis from "Fast Growth Company" Published Rankings

82 Section 5 – Early-Stage Company Growth: Management Systems Adoption as a Growth Accelerator – Evidence from CEO and CFO Surveys

92 Section 6 – Venture Capital Investment Activity for Early-Stage Companies Around the Globe

108 Section 7 – Executive Cases: Interviews with Senior Executives of Early-Stage Companies

370 Acknowledgements

374 About the Authors

Preface

The World Economic Forum is proud to release this report from our "Entrepreneurship and Successful Growth Strategies" project. The project was initiated in Spring 2009 as part of the World Economic Forum's Investors Industry Partnership programme to provide a better understanding of the genesis of early-stage entrepreneurial companies, to compare their growth paths across different geographies, and to further explore the impact of these companies on employment and innovation.

After avoiding a collapse of the global financial and economic system, governments around the world are now focused on building a foundation for future growth. In addition to safeguarding the economic recovery, the world is facing a number of transformative challenges such as an increasing scarcity of natural resources, significant demographic shifts, and the environmental and social implications of climate change.

In dealing with these challenges, governments across the world have taken an increasingly strong interest in entrepreneurship. Entrepreneurs are recognized as important drivers of economic and social progress, and rapidly growing entrepreneurial enterprises are viewed as important sources of innovation, employment and productivity growth. Some of the most influential enterprises of our time began relatively recently as small entrepreneurial ventures. Many governments are therefore trying to actively promote entrepreneurship through various forms of support.

The World Economic Forum has been actively engaging early-stage and later-stage high-growth companies for many years through its Technology Pioneers programme and its community of Global Growth Companies. Furthermore, in February 2010, the World Economic Forum published a paper based on the analysis of over 28,000 enterprises in 126 countries examining the record of government support for venture capital in terms of value creation, employment and innovation.[1] The study found that modest levels of direct government venture capital support and indirect encouragement (through subsidies and tax concessions), in conjunction with private financing, can augment the performance of young companies. At the same time, excessive government support seemed to be counterproductive.

Building on the prior work, the purpose of this report is to provide further insight into how to successfully foster entrepreneurship with the ultimate goal of improving economic growth, prosperity and quality of life. The report is the culmination of an 18 month-long partnership among leading international scholars, Endeavor, industry practitioners, other distinguished experts and stakeholders, and the Forum. The core research team, led by George Foster, Wattis Professor of Management and Dhirubhai Ambani Faculty Fellow in Entrepreneurship at the Graduate School of Business and SPRIE/STVP Faculty Affiliate at Stanford University, included:

- Professor Antonio Davila, IESE, Spain
- Professor Martin Haemmig, CeTIM (Centre for Technology & Innovation Management), Germany and Stanford University, USA
- Professor Xiaobin He, Huazhong University of Science and Technology, People's Republic of China
- Professor Ning Jia, Tsinghua University, People's Republic of China

In a matter of only 18 months, this group oversaw 70 executive case studies[2] from 22 countries, 110 surveys from 17 different countries and the analysis of revenue and headcount data for over 380,000 companies.

Intellectual stewardship and guidance was provided by an actively involved steering committee, including:

- Calvin Chin, Chief Executive Officer, Qifang, People's Republic of China
- Kevin Comolli, Partner, Accel Partners, United Kingdom
- Howard Cox, Advisory Partner, Greylock, USA
- Dan'l Lewin, Corporate Vice-President for Strategic and Emerging Business, Microsoft Corporation, USA
- Bernard Liautaud, General Partner, Balderton Capital, United Kingdom
- Linda Rottenberg, CEO and Co-founder, Endeavor, USA
- Jean-Bernard Schmidt, Founding Managing Partner, Sofinnova Partners, France
- Helmut Schühsler, Managing Partner, TVM Capital, Germany
- David Spreng, Founder and Managing Partner, Crescendo Ventures, USA
- Niklas Zennström, Founder, Atomico Ventures, United Kingdom

The opinions reflected in the analyses and executive cases are solely the views of the authors or the interviewees and do not necessarily reflect the opinions of the steering committee or the World Economic Forum.

We trust that the World Economic Forum's "Entrepreneurship and Successful Growth Strategies" project and this publication will both provide relevant input and catalyse important further dialogue among governments, entrepreneurs, investors and other stakeholders regarding the role and potential of entrepreneurship. Moreover, we hope that the report will specifically be useful to:

1. Governments seeking to better tailor their initiatives to create thriving entrepreneurial regions/industries/cultures.

2. Young entrepreneurs looking for guidance from successful past experiences of growth companies during their first decade.

3. Financial and other partners of early-stage ventures wishing to better understand how they can promote the growth of companies with which they are partnering.

4. Educators on entrepreneurship seeking further empirical studies and cases on which to base their curriculum.

On behalf of the World Economic Forum and the full project team, we wish to thank the members of the steering committee, the academic team, the interview and workshop participants, and Endeavor for their invaluable support. ■

Max von Bismarck
Director and Head of Investors Industries
World Economic Forum, USA

Kevin Steinberg
Chief Operating Officer
World Economic Forum, USA

[1] Brander, J. , T. Hellmann and Q. Du (2010), "Governments as Venture Capitalists: Striking the Right Balance", in Gurung, A. and J. Lerner (eds.) Globalization of Alternative Investments Working Papers Volume 3: Global Economic Impact of Private Equity 2010, New York: World Economic Forum USA, 2008, 27-52.

[2] Of the 70 executive case studies, 40 appear in the print version of the report. All 70 case studies are available for review in the online version of the report http://www3.weforum.org/docs/WEF_Entrepreneurship_Report_2011.pdf. The 40 cases in the print version of the report represent a cross section of industries and geographies.

Executive Summary

Entrepreneurs are important drivers of economic and social progress and change. Much of our daily lives is greatly influenced by entrepreneurial companies. Many such companies in their first 10 years launch new ideas or new products that transform society and the way people live, work and play. Recombinant DNA, the desktop computer revolution, the Internet, mobile telephony and social networking are examples of areas where sea changes have occurred in the lives of billions and still occur in all parts of the world. In each of these areas, early-stage companies have been a key stimulus to the discovery, development or broadening of impact surrounding the new idea or new product. The last decade has seen a heightened global interest in early-stage entrepreneurial companies. Increasingly, the examples of successful early-stage companies that are changing society come from around the globe. Countries continue to increase their efforts to develop hot spots to promote the starting and growing of such entrepreneurial companies in their own cities and regions. There is growing venture capital activity in countries such as China and India and other areas of Asia, as well as in Latin America, the Middle East and Africa. It is against this backdrop that the research underlying this report was conducted.

Global Dimensions of Report

The report presents a rich and diverse set of evidence and analysis pertaining to early-stage companies from all continents. The evidence base includes:

- Individual company information developed by the project team: (a) 70 executive cases from 22 different countries, and (b) surveys from the CEOs and CFOs of 110 companies from 17 different countries; there is a minimal overlap of seven in the companies in (a) and (b)
- Public databases and published rankings pertaining to early-stage companies and high-growth companies: (a) revenue and headcount data for over 380,000 companies from 10 different countries, and (b) high-growth company rankings from 13 different countries
- Extensive interviews and meetings with entrepreneurs, investors, and government and industry representatives from all continents

In many countries, there is a dearth of detailed evidence on the growth paths and growth determinants of early-stage companies. By examining a diverse set of different types of evidence, more reliable insights into global entrepreneurship can be obtained than are currently available.

Key Insights

Section 1: A new framework of eight different growth strategies that early-stage companies from around the globe are adopting. These include wave ventures, new product in new category ventures, new product in existing category ventures and idea transfer/transplant ventures. The "wave strategy" reflects the incredible dynamic forces that can come out of the early-stage company sector. Companies like Microsoft, Genetech, Google and Facebook not only have their own rapid growth, but also stimulate (and benefit from) a broader ecosystem of related companies. Another important growth strategy in our framework, from a global entrepreneurship perspective, is the idea transfer/transplant strategy. Many successful idea transplant ventures engage in substantive adaptation of the idea developed in a different geography as part of their growth strategy. This new strategy framework adds more structure to the seemingly large amount of diversity in the stream of new ventures that start in many countries.

Section 1: A new framework of eight different opportunity/risk factors associated with the different growth strategies. Examples include market size, market value creation, market value capture, management team and execution/scaling. Many prior discussions in this area over-emphasize the risk dimension of such factors. This report highlights the importance entrepreneurs from around the globe place on taking a perspective of proactive opportunity. The report includes extensive quotations from many entrepreneurs, including those who encountered substantive difficulties. These quotations highlight that viewing the business world through an opportunity lens is part of the DNA of many successful entrepreneurs. Starting and building a new venture typically requires an enormous amount of optimism, stamina and ability to survive some very rocky seas.

Section 2: A systematic look inside the growth engine of early-stage companies from around the globe. Using a database of 70 executive cases, we highlight the rankings key early company players attribute to different **growth accelerators** and different **growth challenges**. Factors related to (a) market opportunity/customers/competitors, and (b) human resources/people/organization culture dominate both the accelerators and challenges. A key finding is that the similarities in early-stage companies around the globe are far greater than their differences. An aspect of the report that attracted high interest in interviews is the **dark moments** that entrepreneurs reported encountering along their journey. These dark moments include major customers departing, failed research projects, living through the dot-com meltdown with dramatic reductions in demand and heavy cutbacks in headcount, and financial difficulties with high debt levels. Of much interest is that the dark moment quotations include many comments about "never giving up" and "a deep belief in their ability

to overcome even extreme obstacles". Sir Martin Sorrell's (WPP) comment is illustrative: "In those dark moments I never ever thought that we were going to go down. Not even for one second."

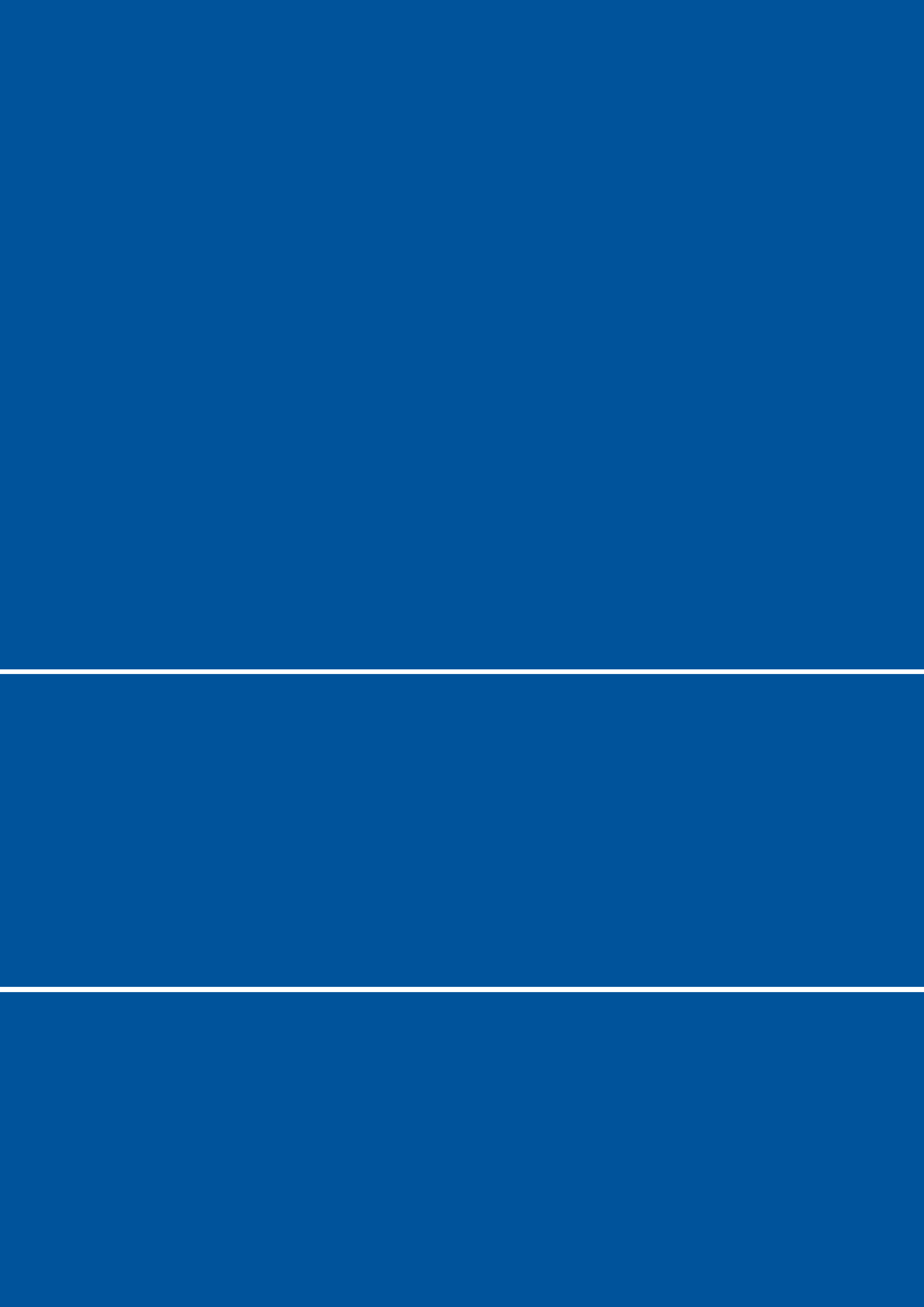
Sections 3 and 4: Extensive evidence on the growth paths of early-stage companies from over 380,000 companies covering 10 different countries is presented in Section 3. The norm of most companies in their early years is a combination of up years and down years. We label this a **ladders and snakes growth path**. For example, 42% of companies have a pattern of two positive revenue growth years and one negative growth year in their Year 2 to Year 5 eras (either +/+/- or -/+/+ or +/-/+). We also present systematic evidence in Section 4 from surveys of high-growth companies in 13 different countries. This evidence highlights the low probability that companies with high growth rates in their early years will sustain those growth rates over even a subsequent two- to three-year period. Being labelled a high-growth company in many of the published rankings of high-growth companies is a de facto label of "likely very short-run, high-growth company". Key aspects of successful growth management of early-stage companies around the globe include: (a) taking early actions to reduce the magnitude of down years, including reducing the likelihood of a subsequent downward spiral, and (b) taking lessons from the down years to build a stronger engine for future growth.

Sections 3 and 4: Documentation of the dominant contribution played by a small percentage of companies as regards both (a) total company growth in the early-stage company sector, and (b) total company decline in this same early-stage sector. The simultaneous analysis of growth and decline is an important contribution that highlights the sizeable instability in this sector. We present the first extensive evidence that covers both revenues and headcount growth in Years 2 to 5 of early-stage companies across multiple countries (Year 2 is our start year as it is often the first full year of operations). For example, the top 1% of all companies ranked by the level of revenue (job) creation contributes 44% (40%) of total sector revenue (job) creation. The top 1% of all companies, ranked by the level of revenue (job) losses, accounts for 53% (46%) of all sector revenue (job) losses. Our results here have multiple implications. One area is government policy. The potential impact on reduced early company sector growth contributions from possible policies should be a factor to be considered in policies that target the highly successful companies (such as the introduction of "super profits tax" or reduced tax deduction offsets for income and payroll taxes). A second area of implication is in company decision-making. Understanding the root causes of the sizeable revenue losses and job losses we document in the sector is important. One explanation is **self-inflicted wounds** due to poor company management (such as not investing in management systems that scale). An alternative explanation is that the initial large gains by some early-stage companies are transferred to larger companies. Some early-stage companies may open up new markets but are unable to defend those initial gains when the big players come to town. We introduce two new related concepts in Section 3 – we call them the **Mountain of Creation** and the **Valley of Destruction**. These two concepts highlight how the **net** revenue and **net** job creation that we report for this early-stage sector mask the larger gross creation by some companies and simultaneous large destruction by other companies (who were the creators in prior years).

Section 5: Systematic analysis of the importance of companies adopting management systems in their early years. An extensive database was built on the speed of adoption of 13 management systems by 110 companies from 17 different countries. Our Section 5 database enables analysis of whether differences in the rate of management system adoption are associated with differences on their concurrent or subsequent growth. Companies that had the highest adoption of management systems by either Year 2 or between Year 2 and 5 had the fastest increase in headcount in their first five years. These findings are of special interest to understanding how management of early-stage companies can take actions that increase or decrease the likelihood that they will experience subsequent sustained growth. Failing to systematically adopt management systems when high growth is occurring is what we label a **self-inflicted wound**. These companies are reducing the likelihood they will become high-growth companies in their first five years.

Section 6: Up-to-date evidence on global trends in venture capital (VC) investment. We analyse these trends using data on VC investments made in companies based in North America, Europe, Israel and Asia. There are dramatic differences in the types of VC investments being made in different parts of the world. For example, venture money invested in Chinese companies is more likely to be at later stages in their development and more likely to be in the consumer segments of the economy vis-à-vis VC-backed companies in North America, Europe and Israel.

Entrepreneurs are people who have ideas, have vision and are willing to challenge the status quo. They play a vital role in society and the global economy. On the basis of extensive quantitative data analysis and 70 case studies, including some of the most iconic entrepreneurial success stories of our time, the following six sections of this report will hopefully not only provide in-depth insights into the phenomenon of global entrepreneurship, but also help to encourage and foster further high-impact entrepreneurs around the globe. The work highlights the diversity of the topic and is meant as a first step in an area that is still in need of far more examination and analysis. ■



Section 1

Alternative Strategies of High-Growth New Ventures

Section 1 – Alternative Strategies of High-Growth New Ventures

1.1 Content and Format of Section 1

1.1.1 Content. Diversity is a striking feature of the companies that appear in published lists of the fastest growing early-stage companies. This Section 1 will highlight the diverse strategies of these companies to build growth and will discuss the opportunities and risks of each strategy.

1.1.2 Categories of Growth Strategies. Exhibit 1-1 presents a categorization of eight different growth strategies for new ventures: (1) wave, (2) new product in a new category, (3) new product in an existing category, (4) redesign of business value chain, (5) research or discovery of knowledge, (6) rollup (aggregation) of existing players, (7) governmental ,regulatory or political change, and (8) idea transfer or transplant. Each of these growth strategies is discussed in subsequent separate sub-sections of Section 1. As will be discussed, not all companies consistently have a single growth strategy in their early years. Nor is there always clarity going forward on which of these growth strategies best describes an individual company at any point in time. However, the fundamental characteristics of each of these eight growth strategies and the differences among them provide important insights into the diversity of opportunities for early-stage company growth.

1.1.3 Basis for Growth Categories. There are several factors (each having its own spectrum) that give rise to our selection of the categories of growth strategies:

A. Spectrum of a wave company vs a stand-alone company. One end of this spectrum is new ventures, which are part of a broader wave that is changing the business landscape. The other end of this spectrum is a stand-alone new venture whose growth is dependent more on its own innovation than on factors that are affecting the changing business landscape.

B. Spectrum of a new product in a new category vs a new product in an existing category. One end of this spectrum is new products in a new product category. Here potential customers do not have a comparable product to purchase. They might not even understand or appreciate the intended value of the new product. The other end of this spectrum is new products in an existing product category. Here the key features of the product are well known and are already being experienced by existing customers. We view a product as having multiple features. Some products that are near the "new product in a new category" end of this spectrum will have a combination of many new features with a few existing features. Similarly, some products that are labelled as "new product in an existing category" likely will have more existing features than new features.

EXHIBIT 1-1:
CATEGORIZATION OF GROWTH STRATEGIES FOR NEW VENTURES

1. **Wave Ventures**
   - A. Creating new wave ventures
   - B. Building new wave ventures
   - C. Riding new wave ventures
2. **New Product in New Category Ventures**
   - A. Innovative design
   - B. New business models
   - C. New distribution channels
   - D. Disintermediation plays
   - E. Execution excellence plays
3. **New Product in Existing Category Ventures**
   - A. Innovative design
   - B. New business models
   - C. New distribution channels
   - D. Disintermediation plays
   - E. Execution excellence plays
4. **Redesign of Business Value Chain Ventures**
   - A. Faster, cheaper, better
   - B. Redesign of value chain delivery
5. **Discovery and Research Knowledge Ventures**
   - A. Fundamental research and discovery – e.g. new drugs
   - B. Exploration and discovery – e.g. mining
6. **Rollup (Aggregation) of Existing Player's Ventures**
7. **Governmental/Regulatory/Political Change Ventures**
8. **Idea Transfer or Transplant Ventures**
   - A. Exporting existing ideas to new geographies or new sectors – e.g. eBay clones.

C. Spectrum of a new geography vs an existing geography. Successful ventures inevitably prompt other entrepreneurs and investors to build on or extend that success. One end of the spectrum occurs when the new venture is located either in a new country or in a new customer segment (collectively, geography). The other end of the spectrum occurs when the new venture stays in the existing country or customer segment but seeks growth through innovation or differentiation.

D. Spectrum of a large governmental role vs a minimal governmental role. One end of the spectrum is where a government plays a pivotal role in either the formation or the growth phases of a new venture. This role could occur in many areas, such as provision of finance, infrastructure, regulatory changes, customer incentives and taxation relief. The other end of the spectrum is where the role of the government is minimal in the success or failure of a new venture.

1.1.4 Opportunities and Risks for New Ventures. Every new venture faces multiple areas of opportunity and risk. The mix of these opportunities and risks can differ greatly across the eight growth strategies shown in Exhibit 1-1 and listed in Section 1.1.2.
Exhibit 1-2 outlines eight areas of opportunity and risk that new ventures can face. These areas and their related opportunities and risks are discussed in the following paragraphs:

A. Market size. Other things being equal, the larger the potential market, the higher the growth potential of the new venture. One challenge of new ventures is to continually seek ways of redefining and broadening the target market so that total market size is not a binding constraint on the continued growth of the company. The risk here is that the market opportunity might not open up at the time most beneficial for a new venture. If the new venture is late to market, then other players may have built established positions. Alternatively, if the new venture is too early to market, it may not be able to stimulate sufficient early traction to grow in an economically viable way.

B. Market value creation and customer adoption. One end of this spectrum is where the new product creates sizeable value for its users, which might be indicated by its rapid adoption by a large number of users. The other end of the spectrum is where there is limited evidence of potential adopters seeing value in using the product, let alone purchasing it.

EXHIBIT 1-2:
OPPORTUNITY AND RISK CATEGORIES FOR NEW VENTURES

A. Market Size
- How large is the immediate market size?
- What is the potential to grow the market size?

B. Market Value Creation and Customer Adoption
- Who (if anyone) will use it? (“Will the dogs eat the dog food?”)
- Who (if anyone) will pay for it?

C. Market Value Capture and Business Model
- Can the new venture capture economic rents?
- How easily can the business model be undermined?
- Is the business model a major game changer?

D. Management Team/People/Human Resources
- Do management and other employees have the required aspirations and expertise?
- Can they work together? In bad times? In good times?
- Do they have AAA talent, and can they attract and retain other AAA talent?
- Are they resilient?
- Are they agile?

E. Discovery or Technical Feasibility
- Does it work (e.g. in the lab and in beta tests)?
- Can it scale?

F. Financial and Liquidity
- Can the venture attract initial funds?
- Can the venture attract ongoing funds in order to scale up to a positive cash flow?
- Can assets or companies be acquired at below value to the acquirer?
- Can the venture go public (or otherwise exit) at its underlying value?

G. Governmental/Political/Regulatory
- Will the government assist or undermine the growth of the new venture?
- Will new government regulations accelerate or inhibit growth?

H. Execution and Scaling
- Can the infrastructure be built to get to the market in a timely manner?
- Can problem solvers be found and resourced?
- Are systems in place to scale up the business?

C. Market value capture and business model. One end of this spectrum is where the new venture can capture a significant part of the value it creates. Innovation in the underlying business model can be a major driver in the growth of a company. The paid search model that has powered much of Google's growth is one such example. This paid search model had its antecedents in the pay-per-click search engine approach at GoTo.com (later Overture). The risk end is where minimal or zero value capture occurs. The pay-to-surf business model – where Internet companies pay users based on time spent on the site (surfing) – had minimal success in the late 1990s and early 2000s. . In addition to a new venture's business model, business value capture will be influenced by such factors as (1) the power of the new venture in the industry value chain, and (2) the pricing strategies of potential competitors or substitutes. Many ventures with impressive build-ups of free users of their products face the challenge of how to convert those high levels of traffic to cash. "Freemium" business models that combine elements of free service with a charge for premium services often require an ongoing evaluation of the appropriate mix of free and charged services as new entrants with differing business models come and go.

D. Management team/people/human resources. A new venture typically will have one or more individuals who will lead the charge. Major issues include their aspirations, their abilities and their capacity to work effectively as a team. How ambitious and how hungry for success are they? Are they resilient to bad times and dark moments? Can they attract and retain AAA talent and high performers for the venture? Aspiration levels are very important. A founder with a "three B" cap on their aspirations is unlikely to be one who builds a world-class company that promotes major change. When evaluating a new investment venture, many investors place the highest priority on having or building a AAA management team. A key reason for this is that, in many new ventures, the management team has to change many features of the basic idea before there is market traction. The advantages of a AAA management team to these investors is that the team can both identify quickly and execute effectively the multiple adjustments that may be needed to grow the new venture. A venture with a AAA management team also increases the likelihood that other high-quality people will join the new venture.

E. Discovery or technical feasibility. One end of this spectrum occurs when a major breakthrough or new discovery is made. In the life sciences, it could be a new drug that reduces or delays the impact of, say, breast cancer. In the mining sector, it could be a major new oil or metal discovery. In the computer area, it could be a breakthrough such as occurred at Microsoft in 1990 when Windows 3.0 broke the 640 memory barrier, which meant that Microsoft could build better applications and do more with them. High-technology ventures in areas such as semiconductors and telecommunications are often built on a foundation of disruptive new research breakthroughs. The risk is that no new breakthrough of a commercially viable kind is made. This negative outcome can occur in some cases after US$ millions, or indeed US$ billions, of outlays have been spent. New ventures often have much flexibility as to the level of discovery risk they will undertake. Many extractive industry start-ups, for example, focus on so-called "wildcat areas," where there is little prior exploration but where the upside of a large discovery still exists. Other start-ups may choose to explore in less risky areas that have known deposits of targeted minerals or oil and gas, where the upside of a large new discovery is minimal.

F. Financial and liquidity. Financial risk for a new venture includes not being able to attract sufficient financial support at terms that are acceptable to pursue the targeted opportunities. This can be an ongoing challenge for many new ventures. It arises at the start of a new venture and also over time when available liquid assets are necessary to meet operating expenses. This risk will be affected by the chosen business model and by the investment requirements of a venture before cash inflows from customers and other partners enable it to be cash-flow positive. Asset acquisition can be a key driver in the growth of an early-stage company. Financial opportunities can arise when key assets are acquired at prices well below their value to the new venture. This can occur because the buyer (1) has the capacity to better exploit the value of the acquired assets, or (2) negotiates very effectively when acquiring the assets. Financial risks associated with asset acquisition include overpaying for acquired assets and over-leveraging.

G. Governmental, political and regulatory bodies. Governments and regulatory bodies have much power to open major business opportunities for new and existing companies. For example, the growth of many start-ups in the telecommunication area was powered by the relaxation of prior regulations that favoured an incumbent. The new regulations meant that new entrants could bid for licenses on terms that favoured their rapid expansion. One risk area is regulatory change or governmental withdrawal of previously committed support. There can be many prompts for the withdrawal of such governmental support, some of which are not in the control of the new venture – such as a large macro-economic downturn creating pressure on governments to withdraw taxation incentives for solar industry purchasers.

H. Execution and scaling. Key contributors in companies are people who can keep the train on the track and on time. Companies that are able to scale rapidly and still consistently deliver on their customer, product and employee commitments are exceptional. Such companies can expand their opportunities by taking market share from competitors who struggle to deliver on commitments when rapid growth occurs. The expression "scaling risk" is often used to describe execution risk for growth companies. Scaling risk includes managing the many challenges that have to be simultaneously handled in an often rapidly changing environment.

1.1.5 Growth Strategies and Their Opportunities and Risks. Sections 1.2 through 1.9 present the eight different growth strategies in Exhibit 1-1 and highlight how the mix of the eight opportunities and risks in Exhibit 1-2 differs across the various strategies. Many of the examples we use are drawn from the 70 Executive Cases developed for this report. These Executive Cases cover a broad cross-section of companies in different product areas and different geographies. They include extensive quotations from company founders and other early key players and are available online with the full version of this report. Many are new ventures where their first sizeable growth occurred in the decade from 2000 to 2010. However, we also include examples of classical start-ups from earlier periods in our analysis. The 70 cases are drawn from many regions of the world: North America (19), Latin America (4), Europe (20), Middle East and Africa (6), Asia (16), and Australia and New Zealand (5). We use **bold face** when we refer to a company with an associated Executive Case (and *italics* thereafter) to highlight these companies in this Report.

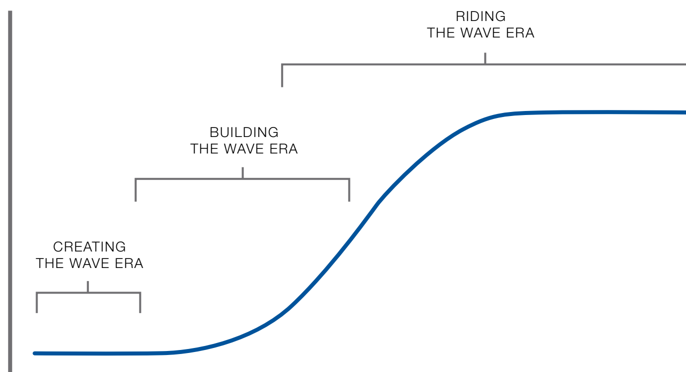
1.2 Wave Ventures

1.2.1 Creating, Building and Riding the Wave. At key times, major shifts occur that transform the business environment and create major new opportunities, both for new ventures and for existing ventures. Exhibit 1-3 shows the distinction among three roles that new ventures can play in wave contexts: (1) creating the wave, (2) building the wave and (3) riding the wave.

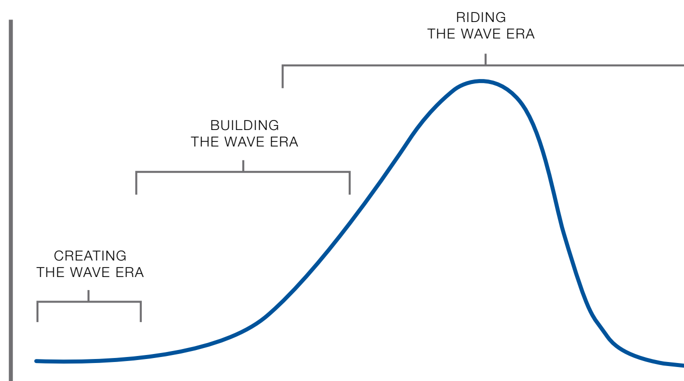
1.2.2 Triple-Play Wave Companies. It is rare that a company is able to be a triple-play wave company: first to create the possibility of a wave, then to play a significant role in its building, and then to continue to be a major player in riding the wave. One of the features of many economic waves is that the number of companies greatly increases as the wave transitions from creation to building, and then from building to riding. In some cases, there might be only one or two companies making the breakthrough that creates the wave possibility. Then more companies might be attracted as the system is built out. Eventually, a broader set of companies might be able to ride the wave. One of the best examples of a triple-play wave company is Microsoft. Box 1-1 provides an overview of the early years of **Microsoft** (1975 US start-up) with quotations from Bill Gates, one of the two co-founders.

EXHIBIT 1-3: CREATING/BUILDING/RIDING THE WAVE AND COMPANY GROWTH

WAVE THAT BUILDS AND CONTINUES BEING A MAJOR ECONOMIC FORCE



WAVE THAT BUILDS AND THEN RECEDES



BOX 1-1

MICROSOFT AS A TRIPLE-PLAY WAVE COMPANY:

Co-founder Bill Gates Gives His Views

Very few companies 1) help create a major new business wave, 2) play a key role in building that wave, and 3) continue to ride that wave. We call such companies "triple play wave companies". **Microsoft** is a premier example. The wave starts out as desktop computing and then builds to encompass broader aspects of the computer industry. Not only is this wave a very large opportunity, but it has continued growing over at least three decades. *Microsoft* was incorporated in 1975, although it had its genesis earlier. Bill Gates, one of the two co-founders commented: "The idea behind *Microsoft* goes back to the late 1960s when I was 13 and a bunch of us – me, Paul Allen, and a group of friends – started experimenting with computers and writing programmes. In some ways, we were just kids having a great time playing with very expensive toys. But at the same time, Paul and I were captivated by the power of what we were able to do with information as we got better at programming. Then, a few years later, in the early 1970s when Intel introduced the very first microprocessor chip, we recognized that something very important was happening – microprocessors would become more and more powerful very rapidly, and that this trend would lead to a new kind of computer that was affordable, adaptable, and personal. We recognized that there was going to be a huge opportunity in writing really interesting software that lots of people could use at work and at home. The scope and scale of our ambition was always quite big. We captured this pretty well in our founding vision to put a computer 'on every desk and in every home'." One distinguishing feature of companies that help build a wave in an important way is the stimulus they provide for many other companies being formed. Gates commented that they had a "focus on helping to build an entire industry around personal computing. We worked with a lot of software companies and PC companies to help get them off the ground and create a market for both software and PCs. Building this ecosystem was critical to our success." *Microsoft* and many new companies formed with products that ran on its operating system created a virtuous cycle. *Microsoft* and the other companies in the evolving eco-system reinforced each other in the building of the wave that enabled the desktop computer revolution to change the business world.

1.2.3 Creating the Wave. Some ventures that help create a wave do not manage to continue to build and then ride that wave. Consider social networking ventures. An important early company in social networking, SixDegrees.com, was formed in 1997. It did not survive long enough to benefit from riding the wave it helped to create. The following two key players in social networking in the 2000s purchased one of SixDegrees.com's patents in 2003: (1) Reid Hoffman, the founder of LinkedIn and an investor in Facebook and Zynga, and (2) Mark Pincus, the founder of Tribe.net and co-founder of Zynga.

1.2.4 Building the Wave. Companies formed after wave building has started can still play key roles in further building the wave. MySpace in 2003 and then Facebook in 2004 came after earlier companies (such as SixDegrees in 1997, LiveJournal in 1999, BlackPlanet in 1999, Cyworld in 2001 and Friendster in 2002) had played a role in either creating or building the Internet wave. MySpace and Facebook spurred many other companies that were able to either help build or ride the social networking wave.

Consider Zynga (2007 US start-up), which is a social network game developer that develops games for use on social networking sites such as Facebook as well as on a standalone basis. Founded in 2007, Zynga has experienced explosive upside growth with over 1,000 employees in late 2010. The success of its individual games such as FarmVille and CityVille make for a richer experience for many users of Facebook. Facebook and Zynga have a symbiotic relationship that results in the social networking wave continuing to grow. The "Facebook Platform Economy" phrase is now used to describe the many companies who derive a sizeable part of their revenues from payments received from users of Facebook. Recognition of the importance of this wave is the acquisitions by larger established companies of start-up companies that were setup to operate within the social networking economy – such as the acquisition of Playfish by Electronic Arts.

The Internet is a massive wave that has led to the creation of thousands of companies all around the globe. Over time, such a new infrastructure can become so ubiquitous that is no longer viewed as a wave. Rather, it becomes a general underpinning of commercial activity. The Internet in the eyes of many has achieved this status. However, for many years after its early days, companies were formed that promoted increased confidence by users that the Internet would be a major new addition to commercial activity. **Check Point Software Technologies** (1993 Israel start-up) focused on Internet security. This was at a time when companies that could overcome pain points associated with Internet security breakdowns had an attractive customer base. Box 1-2 provides details on how *Check Point* helped build the wave, as well as ride it.

BOX 1-2

CHECK POINT SOFTWARE TECHNOLOGIES HELPS BUILD THE INTERNET WAVE AND THEN RIDES THE WAVE BOTH UP AND DOWN:

Co-founder Gil Shwed Gives His Views

Gil Shwed, co-founder and CEO of **Check Point Software Technologies** describes its genesis as follows: "I was a 20 year old a soldier for a technology unit of the Israeli Defense Forces. My task was to connect two classified networks and ensure that only certain information passed between them. The solutions I found in the marketplace didn't satisfy my needs and drove me to come up with my own solution, one that was flexible, programmable and very fast." In 2003, Shwed and two other co-founders (Marius Nacht and Shlomo Kramer) founded *Check Point Software Technologies* with "the vision of making Internet connectivity secure." Making the Internet more secure was important for helping build the Internet wave. Shwed noted, "When we started in 1993 the Internet had several hundreds of companies connected. It was a small yet exciting and fast growing market. Use of the Internet has grown beyond everyone's expectations and so did *Check Point*. The growth of the Internet was the main growth driver for *Check Point*." Its revenues (in US$ millions) and headcount from 1996 to 2003 show the dramatic growth to 2001 and then decline as the dot-com boom burst and also when a dramatic reduction in technology spending occurred:

	1996	1997	1998	1999	2000	2001	2002	2003
Revenue	$ 34	$ 86	$ 141	$ 219	$ 425	$ 527	$ 426	$ 432
Headcount	90	200	333	522	811	1,137	1,203	1,145

(in US$ millions)

Shwed noted that in "in 2001 to 2002, following the dot-com bubble bursting and September 11th, we had to work hard to create growth (or actually face a 20% decline like in 2002). This was a big change in company culture and processes." A stunning aspect of *Check Point's* performance is that in both the revenue increasing (1996 to 2001) and revenue decreasing (2001 to 2002) years its net income to revenue per cent was always above 35%.

1.2.5 Riding the Wave. Companies can ride the wave either (1) at their inception or (2) later by adapting their strategy and products to better ride an important wave that may help them build financial viability and stature. In some cases, this adaptation is an imperative for survival. In other cases, the adaptation may be an opportunistic move to better position the company for additional growth. In 2005, **eAccess** (1999 Japan start-up) added **EMOBILE** to better ride the mobile telecommunication wave in Japan. One feature of many waves is that there is a continual build-up for an extended period of new companies attempting to ride the wave. Many of these late arrivals will not pass a market test and will either fail or will be acquired by other players at "nominal" acquisition prices.

1.2.6 Opportunities and Risks for Wave Ventures. Opportunities and risks can arise at all stages of creating, building and riding the wave. In the early days of many major shifts in a business environment, there is uncertainty and even strong differences of opinion about whether a wave is even forming, let alone whether it will be a small or a large wave. These are the categories of market size and market value creation shown in Exhibit 1-2 and discussed in Section 1.1.4. In 1977, Ken Olsen, the founder of Digital Equipment Corporation (DEC), stated, "There is no reason for any individual to have a computer in his home." This quotation was taken by some as expressing a strong disbelief in whether the personal computer wave would even form. Waves can be much more clearly identified after they have formed than when they are forming. There is also the related uncertainty of both the timing and speed of wave formation. An additional risk with some waves is both the timing and magnitude of the possible ebb of the wave. David Spreng of Crescendo Ventures commented, "Many investors have lost large amounts of money by staying on the wave too long and not recognizing it was not only slowing but was about to dry up."

All companies that create value with their products face the challenge of capturing the rents from their value creation. Companies that are formed

to ride the wave face the extra challenge of where in the customer/adopter value-chain they commercially fit. This includes negotiating a good slice of the total revenue pie. Many new ventures formed to ride the wave must negotiate for necessary financial and other components of their strategy with much larger and financially stronger companies. In the late 1990s, some companies negotiating with AOL found that a significant part of their early funding was captured by AOL as a toll for gaining online distribution. This high toll meant increased risks for these new ventures if the predicted revenues from their distribution deals did not materialize – both in amount and in timing – as assumed in their financial strategy plans and budgets.

1.3 New Product In New Category Ventures

1.3.1 Terminology. The distinction between a new product in a new category (discussed in this Section 1.3) and a new product in an existing category (discussed in Section 1.4) is one of degree. From a product design perspective, almost all products labelled as belonging in a new category will have some features that are in existing products. Similarly, some products labelled as belonging in an existing category may have some relatively new or novel features that are their points of differentiation.

1.3.2 Consumer and Investor Views. From a consumer's viewpoint, a new-category product may mean be in an area where they have not experienced "anything comparable." Alternatively, it could be a new application for a product already in existence for other applications. With regard to obtaining financing for the products, different classes of investors can have varying preferences for new-category or for existing-category products, depending on their return and risk preferences. New-category products are typically seen as having a higher revenue growth potential, but at a higher risk for achieving that potential.

1.3.3 New Product Strategies. New-product companies can differ greatly in their ongoing product strategies. Some companies keep their first successful new product as a core and add ongoing features to that core product. Other companies build an ongoing new-product pipeline where the aim is to develop a sequence of new products. Here, the initial product may even cease to remain in the available product offerings.

1.3.4 Case Examples. There are multiple and diverse examples of new products in new categories contained in the Executive Cases developed for this report:

A. New products targeted at perceived gaps in the marketplace. **jetBlue** (1999 US start-up) was founded to build a new value category in the airline market that combined a high-quality customer experience with a lower than average price. The strategy from the start was to combine higher quality and lower price in a single-class cabin where all passengers received equal treatment with no differentiation based on the location of their seats.

B. New products targeted at solving pain points of existing customers. **Business Objects** (1990 France start-up) addressed the increasing pain point of business executives who could see rapid growth in their company databases but could not easily access them without reliance on IT staff. **Atlassian** (2000 Australia start-up) addressed the lack of easy-to-use products at low price points that software developers could access in their developmental tasks.

C. New products that address a problem arising from changed economic circumstances. **Refinancia** (2005 Colombia start-up) was formed to create new investment products from the many nonperforming loans that Colombian banks and other financial institutions had on their books, especially during economic crisis years.

1.3.5 Opportunities and Risks for New Product in a New Category Ventures. Market value creation and customer adoption (see Section 1.1.4 and Exhibit 1-2) is a central issue with new product in a new category ventures. The phrase "will the dogs eat the dog food" is sometimes used to describe this risk. Where the customer has to be educated about the existence of a new product and its features, there is always the possibility that the customer either does not want to try it or, after trying it decides it does not provide the requisite value to justify adoption. Peter Farrell, the founder of **ResMed** (1990 Australia start-up) commented, "Successful growth strategies depend upon innovation and execution. Innovation only occurs when someone writes a check; only the market place determines if a company innovates."

The opportunity and risk with respect to market size is often higher with products in a new category than with products in an existing category. For example, in the early days of **eBay** (1995 US start-up) there was significant scepticism about the size of the potential market that it could address. Some sceptics labelled it a "flea market on the Web" and concluded that the online flea market was relatively small. Geoffrey Moore's concept of "crossing the chasm"[1] is highly applicable to sophisticated new products (especially of a technology kind) where there may be early adoption by sophisticated users but limited adoption by the mass market.

New products in a new category can have regulatory risk or adoption constraints where there is ambiguity over the product definition. For example, in the early days of fantasy sports, several US sporting leagues took the view that fantasy sports had aspects of gambling, to which they were opposed. In contrast, in other countries (such as the United

Kingdom) gambling is not only permitted but embraced as a way to build fan avidity. It also provides additional revenues for leagues in those countries from the gambling companies themselves. Sports-gambling, market-exchange companies, like the United Kingdom based **Betfair** (1999 United Kingdom start-up), are not permitted to enter the US market, so a very large potential market is currently not available to *Betfair.*

Umang Gupta, Chairman and CEO of **Keynote Systems** (1995 US start-up), noted the heightened uncertainty with new-category products. "When you are making a new product, and you don't have any customers, how do you know that there are going to be thousands of people wanting this? You build products either based on very good vision or very good hearing." Kumar Malavalli, co-founder and first CTO of **Brocade Communications** (1995 US start-up) commented, "One challenge was in the area of market acceptance. It was not easy to make the industry understand why our technology was needed. Storage area network (SAN) was a new concept. People had never heard of it. It was disruptive. There was a 'show me' mentality within the industry. When our few initial customers implemented the solutions based on our technology and product, we established some credibility and started creating demand."

1.4 New Product In Existing Category Ventures

1.4.1 General. Many new ventures bring a product to market that, from either a design perspective or a user perspective, already has comparable products in the market. The Executive Cases include multiple examples of an existing product in an existing category ventures. Many of these companies seek to create a differentiating feature or are set up to exploit market opportunities due to difficulties that existing market players are facing.

1.4.2 Existing Product Flaws. A new entrant into an existing category can take advantage of product quality inconsistency, price-to-value imbalances and other product flaws in the existing market place. The **China Lodging Group** (2005 China start-up) believed that there was a sizeable market opportunity in the Chinese lodging industry. Its 2009 revenues were over US$ 1.2 billion and its 2009 headcount was over 6,000.

1.4.3 Market Changes. A new entrant can take advantage of macro-economic or external changes that create a more protected market opportunity for existing or new entrants into an established market. **Dielectric Cable Systems-DKC** (1998 Russia start-up) started in the traditional product area of electrical cables. After the collapse of the Russian economy in the late 1990s, there was a rapid increase in the cost of imported cable products into Russia. DKC used advanced technologies to develop a full product line that enabled the company to build significant market share in the Russian market relative to other domestic companies.

1.4.4 Social Changes. A new entrant can combine elements of social trends to develop a differentiated product opportunity even though many substitute products exist. **Innocent** (1998 United Kingdom start-up) develops, markets and supplies fruit and yoghurt drinks. It entered a "smoothie" beverage product category with already existing players. The company differentiated its product by making it from 100% pure fruit and excluding additives. Using effective marketing and distribution, *Innocent Drinks* has become a well-recognized brand in the United Kingdom with 2010 revenues of over £ 100 million.

1.4.5 New Means of Distribution. A new entrant can use the Internet distribution channel to build a new venture. Box 1-3 shows how Natalie Massenet used the Internet as a key underpinning of her **NET-A-PORTER** (2000 United Kingdom start-up) venture in high-end fashion retail.

1.4.6 Opportunities and Risks of New Product in Existing Category Ventures

A. Product differentiation and market share. The challenges for most new ventures focusing on an existing-category product opportunity include (1) how to develop a point or points of differentiation and (2) how to successfully market the new entrant to build market share. There are multiple points of differentiation that can create opportunities for new entrants, such as product design, product features, quality, reliability, marketing, distribution strategy and pricing. However, incumbents might be able to quickly diminish these points of differentiation. These incumbents often have deeper pockets and relationship advantages that a new entrant can face difficulties in matching. For example, many new entrants into the food and beverage arena reach a certain level and then decide to sell the company to one of the global food or beverage companies. Part of the initial business plan for such start-ups often includes as a possible exit strategy "trade sale to a global company". The threat of incumbents' attacking such start-ups in their own product space, or acquiring the start-up before it reaches sizeable scale, often makes such companies less attractive to high-return, high-risk investors.

B. Market value creation and market size. There is typically much less market value creation risk with a new product entering an existing category than with a new product entering a new category. The existing category often has a well-defined user base. There is also much less of a risk in entering an existing category with regard to the size of the market.

BOX 1-3

THE INTERNET CREATES A NEW DISTRIBUTION CHANNEL AND A WAVE OF NEW VENTURES:

Natalie Massenet has a Mind Explosion and then Founds **NET-A-PORTER**

In the mid 1990s to early 2000s, there was much scepticism about whether the Internet would become an important retail distribution channel. *NET-A-PORTER* (website launched in June 2000) and its founder Natalie Massenet is a poster child for a highly successful online retail venture started in that era. Many expressed extreme scepticism about Massenet's ability to put the pieces of her puzzle together. She describes the genesis of the company as follows: "I logged onto the Internet back in 1998 and it was like a mind explosion. I saw the potential to start a business selling fashion online to a global market but spent my time convincing other people they should do it. When I realized they were not seeing the same opportunity and had no interest in doing it, and then I naively said, I'd do it. From the start, I wanted hot brands; the clothes that magazines were writing about, but were hard to get hold of. We would sell them with luxury service and style. Because of my fashion magazine background, the website had to be editorial. I wasn't trying to transform the store, I was trying to transform the magazine because the magazine was still a great way that women found out what to buy. I thought: Wouldn't it be amazing if you could tell (readers) what to buy and also give it to them, with one click, without them having to move? For me it was definitely about merging the store with the magazine." Massenet had a rich background in the fashion world. She had worked for WWD (Women's Wear Daily) and was Isabella Blow's assistant at Tatler magazine. Her relationships with high end fashion companies – such as Jimmy Choo, Michael Kors and Chloe – were pivotal in building an impressive set of merchandise to sell. Many people who criticized the vision of *NET-A-PORTER* argued those designers would "never ever" be willing to see their current season fashion items sold online. *NET-A-PORTER* also used creative marketing and branding to build an elite and customer-friendly site where both the magazine and store were married together. Over a 10-year period from the launch of the website in June 2000, revenues have grown to over £ 100 million. Richemont, the Swiss luxury goods maker and an early investor, moved to slightly less than 100% ownership in 2010.

1.5 Redesign of Business Value Chain Ventures

1.5.1 Changes in the Business Value Chain. Value chain restructuring can take many forms. A major phenomenon in the last 50 years has been the increased hollowing-out of the corporation. Associated with this trend has been the emergence of new ventures in business process outsourcing (BPO). A second major phenomenon is the growing sophistication of value chain management. Associated with this trend has been the emergence of new ventures attempting either to build a position in the existing value chain or to play a role in restructuring the existing value chain. Our Executive Cases include multiple examples from around the globe of companies associated with one or both of these two phenomena.

1.5.2 Business Process and Knowledge Process Outsourcing. The emergence of major Indian BPO companies – such as Infosys (1981 India start-up) and Satyam Computer Services (1987 India start-up, now Mahindra Satyam) – has been instrumental in building an important new vertical market business around the globe. These companies have also provided positive role models for many subsequent start-ups. New ventures in this area can have very high growth rates in headcount, often of technical IT personnel. Examples from our Executive Cases include:

A. Portfolio of IT expertise. Some BPO companies with general IT capabilities attempt to build over time a portfolio of IT expertise areas. **Mindtree** (1999 India start-up), which is one of the fastest growing BPO companies in the last decade, built out its areas of IT expertise and is now structured along multiple-industry vertical markets. In the last decade, its headcount grew from less than 100 in 1999 to over 7,000 in 2009. **Globant** (2003 Argentina start-up), which aims to be the leading outsourcing company in Latin America, has grown headcount from 70 in 2004 to over 2,000 in 2010. It promotes its expertise in design as well as engineering as a point of differentiation from other BPO companies.

B. Specialties of IT expertise. Other BPO companies with strong IT capabilities focus on specific areas of expertise. **Grid Dynamics** (2005 Russia start-up) has a strategy based on cost-efficient innovation. Boris Renski, its executive VP of marketing, stated that it originated as a "product company, focused on developing a set of tools for helping enterprise applications leverage various cloud computing services. However, over a short period of time, the market took the company where the need was the most acute – services in the space of highly scalable application infrastructure."

C. Research outsourcing. Research is a growing area where outsourcing companies are building new opportunities. **Evalueserve** (2000 India start-up) is a pioneer in what is now called knowledge process outsourcing. Their initial (and still dominant) focus is a

"third-party delivery model to niche segments of high-end research." This includes customized financial and investment research, business research and market research. **Macromill** (2000 Japan start-up) is a leading online research company in Japan. It was originally founded to provide quick, high-end, research deliverables but has subsequently broadened to include qualitative and quantitative marketing research for companies. In 2010, it merged with Yahoo! Japan Value Insight to become the premier player in Japanese online research, with over 3,000 corporate and governmental customers.

1.5.3 Value-Chain Producers and Inefficiency Reducers. Many recent start-ups use information technology to improve responsiveness and reduce areas where activities that do not add value may be occurring. Some examples:

A. Companies coordinating key elements of an industry value chain. **eSilicon** (2000 US start-up) describes itself as a value-chain producer (VCP). The company uses pure play foundries (such as the Taiwan-based TSMC and UMC) to manufacture semiconductor chips and uses companies such as Amkor and SPIL to assemble the package onto the chip dies. *eSilicon* has its own physical-design engineers and process-yield engineers who manage the whole process from design, through component manufacturing, to production (often in high volumes) of the chips. Customers place orders with *eSilicon* and not with the foundries or package houses. In 2009, VCP was adopted by the Global Semiconductor Alliance as a new category of companies.

B. Companies restructuring the industry to reduce activities that add no value. Openlane (1999 US start-up) identified major inefficiencies in the process by which many fleet vehicles and off-lease vehicles are traded. The system for decades has been based on cars being physically shipped to auctions yards and then being either sold or returned to their storage locations. Many companies undertook activities in this long and costly process. Openlane created an online infrastructure that reduces the time and overhead associated with physical auctions. Moreover, the auction site enables transactions to occur on a 24x7 basis.

1.5.4 Opportunities and Risks of Value-Chain Redesign Ventures

A. Opportunities. Labour cost arbitrage was an important early driver of the large opportunities in this category of ventures. **Genpact** (1997 India captive start-up) has had continued explosive growth, about which Pramod Bhasin, a co-founder and the CEO, noted, "The economic proposition was just so compelling. You could save 30% to 40% on the basic work that you did. *Genpact* exploded from that simple concept. I knew we were onto something fantastic, when we put out an ad to recruit 21 people and we got 8,000 applicants, out of whom 5,000 were fully acceptable."

B. Market value-capture risks. Value capture (see Section 1.5.4 and Exhibit 1-2) is a major risk area for many new companies in this category of ventures. The barriers to entry can be relatively low in the BPO sector, so there is a continual flow of new companies entering. Commoditization can result in much pressure on profit margins. Multiple segments of the global outsourcing industry have experienced an ongoing cycling down to lower-cost geographies. For example, Indian outsourcing companies now face growing competition similar to that which has occurred as apparel and shoe companies outsourcing their production have shifted over time to lower and lower-cost geographies.

C. Execution risks. New ventures also face execution risks, including personnel hiring and retention as well as system uptake availability. These new ventures often dramatically scale up their headcount, which requires investment in identifying and retaining high-quality personnel. There also are often challenges in providing 24x7 system availability from parts of the world where physical infrastructure is not always reliable. New ventures in this area often seek to establish points of differentiation to create an umbrella to maintain reasonable margins.

1.6 Discovery and Research Knowledge Ventures

1.6.1 General. Discoveries have been an important foundation for many early-stage companies. Two important discovery areas are the life sciences sector and the extractive industries sector. In each area, new ventures have a broad spectrum on which to position their initiatives.

1.6.2 Life Sciences Sector

A. Research and development. Companies that seek to discover major product breakthroughs for medical diseases or conditions – such as cancer, diabetes or baldness – face daunting risks of success. However, there can be a very large payoff if a successful new product is created. New ventures that start at the very early stages of the discovery process face a long period before revenues come in from the end users of the discovery. **GenPharm** (1988 US and Netherlands start-up), which was established to be a pioneer in the field of transgenic animal technology, was a merger of two companies (*Genfarm* of Netherlands and Chimera Biotech of California), both of which had been established earlier in 1988. Transgenic animals are animals whose genetic structure has been altered by introducing or deleting DNA. This engineered alteration aims to produce either human proteins in the animals' milk or human antibodies in their blood. Over its path to commercialization, *Genfarm* had multiple cash infusions (from venture capital firms, from Big Pharma and from government grants) to maintain its ability to progress towards final customer revenues. When it was acquired by Medarex in 1997, *Genfarm* had minimal revenues (US$ 6.141 million in 1996) but had made significant progress in the milestones to commercialization.

Subsequently, Medarex was able to benefit greatly by the eventual market success of the products it acquired with the *Genfarm* acquisition.

B. Acquisition and development. Another approach for a start-up in life sciences is to focus on the back end of the period from research to commercialization. **Jazz Pharmaceuticals** (2003 US start-up) focuses on acquiring drugs that are about to be commercialized or are very far along in that process. The company noted that its approach requires "an unusually large initial financing designed to allow the company to pursue multiple developmental programmes and to run a true portfolio process, without allowing funding constraints to unduly narrow that portfolio." One year after its founding, *Jazz Pharma* raised US$ 250 million in private equity financing. Relative to start-ups focused on the high upstream end of the research commercialization process, *Jazz Pharma's* revenue pipeline started at a very early stage in its company life. Founded in 2003, the company reported revenues of US$ 21 million in 2005, and by 2009 the revenues were US$ 128 million.

1.6.3 Extractive Industries Sector

A. General. The extractive industries have a large number of start-ups in many parts of the globe. For example, the Australian, Canadian and South African stock exchanges have numerous exploration or production companies in mining, metals, oil and gas.

B. Early exploration. Many extractive companies are involved in early exploration. Here there is very low probability of finding significant reserves for any one company but very high payoffs if that discovery is made. **Paladin Energy** (2003 Australia start-up) is a uranium exploration and production company with significant uranium mining rights in Africa. It acquired mining rights in both Namibia (in 2002) and Malawi (in 1998). Further exploration proved that these sites have significant bodies of uranium oxide ore. *Paladin* then had to build the production infrastructure both to mine the uranium and to bring it to market. *Paladin's* first 12 months of production spanned 2007 and 2008, and its revenues for that period were US$ 102 million. Two years later, its

BOX 1-4

FORTESCUE METALS JOINS THE BIG 3 GLOBAL IRON ORE COMPANIES OVERCOMING DAUNTING CHALLENGES AND LONG ODDS – REVENUES OF US$ 1.800+ BILLION IN YEAR ONE OF PRODUCTION:

Founder Andrew Forrest Gives His Views

For many decades, three companies have been the dominant global producers of iron ore – BHP Billiton, the world's largest mining company with over a 100-year heritage; Rio-Tinto, a British-Australian multinational mining company also with a 100+ year heritage; and Vale, a Brazilian-based multinational mining company with over a 60+ year heritage. In 2003, Andrew Forrest started **Fortescue Metals Group** out of Perth, Australia. Forrest had previously founded Anaconda Nickel (now Minara Resources), which is a major global nickel mining company. The targeted iron ore exploration area was the Pilbara region of Western Australia, where Forrest had spent much time as a child. Both BHP and Rio-Tinto were the dominant producers of iron ore from this region and had built a railway (over 100 kilometres long) to carry the iron-ore from the inland areas of the Pilbara to a port where it was loaded onto boats going to large markets, such as China and Japan. The first milestone *Fortescue* passed was discovering a major new iron ore deposit. However, this was a "stranded asset." Without a railroad or a port, it was uneconomic to start mining. Unfortunately for *Fortescue*, BHP and Rio-Tinto were not willing to allow the new entrant extensive use of their railway and port. Legal challenges and political lobbying did not enable quick resolution. Forrest's resolve was to raise the money to build his own railway and port. He was determined to overcome the blockages put in front of him by the two heavyweight incumbents operating in the Pilbara. Forrest made the following observations on his uphill journey: "Becoming the 'new force in iron ore' was a vision and a cultural mantra adopted throughout the company. The long term vision and ability to expand rapidly and take on the three major incumbents have been core components of every project design since day one. Even though *Fortescue* has become the 'new force in iron ore' in an amazingly short period of time, its vision remains firmly fixed on expanding the scale of its current output almost tenfold. The capital cost to fund the construction and early operation of a mine, rail and port is a massive barrier to entry. For a company with no production track record and few assets, apart from stranded iron ore deposits, securing approximately US$ 2 billion from the high yield bond market to overcome that barrier to entry was extremely challenging." On 15 March 2008, less than five years after its start, *Fortescue* loaded its first ore onto a ship bound for China. It had overcome some of the biggest odds ever to face a start-up mining company with such high aspirations. Its revenues in its first 12 months with full production were over US$ 1.800 billion!

annual revenues had grown to US$ 204 million. **Fortescue Metals Group** (2003 Australia start-up) is another company that highlights the extreme nature of the payoffs from a successful discovery and successful building of an infrastructure to mine and deliver product to market. From 2003 to 2007, *Fortescue* was in its iron ore exploration and development mode. After overcoming multiple obstacles, its full first year of production in 2009 yielded revenues of over US$ 1.800 billion. See Box 1-4 for more information.

1.6.4 Opportunities and Risks of Discovery Ventures

A. Opportunities. The Executive Cases include many examples from the "high-tech" sector where innovative products were based on research breakthroughs. **Silicon Spice** (1996 US start-up) had a major failure with its first attempt to build "a single communications modem chip that would greatly reduce the bandwidth problems facing users of the Internet." After this first failed effort in late 1998, Vinod Dham brought his own team of engineers to *Silicon Spice*. Dham was one of the architects to develop the Pentium processor at Intel (1990 to 1995) and was known as "the Father of Pentium." The new team was able to make substantial progress, and by 2000 they had achieved an important technical breakthrough – but as yet were pre-revenue. The new product, Calisto, "enabled a new generation of high-density carrier-class voice gateways. It dramatically reduced our customers' system power and cost while operating on a single device." In October 2000, Dham completed the sale of *Silicon Spice* to Broadcom in a US$ 1.2 billion equity transaction.

B. Risk selection. Discovery or technical feasibility risk is the single largest risk factor for many of the start-up companies in this category. No commercial discovery is often the outcome of many investments in this category. Note, however, that start-up companies have much flexibility on the risks they choose to face. In both the life sciences and extractive industries, there are many alternatives available. Companies can focus on fundamental new discovery or new exploration in areas where there is very high uncertainty. Alternatively, they can focus on the lower risk areas where discoveries have been made but there may still be uncertainty as to the commercial significance of the discovery. Some life science companies have partnership agreements with Big Pharma that provide front-end cash in return for Big Pharma's receiving a portion of any subsequent revenue stream. These agreements mean less value capture by the new venture but may be essential to their survival. Often, the Big Pharma agreements enable the new venture to seek projects with larger upside than they could do on their own.

C. Commodity price risks. An important market value capture risk for extractive industry start-ups is commodity prices. Commodity price movements can greatly affect a company's ability to capture rents from its exploration and production activities. *Paladin Energy* faced a bleak future for many years as a uranium producer when the world price of uranium was below US$ 10 per pound for much of the 1990 to 2002 period. From 2007 to 2009, however, the world uranium price was in the range of US$ 40 to US$ 90 per pound, which dramatically increased *Paladin's* ability to capture economic rents from its exploration and infrastructure-building effort that had occurred over the prior 15-year period. New ventures in oil exploration and production face the same issues as uranium producers, shown by the following US spot prices per barrel of oil published by the US Energy Information Administration: January 1990, *US$ 18*; January 2000, *US$ 22*; January 2005, *US$ 33*; January 2007, *US$ 51*; January 2008, *US$ 88*; July 2008, *US$ 133*; January 2009, *US$ 31*; and January 2010, *US$ 74*. These major shifts, from a low of US$ 18 to a high of US$ 133 per barrel, can greatly affect the economics of oil production by a new venture with proven oil reserves.

D. Governmental and regulatory opportunities and risks. Governmental and regulatory actions can have major impacts (either positive or negative) on discovery ventures, as illustrated by the following: **(1) Stem-cell regulations**. Companies that were formed in the US to pursue stem-cell research have encountered major shifts in their regulatory environment. The legality of stem-cell research has shifted several times over the Clinton, Bush, and then Obama administrations. These major shifts have dramatic impacts on the ongoing viability of stem-cell ventures. **(2) Mining restrictions.** Ventures in the extractive industries face governmental and regulatory risks in multiple areas. In several countries, there have been governmental restrictions on new uranium mining activities, effectively capping growth by many companies in this sector. **(3) Taxation**. In early 2010, the Labour government in Australia proposed a new rent resources tax that would have dramatically increased *Fortescue Metals*' taxation obligations. *Fortescue* and other large extractive industries companies mounted an intense lobbying effort that was partially successful in reducing the magnitude of this proposed tax.

1.7 Rollup (Aggregation) of Existing Player's Ventures

1.7.1 General. Acquisitions, mergers and joint ventures are an important element in the growth strategies of both existing and new companies. In many cases, these activities are opportunistic and are additional to a more mainstream focus on organic growth. A subset of new ventures (or restarted ventures), however, explicitly make acquisitions a core and major engine of their growth strategy. We refer to this new venture strategic classification as a rollup (aggregation) of existing players.

1.7.2 Acquisition to achieve scale. WPP (1985 United Kingdom restart by Sir Martin Sorrell) is a highly successful example of the aggregation strategy. An early landmark in *WPP's* history was the 1987 acquisition of J. Walter Thompson, which represented over 10 times the revenues of *WPP* at the time of its acquisition. An important benefit of this strategy is the potential to achieve scale quickly. In its first 10 years, *WPP* grew its revenues from £ 23 million in 1986 to £ 1.554 billion in 1995. Verio (1996 US start-up) is a more recent example of achieving scale via a rollup strategy. Its focus is on the Internet service provider (ISP) and Web-hosting market. The company was founded by Darin Brannan with the object of quickly becoming a major ISP and hosting company targeted at the small- to medium-sized business market. Brannan raised over US$ 1 billion in private capital over a four-year period and used much of it to acquire more than 40 ISPs (mostly in the US). The company's revenues increased from US$ 35 million in its first full year to US$ 258 million in 1999 before it was acquired by Nippon Telegraph and Telephone in 2000 for over US$ 5 billion. The company's 1999 annual report stated that a key part of the company's strategy was to "build scale, market presence and service offerings through acquisitions and strategic relationships."

1.7.3 Opportunities and Risks of Rollup (Aggregation) Ventures

A. General. Two of the key opportunity and risk areas shown in Exhibit 1-2 are (i) financial and liquidity, and (ii) execution and scaling. Both are very important for rollup new ventures.

B. Financial risks. Financial risks for aggregation ventures include at least two key aspects: **(1) Overpaying for the company and assets acquired.** The stellar companies that pursue an aggregation strategy typically operate with strict guidelines on what to pay. CRH is an Irish-headquartered building-material company that is now one of the top two companies in its sector worldwide. Its genesis was a 1970 merger of two Irish companies (Irish Cement and Roadstone) that had a combined revenue of 26 million euros at that time. The company's global growth has been fuelled by an aggressive roll-up strategy (16 acquisitions in the 1970s, 49 in the 1980s, 189 in the 1990s and 556 in the 2000s). Its 2009 revenues were over 23 billion euros. The company's acquisition strategy includes (a) maintaining tight discipline over the maximum price to pay for each business acquired and (b) providing strong incentives to the management and employees of the companies it acquires. To set acquisition price guidelines, CRH uses a database consisting of over 800 acquisitions of building-material companies. **(2) Heavy reliance on debt financing.** Debt financing is a two-edged sword. It is beneficial in expansionary times where there are appreciating assets. However, debt can greatly reduce flexibility in recessionary times, especially when there is a major decline in the value of the underlying assets.

C. Execution risks. Acquisition integration is a key area of execution risk with an acquisition strategy. This can be especially challenging in acquiring early-stage companies because there is typically no established in-house knowledge as to what works and what does not work for mergers or acquisitions of early-stage companies. One executive who lived through the merger of two early-stage online companies in the early 2000 period stated that it was "like two people with very bad coughs getting together for a bout of pneumonia."

1.8 Governmental/Political/Regulatory Change Ventures

1.8.1 General. There is a diverse set of contexts where governmental, regulatory or political factors have been important prompts to the creation or growth of new ventures, as discussed in the following subsections.

1.8.2 Regulatory Changes Attracting New Entrants. The global telecommunication industry has seen many start-up ventures that benefit from, or indeed are only made possible by, changes in governmental regulations. Digicel (2001 Jamaica start-up) has benefited greatly by deregulation of the telecommunication market in many Caribbean countries. For example, in 1997 Jamaica opened its telecommunication market to broader competition where, for many years, Cable & Wireless had had a preferred position in obtaining licenses. Digicel has experienced explosive growth in many of the countries in which it has set up operations. By 2010, it had grown to over 11 million customers across 32 countries in the Caribbean, Central America and the Pacific and had over 5,000 employees. Bharti Airtel (1995 India start-up) likewise has benefited from changes in the Indian regulatory environment with regard to the granting of telecommunication licenses. By 2010, it was the largest cellular service provider in India, with over 140 million subscribers. It now operates in over 20 countries across Asia, Africa and Europe.

1.8.3 Privatization of Governmental Activities. Privatization efforts by many governments worldwide have often led to the formation of new companies to acquire the assets being transitioned from public-sector to private-sector management. This process may involve varying degrees of wealth creation versus wealth transfer. Wealth creation can occur, for example, when the new venture is able to effect significant cost reductions and efficiency gains, often through early sizeable reductions in headcount. Many such examples have occurred in the transportation sector – such as with railroads, airports and toll roads. Wealth transfer can occur when new ventures acquire previously owned government assets at below-market prices.

1.8.4 Outsourcing of Governmental Activities. Two examples of this business opportunity include new ventures in the private security area

and in the prisons area. A side effect of the wars in Afghanistan and Iraq is the setting up and growth of new private companies due to the US government's decision to allow private companies to assist in its activities in war zones. Mission Essential Personnel (2004 US start-up) is a "professional services company that provides human-capital solutions and programme support to government and corporate clients." A major breakthrough for the company was being awarded the "Operation Enduring Freedom – Afghanistan Language Contract."

1.8.5 Governmental Programmes Promoting Environmental Causes. There are multiple ways that governments can promote new ventures in green technologies and other environmental causes. Tesla Motors (2003 US start-up), according to its website, was "founded by a group of intrepid Silicon Valley entrepreneurs to prove that electric vehicles could be awesome". One of its key aims is to "lessen global dependence on petroleum-based transportation and drive down the cost of electric vehicles." The US Department of Energy has provided Tesla with US$ 465 million in advanced-technology loans to help the US to be competitive in battery technology. In addition to loans, governments can provide other types of incentives, such as taxation benefits, incentive programmes for potential customers, and lower charges for governmentally provided services and products. In addition, many green technology ventures have been aided by government policies that either directly subsidize their growth or place penalties on competitors using more conventional fossil fuels.

1.8.6 Governmental Programmes Promoting Economic Development. Etihad Airways (2003 UAE/Abu Dhabi start-up) is the fastest airline start-up to reach global scale in this highly competitive industry. A major motivation of the government was "to diversify and build additional strong and growing sectors of the Abu Dhabi economy and to complement its already strong oil sector." Although the Abu Dhabi government provided seed capital, *Etihad* is expected to operate on a stand-alone commercial basis, and the company undertakes its own fund-raising activities in the bond markets of the world. From 2003 to 2005, *Etihad's* passenger count grew from 0 to 1.5 million. By 2009, the airline carried 6.2 million passengers through a greatly expanded network.

1.8.7 Opportunities and Risks of Governmental, Political and Regulatory Change Ventures

A. Opportunities vs risks. Governments and regulators can be the source of both opportunities and risks. Multiple sources of such opportunities are described in the preceding subsections. However, "what the government can give, the government can take." Governmental policies and regulations are not set for perpetuity. Changes in governmental parties or changes in the policies of an existing party can have dramatic impacts on the viability of relatively new ventures. Many start-ups typically have little expertise in what some call "the beyond markets arena." This includes, at a minimum, understanding the various forces that affect the flow of regulations. More importantly, it includes being able to influence the flow of regulations. Start-up companies can benefit greatly by having in their management team or among their advisors knowledgeable individuals who can navigate the regulatory/political playing field.

B. Risk of regulatory changes. **Suntech Power** (2001 China start-up) is now a leading solar energy company, but regulatory changes made by the Spanish government in 2008 resulted in a dramatic reduction in *Suntech's* 2009 revenues from Spain; see Box 1-5.

BOX 1-5

SUNTECH POWER FEELS THE PAIN OF GOVERNMENT RISK – A US$ 658 MILLION ONE-YEAR DROP IN ITS SPANISH REVENUES:

Founder Shi Gives His Views

Government based incentives have played an important role in the growth of many new green-tech energy companies. **Suntech Power** (2001 China start-up) is a leading manufacturer of photovoltaic (PV) cells and modules. Two countries – Germany and Spain – have been pivotal to the rapid growth of its revenues. Year by year revenues (in US$ millions) for 2005 to 2009 were:

	2005	2006	2007	2008	2009
German Revenues	$ 102	$ 255	$ 686	$ 571	$ 702
Spanish Revenues	18	124	466	719	61
Total Revenues	$ 226	$ 599	$ 1,348	$ 1,924	$ 1,693

(in US$ millions)

Suntech in its 2009 10K includes the following comment in the Statement of Risks section: "Government economic incentives could be reduced or eliminated together. The rapid rises of the German and Spanish markets were largely due to the government policies of those countries that set feed-in tariff terms at attractive rates. However, in September 2008, the Spanish government introduced a cap of 500 megawatts, or MW, for the feed-in tariff in 2009, which has resulted in limiting demand in the grid-connected market in Spain." This factor is central to *Suntech's* 2009 Spanish revenues declining to US$ 61 million in 2009 from its US$ 719 million level in 2008. Shi, founder of *Suntech*, commented: "I always say we are swimming in the ocean and often encountering waves. Our main strategic response to such government incentive risk is trying to reduce manufacturing costs. This is achieved by the development of the supply chain, improvement of manufacturing technology, and achievement of scalability. Lower manufacturing costs will enable the market for solar energy to expand quickly."

C. Risk of market incumbents with vested interests. Another risk of regulatory change as a key underpinning of new ventures relates to the power and influence of incumbent companies. The telecommunication markets in many countries have one or more companies with a long history of competing in their market. These companies invariably will have established a network of both market and political connections and will have a vested interest in protecting their incumbent advantages. Attempts by policy-makers to encourage new entrants will be affected by the role played, or allowed to be played, by incumbents. Consider a telecommunication network backbone developed by an incumbent with governmental support. Should new entrants be charged a marginal cost or an average cost for using that network? New ventures that are economically viable under a marginal cost structure might not be viable under an average cost structure. Moreover, terms like marginal cost and average cost are far from precise. Without detailed guidance, it can be challenging for a new venture to develop financial budgets where operating costs are predicted under various demand scenarios.

1.9 Idea Transfer or Transplant Ventures

1.9.1 General. Great ideas can arise anywhere, and, in many cases, multiple groups in different countries may simultaneously be working on the same problem and arrive at similar solutions. In other cases, individuals or groups who monitor new ideas or new ventures in one part of the globe aim to be an early mover in taking an already proven idea to other geographies. We call this approach an Idea transfer or transplant strategy.

1.9.2 First Mover vs First Scaler. In many cases there is little ambiguity in terms of timing as to which venture had an initial idea and which ventures came later. From a commercial perspective, it is useful to distinguish between the "first mover" and the "first scaler." It is the first scaler that typically attracts the commercial interest of others in terms of replicating that success elsewhere. Indeed, to many in the commercial world, debates about who was the first mover are of little interest unless there is litigation associated with intellectual property rights.

1.9.3 Varying Entrepreneurial Motivations

A. Pragmatism. Kai-Fu Lee (founder of Innovation Works in China, previously head of Google China) has emphasized the very pragmatic approach of many Chinese entrepreneurs. He noted, "A lot of Chinese companies started being inspired by ideas from the US and elsewhere." However, he expressed concerns about the "over eagerness of some to make quick money at the expense of long-term company building. There is not always a built to last mindset or a readiness to build a strong company culture."

B. Planning horizon. James Liang, co-founder and Chairman of **Ctrip** (1999 China start-up), noted a timing aspect to the motivations of some entrepreneurs: "At the end of 1999, during the bubble times, more than any other time, entrepreneurs tended to have a short term perspective, and not just in China. After the bubble burst, an IPO requires making significant profit again, so I had to start thinking of building the business for the long term."

1.9.4 Transplanted Knowledge. Amjad Aryan of **Pharmacy 1** (2001 Jordan start-up) stated, "Born to a pharmacist father in Palestine, I have spent my entire life in the pharmacy business." After emigrating to the US at age 18, he graduated with a specialty in retail pharmacy management from the Massachusetts College of Pharmacy. He worked at CVS (a large US pharmacy chain) and then, with his family, acquired a small chain of pharmacies in Miami. When he decided to start a pharmacy chain in Jordan, his US background gave him deep domain experience. *Pharmacy 1* is now the leading retail pharmacy chain in Jordan with 47 outlets in 2010. It was selected as Jordan's fastest growing company in the All World Arabia 500 in 2010.

1.9.5 Transplanted Idea. Many successful ventures draw on aspects of prior ventures or prior ideas. Debates and differences of opinion about who was first with a given idea are common. There can also be differing viewpoints on who was the source of an idea transfer or whether there really was an idea transfer. For example, the paid-search business model that is key to Google's (1998 US start-up) early commercial success had antecedents in the pay-per-click search engine that GoTo.com (1998 US start-up; subsequently called Overture Services) had used. Many commentators now label **Baidu** (2000 China start-up) as the "Chinese Google." One inference by some is that the genesis of *Baidu* occurred when its founder, Robin Li, observed the early success of Google and then replicated Google in China. Li had worked on search algorithms well before the formation of *Baidu*, and in 1996 he received a US patent related to a scoring algorithm subsequently used by *Baidu*.

1.9.6 Opportunities and Risks of Idea Transfer or Transplant Ventures

A. Opportunities. Being able to adapt a proven idea to a new geography has much upside. In some cases, there is a window of opportunity for a new venture when the company that was either the first mover or the first scaler does not have the breadth or the financial capacity to quickly take its proven idea onto a more global stage. There can also be an early mover advantage if the adoption of a proven idea has an associated network effect or virtuous circle. Where network effects operate, the value of a product increases with the number of adopters. Early to market companies that build scale create barriers to entry for late entrants who start with a minimal number of adopters. A classic

example of this is **eBay's** (1995 US start-up) entry in 2000 into the Japanese market. Matt Bannick, a member of *eBay's* executive staff from 1999 to 2007, noted: "Japan was a challenge for *eBay.* We arrived too late. By the time we arrived, Yahoo had already established a dominant position and had network effects operating."

B. Market value-creation risk. Value creation in a new geography is an important risk for some ventures that are based on idea transfer. The success of a new venture or new product in one region of the world does not mean that it will be successful in other countries. There are two issues: **(1) Consumer appeal in a new geography.** The food and beverage industry has many examples of products that are highly successful in their domestic markets but for which there is very little market uptake elsewhere despite sizeable marketing outlays in the new geography. The Vegemite breakfast spread that is hugely popular in Australia has had minimal success in penetrating the potentially lucrative North American market despite multiple attempts by successive owners of that brand. **(2) Extent of product localization required.** Localization of the product could be necessary before market uptake will occur in a different geography. The paradox here is that if minimal localization is required, then the local new venture may have little comparative advantage for market entry compared to the company with the original success in another market.

C. Different roles of company that prompts the idea transfer. The existence already of the company with the initial (or at least early) success in a different country, but not yet in the target market of the idea transfer company, has both positives and negatives. One positive is that learnings are available for the new venture about things that work well/do not work well in general and also about some likely challenges – e.g., the importance of having a strong information systems capability in advance of any rapid increase in demand for an online product. Another positive is that the company with the initial success may use acquisition of the idea transfer company as its new market entry method. This can provide a profitable exit strategy for the investors and management of the idea transfer company. Indeed, the expression "built to flip" is sometimes used to describe the motivation of some promoters of idea transfer new ventures. One negative of these prior successful companies can occur if they end up competing against the idea transplant venture in the new market. The prior successful companies can have much leverage in attracting economically and politically powerful local joint venture partners as part of their global rollout strategy.

D. Execution. Execution is an important aspect of idea transfer ventures that represents both an opportunity and a risk. Following are examples of companies with successful execution strategies: **(1) Air Arabia** (2003 UAE/Sharjah start-up). The low-cost carrier (LCC) concept is a well-established one in the airline industry. Both Southwest Airlines (1971 US start-up) and Ryanair (1985 Ireland start-up) are standout examples. However, this is an industry where multiple other attempts by new ventures to replicate the LCC model have failed. *Air Arabia* is a recent example of successful execution in implementing the LCC concept in a new market. The company's vision is to be "one of the world's leading budget airlines in terms of profit margins, innovation, reputation, and operational excellence." Its original target market was the Middle East, but more recently it has expanded into Asia and Africa. The company achieved break-even in its first year, and its EBITDAR-to-revenue margin has increased from 15% in 2004 to over 35% in 2009. The founder and CEO, Adel Abdullah Ali, is an airline industry veteran and received the World's Low Cost Airline CEO of the Year Award in 2007, 2008, and 2009. **(2) Ctrip** (1999 China start-up). *Ctrip* exhibits elements of previously successful online travel ventures elsewhere, such as Expedia.com (1999 US start-up) and Travelocity (1996 US start-up). One of the co-founders of *Ctrip*, Qi Ji, stated, "The eBusiness environment with an online payment system turned out to be a complicated issue in China at that time. Hence about six to eight months into the operation, we converted the online travel agency into a hotel reservation-focused company." James Liang, another co-founder, believed this was a major growth accelerator. He stated that *Ctrip's* "establishment of a call centre with high quality service differentiated us from other online players." The notion of an online travel agency building a call centre with over 1,000 people taking reservations runs counter to the business model of many online travel ventures elsewhere in the world.

1.10 The Journey Begins

Exhibits 1-4 and 1-5 provide a summary of the eight growth strategies and the eight opportunity and risk factors outlined in this Section 1, with a company example for each one. As discussed throughout this Section 1, there is great diversity in the strategies that new ventures are adopting, whether for new ventures in any one country or new ventures across many countries. Having chosen an initial strategy, each new venture then moves into an execution mode. Section 2 of this report provides an overview of some key issues that arise in the execution (and also in the planning and decision-making) prior to the start date. As in this Section 1, Section 2 draws extensively on the Executive Cases that were developed for this report. ■

[1] Geoffrey Moore, **Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers,** (Harper, 1991).

EXHIBIT 1-4:
ALTERNATIVE STRATEGIES OF HIGH-GROWTH NEW VENTURES WITH COMPANY EXAMPLES FROM EXECUTIVE CASES

1. Wave Ventures

- **Microsoft** (1975, US start-up) – Bill Gates, co-founder: "By delivering a strong PC operating system, Microsoft provided the platform that was essential to making software and PCs high-volume industries. We worked with a lot of software companies and PC companies to help get them off the ground and create a market for both software and PC's. Building this ecosystem was critical to our success."

2. New Product in a New Category Ventures

- **eACCESS** and **EMOBILE** (1999 and 2005 Japan start-up) – Sachio Semmoto, co-founder: "It may sound visionary and very ambitious, but we believe in the impossible dream of the world … I decided with Eric Gan in 2005 to enter the mobile market (phone and data). EMOBILE introduced mobile broadband data service and created a totally new market. We need to be first in everything we do."

3. New Product in an Existing Category Ventures

- **NET-A-PORTER** (2000 United Kingdom start-up) – Natalie Massenet, founder and CEO: "I logged onto the Internet one day back in 1998 and it was like a mind explosion. I saw the potential to start up a business selling fashion online to a global market. From the start I wanted hot brands: the clothes that magazines were writing about but were hard to get hold of. We would sell them luxury service and style."

4. Redesign of Business Value Chain Ventures

- **Mindtree** (1999 India start-up) – Subroto Bagchi, co-founder: "We believed every sector of the emerging services industry would need IT as the differentiator. Additionally, we felt that we would live in a world in which every gadget around us would need software. To address these two areas, we created a value proposition based on a consulting led company with IT (software) and R&D (embedded) services."

5. Discovery and Research Knowledge Ventures

- **Fortescue Metals Group** (2003 Australia start-up) – Andrew Forrest, founder and CEO: "Over the course of five years the company transitioned from being an exploration company to a construction company to a mining company. The long term vision and ability to expand rapidly and take on the three major incumbents have been core components of every project design since day one."

6. Rollup (Aggregation) of Existing Players Ventures

- **WPP Group** (1985 United Kingdom start-up) – Sir Martin Sorrell, founder and CEO: "If you start at the old age of 40 – 25 years ago with two people in one room – and your objective in your lifetime is to build a major advertising and marketing services company, you have to do it primarily by acquisition otherwise you'd be dead before you got very far!"

7. Governmental/Political/Regulatory Change Ventures

- **Norkom Technologies** (2001 Ireland restart) – Paul Kerley co-founder and CEO: "In 2001 and 2002 Norkom repositioned the business to address one sector and one business issue, i.e., Financial Services and Financial Crime/Compliance. The drivers for growth come from the increased volume of sophisticated criminal attacks on the financial institutions together with the increased introduction and enforcement of regulatory legislation."

8. Idea Transfer or Transplant Ventures

- **Air Arabia** (2003 United Arab Emirates start-up) – Adel Abdullah Ali, co-founder and CEO: "Air fares in the Middle East were overpriced. Looking for alternatives and having monitored the progress of the low cost carrier (LCC) concept in North America and Europe, it was ideal to introduce the same clever concept of low cost travel but customized to the region's preferences."

EXHIBIT 1-5:

OPPORTUNITY AND RISK FACTORS ASSOCIATED WITH HIGH-GROWTH NEW VENTURES WITH EXAMPLES FROM EXECUTIVE CASES

1. Market Size

- **Skype** (2002 Luxembourg start-up) – Niklas Zennström, co-founder: "Having people around the world communicate with each other in a clear way for free is a status quo changing idea. Hundreds of millions of people around the globe would be interested in this idea. My belief was that if you could successfully address this basic idea you probably could create a good business out of it."

2. Market Value Creation and Customer Adoption

- **Brocade Communications** (1995 US start-up) – Kumar Malavalli, co-founder: "The market for a very high speed data network was poised to be very large. To make sure we were not smoking something, we crisscrossed the country for three months before we started designing the exact product. We talked to future potential customers – IBM, HP…They gave us very valuable feedback."

3. Market Value Capture and Business Model

- **Yola** (2007 South Africa/US start-up) – Vinny Lingham, founder and CEO: "We have a 'freemium' business model – we offer a basic free product, but charge for upgrades and extras. Initially, we erred too much on the side of free. When you give your core functionality away free, the number of people who are willing to pay to upgrade is relatively small."

4. Management Team/People/Human Resources

- **Genpact** (1997 India captive start-up) – Pramod Bhasin, co-founder and CEO: "The first thing we tried was a call centre. We achieved 100% quality and still had huge margins to spare. We looked at the great skills available in India that you can deploy. It was a tremendous opportunity. The economic proposition was just so compelling when you analysed it. You could save 30% to 40% on basic work."

5. Discovery or Technical Feasibility

- **Silicon Spice** (1996 US start-up) – Vinod Dham, chairman and CEO: "The founding team had the initial idea to build a single communications modem chip that would greatly reduce bandwidth problems. The chip failed in late 1998. It came at a prohibitive cost, in terms of very large die size and snail-like speed – making it commercially unviable."

6. Financial and Liquidity

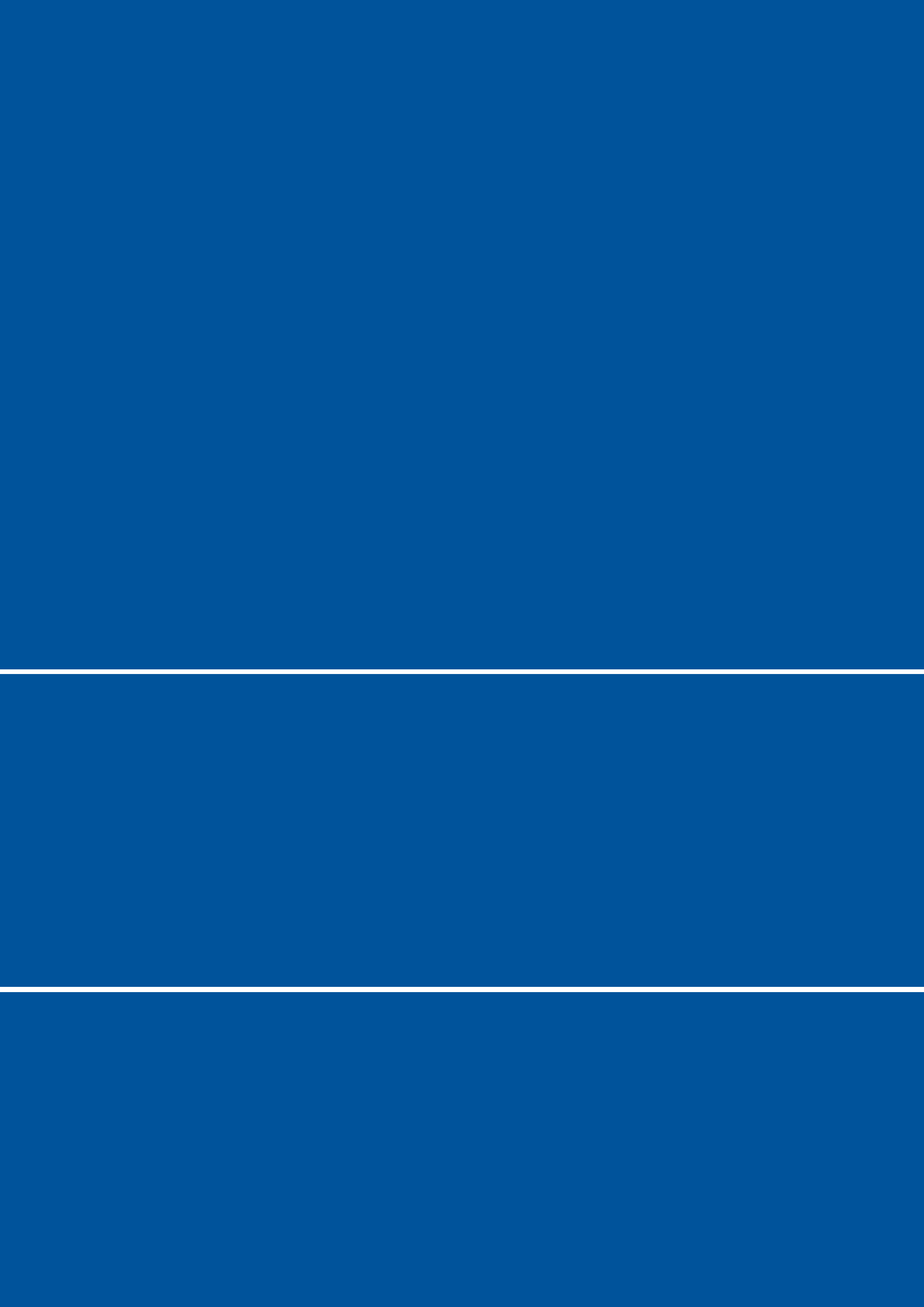
- **Medallia** (2001 US start-up) – Borge Hald and Amy Pressman, co-founders: "Though several VCs expressed interest in us, the bubble burst before we were funded. Overnight, our focus shifted from 'Can we be the eBay of our space?' to 'Will we be alive tomorrow?' We abandoned all efforts to get funding."

7. Governmental / Political / Regulatory

- **Suntech Power** (2001 China start-up) – Zhengrong Shi, founder and CEO: "I always say we are swimming in the ocean and often encountering waves. Our main strategic response to such government incentive risk is trying to reduce manufacturing costs."

8. Execution and Scaling

- **Betfair** (1999 United Kingdom start-up) – Ed Wray, co-founder: "At the start of Betfair, I believed all the problems of high growth I had heard about would be good problems to have. When we got there, I found they were horrible. When you are growing very fast you always underestimate the resources you will need going forward. Many challenges related to scaling. Staying in front of the technology demands of our growth. We sometimes had big challenges with our systems availability on Saturday afternoons, which is our highest demand period. I know eBay likewise experienced operational systems problems (with both hardware and software) in their early days. This is one area where our limited financial backing constrained us in making capital investments."



Section 2

The Early-Stage Entrepreneurial Company Journey

Section 2 – The Early-Stage Entrepreneurial Company Journey

2.1 Content and Format of Section 2

2.1.1 Content. The key players in new ventures with growth aspirations must assemble the pieces of a complex puzzle in a relatively short time. Exhibit 2-1 shows eight critical areas where decisions must be made early in a venture and then re-evaluated on an ongoing basis.

2.1.2 Format. The 70 Executive Cases developed for this report include rich descriptions of many aspects of the entrepreneurial journey that relate to the eight critical decision areas shown in Exhibit 2-1. The 70 cases are drawn from many regions of the world: North America (19), Latin America (4), Europe (20), Middle East/Africa (6), Asia (16), and Australia/New Zealand (5). Each Executive Case includes extensive quotations from company founders and other early key players and is available online with the full version of this Report. We use **bold face** when we refer to a company with an associated Executive Case (and *italics* thereafter) to highlight these companies. This Section 2 highlights general patterns of several important phases of the new ventures presented in the Executive Cases: (A) key decisions for the entrepreneur, (B) the source of the idea, (C) possible shifts in strategy over time, (D) factors that promote high growth (growth accelerators) for the venture, (E) challenges that arise in growing the company, and (F) dark moments that the respondents encountered along the way.

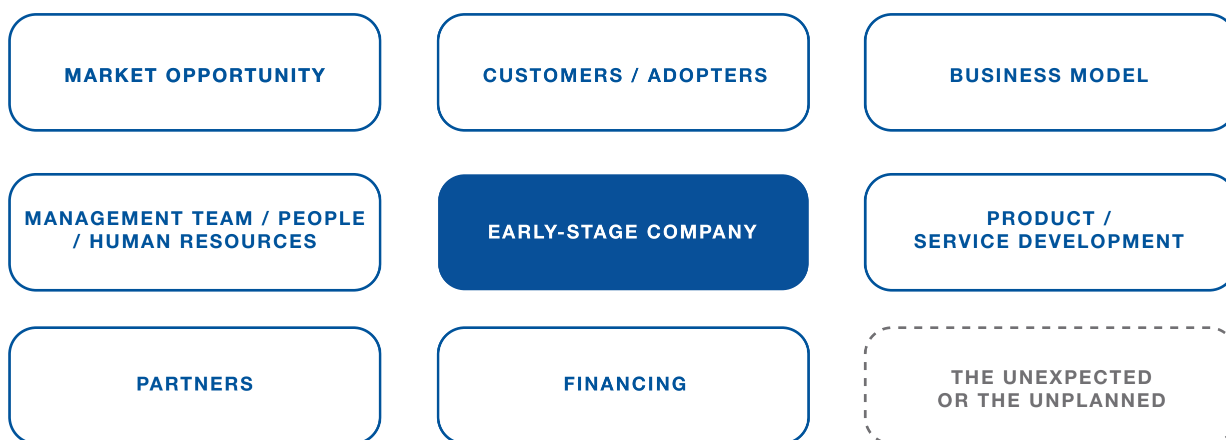
2.1.3 Key Decisions

A. Decisions relating to the external world. In Exhibit 2-1, the top row consists of three decision boxes: market opportunity, customers or adopters, and business model. These decisions mostly relate to the external world, where the new venture aims both to create value and to capture value. Included in these decisions are identifying markets and customers, creating awareness, reinforcing value for paying customers and other adopters, and developing a business model that enables the new venture to capture some of the value created.

B. Decisions relating to the internal world. The middle row in Exhibit 2-1 contains two decision boxes: management team/people/human resources and product or service development. These decisions relate more to the internal world of the company, although activities related to these two boxes can involve heavy interaction with the top row of boxes.

C. Decisions regarding strategic partners and financing. The bottom row in Exhibit 2-1 contains three decision boxes. The first two boxes – partners and financing – involve third parties that can help leverage the new venture, increasing the likelihood that the company will achieve more of its objectives at an earlier date than it would on its own. Partners in areas such as R&D, product testing, sales and marketing, and customer feedback can help leverage the internal capabilities of the new venture. Financial partners can play multiple roles, including (1) bridging the time gap between early outlays for the venture and the receipt of cash from customers and other parties, and (2) making or enabling investments that increase the rate of growth. The last box in the bottom row has been deliberately left vacant. It represents the unexpected or unplanned events that are not apparent to the company or are not recognized at the outset. For many new ventures, this last box is where a major part of the ongoing opportunities, challenges and activities occur.

EXHIBIT 2-1: BUILDING THE ENTREPRENEURIAL-GROWTH COMPANY: PUTTING THE PIECES TOGETHER



D. Decision Milieu. All the activity related to Exhibit 2-1 occurs within the context of a broader early-stage company eco-system. Appendix 2-A, which provides a schematic overview of this eco-system, shows the richness of the arena in which many new ventures evolve and operate.

2.2 Source of New Venture Ideas

The following categories of the source of the "new idea" and how new ventures get off the ground illustrate the rich diversity in the starting line:

2.2.1 Market Problem or Pain Point Prompts New Venture. Niklas Zennström, co-founder of **Skype** (2003 Luxemburg start-up), sought to solve a market pain point. There is a class of entrepreneurs who are attracted by large problems and large potential markets, and Zennström accordingly set a very high bar for the size of his target market. Zennström commented:

> My co-founder and I have a drive to change the status quo. One of the painful points all around the world is the size of monthly telephone bill. Having people around the world communicate with each other in a clear way for free is a very basic idea. It is also a status quo changing idea. Hundreds of millions of people around the globe would be interested in this idea. My belief was that if you could successfully address this basic idea, you probably could create a good business out of it.

In 2003, Zennström and his partner, Janus Friis, founded *Skype* to build a business based on this basic idea. From 2003 to 2005, it operated as an independent company. In September 2005, **eBay** (1995 US start-up) paid more than US$ 3.0 billion (in upfront and deferred payments) to acquire *Skype*. It then became a subsidiary of *eBay*. In November 2009, *eBay* sold a controlling interest in *Skype* to an investor consortium, and the venture again became a separate company. In 2009, *Skype* had 500 million registered users and had revenues of US$ 700 million.

The larger the problem or pain point and the greater number of people with that problem, the greater the potential opportunity. The greater the potential opportunity, however, the more likely it is that multiple companies (new and existing) will attempt to play in that market. If a new venture entering a large potential market gets traction at an early stage, there likely will be a host of follow-on "me too" ventures. If this occurs, there typically will be attrition as survival of the fittest, as well as acquisitions, results in a smaller subset of entrants that eventually become long-term players in that market.

2.2.2 Market Niche Opportunity Prompts New Venture.
jetBlue (1999 US start-up) was founded by David Neeleman, a serial entrepreneur in the airline industry who had been a co-founder of Morris Air in 1984. Neeleman worked at Southwest in 1993 after it acquired Morris ("After five months at Southwest we parted ways. I was actually asked to leave.") and then was CEO of Open Skies. At *jetBlue* he pioneered the value category of airline service, which combines the low cost carrier concept (LLC) with a higher quality airline experience. In 2002, *jetBlue* went public with a market capitalization of over US$ 1.5 billion. After leaving *jetBlue*, Neeleman established Azure Brazilian Airlines.

2.2.3 Successful Venture in another Geography Prompts New Venture. Section 1 of this report termed this the "idea transfer or transplant" strategy. An example of this strategy is the repeated attempts to take to different geographies the low-cost carrier concept pioneered at least 40 years ago. Unfortunately, the company carnage in this sector is high. New LCC ventures continue to appear in an attempt to defy the industry odds, and some of them succeed. The Executive Cases include two such attempts: **Air Arabia** (2003 UAE/Sharjah start-up) and **Vueling** (2004 Spain start-up). Since 2003, *Air Arabia* has greatly expanded its routes, has three hubs, and employs over 1,000 people in 2010. Since 2004, *Vueling* has grown to be the second largest Spanish carrier. In 2009, Iberia which is the largest Spanish carrier took a major equity stake and operational role in *Vueling*.

2.2.4 New Idea Rejected Internally Prompts Breakaway Venture. With high regularity, new ventures are formed when an entrepreneur working within an established company proposes a new idea for the company, meets a lukewarm or cold reception, and then goes off to do it on his own. **China Lodging Group** (2005 China start-up) was founded by Qi Ji, a serial entrepreneur who had previously co-founded Home Inn and **Ctrip** (1999 China start-up). Ji stated, "While working at Home Inn as CEO, I realized that the market for economy budget hotels is large. I believed that a multi-brand hotel group with differentiated levels of service could lead to a strong position. However, the Home Inn Board disapproved the idea and thus I decided to do it anyway with a new team and other investors."

Following are other examples in our Executive Cases of this manner of starting a company: (1) **Business Objects** (1990 France start-up), about which co-founder Bernard Liautaud commented, "Oracle was not interested in pursuing in-house development of the software, so Denis and I started our own company." (2) **Suntech Power** (2001 China start-up), about which founder Zhengrong Shi said, "After management refused my third proposal, I decided it was time to set off on my own." (3) *Air Arabia*, about which founder Adel Abdullah Ali commented, "I offered my previous employer the opportunity to introduce a

low-cost carrier model to the Middle East and North Africa region, but my employer declined. Therefore, I pursued it myself."

An ongoing challenge with this prompt to start a new company is the dividing line between intellectual property that was developed within the established company (and therefore is the property of that company) and intellectual property that is independently or subsequently developed outside the established company (and therefore is the property of the new venture). Issues can also arise if employees from the established company leave to join the new venture. If the new venture is successful, especially within the product arena of the prior company, litigation may arise between the two companies.

2.2.5 Overlooked Asset in Existing Company Prompts New Venture. Entrepreneurs sometimes identify an existing asset within an established company that has fallen out of favour with that company's management. Following are two examples from the Executive Cases: (1) **ResMed** (1989 Australia restart) had its genesis in the 1986 acquisition by Baxter International of the technology patents related to sleep apnoea from an Australian medical researcher (Colin Sullivan). Peter Farrell, the founder of *ResMed* and the person who negotiated the patent acquisition by Baxter International, gave the following as one of his dark moments, "Baxter's lack of commitment to the sleep-disorder breathing market opportunity after its purchase of the Sullivan patents. I became increasingly disillusioned with Baxter placing such low priority on this opportunity." Farrell then negotiated to acquire the patents from Baxter and quickly established *ResMed*. This company is now one of the two global leaders in sleep apnoea products, with 2009 revenues of over US$ 900 million and net income of over US$ 140 million; (2) Doug Bergeron, CEO of **Verifone** (2001 US restart from Hewlett-Packard), is an excellent example of exploiting a neglected asset within an established company. He commented, "One of the classic textbook tactics of finding undervalued assets is to look at divisions within companies that have had a CEO change."

2.2.6 Accidental Opportunity or Unplanned Event Prompts New Venture. Sometimes an opportunity accidentally presents itself or an unplanned event occurs that "lights a bulb" for a new venture. **Icebreaker** (1995 New Zealand start-up) is an example of the accidental opportunity. Jeremy Moon, its founder, first became aware of the product opportunity in merino wool clothing through a chance encounter with a New Zealand Merino wool farmer. Pierre Omidyar's "light-bulb moment" for the genesis of **eBay** (1995 US start-up) illustrates how unexpected feedback from the market can reveal the potential for a larger market than previously envisioned. Prior to *eBay*, Omidyar had set up an online marketplace called Auction Web. He commented, "When I first came up with the idea for what I originally called Auction Web, it was really an experiment. I didn't necessarily begin with the goal of starting an online trading company." Omidyar tested his new auction website by posting a broken laser pointer, which he was about to throw away. To his surprise, a collector bought it for US$ 14.83. This response led Omidyar to think that there might be many buyers for such items.

2.2.7 Desire to Run an Independent Business Prompts New Venture

A. General. Many entrepreneurs stress the importance of being passionate about the business idea to be pursued. In some cases, however, the passion for managing a new venture comes first, and the specific business idea comes later.

B. Added Desire to Work With Friends or Family. There are multiple examples of the desire to work with friends or family when forming a new venture in the Executive Cases. (1) **Tiny Prints** (2003 US start-up) began as an online company "specializing in unique baby stationery." It is now an "online retailer of stylish designs for every occasion." Co-founder Laura Ching described the company's genesis as follows: "In 2003, we got hit by the entrepreneurial bug after spending over three years in corporate America post business school. We were really drawn to the idea of starting a company together as friends and had big dreams about building something great. For over six months, Ed (Han, the co-founder), Kelly (Berger) and I, along with a small group of friends would meet over Baja Fresh burritos every Wednesday night in search of a winning business idea. Around this time, Ed and his wife Polly were preparing to welcome their first baby into the world and had gone through the painful experience of finding a suitable birth announcement. The selection was poor and the ordering process was extremely cumbersome. We knew there were huge innovation opportunities in this space." (2) Co-founder Guillermo Oropeza stated about **DocSolutions** (2001 Mexico start-up), "All we knew from the start was that we wanted to build a business, but we didn't know what type." This was a family start-up. (3) Richard Reed of **Innocent** (1999 United Kingdom start-up) noted that, "the three founders had known each other for seven years" before they started planning in 1998. "We knew each other's strengths and weaknesses." The company's journey has deepened their friendship and mutual respect. All three remain as co-CEOs after 12 years.

C. Challenges of Friends and Family Ventures. Multiple entrepreneurs from the Executive Cases stressed the downside of "friends or family going into business together." They gave off-the-record comments about "friends quickly becoming ex-friends" and the difficult challenges of negotiating a friend's employment terms (e.g. salary, bonus, or exit package) in a hard-nosed business way. Guillermo Oropeza of

BOX 2-1

A SKI WEEKEND IN DAVOS PROMPTS THREE FRIENDS TO COMMIT TO GOING INTO BUSINESS TOGETHER OR STOP TALKING ABOUT IT:

Innocent (1999 United Kingdom start-up) Co-founder Richard Reed describes the journey to their smoothie product launch.

Launched in 1999, *Innocent* by 2003 became the number one smoothie in the market in the United Kingdom. Distinctive features include its exclusive reliance on fresh fruit rather than concentrates and its innovative marketing. Richard Reed, co-founder of *Innocent* (initially called Fresh Trading) gave the following background: "The three founders (Adam Balon, Jonathon Wright and I) had talked many times over the prior seven years, including our years at Cambridge University, about going into business with each other. At a 1998 skiing weekend in Davos, the three of us agreed to either to make a final serious attempt to see if this was possible, or to stop the talking about that dream. We looked at three specific ideas after rejecting a marketing consulting company. One factor we agreed on to guide any choices was that we wanted a venture that 'makes life easier and better for people'. Our first idea was the amazing electronic bath that fills itself to a pre-designated level and temperature. It was a terrible idea – mixing water and electricity was going to make lives shorter rather than better. Our second idea was to rid the world of door keys and replace them with automatic cards. Our third idea was the fresh fruit smoothie concept. As three 26 year olds living in London we were all too aware of the downside of urban living– where it's so easy to eat too much pizza, drink too much beer, and not take care of yourself. *Innocent* was born out of our desire to assist people to live a healthy life. Our early steps before leaving our day jobs involved some basic market tests. A very memorable one was at the August 1998 Jazz on the Green Festival held in London. We sold smoothies that day based on fresh fruit we squeezed. The feedback was great and that encouraged us to go further." Five years later *Innocent* was the number one smoothie in the market in the United Kingdom. Revenues in 2009 were £ 113 million.

DocSolutions noted the stresses that arise when family members go into business together. He gave the following response to a question about dark moments in the company's history: "At the beginning it seemed like it would take forever to reach the break-even point. There was a lot of anguish initially with our family having to put more and more money [into the venture]."

D. Desire to Avoid Working in a Larger Company. One expressed motivation for starting a new venture was to avoid working in a large company. Victoria Livschitz, founder of **Grid Dynamics** (2006 US/ Russia start-up), is one such example: "I had a growing dissatisfaction working within a larger company (Sun Microsystems). I would always have to be selling my ideas to some big suits. When you cannot get the mother ship to do what is right, you have to do one of two things – put up or shut up. So, at the age of 35, I founded *Grid Dynamics*." The management team of **Technisys** (1996 Argentina start-up) also included co-founders with this motivation: "One of the co-founders was inspired to think of working in his own company rather than for a large company like IBM."

2.3 Shifts In Strategy or Business Model the Norm

2.3.1 General. Opportunity, risk and uncertainty are three characteristics of all new ventures, especially those whose founders have high growth expectations. In multiple Executive Cases, the evolving venture proved over time to be different – in some cases very different – from that planned at the outset. Some of the reasons for shifts in strategy or tactics in a new venture are discussed in the following subsections.

2.3.2 Major new opportunity arises. Sometimes a new opportunity arises that either did not exist at the start of the new venture or was not recognized at that time. Box 2-2 illustrates that a key reason that **Baidu** (1999 China start-up) made a major strategy shift during its first two years was the emerging awareness of the "paid search" market opportunity.

BOX 2-2

BAIDU QUICKLY REPOSITIONS ITSELF FROM BACK-END SEARCH TO FRONT-END BRANDED SERVICE:

Co-founder, Chairman, and CEO Robin Li describes

Baidu's (1999 China start-up) rapid strategy shift and its prompts.

Robin Li, co-founder of *Baidu*, graduated from Peking University and SUNY-Buffalo in the US in computer science. In the mid-1990s, he then worked in several US companies in the search engine area – first at IDD Information Services/Dow Jones, and then at Infoseek (an early leading Internet search company). During this time, he filed a patent on an Internet search algorithm. Li returned to China in 1999 to co-found *Baidu*. In its first two years, *Baidu* underwent a dramatic shift in its strategy. One prompt was to take advantage of a new opportunity (paid search). A second prompt was the changed environment post-2000. Li commented: "*Baidu's* transformation phase between 2000 and 2001 left a strong impression on many. At the time, our business model mostly aimed at providing mainstream websites with search technology services – providing 'powered by' services for portals for which we received service fees – without promoting *Baidu* as an independent brand. After the burst of the Internet bubble, mainstream websites no longer wanted to invest further in search technology. In the summer of 2001, we decided that it was time for *Baidu* to undergo a major transformation. Because we believed in the viability of the paid search business models that had emerged in the US (from Overture), we made the decision to elevate *Baidu* from a back-end search service to a front-end standalone service with a strong brand. This was risky, of course, because the major portal players would stop working with *Baidu*. But it was clear to us then that (1) the Internet would grow in China quickly, (2) search would be a pivotal area benefiting from growth in all sectors of the Internet, and (3) there was an almost endless supply of small and medium enterprises that were our potential customer base. In other words, there was tremendous growth potential in this business. And more importantly, we could do a better job than anyone else." Since 2001, *Baidu* has combined its dual strategy of technology innovation and brand building to become the dominant search engine company in China. Li attributes its success to two key areas: "The major reason for *Baidu's* success has been its focus. We have never wavered in our determination to focus on search. The second reason is technological innovation. *Baidu* has constantly increased investments in research and development. We never dared to relax in the search technology front. Rather, the company has always worked hard towards providing the market and users with the best search technology and service."

2.3.3 Existing Strategy Fails

A. Discovery ventures. For several of the strategies outlined in Section 1 of this report, failure has a reasonably clear meaning. For discovery ventures, key signals can indicate with high probability that a change in strategy (or tactics) is necessary or the venture should be terminated. The continuing failure of a developmental, research-based drug throughout multiple trials presents accumulating evidence that the current research direction should be deemed a failure. A wildcat oil drilling venture that continues to have a sequence of dry holes likewise accumulates evidence over time of a failed strategy. Discovery ventures typically do not fail with regard to market value creation or adoption. If a drug is found that reduces breast cancer, or if a major oil field is discovered, there likely will be a readily available market.

B. New product ventures. Section 1 of this report discussed the following two product-related strategies: new product in a new category and new product in an existing category. Although they may be viewed as opposite ends of a spectrum, what they have in common is the need for the new product to demonstrate market acceptance at a reasonable price. Developing early reliable indicators about the size of the opportunity for the potential new product opportunity and about the factors that will affect the timing and magnitude of that opportunity is pivotal to resource allocation in these ventures. Knowing what is and is not working, and why, at the earliest possible date is extremely valuable information for any company. It is especially valuable for an early-stage company, which typically has much less capacity to cope with major product failures than more established companies.

C. Ventures experiencing a major market shift. A major market shift can make any venture's strategy no longer viable. The Executive Cases include multiple examples of companies for which shifts in market forces around 2000 (the burst of the dot-com bubble) made their then-existing strategy unviable going forward. **Keynote Systems** (1995 US start-up) was founded to provide on-demand test and measurement software for companies building their Internet strategy. Umang Gupta, the chairman and CEO of *Keynote*, stated, "The first five years was clearly riding the Internet wave. Every large company on the face of this planet was coming

up with an Internet strategy, so the demand for what we had was just absolutely phenomenal. The second five years we were surviving the tsunami. We had to find new customers to replace the old customers." Box 2-3 gives details of the **Norkom** (1998 Ireland start-up) experience. From 1998 to 2000, the company had annual "revenue growth rates running at 200+%" and received very favourable press. In June 2001, following a 12-week evaporation of the company's business, *Norkom's* board of directors gave the management team one weekend to come up with a new strategy that would keep the company out of bankruptcy or, failing that, the board would put the company into receivership.

BOX 2-3

WHEN PLAN A FAILS, WHAT NEXT?

DEMISE OR REINVENTION?

Co-founder and CEO Paul Kerley of **Norkom** (1998 Ireland start-up) describes the backdrop to the weekend that led to its reinvention.

Norkom first raised external funding in June 1999. Three further rounds were raised in the December 1999 to September 2000 period. *Norkom's* era one product focus was using artificial intelligence to automate white collar decision-making. The targeted sectors were financial services and telecommunications. Revenue growth rates in their early years from 1998 to 2000 were running at 200%+ and they had a high cash burn rate. Kerley described the rapid change in late 2000 as follows: "The markets stopped funding most 3G license build-outs and 40% of our business evaporated within 12 weeks. Large contracts that were supposed to be signed in May were delayed. There was a collapse in confidence. At a key board meeting in June 2001 the management was given the weekend to come up with a plan that was backable and would stop the business from being liquidated or they would put it into receivership." Management came up with a plan. *Norkom's* era two focus would be on providing financial crime and compliance software to the global financial services industry. Although their revenue growth rates since 2002 in era two have been dramatically lower than the 200%+ in era one, they have successfully reinvented themselves and have been consistently profitable. *Norkom* went public with an IPO on the Irish and London Stock Exchanges in June 2006. The growth accelerators in era two include new accelerators not previously pivotal in era one. Kerley stated: "The drivers for growth now come from the increased volume of sophisticated criminal attacks on the financial institutions together with the increased introduction and enforcement of regulatory legislation."

D. Idea transfer or transplant ventures. These ventures may require a sizeable shift in strategy whenever the new deployment area has its own features that are distinct from those of the original deployment area. The phrase "cut and paste ventures" is sometimes used in a pejorative way to describe efforts to take successful venture ideas from one geography and mechanically apply them elsewhere. Successful companies following a transplant strategy invariably make major shifts in strategy, or at least in tactics, in their early years. The experience of **Ctrip** (1999 China start-up) is instructive. The 1990s saw the establishment in the US of several high-profile, online, travel companies (e.g. Expedia, Orbitz, Priceline, and Travelocity). Very quickly, similar ventures were brought to the drawing boards in other countries. Qi Ji, a co-founder of *Ctrip*, noted, "Initially we founders of *Ctrip* wanted to establish a full-service, online travel agency to provide transparent packages. At the early stage of operation, we recognized that hotel reservations were the most profitable area and didn't require delivery and logistics. In addition, the eBusiness environment with an online payment system turned out to be a complicated issue in China at that time. Hence, about six to eight months into the operation, we converted the online travel agency into a hotel-reservation focused company, in order to pioneer the business-to-consumer model in this industry in China. Five to six years later, when the company reached the number one hotel booking position in China, we went back to the original idea and started to move the company into a full service agent." Had *Ctrip* stayed with its pure online strategy, it probably would be much less a presence in the Chinese travel industry than it is today.

Failure to make localization adjustments can also be a growth inhibitor to idea transfer or transplant ventures. An extreme example is the failed early strategy of **eBay** (1995 US start-up) in China. The company acquired Eachnet (progressing from 33% ownership in 2002 to 100% in 2003), which had a 70% market share in China in 2003. Then *eBay* moved the Chinese company onto its own US trading platform for buyers and sellers, in part to build global economies of scale. The result was that *eBay* reduced its localization in China. Matt Bannick, an *eBay* veteran, stated, "We made the mistake. We were no longer a Chinese firm but now an American firm in China. Being perceived as a 100% American firm in China brings a host of issues that do not help grow the business. We would have been better off with a Chinese platform and product that was separate from that of *eBay*." By 2007, *eBay* had less than 10% of the Chinese market. In a contrasting case, Taobao (2003 China start-up), a highly local Chinese rival of *eBay*, had an astonishing 80+% market share in 2007.

E. Examples of successful linear strategies over time. Many commentators, especially those concentrating on high-tech entrepreneurship ventures, take major changes in the strategy of new ventures as a given. Although admittedly in the minority, some founders

or early executives from multiple Executives Cases describe their current strategy as linear with respect to the company's initial plan. Ventures that require a sizeable infrastructure and long planning times have, not surprisingly, linear strategies. **Fortescue Metals** (2003 Australia start-up) raised over AU$ 3 billion to build a production mine, a railroad and a port to take iron ore, which otherwise would have been "stranded", to global markets. If the market for iron ore had collapsed in a short time frame, there was no alternative use for the railroad or the port. Although the strategy succeeded in a linear fashion, it still had many obstacles to overcome. Andrew Forrest, the founder of *Fortescue*, stressed his "never say die" attitude and stated that his "resolve to realize our dreams and an unwavering belief in the fundamentals that underpinned *Fortescue's* project were integral to overcoming some of those initial setbacks."

Many entrepreneurs in the Executive Studies stressed that while they believed they had stayed true to their initial strategy, there were always extensions, refinements or adaptations. Examples include **Globant** (2002 Argentina start-up), **Pharmacy 1** (2001 Jordan start-up), and **ResMed** (1990 Australia start-up). What can happen with such ventures is that the vision or aspiration about the growth opportunity can expand as early years of success continue. In nine years, Amjad Aryan has built the largest pharmaceutical chain in Jordan. He states, "The original plan was to open 10 pharmacies in Jordan; today we have 47 outlets and plans to open 13 new branches by the end of 2011. In Saudi Arabia, we were initially aiming for a gradual growth: open one outlet, then add one more, and so on. Our plans now are to roll out five new outlets by the end of 2010 and 50 outlets in 2011." *Pharmacy 1* may be linear in its rollout strategy, but it certainly is not linear in its aspiration levels over time.

2.4 Growth Accelerators

2.4.1 General. Each of the 70 Executive Cases includes quotations on the major growth accelerators for that company. The accelerators mentioned in cases were coded using a set of 16 categories previously developed by members of the project team for company field research[1]. The total number of mentions in each coded category was expressed as a percentage of the total number of mentions across all categories, and the results are shown in Exhibit 2-2. Panel A of Exhibit 2-2 shows the top five categories as ranked by each of three regions (Americas, 23 companies; Europe/Middle East/Africa (EMEA), 26 companies; and Asia-Pacific, 21 companies) and the total for each category.

2.4.2 Market Opportunity, Customers and Competitors. As shown in Exhibit 2-2, this category ranks (1) first overall (17.7% of all mentions), (2) first in the Americas (19.1%) and EMEA (18.0%), and (3) second in Asia-Pacific (14.6%). There are several variants in this category, as discussed below.

A. External forces. Bill Gates noted that two related broad forces facilitated the development by **Microsoft** (1975 US start-up) of "software that was increasingly easy to use and more powerful:" (1) "microprocessors [becoming] more and more powerful very rapidly" and (2) "a new kind of computer that was affordable, adaptable and personal." **RNT** (2005 Russia start-up), which developed telematic systems that are used as an application on mobile phones, benefited from the rapid growth in the mobile phone market. The company's entrepreneur said, "More clients have been able to afford the mobile phone services."

B. Lighthouse or signature customer. These major customers can both validate the product offering and make it easier to sign up subsequent customers. Two Argentinean companies cited this factor in their growth. An entrepreneur of **Globant** (2003 Argentina start-up) stated, "We grew with the likes of EMC, Google, Sabre, and Electronic Arts. After we got Google, we didn't have to explain ourselves anymore." **Technisys** (1996 Argentina start-up) noted that an additional benefit came from having Deutsche Bank Argentina as its first client. An entrepreneur from the company commented, "It was a major lighthouse customer. We also benefited greatly by the rigorous due diligence that Deutsche Bank out of New York required us to go through as part of the bidding process. It gave us more industrial strength." The relationship of **IONA** (1991 Ireland start-up) with Sun Microsystems expanded (1) from a customer, (2) to a partnership, and then (3) to Sun's becoming a 25% investor in *IONA*. Co-founder and CEO Chris Horn noted, "At the time Sun was in discussions with us, we had been approached by Motorola who wanted to use our products. They were reluctant to buy such a major programme from us because of our very weak balance sheet. When we were able (under a nondisclosure agreement) to disclose the likely Sun investment and they confirmed the investment directly with the Sun CEO, then the situation changed overnight, and Motorola purchased."

EXHIBIT 2-2:
REGIONAL RANKING AND OVERALL RANKING OF THE TOP 5 GROWTH ACCELERATORS, GROWTH CHALLENGES AND DARK MOMENTS: RANKED BY PERCENT FREQUENCY OF MENTIONS FOR CATEGORY RELATIVE TO TOTAL MENTIONS FOR ALL CATEGORIES

PANEL A: TOP 5 GROWTH ACCELERATORS

Americas		EMEA		Asia-Pacific		Overall	
1. Market Opportunity	19.1%	**1. Market Opportunity**	18.0%	**1. Marketing / Branding**	16.7%	**1. Market Opportunity**	17.7%
2. H.R. / People	17.5%	**2. Products**	14.1%	**2. Market Opportunity**	14.6%	**2. H.R. / People**	14.1%
2. Products	17.5%	**3. H.R. / People**	12.8%	**3. H.R. / People**	12.5%	**3. Products**	13.6%
4. Marketing / Branding	7.9%	**4. R&D**	9.0%	**4. Sales**	10.4%	**4. Marketing / Branding**	10.9%
4. Partner / Leverage	7.9%	**4. Marketing / Branding**	9.0%	**5. Strategy**	8.3%	**5. R&D**	7.8%
				5. Products	8.3%		
				5. R&D	8.3%		

PANEL B: TOP 5 GROWTH CHALLENGES

Americas		EMEA		Asia-Pacific		Overall	
1. H.R. / People	22.8%	**1. H.R. / People**	28.3%	**1. H.R. / People**	25.5%	**1. H.R. / People**	25.6%
2. Operations Mgt.	12.3%	**2. Market Opportunity**	13.3%	**2. Top Mgt. / Board**	14.9%	**2. Market Opportunity**	13.1%
2. Market Opportunity	12.3%	**3. Operations Mgt.**	11.7%	**2. Market Opportunity**	14.9%	**3. Financing / Liq.**	10.7%
4. Products	10.5%	**4. Financing / Liq.**	8.3%	**2. Financing / Liq.**	14.9%	**4. Operations Mgt.**	9.5%
5. Financing / Liq.	8.8%	**5. Top Mgt. / Board**	6.7%	**5. Econ. Environment**	8.5%	**5. Top Mgt. / Board**	7.7%
		5. Reg. / Gov. Tax	6.7%				

PANEL C: TOP 5 DARK MOMENTS

Americas		EMEA		Asia-Pacific		Overall	
1. H.R. / People	15.8%	**1. Market Opportunity**	20.0%	**1. Top Mgt. / Board**	20.6%	**1. Financing / Liq.**	16.4%
1. Financing / Liq.	15.8%	**2. Financing / Liq.**	16.7%	**2. Financing / Liq.**	17.7%	**2. Market Opportunity**	14.4%
1. Market Opportunity	15.8%	**3. Econ. Environment**	13.3%	**2. Econ. Environment**	17.7%	**2. Econ. Environment**	14.4%
4. M&A	10.5%	**4. H.R. / People**	10%	**4. Market Opportunity**	8.8%	**4. Top Mgt. / Board**	12.5%
5. Econ. Environment	10.5%	**4. Top Mgt. / Board**	10%	**4. Reg. / Gov. Tax**	8.8%	**5. H.R. / People**	11.5%
		4. Cap Mkt. / Fin. Rep	10%				

EXHIBIT 2-3:
GROWTH ACCELERATOR CATEGORIES IDENTIFIED IN EXECUTIVE CASES: CATEGORIES RANKED IN ORDER OF FREQUENCY MENTIONED

1. Market Opportunity/Customers/Competitors (17.7%)

- **ARM Holdings** (1990 United Kingdom start-up) Warren East, CEO: “It was clear mobile phones were going to be a big opportunity and the ARM design which features low power consumption was the technical hook to market to these partners/customers. The first Nokia phone with the ARM technology shipped before the IPO in 1998. It was a very big volume opportunity.”

- **Tiny Prints** (2003 US start-up) Laura Ching, co-founder and chief merchandising officer: “We have invested a significant amount of time in ensuring that we offer fanatical customer service, so that our people and our relationships with our customers continue to be a point of differentiation.”

2. Human Resources/People/Organization Culture (14.1%)

- **Scribd** (2007 US start-up) Trip Adler, co-founder and CEO: “Hiring great engineers accelerated our growth. Building a great product and making changes quickly requires amazing engineers to make this happen. The difference between a good and a great engineer is enormous, so we worked hard to attract the best talent and create an engineering-focused culture.”

3. Product/Services/After-Sales (13.6%)

- **Check Point Software Technologies** (1993 Israel start-up) Gil Shwed, co-founder, CEO and chairman: “Our business model focused on making the software extremely easy to understand and use. Software, like our initial firewall product, usually sold in a complicated transaction and took many weeks to complete. Our software fits on one 1.4 MB diskette, with installation that takes less than 10 minutes, and a graphical user interface that is easy to understand.”

4. Marketing/Branding (10.9%)

- **Atlassian** (2002 Australia start-up) Scott Farquhar co-founder and co-CEO: “The way we used online advertising was important to us. We were very, very early adopting Google AdWords when they were five cents per click. So, you spend five cents to easily acquire a customer which totalled US$ 10,000. We quickly gained traction and didn’t spend a lot on it. If we were smart, we would have spent much more.”

5. Research & Development/New Product Development (7.8%)

- **NetLogic Microsystems** (1997 US) Ron Jankov, president and CEO: “We bet everything on designing the most innovative and highest performance products. We have always ploughed a big portion of our profits back into R&D; our R&D as a percentage of sales at 30% is one of the highest in Silicon Valley.”

6. Operations Managements/Systems (6.8%)

7. Partnerships/Inter-Company Leveraging (5.7%)

8. Strategy/Planning (5.2%)

9. Sales/Distribution (4.7%)

10. (AEQ) Top Management/Board (3.7%)

11. (AEQ) Acquisitions/Mergers (3.7%)

(AEQ - equal rank)

2.4.3 Summary of Growth Accelerators

A. Rankings. Exhibit 2-3 provides further examples of growth accelerators in each of the five top-ranked categories as well as the names of the sixth through tenth-ranked categories. This exhibit and quotations cited in Subsection 2.4.2 are illustrative of the many rich comments about individual accelerators in the 70 Executive Cases. It is important for the management of a start-up to identify the key accelerators for growth and other company objectives. They then can prioritize company resources so that the activities that facilitate these accelerators operate in an effective and efficient way. The type and importance of individual growth accelerators likely will change over time for individual companies.

B. Differences among companies. There is a significant difference across the individual 70 Executive Cases in the growth accelerators each company cites and ranks. A mechanical approach of assuming that the same set of accelerators inevitably applies from company to company is misdirected. It is essential to conduct the analysis at the individual company level, taking into account its competitive situation, its internal capabilities, the chosen growth and other objectives.

2.5 Growth Challenges

2.5.1 General. Panel B of Exhibit 2-2 presents the ranking of the top five growth-challenge categories by region and overall. Exhibit 2-4 provides individual quotations relating to the top five overall categories. The Human Resources/People/Organization Culture category with 25.6 % of all mentions is by far the dominant one. It is first in each of the three regions: Americas (22.8%), EMEA (28.3%), and Asia-Pacific (25.5%). Examples of subcategories in this area are discussed in the following subsections.

2.5.2 Organizational Structure. Gil Shwed, CEO of **Check Point Software Technologies** (1993 Israel start-up), noted, "The biggest challenges were around creating the right organizational structure. We needed to build every function of the company, create a global company, and recruit many people, all while operating at a very high pace." Shwed's approach was to delay hiring until the right person signed on: "While we needed to hire the best talent possible from all over the world, the founders had to do every job until we got the right person in place. While the three founders did not have much experience in sales and marketing, we spent the years from 1994 to 1997 almost exclusively travelling the world and building our sales and marketing organization. Only in 1999 can I say we reached a stable organizational structure with all the relevant people in place." This approach to building out the organization can place great strains on the senior management team, especially if the company either is born global (as with *Check Point*, coming from Israel) or very quickly expands its global footprint.

2.5.3 Changing the Management Team

A. Fast pace with little infrastructure. The management team of a rapidly growing start-up company is not the place for every executive. Relative to larger companies, there is typically less infrastructure to support management team members. Moreover, amenities such as business class travel may be minimal, and functional boundaries may be ill-defined. The pace of change in a fast-growing company can be very high, which itself can place strains on an organization. Scott Farquhar, co-founder and co-CEO of **Atlassian** (2002 Australia start-up), noted the high turnover in the company's management team: "We've evolved the management team a full cycle. We're in version two of every (non-CEO) person in the key roles. When you have a US$ 2 million business, and two years later you're a US$ 15 million business, the challenges are very, very different. We have replaced the entire management team. That's challenging."

B. Executive hired from large company. Multiple people who were interviewed gave anecdotes about poor outcomes when executives came from large, well-resourced companies take responsibilities for key functions in a fast-growing young company. One person, who lasted three months, was described as "a cultural misfit who, before joining us, had never turned right when entering an airplane. He missed his PA. We decided that it was better for us and for him to move him on. It actually was a very costly three months for both sides." As with many areas of early-stage company analysis, such an anecdote should not mean a moratorium on such hires by young companies. However, hiring a large-company executive for an early-stage company is a red-flag area.

2.5.4 Capability to Evaluate Human Capital. Companies with extreme growth quickly expand beyond the capacity of the top management team to be involved in a detailed way with each individual hiring and firing. **Genpact** (1997 India captive start-up) began within General Electric as an India-based finance processing centre that operated with a large amount of autonomy. In 2004, it became an independently owned company when two private equity groups bought (in aggregate) a 60% ownership stake from General Electric. Pramod Bhasin, founding CEO described *Genpact's* approach to building a low-turnover, high-quality labour force: "Our attrition is half the industry average, and we pay average. And that's vital for customer satisfaction. Otherwise,

EXHIBIT 2-4:
GROWTH CHALLENGE CATEGORIES IDENTIFIED IN EXECUTIVE CASES: CATEGORIES RANKED IN ORDER OF FREQUENCY MENTIONED

1. Human Resources/People/Organization Culture (25.6%)

- **Grid Dynamics** (2006 US and Russia start-up) Victoria Livschitz, founder and CEO: "Grid Dynamics is like an iceberg where 10% of its body mass is observable to most of our customers. Many of the real brains are in Russia. Building a multinational so that we all operate with the same values requires constant attention."
- **Technisys** (1996 Argentina start-up) Miguel Santos, co-founder and CEO: "Major challenge was attracting and retaining talented people. We are better at this for technical people than for the business side. We failed big time on one of our first senior management hires. He came from a major technology company. Great resume. He did not understand and did not want to understand our start-up culture. We learned that a hiring with a bad outcome can not only freeze you but set you back."

2. Market Opportunity/Customers/Competitors (13.1%)

- **VERITAS** (1989 US restart) Mark Leslie, CEO: "When we first went public in 1993, I would ask people to write research on VERITAS, and they would say we don't have a storage management software segment, so we can't cover you. We defined the segment. By the time I left as CEO in 2000, there were 500 start-ups in storage management software."

3. Company Financing And Liquidity (10.7%)

- **Macromill** (2000 Japan start-up) Yasunorki Fukuha, co-founder and EVP: "Just after establishing Macromill, nobody wanted to invest in our company. The IT bubble collapsed at that time. We spent endless management time to visit potential investors, until we found a corporate investor."

4. Operations Management/Systems (9.5 %)

- **eBay** (1995 US start-up) Brad Handler, first in-house counsel for eBay: "The site outages were a huge problem for eBay. The core issue was the failure to properly plan for the hyper-growth of the site. As long as the site was functioning, it was easy to ignore the engineering team's pleas that the site was running on Band Aids and fumes."

5. Top Management/Board (7.7%)

- **China Lodging Group** (2005 China start-up) Qi Ji, founder and executive chairman: "Major challenge is managing my own aspirations and limitations. We transitioned successfully from a smaller company managed by a legendary entrepreneur and founder, to a larger company managed by a professional management team. It is much hard than you think. Especially in China, where a CEO is considered to be God."

6. (AEQ) Product/Service/After-Sales (4.8%)

6. (AEQ) Macro-Economic Environment (4.8%)

7. Government/Regulatory/Taxation (4.2%)

8. (AEQ) Research & Development/New Product Development (3.7%)

8. (AEQ) Marketing/Branding (3.7%)

8. (AEQ) Capital Markets/Financial Reporting (3.7%)

(AEQ - equal rank)

I'm training up somebody in the supply chain every nine months. We can't do it. We basically dealt with hiring, not as HR, but as operations. Core operations. It's our supply chain. So we dealt with it and built it with that kind of rigor. We have 27 branch offices spread across India where we hire people." Bhasin emphasized the importance of quickly exiting people who are not working out, even when high growth is placing strains on adding headcount. He said, "Figuring out how to weed them out early was a very vital part, so we didn't waste training time on them." Started in 1997, *Genpact* had over 15,000 employees in 2003; 26,000 in 2006; and 38,000 in 2009. Reflecting on the extreme growth rates in the early days, Bhasin noted, "The early explosive growth frankly was too hard. And too fast. We were just pumping things through as fast as we could. It was sardine land at times in our operations. However, you want that energy in a pioneering effort."

2.5.5 Challenge of Maintaining Company Culture with Rapid Growth. Multiple companies stressed the strains placed on maintaining a company culture either when there is a rapid increase in headcount or when companies grow with locations in different geographies. Box 2-4 illustrates how one company makes this challenge a central one in their human resources decision-making.

2.5.6 Small Companies with Large Companies as Customers

A. General. Relationships between small and large companies are often at the extreme ends of a broad spectrum. At one end, they can be a major accelerator for a start-up. The **IONA** relationship with Sun, described in Subsection 2.4.2, was a major game changer for *IONA* in a strongly positive way. However, interviews with several small companies revealed a very different end of the spectrum. These included very dark moments at small companies associated with what were viewed as "outrageous" or "obscene" demands by the larger company, as discussed in the following subsections.

B. Difficulty of maintaining balance. Victoria Livschitz, co-founder and CEO of **Grid Dynamics** (2006 US/Russia start-up) commented, "Avoid the temptation when you are a small company of tying your future to large companies like Oracle or Cisco. They require an enormous amount of your energy and can drain you. They reorganize frequently and you can lose all your relationships overnight. No matter what the small company thinks about itself, you are not significant to them." Of interest is that Livschitz was a 10-year veteran of Sun Microsystems prior to founding *Grid Dynamics*.

BOX 2-4

WILL GROWTH EAT THE COMPANY CULTURE?

Borge Hald and Amy Pressman,
Co-founders of **Medallia** (1999 US start-up) take proactive steps to maintain and build their customer obsessed culture.

In 1999, *Medallia* sought to attract sizeable venture capital financing for its customer experience management software venture. Hald and Pressman, co-founders, noted: "To be honest, when we first got started, we were drinking the bubble 'Kool-Aid' along with everyone else in Silicon Valley. We estimated that we would need a US$ 750, 000 seed round followed within one year by a Series A of US$ 2 million. The bubble burst before we were funded. Overnight, our focus shifted from 'Can we be the *eBay* of our space' to 'Will we be alive tomorrow?' We saw only one near-term option for funding: satisfied customers who continued to buy from us. As a result, we focused on delivering to them with fanatical zeal, channelling our resources into hiring top engineering talent and top client services talent. Our mantra, though unspoken, was 'It's the customer experience, stupid'." Hald and Pressman have led *Medallia* on an upward growth path since those early days. A major concern was maintaining their customer obsessed culture. They noted: "We have learned that culture is the dominant reason a company fails or succeeds and that disciplined growth is best. All our major challenges have involved resisting the urge to cut corners on our traditional formula for success, most notably in the hiring and firing practices that underpin our culture. When we are growing rapidly, it's awfully hard not to hire a really talented recruit who, though not quite a cultural fit, might be 'brought around' with the right training. It's also hard to let go of employees who can perform jobs well, even though they may be toxic to the team. But to hire cultural misfits, or refuse to fire them, is an assault on your culture. Left unchecked, it always destroys the culture and, by extension, the company and the growth it generates." *Medallia* has invested heavily in their disciplined recruiting initiatives under the leadership of a People Officer.

EXHIBIT 2-5:

DARK MOMENTS CATEGORIES IDENTIFIED IN EXECUTIVE CASES:

CATEGORIES RANKED IN ORDER OF FREQUENCY MENTIONED

1. Company Financing and Liquidity (16.4%)

- **WPP** (1985 % start-up) Sir Martin Sorrell, founder and CEO: "The period from 1990 to 1992 presented the biggest challenge. People would say we nearly went bankrupt. I overleveraged the company in 1989, and with the Ogilvy acquisition forgot that convertible preferred stock in a recession becomes preferred stock. In those dark moments in 1991 and 1992, I never ever thought that we were going to go down. Not even for one second."
- **GenPharm** (1998 US and Netherlands start-up) Sam Colella, board member: "What was left in the US in 1995 (after a pulled IPO and a lawsuit) was really a shrunk-down organization. At one point, we had about 70 people, but we had to scale that down to just nine people. They were committed believers in what we were doing. We basically had to run things on a shoestring."

2. (AEQ) Market Opportunity/Customers/Competitors (14.4%)

- **Ctrip** (1999 China start-up) James Liang, co-founder and chairman: "The SARS epidemic. Our sales dropped almost 90%. We faced a tough situation of how to survive this period. We worked with our employees to implement a pay cut so that we did not have to lay off too many people."

2. (AEQ) Macro-Economic Environment (14.4%)

- **Kaspersky Lab** (1997 Russia start-up) Natalya Kaspersky, co-founder and chairwomen: "The early years were the real 'dark years' – we needed everything from an office to international business expertise. In addition to this, in 1998, Russia went through a major economic crisis. Most of our customers focused on covering their basic needs rather than spending on other goods. There was nearly no demand for our product and nearly no chance for a small IT company to survive. The contract with a famous IT firm from Finland was a lucky strike for us."

3. Top Management/Board (12.5%)

- **Suntech Power** (2001 China start-up) Zhengrong Shi, founder, chairman and CEO: "Prior to IPO, management was in crisis. An important member of the board of directors wanted to pursue an MBO – against all of the other directors' wishes – without even notifying me. I saw many things happening incorrectly and I could sense his motivations. Later on, the directors realized what he was trying to do, and removed him from the board."

4. Human Resources/People/Organization Culture (11.5%)

- **IGN Entertainment** (1999 US start-up) Mark Jung, co-founder, CEO and president: "Laying off the majority of your employees, especially those that you have personally recruited, is not a task that I would wish on anyone. I will never forget the words of an employee who said to me when I gave him layoff notification: 'I've stuck with you through thick and thin, have always been a believer and in return, you shred me, and toss me into the street. Is this how you repay loyalty'?"

5. (AEQ) Capital Markets/Financial Reporting (4.8%)

5. (AEQ) Acquisitions/Mergers (4.8 %)

5. (AEQ) Government/Regulatory/Taxation (4.8%)

6. (AEQ) Operations Managements/Systems (3.9%)

6. (AEQ) Legal/Lawsuits (3.9%)

(AEQ - equal rank)

C. Difficulty of maintaining control. The relationship between **Microsoft** (1975 US start-up) and IBM in the 1980s had more than its share of heartburn for the then much smaller *Microsoft*. Consider the following quotations from the *Microsoft* Executive Case:

> Dave Marquardt (first venture capital investor and long-time board member of *Microsoft)*: The first decade it was IBM that almost killed us. I mean they were a great 'angel' in a way, but they also almost killed us a few times. We were in a situation long before Windows where we were totally at the behest of IBM. And IBM could have crushed us on many occasions. They had huge demands on us and sucked our resources. IBM was a large company and we were a small company and every new code release would have to circulate around to all these different divisions. It was very difficult to keep our technical people motivated to serve the beast, as it were.

> Mike Slade (*Microsoft* product and marketing executive, 1983-1990): For most of the IBM relationship Steve (Ballmer) was just trying to put out fires. When Windows 3.0 shipped, our tune began to shift rapidly to Windows. We knew it was the right way to go. But, at the same time, we had to figure out how to not get divorced from IBM too quickly.

D. Aiming for a broad customer portfolio. The challenges of small companies to maintain a productive ongoing relationship with a much larger company have no time stamp on them. They existed 30 years ago, exist now, and will likely exist for some time into the future. It is these difficulties that push many companies, as they grow larger, to put a priority on building a broad portfolio of customers. Unfortunately, early-stage companies in business-to-business settings rarely have that luxury.

2.6 Managing Through Dark Moments

2.6.1 General. The single question that generated the most animated responses during interviews for the Executive Cases was: "Give examples of dark moments or negative periods that your company or you faced as part of your journey with the company." Very rarely did interviewees ask what we meant by a "dark moment." Rather, with little hesitation, many proceeded to give several examples that to them were "dark." Often there was vivid recall with precise details of the dates and the parties involved. Panel C of Exhibit 2-2 provides the overall ranking of the dark moment categories as well as the regional breakdown. Relative to growth accelerators and growth challenges, there is more heterogeneity across the regional rankings. Some responses were at the company level and some at the individual level. Exhibit 2-5 provides overall rankings of the 10 most-cited categories of dark moments, with a company example for each of the top five.

2.6.2 Financing and Liquidity. Company financing and liquidity is the most frequently cited category for dark moments in the overall sample, at 16.4% of all mentions. Examples of responses are discussed in the following subsections.

A. Inability to raise funding. **MercadoLibre** (1999 Argentina start-up) raised US$ 7.6 million in its Series A round of financing in November 1999. At that time, the company was in a very high spending mode, competing with a similarly high-financed competitor (DeRemate) for the Latin American online auction market. Both companies were engaged in the "idea transfer or transplant" strategy described in Section 1 of this report. Unfortunately, the Latin American online auction market did not evolve as quickly as either company had anticipated. By 2000 to 2001, both companies were in need of another round of financing. Marcos Galperin, co-founder and CEO of *MercadoLibre*, commented, "The darkest moment we had to face was when NASDAQ crashed while we were negotiating our second round of financing. There were moments of great concern and tension because we needed capital to continue operating, and many investors wanted to close the company." The company was able to arrange the second round, but it had to make dramatic shifts in its operations to move rapidly to a positive cash flow position. DeRemate presumably had its own super-dark moments as it eventually shut down its operations.

B. Inability to complete a planned IPO. **GenPharm** (1989 US/Netherlands start-up) had several unsuccessful attempts to go public. In February 1992, *GenPharm* filed for an IPO, but in April 1992, it announced postponement of the IPO. Jonathan MacQuitty, the company's CEO, noted, "Essentially, the IPO window closed overnight for biotech firms." The cause was a major clinical setback suffered by a large biotechnology company (Centocor). In early 1994, *GenPharm* again planned to file for an IPO. However, days before its formal filing, a competitor (Cell Genesys) filed a lawsuit charging *GenPharm* with "having stolen a trade secret for inactivating a mouse gene." This derailed the IPO. (Several years later, Cell Genesys withdrew its lawsuit.) MacQuitty had been counting on the 1994 IPO to infuse much-needed cash into *GenPharm's* research programme, which had been making strong progress. He noted, "As a result of the (1994) lawsuit, the company found it increasingly difficult to raise money or sign additional R&D collaborations. This necessitated selling parts of the business, renegotiating existing collaborations, relocating facilities, and finally laying off 80 to 90% of the workforce." Subsequently MacQuitty navigated *GenPharm* being sold to Medarex (termed a trade sale), albeit with the acquirer capturing much of the earlier rents created by *GenPharm.*

C. Excessive pressure from debt. Exhibit 2-5 gives an example from **WPP** (1985 United Kingdom start-up). From 1989 to 1995, *WPP's* annual report showed very high levels of reported total liabilities relative to reported total assets (admittedly, for a service company, not a full reflection of its underlying assets). Sir Martin Sorrell noted: "We ran into severe trouble because I overleveraged the company in 1989. The restructuring phase in 1991 and 1992 had two parts. The first was the rescheduling of debt. The second was the debt-for-equity swap. People would say we nearly went bankrupt." However, he stressed that while the 1990 to 1992 period "was a challenging time it was [also] a very interesting time. The biggest test of companies, of people is in their darkest moments, in their toughest moments. It's not the easy times that are the true test, it's the difficult times."

2.6.3 Going Global. For many companies, going global is an important growth path. Increasingly, early-stage companies are adding a global dimension to their architecture. However, the potential for dark moments are expanded when a company goes beyond its own borders in one or more areas, such as suppliers, partners, employees, customers or adopters. Matt Bannick played a key role in *eBay's* international expansion. He gave the following example of a dark moment in 2004 both for *eBay* and for an executive of its Indian subsidiary: "Our head of the Indian website was arrested and placed in jail. This arose when one of our sellers posted an item that the Indian authorities perceived to be pornographic. This was a nightmare. They held [our executive] personally responsible. We had to work intensively at all levels to secure his release, which we did." Box 2-5 provides another going-global example of the difficult times that **Karuturi Global** faced as it rapidly expanded its activities in Ethiopia and Kenya.

BOX 2-5

GLOBAL GROWTH BRINGS BOTH OPPORTUNITIES AND CHALLENGES:

Ram and Anitha Karuturi expand **Karuturi Global** (1994 India start-up) operations to Ethiopia and Kenya

Karuturi Global is one of the world's largest cut-rose producers. The key move to achieving significant scale was the shift to the lower cost regions of Ethiopia and Kenya. Revenues in the global expansion period are (in US$ millions):

	2006	2007	2008	2009	2010
India	$ 7	$ 8	$ 10	$ 11	$ 11
International	$ 3	$ 15	$ 78	$ 89	$ 110

(in US$ millions)

Ram and Anitha cited the "move to Ethiopia followed by the acquisition of 'Sher Agencies' in Kenya" as a key to the major change in their "vision." Ram noted, "The biggest challenge for us was the business start-up in Ethiopia. We had to work with government authorities to obtain the land, which includes understanding the country rules, policies and regulations. Above all, gaining the confidence and acceptance of the localities proved to be cumbersome." Two challenges with building this African growth opportunity were described by Anitha: "(1) Hiring and relocating people into Africa. It was an immense task to convince good people to work there. (2) Integration into Kenya. Local employees in Kenya initially found it difficult to accept us due to the poor image of local Indian entrepreneurs, largely because of the local trading community. Our perseverance has helped us to gain the confidence of the people." Anitha described the following dark moment: "One of the difficult periods was during the Kenya riots when the whole country was on fire and we were still getting into the saddle. We had to take bold initiatives, since we have 70% of our employees stay in our colony. We dispatched flowers to the Airport in the middle of the night under the protection of the police and armed private security."

2.6.4 Emotional Roller Coaster. The following quotations highlight (1) the enormous pressures on an entrepreneur and (2) the fact that the individuals who take the entrepreneurial journey (often multiple times) exhibit traits not regularly found in the general population.

Pierre Omidyar, founder of **eBay** (1995 US start-up): Being an entrepreneur is a tough occupation. You have to believe in what you're doing, even when others are pointing out all the reasons why your idea won't work. You have to develop a higher risk tolerance, and be ready to find the lesson in each idea that doesn't work.

Jeremy Moon of **Icebreaker** (1995 New Zealand start-up): It's very confronting to start a new company, a new category and a new product from scratch, especially when you've never done it before. I had to work out how to get *Icebreaker* to work, even when I felt like quitting.

Vinod Dham of **Silicon Spice** (1996 US start-up): As an entrepreneur you have to have the DNA in you to not give up. I could have easily given up on *Silicon Spice* and moved on to do something else. This drive to succeed at any cost is part of every successful entrepreneur I have worked with. You have to figure out whatever it takes to make a success of the company.

Mark Jung of **IGN Entertainment** (1999 US start-up): Our market capitalization peaked at over US$ 1 billion on our first day of trading in 2000. Within two years, our market capitalization had fallen to less than US$ 10 million. We survived out of sheer will and perseverance, racing against the clock to raise revenue and reduce costs before the cash ran out. We never gave up faith that we would right the ship, stabilize and survive.

Yasunori Fukuha of **Macromill** (2000 Japan start-up): In March 2000 the dotcom and IT bubble collapsed in Japan, which was the equivalent to the 'kiss of death' for our company. We were technically dead. However, entrepreneurs don't give up easily.

Amjad Aryan of **Pharmacy 1** (2001 Jordan start-up): The first three years were very hard. Naysayers were all over the place, and negative remarks were an everyday occurrence. There were times where people around me did not only doubt the success of the business but fought it wholeheartedly, driven by fear of change.

Victoria Livschitz of **Grid Dynamics** (2006 US/Russia start-up): To start and build a company requires an incredible commitment that takes all of you. This is both the most difficult thing that I have ever done and also the most fulfilling. If you are absolutely driven by the vision of creating unique value, of creating jobs, making change, and making people's lives better, you should go out and start a company.

Character traits such as optimism, risk taking, adaptability, resilience, determination, and the capacity to live with large amounts of uncertainty appear to be over-represented, compared with the general population, in the sample of entrepreneurs we engaged with while preparing this report. ■

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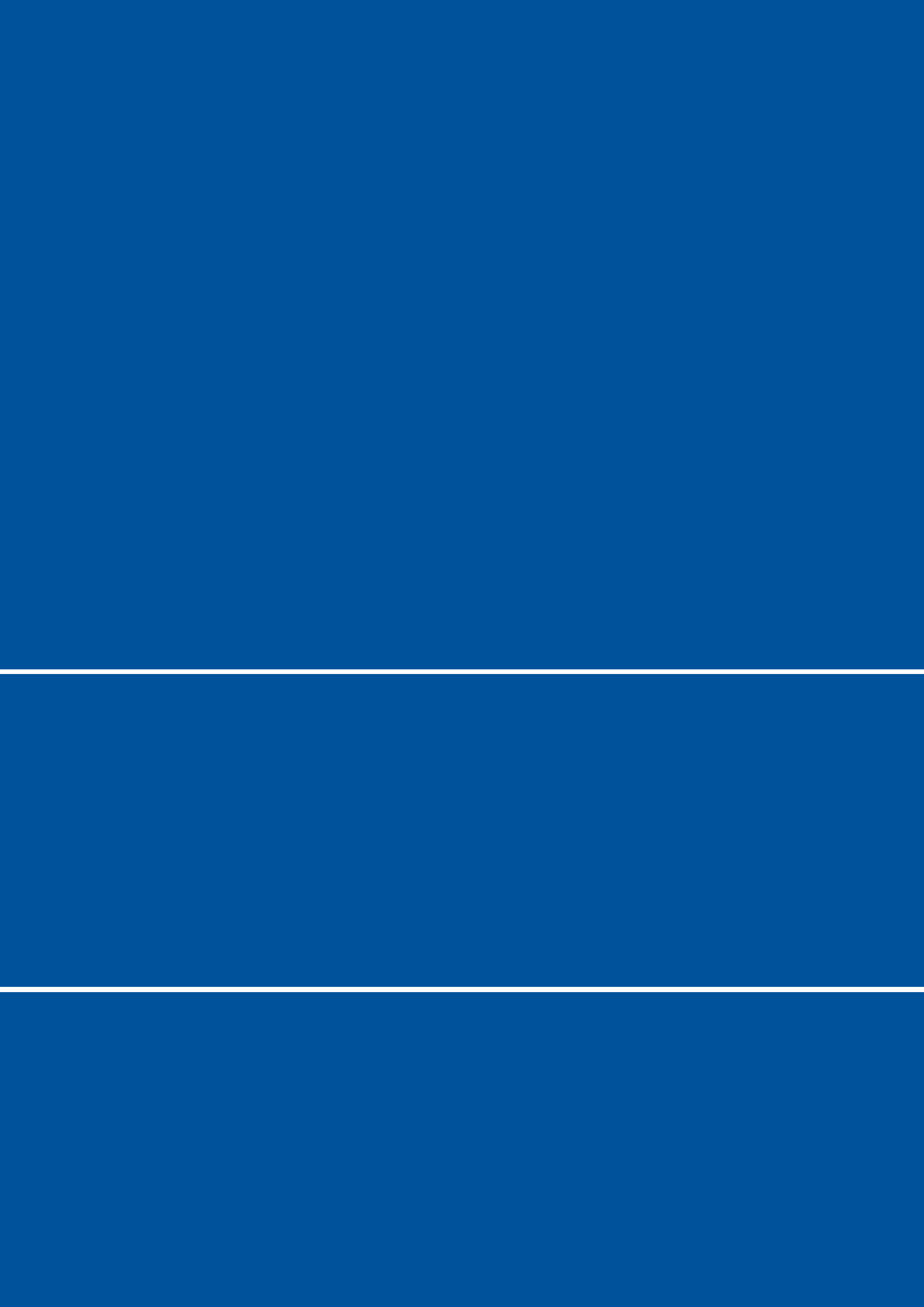
[1] The 16 categories: 1. Top Management/Board related, 2. Human Resources/People/Organization Culture related, 3. Strategy/Planning related, 4. Company Financing/Liquidity related, 5. R&D/New Product Development related, 6. Products/Services/After-Sales related, 7. Operations Management/Systems related, 8.Market Opportunity/Customers/Competitors related, 9. Marketing/Branding related, 10. Sales/Distribution related, 11. Partnership/Inter-Company Leveraging related, 12.Capital Markets/Financial Reporting related, 13. Acquisitions/Mergers related, 14. Government/Regulatory/Political related, 15. Macro-Economic Environment related, and 16. Legal/Lawsuits related.

APPENDIX 2-A EXHIBIT 1: THE EARLY-STAGE COMPANY ENTREPRENEUR'S ECO-SYSTEM



Section 3

Early-Stage Company Growth and Decline: Creation and Destruction Evidence for Revenues and Jobs from 10 Countries

Section 3 – Early-Stage Company Growth and Decline: Creation and Destruction Evidence for Revenues and Jobs from 10 Countries

Authors:
Antonio Davila, George Foster, Xiaobin He and Carlos Shimizu

This section presents evidence on key aspects of growth for a broad cross section of early-stage companies. We examine the creation and destruction of revenues and jobs by these companies in 10 countries. The most extensive known database with information on the early years of a company is ORBIS. This database includes both privately held as well as publicly held companies from many countries and aggregates local databases with employment and financial data from the individual countries. Countries differ greatly in their regulatory mandates. In many countries, there is minimal required public disclosure of financial and other information for privately held companies. Countries like the US, China, India and Australia fall in this category. In other countries, privately held companies are required to regularly file information with the government that is then made publicly available. This information is of much interest to understanding the growth paths of early-stage companies. Using the ORBIS database, we present evidence on company growth for over 380,000 companies from 10 different countries – eight European countries (United Kingdom, France, Italy, Spain, Belgium, Sweden, Norway and Finland) and two Asian countries (Japan and South Korea). We will present data for the whole sample and at times company data for two illustrative countries (United Kingdom and South Korea). Appendices 3-A and 3-B provide further information on ORBIS and the samples of companies we analyse (including their general growth patterns in revenues and headcount).

The key takeaways from this Section include:

1. The growth path of many companies includes down years as well as up years. Indeed, 42% of companies in their Year 2 to Year 5 era have a combination of two up growth years and one down (negative) growth year compared to 31% who have three up growth years. This finding highlights that down years are to be expected and that managing through these years so that a subsequent downward spiral does not occur is a key aspect of early-stage company management.

2. There are net gains to the economy in both revenues and headcount from companies in this early-stage company sector. This is a consistent finding in all countries examined. However, underlying this net gain are sizeable revenue losses and job losses by a subset of companies that previously had experienced revenue gains and job gains. Focusing on changes between Years 4 to 5, revenue losses run at 39% of total revenues added in this sector, while job losses run at 61% of total jobs added in this sector. An important extension of our research would be to document how much of these losses are due to gains made by other sectors in the economy (such as large established companies entering the product market areas opened up by the early-stage companies) and how much is due to economy-wide losses.

3. A small number of companies contribute greatly to both (1) the revenue or job creation, and (2) the revenue or job losses. We present two new concepts – the **Mountain of Creation** and the **Valley of Destruction** – that visually showcase the extreme contributions in (1) and (2) made by a small percentage of companies. For example, the top 1% of all early-stage companies ranked by the level of revenue (job) creation contributes 44% (40%) of total sector revenue (job) creation. The top 1% of all early-stage companies ranked by the level of revenue (job) losses account for 53% (46%) of all sector revenue (job) losses.

3.1 Ladders and Snakes Growth Path of Early-Stage Companies

Many of the high profile success stories of entrepreneurial companies exhibit a continuous upward sloping growth path for each of their early years (be it their first five or first 10 years). Companies such as **Baidu**, **eBay** and **Mindtree** all have this pattern. Using the ORBIS database, we can determine the relative frequency of companies that have successive positive growth rates over continued years. Exhibit 3-1 shows a decision tree format that focuses on the sign of year-to-year company growth. We first partition growth in Year 2 to 3 for each company into one of three categories – (1) positive growth (+), (2) zero growth (0), and (3) negative growth (-). Next, we use the same three-group partition for Years 3 to 4 and for each of the three groups from Year 2 to 3. Finally, we use the same three-group partition for the nine different combinations of growth paths for Years 2 to 3 and Years 3 to 4. The result is 27 different combinations of successive growth paths from Year 2 to Year 5. Only one of these 27 paths has a +/+/+ sequence. Exhibit 3-1 presents the growth path trees for revenue and headcount for the pooled sample of early-stage companies from the 10 countries we are examining.

We first focus on the revenue series in Exhibit 3-1. The growth path with the highest per cent of observations in Exhibit 3-1 is +/+/+ with 31% of the sample. This is an important finding. This 31% with an unbroken sequence in positive revenue growth from Years 2 to 5 is a significant subset of all companies. It is these companies that typically dominate public discussions of entrepreneurial companies. However, it is also important to recognize that a larger number of companies (69%) do not exhibit this unbroken positive sequence of growth. The revenue growth paths from Exhibit 3-1 with the highest per cent of observations after the +/+/+ sequence are:

Revenue Growth Path	Rank in 27 Paths	% of Sample
+/+/-	2	19%
-/+/+	3	12%
+/-/+	4	11%

Each of these three triplets has two out of three positive growth rates, which is consistent with the general pattern of revenue growth across all companies examined. We use the concept of the **ladders and snakes growth path** to describe companies that have sequences of growth paths that have years with positive growth and years with negative growth. The percent of companies with a ladder and snake growth path exceeds the 31% of companies that have positive growth in the three growth periods from Year 2 to Year 5. The above three groups with differing sequences of two positive (+) growth years and one negative (-) growth year constitute 42% of the companies examined. This finding highlights that management of early-stage companies has to anticipate having down years as well as up years. Key aspects of successful growth management of early-stage companies include (a) handling the down years so that a subsequent downward spiral does not occur, and (b) taking early actions so that either down growth years do not occur or that their severity and duration are reduced.

The growth paths for headcount of Exhibit 3-1 have different characteristics than those shown for revenue in Panel A. Not surprisingly, there is more stickiness in headcount levels than for revenue levels. The growth path with the highest percent of companies (20%) is 0/0/0 – that is, companies with no headcount change in each and every year from Year 2 to Year 5. The next highest per cent growth path (11%) is the +/+/+ path. Whilst there is headcount growth on average for the whole sample, this growth is much more concentrated for a smaller set of companies than is the case for revenue growth. The ladders and snakes growth path also is found for headcount. Companies with combinations of two positive (+) years of headcount growth and one year of negative (-) growth constitutes very highly ranked growth paths in terms of their relative frequency:

Headcount Growth Path	Rank in 27 Paths	% of Sample
+/+/-	3	6%
+/-/+	4	5%

The analysis in Exhibit 3-1 uses only the sign of revenue or headcount growth rates. We now consider the magnitude of the changes in revenues or headcount.

3.2 The Mountain of Creation and the Valley of Destruction for Early-Stage Companies

Early-stage companies are rightfully heralded in many countries as a vibrant and important source of growth. Statistics on the revenues created or jobs created by successful new companies are often quoted. What is given much less publicity is the simultaneous sizeable amount of revenues destroyed or jobs destroyed in this early-stage company sector of the economy. We highlight both the creation and destruction aspects by the use of our **Mountain of Creation** and **Valley of Destruction** concepts. We illustrate these two concepts using data for the 55,618 companies in the United Kingdom with revenue data available for years two to five. We will focus on revenue changes from Year 4 to Year 5. First, we compute the Year 4 to 5 revenue change for each company and then rank them from highest to lowest. For the *Mountain of Revenue Creation*, we create a cumulative curve that starts with the highest revenue creating company, and then adds the revenues of the second highest revenue creating company, etc. This cumulative curve will keep increasing until the point where companies have zero revenue change. The curve will decrease when revenue-decreasing companies are encountered in the ranked observations for Year 4 to 5. The final British company in the *Mountain of Revenue Creation* curve will be the one with the largest revenue decrease in Years 4 to 5. To facilitate comparisons across samples and countries, we normalize the curve by setting the maximum total revenues created to be 100% and then express all points on the cumulative distribution relative to this 100% figure. If there is net revenue creation for the sample, the curve will finish above the 0% line. We use a variant of this approach to highlight the *Valley of Revenue Destruction*. Here we take the same United Kingdom

data for Year 4 to Year 5 revenue changes, but rank them from the most negative revenue change to the most positive revenue change. We then develop a cumulative revenue loss curve using the same methodology.

Exhibit 3-2 shows summary data for the Year 4 to 5 *Mountain of Revenue (Job) Creation* and the related *Valley of Revenue (Job) Destruction* for all 10 countries and for the total pooled sample. Panel A shows revenue data and Panel B, headcount data. Exhibits 3-3 and 3-4 show the visual presentation of the cumulative growth curves for both revenues and jobs respectively. Average net revenue gained and net jobs gained per company per country are presented in Exhibit 3-5 for all 10 countries. The results in Exhibits 3-2 to 3-5 focus on Year 4 to Year 5 changes. Similar inferences are drawn from examining Year 2 to Year 3 changes or Year 3 to 4 changes.

Country by country differences in Exhibit 3-5/Panel A should be interpreted with caution. The country differences in Exhibit 3-5 could be due to differences in the data collection procedures of ORBIS at the individual country level as well as economic or cultural differences across countries. Panel B separates the average gains from the average losses per country. The green columns show the average revenue gain and job gain per country from year four to five, while the red columns show the average revenue and job loss. They are estimated by dividing the total positive (negative) change in revenue and jobs by the number of companies that created (destroyed) revenue and jobs. Those countries that created higher average gains are also those that have higher variation. Japan and South Korea gain and lose more average revenues when looking at the variability in job gains and losses. This variation across countries warrants further analysis. As noted before, included here would be an investigation of the various ways individual country data is collected by ORBIS.

Exhibits 3-2 to 3-5 highlight several important characteristics of early-stage company growth and decline based on our large sample from 10 countries. **First**, there is net revenue creation and net job creation for each country. **Second**, the net revenue (job) creation is the result of offsetting sizeable revenue (job) creation and sizeable revenue (job) destruction forces. The magnitude of the total revenue losses is about 39% of the total revenue gains for the sample of all companies.

While the headcount patterns are similar to the revenue patterns, in general there is relatively more job destruction as a per cent of total jobs gained than there is revenue destruction as a per cent of total revenues gained. Net job destruction is 64% of the total jobs created in our sample compared to 39% for the comparable figure for net revenue creation in Years 4 to 5. Our sample selection criteria – using only companies for which there is data for each of Years 2 to 5 – will underestimate job destruction if companies, for which there is no data in one or more of those years, is dominated by companies that stopped operations (as opposed to being acquired, where the effect is less clear as successful, as well as failing companies getting acquired). **Third,** the slopes of the Cumulative Revenue (Job) Creation and the Cumulative Revenue (Job) Destruction curves highlight what we call in the next section the **Elite Creating Few** and the **High Destroying Few**.

3.3 The Dominant Contributions by a Few

The ORBIS database includes companies with a very broad cross section of sizes. Many of the early-stage companies start small and stay small. Of much interest is how the total gains and the total losses are driven. One end of the spectrum would be a modicum of creation (destruction) by a large per cent of the gainers. The other end of the spectrum would be a few mega gainers and losers. Exhibits 3-3 and 3-4 plot the *Mountain of Revenue (Job) Creation* and the *Valley of Revenue (Job) Destruction* for the 10 countries, the United Kingdom and South Korea. The shape of the mountain and valley provides insight into the distribution of gains and losses across companies. The horizontal scale is from 0% to 100% of companies included in the analysis. The steeper the mountain ascent, the more narrow the base of companies that contribute most to creation. The flatter the mountaintop, the larger the number of companies that make minimal contribution to creation between Year 4 and Year 5. The steeper the mountain descent, the more narrow the base of destruction.

Exhibit 3-6 speaks directly to how highly concentrated the significant revenue and job creators are. Exhibit 3-6 reports the percentage of total revenue created by the 1%, 5% and 10% of companies that generate the most revenue. Across all 10 countries the summary percentages are:

	Revenues			**Jobs**		
	1%	5%	10%	1%	5%	10%
Creators	44%	72%	84%	40%	67%	80%
Destroyers	53%	81%	91%	46%	74%	87%

Country differences in these percentages are apparent. For example, in the United Kingdom, the top 1% of the revenue creators account for 63% of the total revenue growth between Years 4 and 5. Even more striking, 10% of companies are responsible for 94% of the total revenue generated. The United Kingdom is the most extreme case of concentration of growth for an elite few. However, this percentage is significantly high for all the 10 countries ranging from the 94% of the United Kingdom to 66% of South Korea, which is the country with the least dependence on this elite few. The job creation pattern is similar, albeit not as extreme. The percentage of total jobs that the top 10% job creators create varies from 85% for the United Kingdom to 69% for Belgium and South Korea. The top 1% of job creators creates between 25% and almost 50% of the jobs across the 10 countries.

The above analysis is the most systematic that has been conducted on creation and destruction by early-stage companies in that we cover both revenues and jobs, and we also conduct the analysis at a multi-country level. Several implications come out of our analysis. Growth and destruction are concentrated around a small percentage of companies. The rule here is closer to the 10/80 or 10/90 rule where 10% of the companies create and destroy 80% to 90% of revenue and jobs. In addition to the general effort to set up policies that encourage the creation of companies and the sustainability of SMEs, the tails at both ends can benefit from additional attention to them. Governments can devise policies to support the elite few that are responsible for a large percentage of growth. At a minimum, they should avoid policies that negatively target the most successful early-stage companies. Such policies in the past have included extra taxation rates (e.g. an excess profits tax), reduced taxation exemptions and reduced offsets for job creation. The term “gazelles” is sometimes used to describe young, high-growth companies that make disproportionately large contributions to the economy. Careful attention to these companies leads to various other benefits. For instance, it helps in better understanding what kind of economic, social and political environment benefits these companies to reproduce it more often. Copying Silicon Valley may be less effective than understanding the local elite few in their own ecosystem. Looking at the other extreme, analysis of the mega-destroyers can also be informative. These massive fallouts suggest important gains from understanding how much of this destruction is due to internal self-inflicted wounds as opposed to external competitive market forces.

3.4 Early-Stage Company Growth Rates and their Multiple Determinants

The behaviour over time of early-stage company growth rates reflects the impact of multiple factors, not all of which pull in the same direction. These factors include:

(i) Individual company factors and activities. An example is management building an effective sales force or aggressively expanding into new geographies or new customer segments. Companies that work effectively on their growth accelerators and reduce (or ideally eliminate) the effect of potential growth inhibitors likely will be able to sustain higher growth rates over time vis-à-vis companies that ignore such important activities. Management aspirations and growth strategies can be pivotal here. **WPP** was a restart in 1985 from a “shell company” that was publicly listed on the LSE under the name of Wire & Plastics Products. In its early years, it aggressively followed a rollup (aggregation) of existing players strategy. *WPP*'s revenues grew from £ 23 million in 1986 to £ 1,264 million. Sir Martin Sorrell, its founder and driving force, commented: “The period from 1985 to 1990 was essentially a growth phase by acquisition, the largest of which were JWT in 1987 (13 times our size) and Ogilvy in 1989 (twice our size). If, at the old age of 40, you start with two people, and your objective in your lifetime is to build a major advertising and marketing services company, you have to do it primarily by acquisition otherwise you’d be dead before you got very far!”

(ii) Business gravity forces. Business gravity operates when a company creates or benefits from a new “golden opportunity” or major differentiator, but cannot continue to capture very high rents from that new opportunity or differentiator. The golden opportunity or key differentiator success indicators can spur other new ventures and existing companies to enter the marketplace or replicate the success drivers. Some early-stage companies are especially exposed “when the big guns come to town.” They may have little prior experience defending their early-won advantage. Indeed, some may not even have a game plan that anticipates rapid entry occurring by some well-resourced companies with very experienced management teams. Experienced venture capitalists argue that “pattern recognition” is important when determining the timing of a trade sale for an early-stage company. Sam Colella of Versant Ventures noted: “Really good venture capitalists develop pattern recognition skills not just in the creation and building of ventures, but also about when those new ventures should consider a trade sale. Larger companies can quickly enter a new emerging market and effectively crush the market position of the young fast growing company. Silicon Valley is full of stories about companies that waited too long before embracing sound-outs from larger players seeking to enter a market the new company may have even pioneered.”

(iii) Market space dynamics. Different market spaces or industries can have dramatically different growth rates. An early-stage company in a rapidly growing market space can sustain continued high growth rates over time, even if new competitors arrive and take market share. Some online gaming and social networking companies that had initial high growth rates were able to avoid dramatic slowdowns in their growth rates due to the overall gaming and social networking market sizes dramatically increasing. MySpace, for several years after Facebook started in 2004, continued to have high growth rates in its user counts (especially registered users) at the same time its market share was declining due to the overall number of people joining social networking companies rapidly increasing. Included in market space dynamics would be possible network effects where one company is able to build and sustain momentum due to powerful network effects despite new entrants arriving. **eBay** is a classic example in its early years (say 1995 to 2000), where strong network effects were a pivotal growth accelerator. Jeff Skoll, the first president of *eBay*, noted: "A virtuous cycle evolved – buyers wanted to be in a marketplace with the most listings, sellers wanted to be in a marketplace with the most active bidders. In time, the virtuous cycle proved to be a core part of the defensiveness of the company's market share."

(iv) Macroeconomic forces. Major shifts in the level of economic activity can have large impacts on the growth opportunities of all companies, including early-stage companies. The 2008/2009 sudden economic downturn had a dampening effect on both market demand and the availability of finance for many early-stage companies. Similarly, the 11 September 2001 events (9/11) in New York City had a chilling effect on economic activity in many parts of the globe. New ventures in the travel arena, for example, saw their growth rates stall in a very short time period in late 2001.

(v) Mean reversion forces. A well-documented empirical phenomenon for large samples of established companies is mean reversion over time for key financial variables. Companies with above average performance revert downwards towards the mean, whilst those with below-average performance revert upwards towards the mean. The early accounting and finance research literature, starting in the 1960s, focused on mean reversion for earnings growth rates. Over time, the variables examined in this literature have expanded to include series like accounting return on equity (ROE) and accounting return on assets (ROA). More recently, mean reversion has been documented for revenue growth rates and sales profit margins[1]. There is limited evidence on whether mean reversion applies to early-stage companies. One constraint for mean reversion upwards forces showing up in the data is that early-stage companies start from a zero base in their first year. It may takes several periods before there can be even a sizeable downward shift in any one year, let alone a subsequent reversal of that downward shift towards the mean in later years. The economics underlying mean reversion (especially the reversion upwards from a below-average performance) have not been well explored. The notion that "what goes down must then go up" certainly goes against the organizational population ecology literature, which documents sizeable exits in early-stage companies due to bankruptcies and other forms of corporate distress. For these exiting companies, what went down in one year continued to keep going down in subsequent years, which is certainly the reverse of mean reversion.

(vi) Early-stage company sector high fluidity and high variance. At several stages in this report we document that the distribution of growth rates for early-stage companies becomes more compressed over time as these companies age. The major part of this compression comes from the top end of the high growth rate companies seeing sizeable reductions in their growth rates. Published rankings of high-growth companies report the top end of the highly ranked companies have annual growth rates in revenues of 200%+. Plots of the 95th or 90th percentiles of revenue growth rates for early-stage companies typically show much higher growth rates in the very early years than we see for comparable percentiles of established companies. This compression over time in the distribution of early-stage growth rates appears to be a key factor to consider when evaluating observed growth rates of an early-stage company at different points in time as it ages.

The relative importance of the above factors (and potentially others) for early-stage companies have not been well explored. Research here is in its infancy and likely will be difficult. Understanding the importance of several of these factors requires a deep analysis of the dynamic forces operating within individual companies. This requires a major investment in field research that few researchers appear willing to make and sizeable cooperation by the management of those companies that is hard to sustain over an extended period.

3.5 Early-Stage Company Intra-Sector Analysis vs Inter-Sector Analysis

This section presents what is called an intra-sector analysis of revenue and job creation and destruction. We examine only creation and destruction evidence within one sector of the economy – that is, the early-stage company sector using information on their revenue and headcount from Years 2 to 5. An important and challenging extension would be to take an inter-sector analysis, where the focus is on creation

and destruction across different sectors of an economy. Some of the creation we document by early-stage companies is likely a transfer from other sectors of the economy. Consider an early-stage company that grows quickly, because it has a disruptive technology. Some of this growth is likely at the expense of established companies whose existing products and customer relationships are being "disrupted." Similarly, some of the destruction we document for early-stage companies is likely due to inter-sector forces. Some early-stage companies with initial high growth subsequently may suffer declines when established companies successfully focus their competitive guns on the new market opportunities that first occurred in the early-stage company sector. This is yet another area where important research remains to be conducted. This research could be conducted at (1) a country level, or (2) an "industry level". The latter could recognize gains and losses within the same industry across many countries. A challenge here is placing bounds on what is an "industry". The Executive Cases provide multiple examples (such as **Veritas**) of early-stage companies establishing new areas that are not well recognized by traditional industry classifications.

Appendix A: Sample Selection, Sample Description and Growth Compression

ORBIS has information on companies of all ages for a rolling 10-year period. We access ORBIS for the years 1999 to 2009 and then identify companies with their year of incorporation in the 1999 to 2004 period. This 1999 to 2004 restriction enables us to focus on companies that have data available for their first five years. We concentrate on Years 2 to 5, as Year 2 for many companies is often the first year for which they have a full 12 months of operations. We use multiple screens to identify companies that are "Greenfield/Day one start-ups" as opposed to spin-offs from existing companies, new names for existing companies, etc. We look at those companies for which there is information available for these first five years. We have Years 2 to 5 revenue data for Years 2 to 5 available for 381,865 companies (ranging from 98,267 for France to 1,969 for Japan) and headcount data for Years 2 to 5 available for 168,685 companies (ranging from 72,031 for Spain to 1,919 for Japan).

3.A.1 Distribution of Levels of Revenue and Headcount In Years 2 to 5

There is much evidence of revenue growth for the early-stage companies in the ORBIS database. Exhibit 3-A plots selected points on the distribution of revenue levels for the following three groupings – for all 10 countries pooled, for one European country (United Kingdom) and for one Asian country (South Korea). The left-hand side plots show the 90th, 80th, 70th, 60th, 50th, 30th…10th deciles of the distribution. The right-hand side plots show the 99th, 98th…91st and 90th percentiles. Across each of the revenue plots in Exhibit 3-A there is a very strong upward pattern of the distribution of revenue levels from Year 2 to Year 5. For each event year in Exhibit 3-A, the revenues of all companies are re-ranked so that each observation on a given distribution point (say the 90th decile) does not pertain to the same company each and every year. There is broad evidence of revenue growth each and every year across many points of the distribution of revenue levels. Exhibit 3-A showcases the higher revenue levels for the 90th to 99th percentiles of the revenue distribution. For the whole sample of companies in the 10 countries, the 99th percentile shows the level of revenues increasing from US$ 12.9 million in Year 2, to US$ 17.1 million in Year 3, to US$ 21.0 million in Year 4, and to US$ 23.8 million in Year 5.

Exhibit 3-B plots similar distribution evidence to Exhibit 3-A for headcount levels for the same three groupings of all countries, United Kingdom and South Korea. The visual patterns for headcount show systematic evidence of growth in the upper half of the headcount distribution each year, but not as marked in the lower half of the distribution. Across the 10-country sample, the 99th percentile shows the headcount levels increasing from 86 in Year 2, to 98 in Year 3, to 105 in Year 4, and then to 111 in Year 5.

The general pattern in Exhibits 3-A and 3-B is typically observed for each individual country. Plots of revenue per headcount (not included in this section) reinforce the pattern in Exhibits 3-A and 3-B – that there is more systemic growth across companies from Years 2 to 5 in their revenue levels than in their headcount levels. These two exhibits also illustrate that the ORBIS data includes a broad cross-section by size of early-stage companies. For example, over 50% of the companies in Exhibit 3-B have headcount levels less than 10 for each of their Years 2 to 5.

Compared with Exhibit 3-1, the distribution of revenue levels in Exhibit 3-A is upward pointing each year from Year 2 to Year 5 for large parts of the distribution. The distribution of revenue levels in Exhibit 3-A is separately computed (rebalanced) each year, which means that the plots in Exhibit 3-A do not apply to any particular company. In contrast, the growth paths in Exhibit 3-1 are computed at the individual company level.

3.A.2 Compression in Distribution of Growth Rates as Early-Stage Companies Age

Exhibits 3-C and 3-D rank the companies according to their growth rate in terms of annual growth rates for revenues and headcount respectively. The population is rebalanced every year. The exhibits plot the overall sample, the United Kingdom and South Korea. For each of these samples, we present the 90th, 80th, 70th, 60th, 50th, 30th and 10th and on the other side the 99th, 98th, 97th…91st, and 90th. As young companies age, the distribution in their growth rates becomes more compressed. There is sizeably more variation across companies in their Year 2 to Year 3 growth rate than in their Year 4 to Year 5 growth rate. This pattern can be attributed to multiple factors. One is commonly called the "low denominator" effect. When revenues in year two are US$ 10,000, a growth rate of 200% requires only an extra US$ 20,000 in Year 3 revenues. If revenues in Year 4 are US$ 200,000, this same growth rate requires a larger dollar amount – an extra US$ 400,000 in Year 5 revenues. An important area of research is in understanding other explanations for this compression in the growth rate distribution as early-stage companies age. Factors such as (1) the speed at which early new market opportunities opened up by very young companies are competed away, and (2) the inability of some very early companies to quickly build effective management teams are factors that may be important to examine.

The sizeable reduction in the extreme high-end growth rates of the company growth rate distribution is of much interest to companies and third parties (such as investors or potential partners) seeking to benchmark the year-by-year growth rates of a company as it ages. For example, a South Korean company that had successive growth rates from Year 2-3, 3-4, and 4-5 of 800%, 700%, and 600% respectively, would actually be increasing its relative ranking each year vis-à-vis other fast growing companies in this same Year 2 to Year 5 period of its early days. In Year 2-3, this South Korean company would be above the 97th percentile, in Year 3-4 it would be above the 98th percentile, and in Year 4-5 it would be above the 99th percentile. In Section 5, we will extend this observation, and provide benchmarks based on a set of companies specifically selected for their having high revenue growth. Systematic

EXHIBIT: (FROM ORBIS)

Country: Belguim	
1. Which companies have to file accounts?	SA, SPRL, Soc. Coop., SCS, SNC, GIE
2. How many companies does that represent?	270,000
3. Which type of companies legally does not have to file any form of accounts even though they would meet the selection criteria for ORBIS?	None
4. Can companies file less information than the previous years or not file accounts at all in some years ? If so, why?	No
5. Where are the accounts filed?	National Bank of Belgium
6. What is the maximum period a company can take to file its accounts after its year end?	7 months
7. What is the average time of filing accounts by the companies?	7 months
8. Is the format of the accounts standardized?	Yes
9. At what conditions are the accounts made available to the public?	
• form	Microfilm, paper, magnetic tapes, CD-ROM
• price	6.50 € per account
• place	National Bank of Belgium
10. Do companies generally comply with the legal obligation?	Yes
Data provider for ORBIS?	National Bank of Belgium, EURO DB
11. What is the maximum possible period between a company filing its accounts and the records appearing on the database?	3 Months
12. What is the average period between a company filing its accounts and the records appearing on the database?	1 Month

analysis of growth rate distributions like in Exhibit 3-C (and later in Exhibit 4-3) enable much better calibration of the progress based on revenue (and other variables) growth rates of companies as they age.

Appendix B: ORBIS Database

ORBIS integrates financial and non-financial information from a multitude of countries around the world. Different information providers gather the data across the various countries. The information is usually obtained from company filings to the government. The information disclosure requirements vary across countries in terms of which companies have to report, the type of information, the level of detail and the updating frequency. This heterogeneity means that only a broad set of variables, such as revenues and headcount, can be compared. Here, we reproduce ORBIS information for Belgium.

Appendix C: Links to Prior Research

The results in Section 3 have links to several different literatures. An excellent overview is provided in Alex Coad, *The Growth of Firms: A Survey of Theories and Empirical Evidence,* Cheltenham, United Kingdom: Edward Elgar (2009). See also Enroico Santarelli and Marco Vivarelli, "Entrepreneurship and the process of firms' entry, survival and growth," *Industrial and Corporate Change* (Vol. 16 No. 3, 2007).

David Birch at *Cognetics* is credited with coining the term "gazelle" to describe a company that experiences an extended period of rapid growth. This arose out of his research on job creation, including The Job Generation Process (Cambridge, Mass. MIT Program on Neighborhood and Regional Change, 1979). Most "gazelles" are young companies. He also coined terms to describe other companies – "elephants" were large slow moving companies that contributed little to additional job creation while "mice" were companies that started small and intended to stay small.

Labour economists have long published on topics related to headcount growth determinants. An excellent overview is in Steven J. Davis & John Haltiwanger, "Gross Job Flows," in: O. Ashenfelter & D. Card (ed.), *Handbook of Labor Economics*, edition 1, volume 3, chapter 41, pages 2711-2805 Elsevier (1999). John Haltiwanger's recent talks on his personal website report US-based evidence showing job creation and job destruction for early-stage companies, e.g. "Productivity & Entrepreneurship," Lecture Notes for NBER Entrepreneurship Bootcamp (2010).

The accounting and finance literature has long examined company growth rates, especially in the context of capital market valuation. Early evidence from this literature is overviewed in George Foster, *Financial Statement Analysis* (Prentice-Hall, 1986, 2nd edition) and William H. Beaver, *Financial Reporting: An Accounting Revolution* (Prentice-Hall, 1989, 2nd edition). Evidence that includes early-stage companies is in Christopher S. Armstrong, Antonio Davila, George Foster, and John R.M. Hand, "Market-to-Revenue Multiples in Public and Private Capital Markets; Company Size, Revenue Growth, and Transitory Revenue Drivers" (Working Paper, Stanford University, 2006). An overview of some evidence on mean reversion in company revenue growth rates for established companies is in Chapter 15 ("Full Information Forecasting, Valuation and Business Strategy Analysis") of Stephen H. Penman, *Financial Statement Analysis and Security Valuation* (McGraw Hill Irwin 2010).

The organization ecology literature, especially the resource partitioning perspective, has strong links to the topics covered in Section 4. An overview is in Michael T. Hannan, László Pólos, Glenn Carroll, *Logics of Organization Theory: Audiences, Codes, and Ecologies*, (Princeton University Press, 2007).

The Kauffman Foundation Research Series: Firm Formation and Economic Growth has published a sequence of important papers, mostly on job creation and job destruction for young firms. These papers are available on its website (www.kauffman.org) in the Research & Policy section. An example is Dane Stangler, "High-Growth Firms and the Future of the American Economy" (March 2010). An important book from the Kauffman Foundation Series on Innovation and Entrepreneurship is Josh Lerner, *Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed – and What to Do About It* (2009). ■

[1] Stephen H. Penman, Chapter 15 of *Financial Statement Analysis and Security Valuation* (McGraw-Hill Irwin, 2010).

EXHIBIT 3-1: REVENUE AND HEADCOUNT LADDERS AND SNAKES GROWTH PATH: GROWTH RATES FOR YEARS 2-3, 3-4, AND 4-5

REVENUE

PATH #	YEAR 2-3 FREQUENCY	YEAR 3-4 FREQUENCY	YEAR 4-5 FREQUENCY
1			31% (+)
2		50%(+)	0% (0)
3			19% (-)
4			0% (+)
5	70% (+)	1% (0)	0% (0)
6			0% (-)
7			11% (+)
8		20% (-)	0% (0)
9			8% (-)
10			1% (+)
11		1%(+)	0% (0)
12			0% (-)
13			0% (+)
14	2% (0)	1% (0)	1% (0)
15			0% (-)
16			0% (+)
17		0% (-)	0% (0)
18			0% (-)
19			12% (+)
20		19%(+)	0% (0)
21			7% (-)
22			0% (+)
23	28% (-)	1% (0)	0% (0)
24			0% (-)
25			5% (+)
26		8% (-)	1% (-)
27			3% (+)
N.O.B	434,756		

HEADCOUNT

PATH #	YEAR 2-3 FREQUENCY	YEAR 3-4 FREQUENCY	YEAR 4-5 FREQUENCY
1			11% (+)
2		20%(+)	3% (0)
3			6% (-)
4			3% (+)
5	42% (+)	11% (0)	5% (0)
6			3% (-)
7			5% (+)
8		11% (-)	3% (0)
9			4% (-)
10			4% (+)
11		11%(+)	4% (0)
12			3% (-)
13			5% (+)
14	42% (0)	27% (0)	20% (0)
15			2% (-)
16			2% (+)
17		5% (-)	2% (0)
18			1% (-)
19			3% (+)
20		7%(+)	2% (0)
21			2% (-)
22			1% (+)
23	15% (-)	5% (0)	3% (0)
24			1% (-)
25			1% (+)
26		4% (-)	1% (0)
27			1% (-)
N.O.B	192,326		

EXHIBIT 3-2: CREATION AND DESTRUCTION AT EARLY-STAGE COMPANIES: SUMMARY OF REVENUE CHANGES AND JOB CHANGES FROM YEAR 4 TO YEAR 5

PANEL A: REVENUE CHANGES

	Total # of Companies	Total Revenue **Gained** (millions)	Total Revenue **Lost** (millions)	Net Revenue **Gained** (millions)	Net Revenue **Gained** Per Company (thousands)	Net Revenue **Lost** % of Total Revenue Gained	Net Revenue **Gained** % of Total Revenue Gained
United Kingdom	55,618	22,467	9,763	12,704	228	43	57
France	98,267	24,141	6,870	17,272	176	28	72
Italy	36,935	28,103	15,038	13,064	354	54	46
Spain	96,617	34,058	11,214	22,844	236	33	67
Belgium	6,845	1,802	673	1,129	165	37	63
Sweden	45,609	11,153	4,662	6,491	142	42	58
Norway	14,659	3,800	2,687	1,113	76	71	29
Finland	6,530	1,426	912	514	79	64	36
Japan	1,969	2,853	953	1,900	965	33	67
South Korea	18,816	20,829	6,247	14,582	775	30	70
Total	381,865	150,632	59,019	91,613	240	39	61

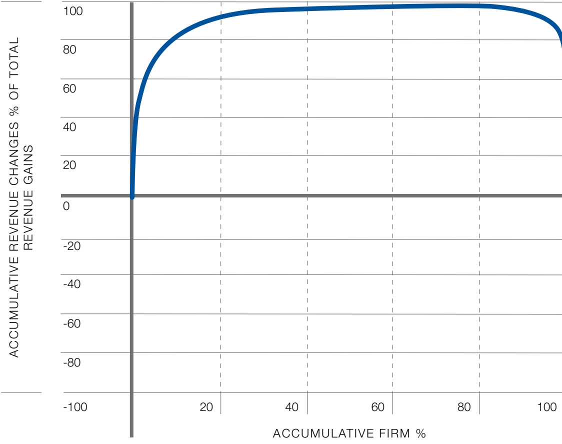
PANEL B: JOB CHANGES

	Total # of Companies	Total Jobs **Gained**	Total Jobs **Lost**	Net Jobs **Gained**	Net Jobs **Gained** Per Company	Total Jobs **Lost** % of Total Jobs Gained	Net Jobs **Gained** % of Total Jobs Gained
United Kingdom	8,844	34,827	16,837	17,990	2.03	48	52
France	23,461	23,946	12,622	11,324	0.48	53	47
Italy	5,194	20,901	15,768	5,133	0.99	75	25
Spain	72,031	100,128	74,919	25,209	0.35	75	25
Belgium	7,737	6,907	3,490	3,417	0.44	51	49
Sweden	37,089	27,027	14,306	12,721	0.34	53	47
Norway	3,505	2,342	2,241	101	0.03	96	4
Finland	2,838	2,034	1,427	607	0.21	70	30
Japan	1,919	4,966	1,234	3,732	1.94	25	75
South Korea	6,067	19,904	12,413	7,491	1.23	62	38
Total	168,685	242,982	155,257	87,725	0.52	64	36

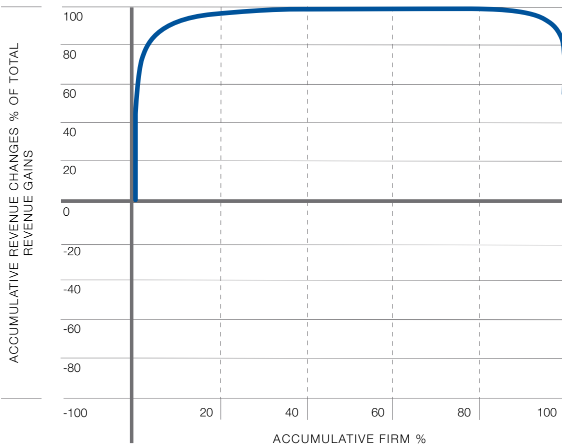
EXHIBIT 3-3: MOUNTAIN OF REVENUE CREATION AND VALLEY OF REVENUE DESTRUCTION

MOUNTAIN OF REVENUE CREATION

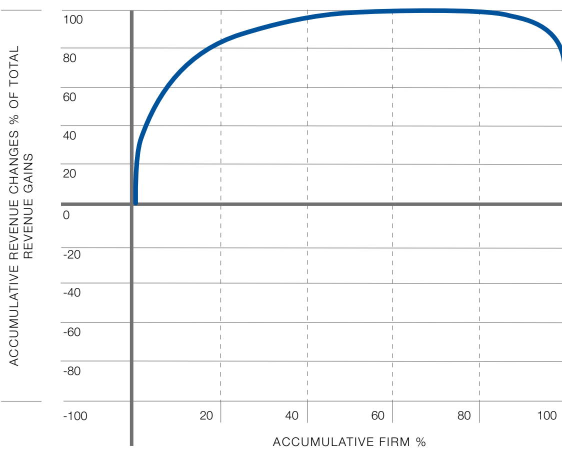
10 COUNTRIES



UK

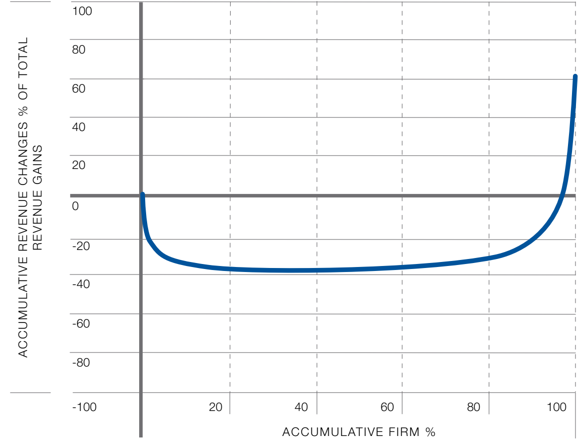


SOUTH KOREA

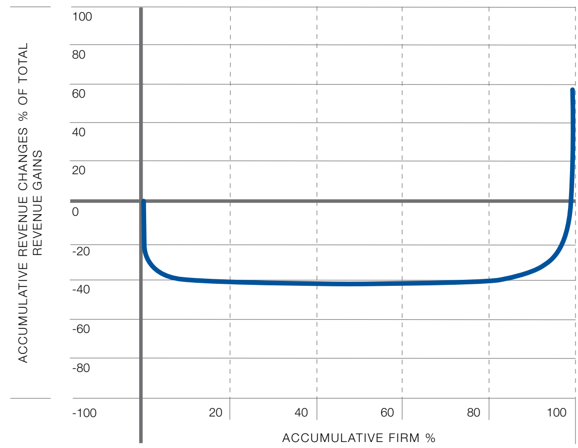


VALLEY OF REVENUE DESTRUCTION

10 COUNTRIES



UK



SOUTH KOREA

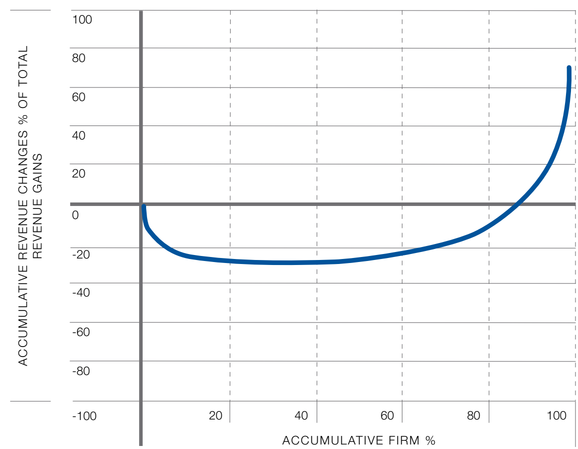
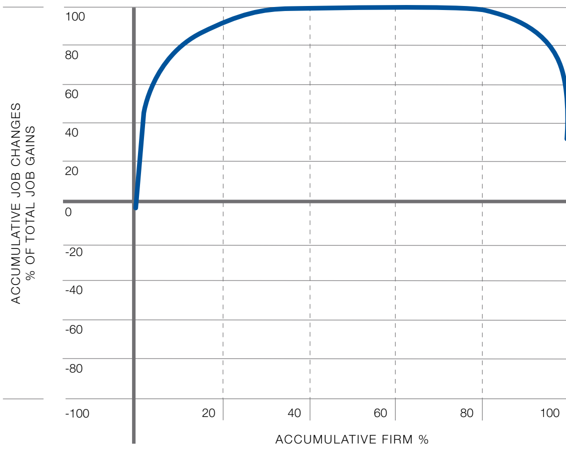


EXHIBIT 3-4: MOUNTAIN OF JOB CREATION AND VALLEY OF JOB DESTRUCTION

MOUNTAIN OF JOB CREATION

10 COUNTRIES



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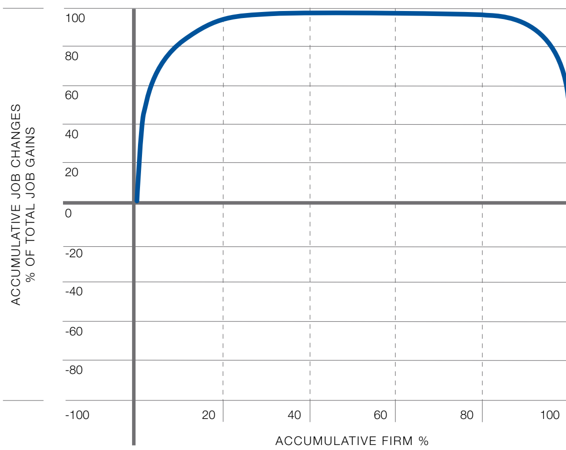
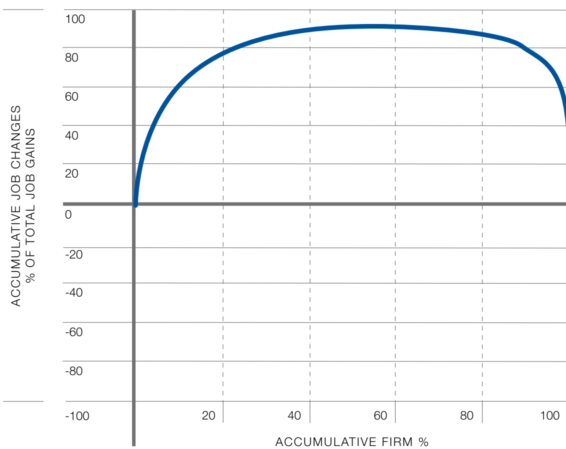
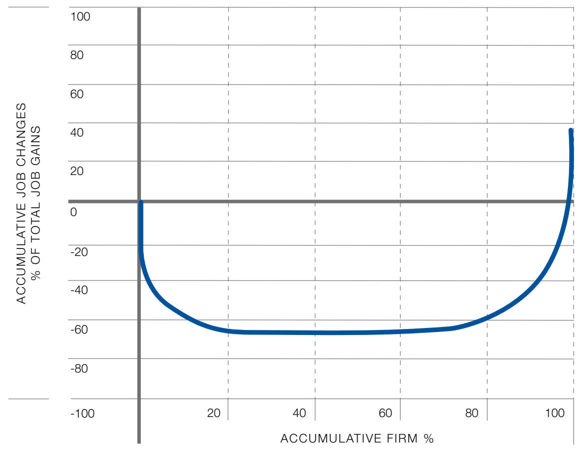


SOUTH KOREA



VALLEY OF JOB DESTRUCTION

10 COUNTRIES



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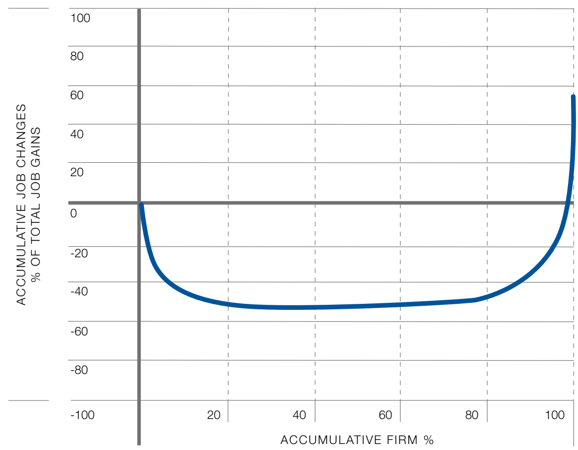

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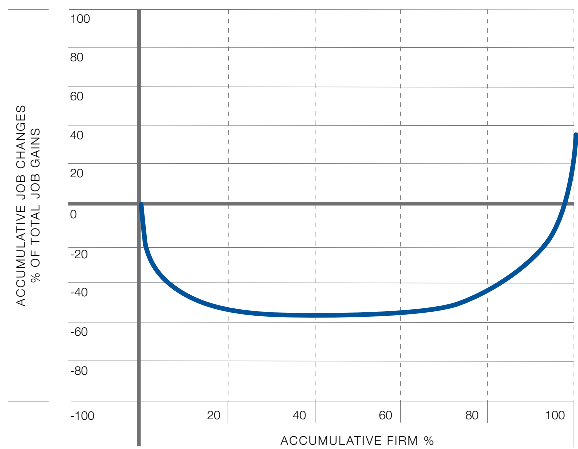
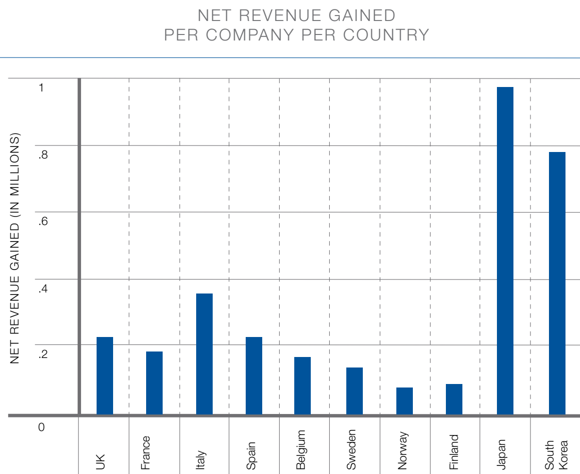


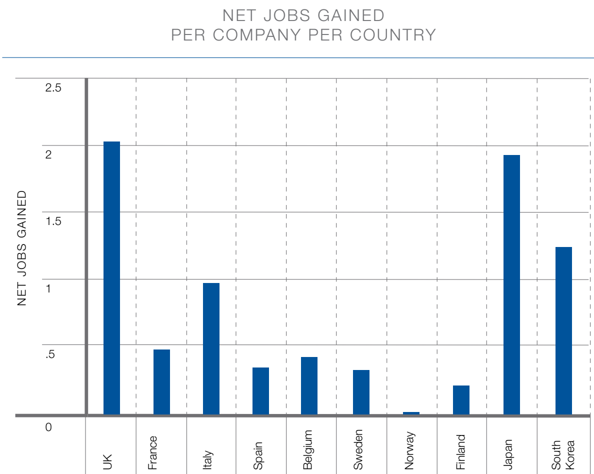
EXHIBIT 3-5: CREATION AND DESTRUCTION AT EARLY-STAGE COMPANIES: AVERAGE NET REVENUE AND AVERAGE NET JOBS GAINED PER COMPANY FOR YEAR 4 TO YEAR 5

PANEL A: NET GAINS

NET REVENUE GAINED PER COMPANY PER COUNTRY

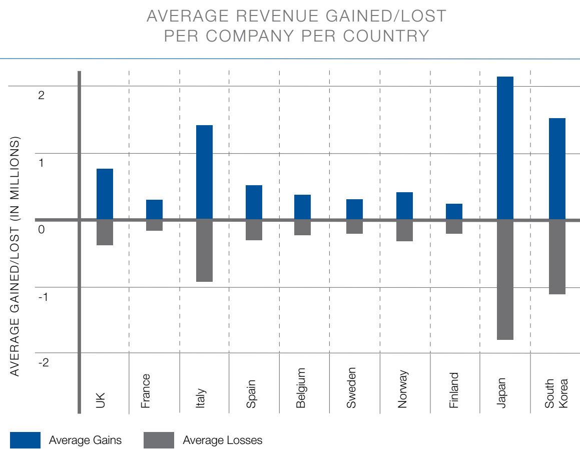


NET JOBS GAINED PER COMPANY PER COUNTRY

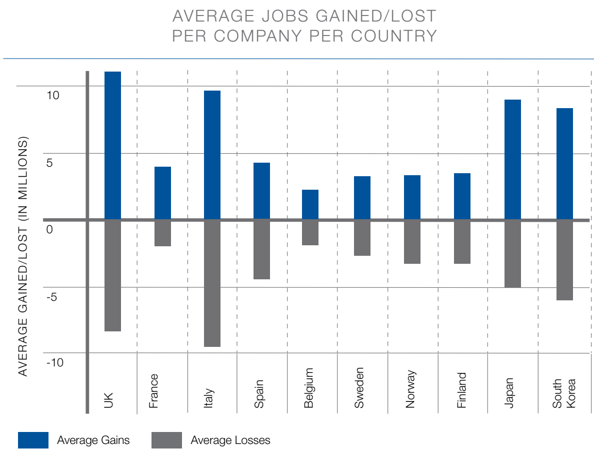


PANEL B: AVERAGE GAINS

AVERAGE REVENUE GAINED/LOST PER COMPANY PER COUNTRY

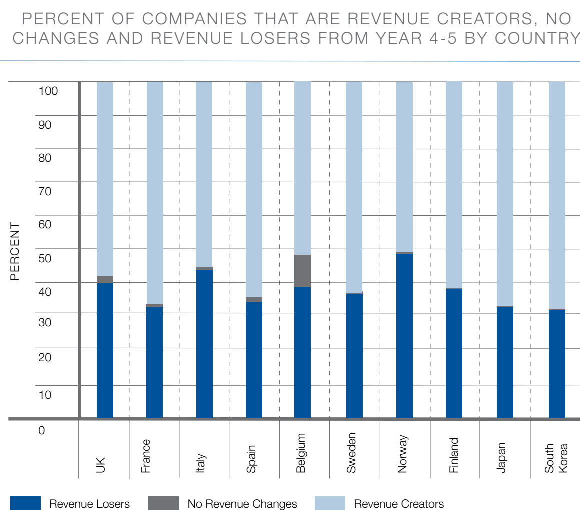


AVERAGE JOBS GAINED/LOST PER COMPANY PER COUNTRY

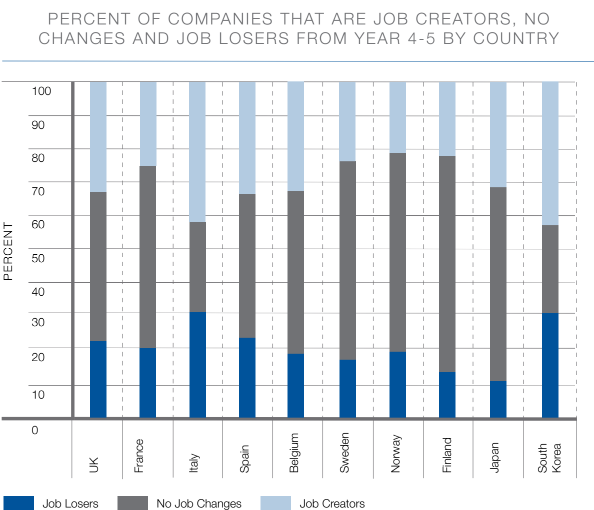


PANEL C: COMPANY DISTRIBUTION

PERCENT OF COMPANIES THAT ARE REVENUE CREATORS, NO CHANGES AND REVENUE LOSERS FROM YEAR 4-5 BY COUNTRY



PERCENT OF COMPANIES THAT ARE JOB CREATORS, NO CHANGES AND JOB LOSERS FROM YEAR 4-5 BY COUNTRY



Source: Orbis 1999-2004

EXHIBIT 3-6: THE ELITE FEW CREATORS AND THE STANDOUT FEW DESTROYERS IN YEARS 4 TO 5

PANEL A: CREATION

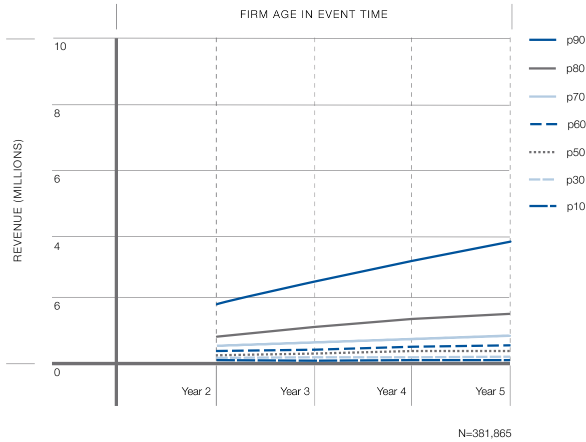
	REVENUE CREATION (AS % OF TOTAL REVENUE CREATED)			JOB CREATION (AS % OF TOTAL JOBS CREATED)		
	TOP 1% of Companies	TOP 5% of Companies	TOP 10% of Companies	TOP 1% of Companies	TOP 5% of Companies	TOP 10% of Companies
United Kingdom	63	87	94	46	73	85
France	44	74	86	42	68	81
Italy	42	70	83	43	68	81
Spain	39	64	76	33	61	75
Belgium	47	76	89	26	53	69
Sweden	41	66	90	40	67	82
Norway	26	60	79	33	66	84
Finland	30	67	84	33	68	84
Japan	29	54	69	47	70	82
South Korea	26	51	66	25	52	69
Total	44	72	84	40	67	80

PANEL B: DESTRUCTION

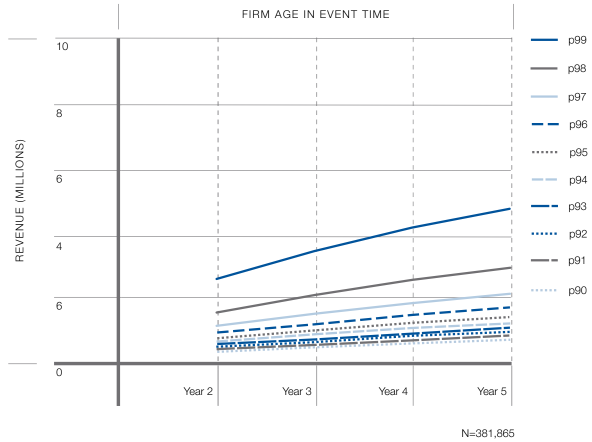
	REVENUE DESTRUCTION (AS % OF TOTAL REVENUE DESTROYED)			JOB DESTRUCTION (AS % OF TOTAL JOBS DESTROYED)		
	TOP 1% of Companies	TOP 5% of Companies	TOP 10% of Companies	TOP 1% of Companies	TOP 5% of Companies	TOP 10% of Companies
United Kingdom	67	89	94	37	73	88
France	58	83	91	37	66	81
Italy	46	73	85	39	70	83
Spain	43	73	87	46	72	85
Belgium	63	86	94	36	63	79
Sweden	55	87	94	41	73	88
Norway	50	78	88	49	76	87
Finland	40	72	86	38	76	90
Japan	67	88	94	45	83	96
South Korea	36	71	86	32	63	78
Total	53	81	91	46	74	87

EXHIBIT 3-A: REVENUE GROWTH DISTRIBUTIONS

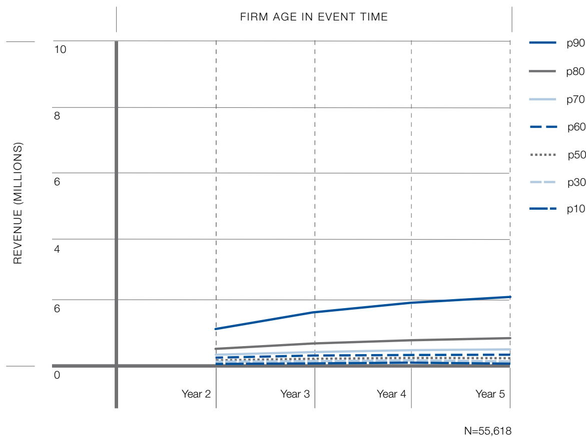
10 COUNTRIES—DECILES



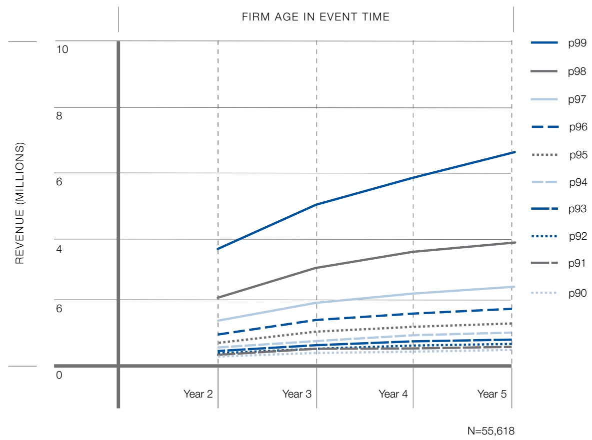
10 COUNTRIES—UPPER PERCENTILES



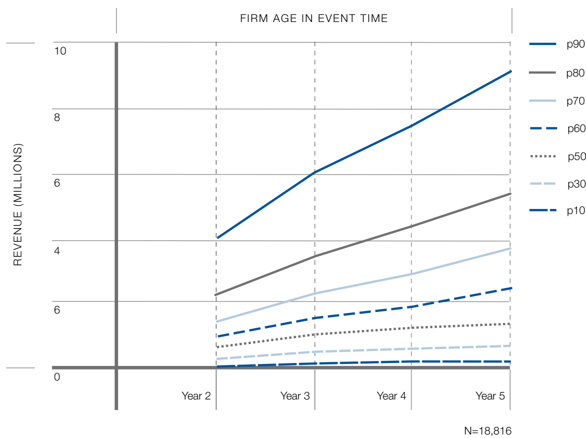
UK—DECILES



UK—UPPER PERCENTILES



SOUTH KOREA—DECILES



SOUTH KOREA—UPPER PERCENTILES

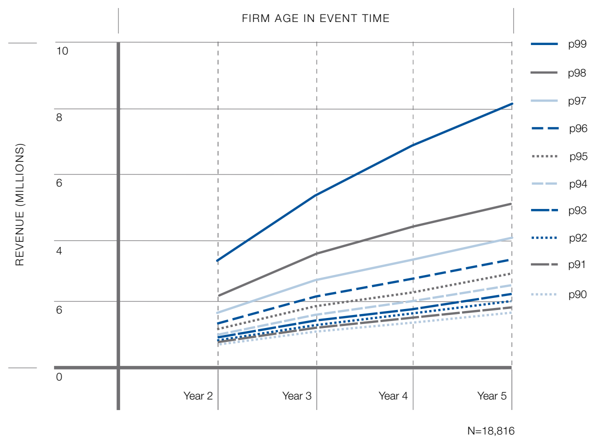
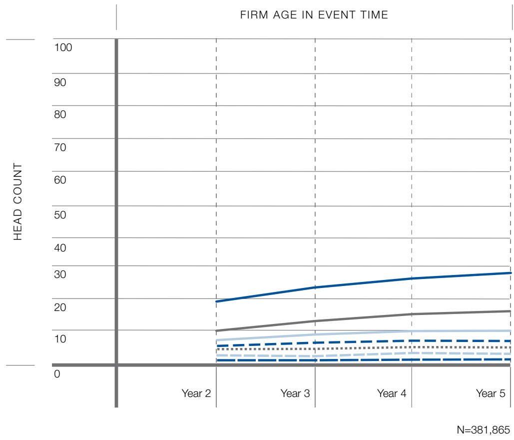
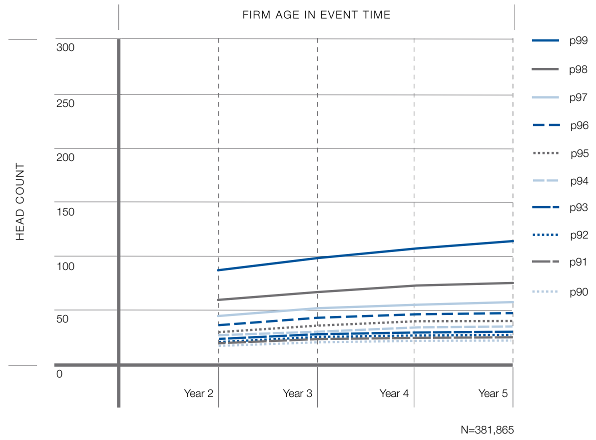


EXHIBIT 3-B: HEADCOUNT GROWTH DISTRIBUTIONS

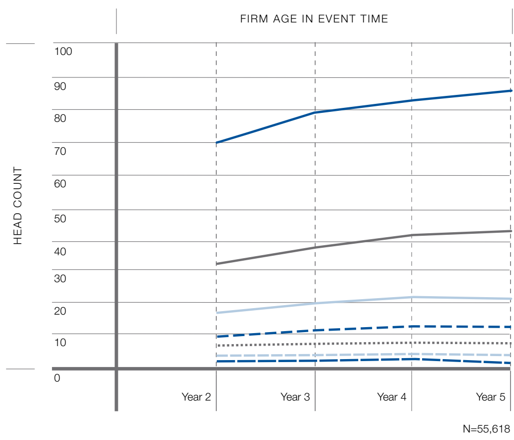
10 COUNTRIES—DECILES



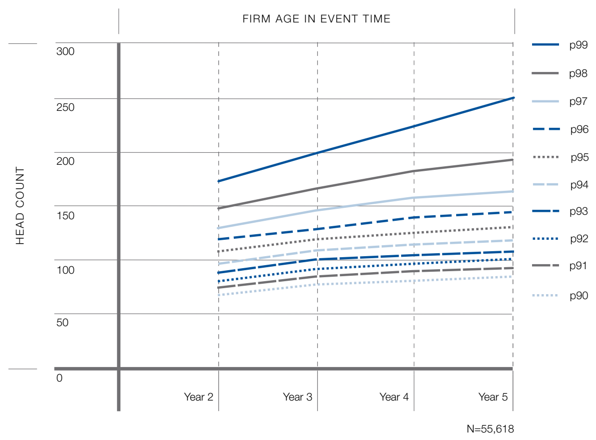
10 COUNTRIES—UPPER PERCENTILES



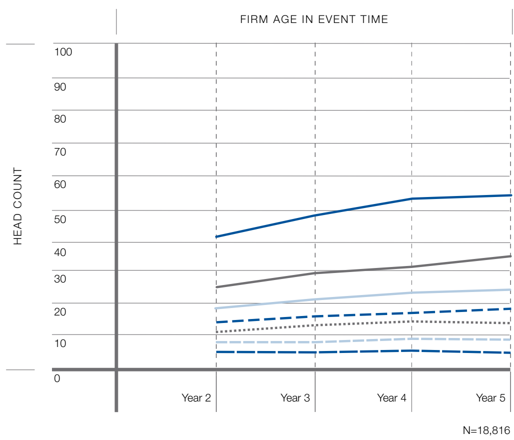
UK—DECILES



UK—UPPER PERCENTILES



SOUTH KOREA—DECILES



SOUTH KOREA—UPPER PERCENTILES

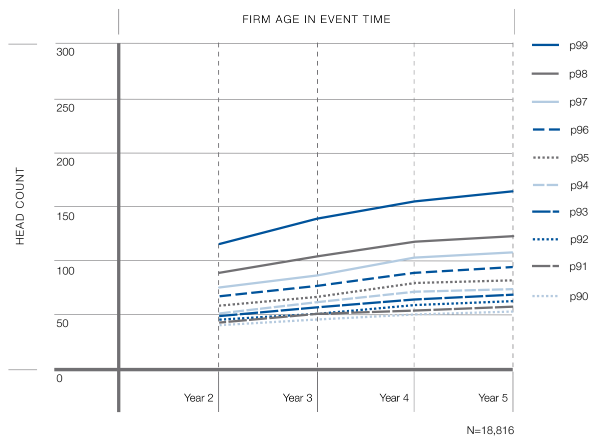
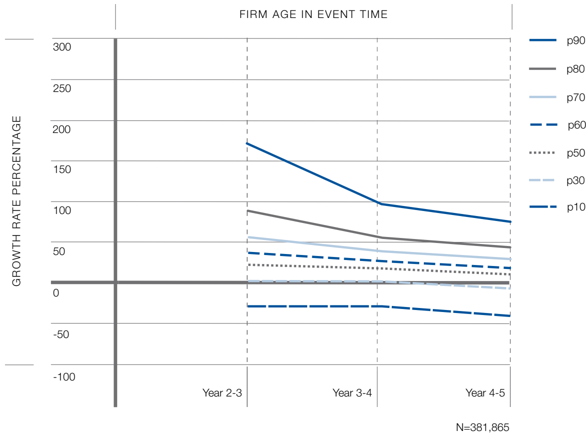
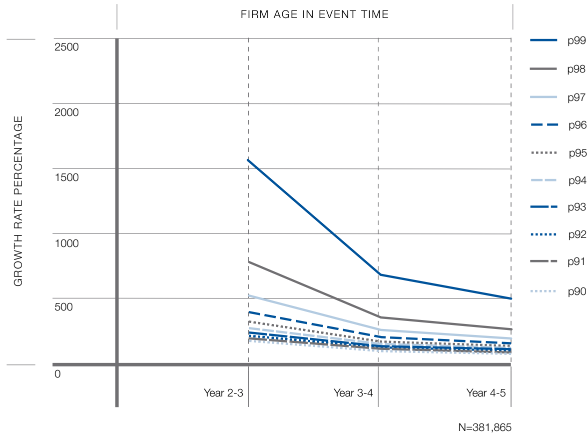


EXHIBIT 3-C: EARLY-STAGE COMPANY GROWTH RATE DISTRIBUTION COMPRESSION EFFECT: REVENUE GROWTH RATE

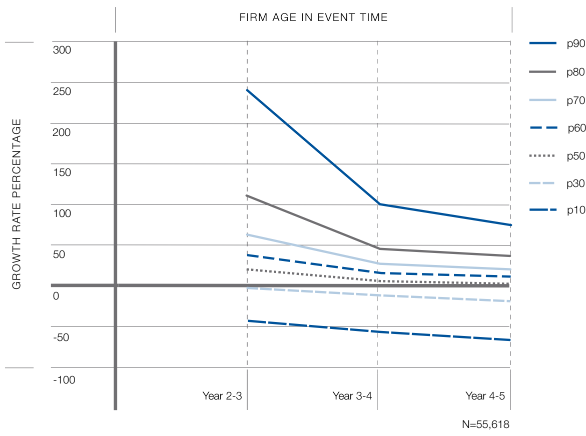
10 COUNTRIES—DECILES



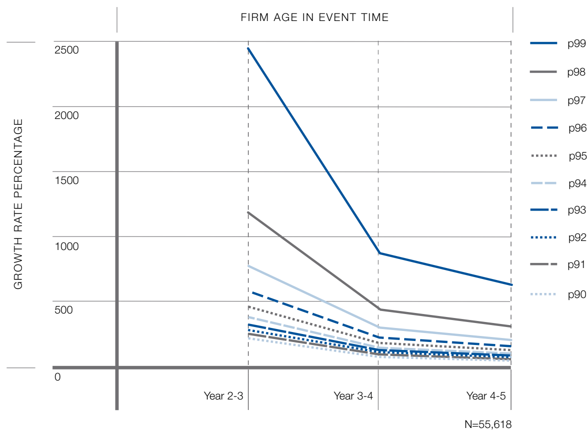
10 COUNTRIES—UPPER PERCENTILES



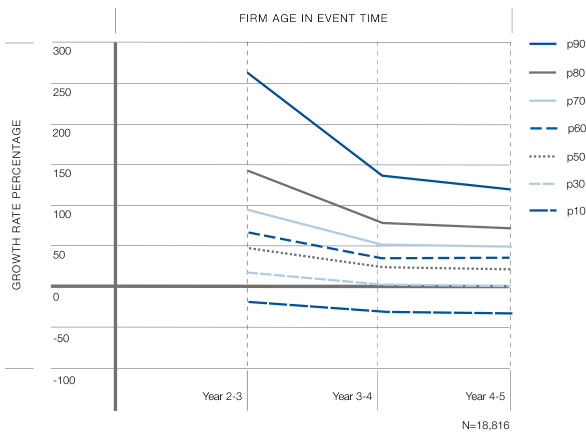
UK—DECILES



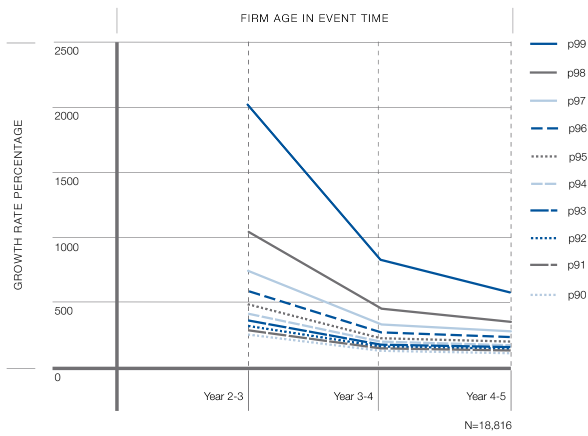
UK—UPPER PERCENTILES



SOUTH KOREA—DECILES

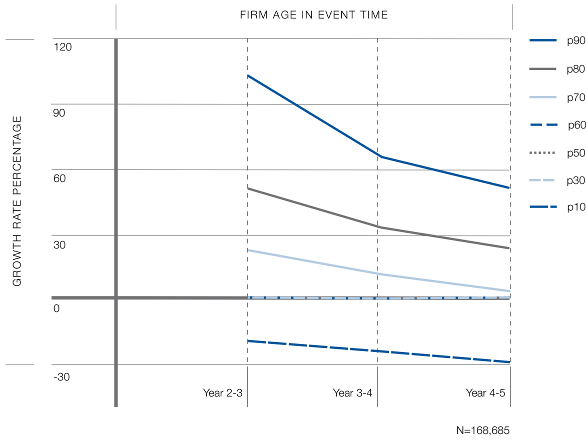


SOUTH KOREA—UPPER PERCENTILES

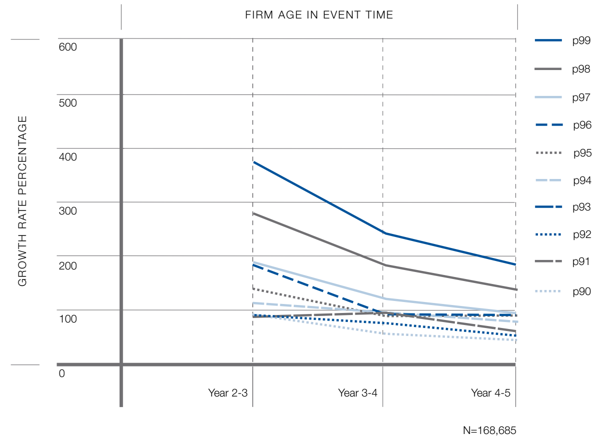


EXBHIBIT 3-D: EARLY-STAGE COMPANY GROWTH RATE DISTRIBUTION COMPRESSION EFFECT: HEADCOUNT GROWTH RATE

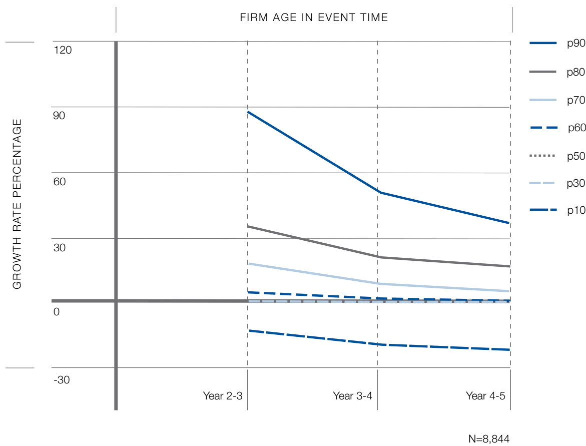
10 COUNTRIES—DECILES



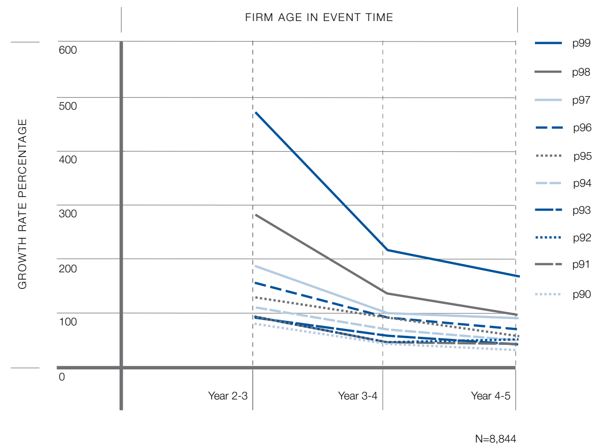
10 COUNTRIES—UPPER PERCENTILES



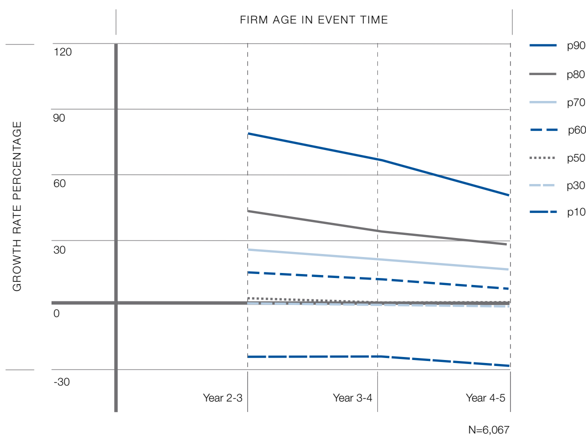
UK—DECILES



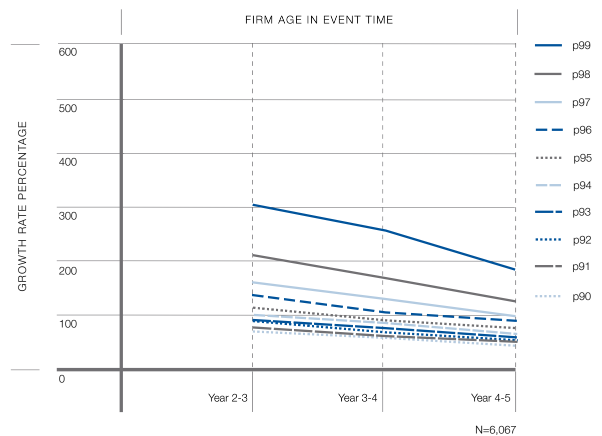
UK—UPPER PERCENTILES

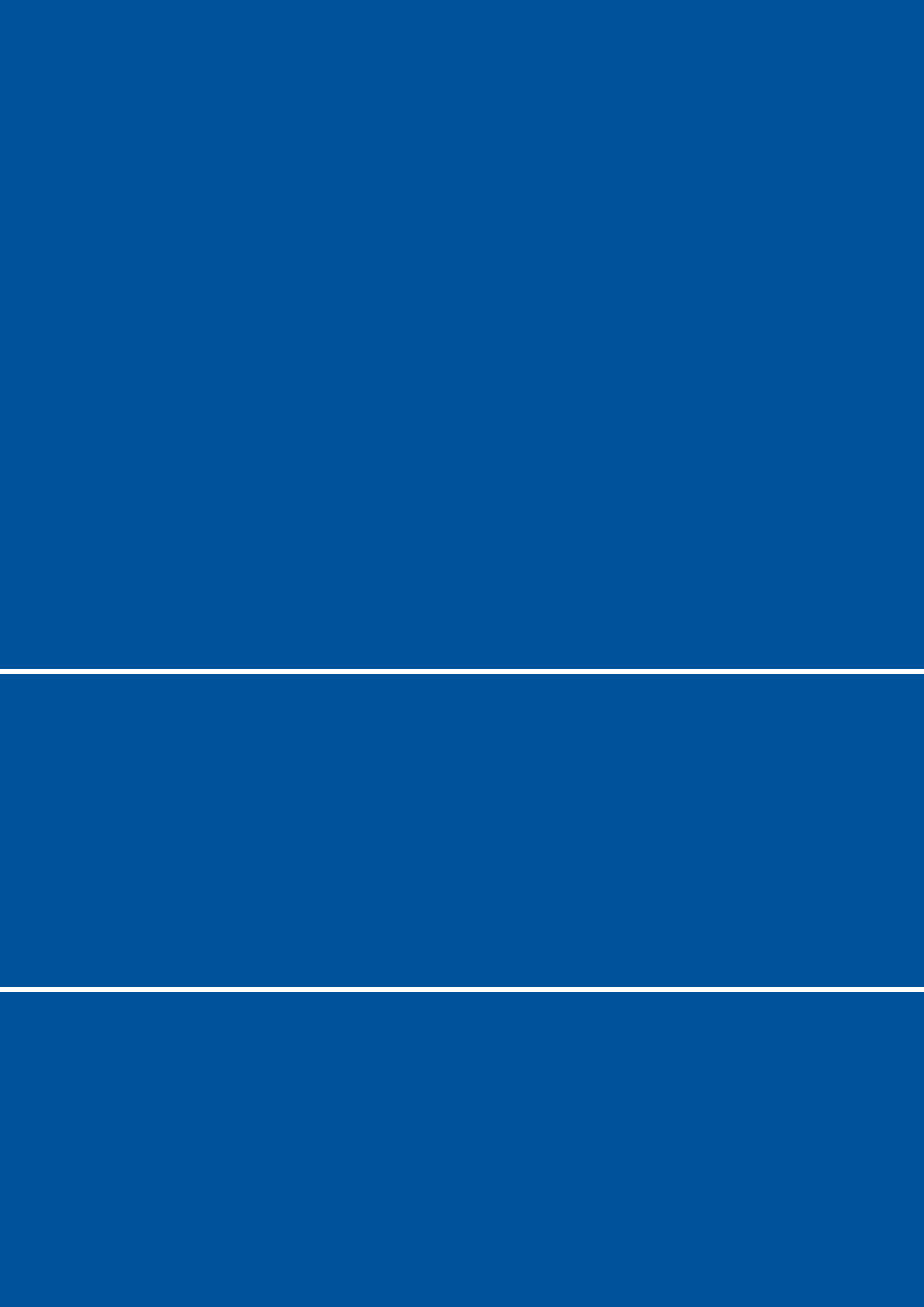


SOUTH KOREA—DECILES



SOUTH KOREA—UPPER PERCENTILES





Section 4

Early-Stage Company Growth: Evidence and Analysis from "Fast Growth Company" Published Rankings

Section 4 – Early-Stage Company Growth: Evidence and Analysis from "Fast Growth Company" Published Rankings

Authors:
Antonio Davila, George Foster, Xiaobin He and Rana Mansoor

Stories about early entrepreneurial companies often cite their very high growth rates over one or two recent years. In many cases, these companies do not reach mainstream commercial status despite that being the expressed goal of their founders. Section 3 presented evidence on early-stage company growth rates in revenue and headcount for broad cross sections of companies from 10 different countries. It is only a small subset of the companies examined in Section 3 that have supra-high growth rates over an extended period. We document in Section 3 revenue and job destruction as well as revenue and job creation across each of the 10 countries examined. The ORBIS database covers a broad set of companies. Many of the companies analysed in Section 3 start small and remain small in their first five years. This section examines a very different set of databases to gain further insight into early-stage company growth rates and their determinants. We call these databases the "Fast Growth Company" published rankings.

The key findings in this section are:

1. There is increasing interest in the rankings of companies by their growth rates (typically revenue growth rates). Our analysis documents the growing list over time of country or sector-based rankings. Moreover, there continues to be additional new rankings appearing that, although too recent to conduct extended research, showcase the high interest in this area. An example of a recent addition is the "Arabia Fast Growth 500" by the All World Network.

2. There are systematic differences in the distribution of revenue growth rates across countries. For example, in the high-technology sector the US has sizeably higher revenue growth rates than found in this sector for 12 other countries covered in the Deloitte country rankings.

3. As companies age, there is a compression in the revenue growth rate distribution. This compression comes largely from a reduction at the high end of the distribution. When benchmarking company growth rates, the age of a company is an important factor to consider.

4. There is a low probability that companies with high growth rates in their early years will sustain those high growth rates over even a subsequent two to three year period. Being labelled a high-growth company in a published ranking is de facto being labelled as a "likely very short-run, high-growth company".

4.1 Fast Growth Company Published Rankings Examined

The last two decades have seen a growing number of regularly published "Fast Growth Company" rankings – typically on an annual cycle. These rankings vary greatly in their comprehensiveness and the procedures used to "vet" the integrity of the reported numbers. Several lists are restricted to privately held companies and rely on information voluntarily submitted by the companies being ranked. In some cases, a third-party certification (such as from an accounting or audit firm) is required. In other cases, it is not required. Other rankings include publicly traded as well as privately held companies. This section analyses companies from three different published ranking groups:

1. *Inc.* magazine's "500 Fastest-Growing Private Companies in the US" rankings[1]. *Inc.* is a US-based magazine with its first issue appearing in 1979. It was started by Bernie Goldhirsh, an entrepreneur, who previously founded *Sail* magazine. In 2000, *Inc.* was sold to Gruner + Jahr. In 2005, Gruner + Jahr sold all its American titles. Its two business publications, *Inc.* and *Fast Company*, were sold to Joe Mansueto, whose mutual fund and stock ratings firm Morningstar was itself a five-time *Inc. 500* honouree. Mansueto set up a new company called Mansueto Ventures as the parent to the two magazines. The *Inc. 500* ranking has been published annually since 1982. It was later expanded in 2007 to the *Inc. 5000*. Since 2005, the ranking has been based on revenues over a four-year period. We call this a four/three growth rate approach, as four years of revenues can be used to compute the three-year compound annual growth rate (CAGR). Only US-based, privately held independent companies are included in the *Inc.* rankings. The eligibility criteria as regards minimum size have changed several times. From 2007 through 2009, there was a US$ 200,000 minimum revenue in the "start year" used to compute the growth rate. In 2007, for the first time, *Inc.* also imposed a minimum "end year" size (US$ 2 million in revenues). A broad cross section of companies is included in the *Inc.* rankings, although there are exclusions. For example, until the expansion to the *Inc. 5000* in 2007, franchisees and utilities were excluded. We analyse the 2000 to 2009 rankings of the *Inc. 500* using the revenues, revenue growth rates, and the year of incorporation information reported in their published rankings. We use this data to compute a CAGR. *Inc.* reports a three-year "total" growth rate in its rankings.

2. *Fast Track 100* and *Tech Track 100* rankings of privately held British companies. These rankings are developed in association with *The Sunday Times*. *Fast Track* is a leading group in the United Kingdom developing growth-related rankings for privately held companies. It started in 1997, after founder Hamish Stevenson secured

cornerstone sponsorship from Richard Branson. An important mission of *Fast Track* is to promote the development of entrepreneurial companies in the United Kingdom. It has plans to expandinto Europe. Published revenue-growth rate rankings of companies started in 1997 with the *Fast Track 100*. This is a broad-based ranking with companies from many diverse sectors included. The rankings use a four/three format to compute a compound annual growth rate (CAGR) in revenues over four successive years/three growth rates. *Fast Track* also publishes other rankings including *Tech Track 100, International Track 100, Profit Track 100, Buyout Track 100, Top Track 250,* and *Top Track 100.* We use the revenues, revenue growth rates, and the year of incorporation information reported in their *Fast Track* (1997-2009) and *Tech Track* (2001-2009) published rankings.

3. Deloitte Technology *Fast Company* rankings. Deloitte – a global professional services firm with accounting, auditing, consulting, and tax areas expertise – has built a broad number of individual country revenue growth-based rankings of high technology companies. These rankings include both private and public technology companies. Each country manages their own rankings, but there is a sharing of knowledge among the partners in charge of their *Technology Fast 50* rankings in different countries. While each country ranking uses a multi-year revenue base to compute growth, they can differ in the time period used (it is typically a four/three in our terminology). We analyse the published Deloitte rankings from 13 countries – the US, Canada, the United Kingdom, Germany, France, Sweden, Norway, Israel, China, India, Japan, Australia and New Zealand. For 12 of these countries there is a separate published list. For the US, we constructed the list using information in Deloitte's *North America Technology Fast 500* list. For most countries, Deloitte reports only the total growth rate over the chosen period, which we then convert to a CAGR. The country surveys start at different years. The earliest we have data for is the US (1997). The most recent countries to start reporting Deloitte *Technology Fast 50* rankings are China (2005) and India (2005).

There are several attractive features to using the above combination of three "company ranking" lists. First, they are well established and cover several years of data. There is a significant learning curve in the collection and development of these rankings. Each of the organizations developing such rankings noted to us that over time they had greater confidence in the comprehensiveness of their lists as well as the integrity of the rankings. Second, each list has its own inclusion/exclusion criteria as to private vs public and multi-sector vs a specific industry focus. Third, we can gain broad coverage of many high-growth companies in many countries with all three combined.

4.2. Annual Revenue Growth Rate Distribution Evidence

Exhibit 4-1 presents distribution evidence for the annual revenue growth rates for the *Inc. 500* (US) and the *Fast Track 100* (United Kingdom) rankings. Panel A includes companies from the 2008 (2004 to 2007) and the 2009 (2005 to 2008) rankings. Panel B includes companies from the 2000 (1996 to 1999) and the 2001 (1997 to 2000) rankings. We present the distribution bar from the 90th percentile down to the 10th percentile. Each different band in the distribution bar represents a decile range. For example, in Panel A the top band in the first bar for *Inc. 500* is the range of annual growth rates from the 90th percentile (205%) to the 80th percentile (164%). Each growth rate is a compound annual growth rate (CAGR) over the prior four revenue years (four years of revenues/three growth rate periods). We chose the 2008/2009 and 2000/2001 ranking periods to showcase growth-rate distributions for the second half of the current and the prior decade.

We present two versions of the *Inc. 500*. The first bar in Exhibit 4-1 shows the full distribution for the *Inc. 500*. For the 2008 and 2009 rankings, the 90th percentile is 205% while the 10th percentile is 94%. We also report a bar for the top 100 from each year in the *Inc. 500* to provide a comparable number of firms vis-à-vis the *Fast Track 100* in the United Kingdom. For the 2008 and 2009 rankings, the distribution range for the top 100 in the Inc. 500 is from 338% (90th percentile) to 170% (10th percentile), while the comparable range for the *Fast Track 100* companies in the United Kingdom is from 144% to 56%. Growth rates for early-stage companies in different countries can differ for multiple reasons – such as the relative size of the economies, the ecosystem supporting entrepreneurial companies, and the availability of a deep labour sector to attract employees when early-stage companies have the potential to grow quickly. This section highlights the country growth-rate differentials without attempting to systematically probe explanations for these differences. On balance, there is systematic evidence of the top end of the high-growth private companies in the US having higher growth than their counterparts in the United Kingdom. Panel B shows that the difference between US and British companies is less marked for the second half of the 1990s.

Growth rate distributions from Deloitte's *Technology Fast 50* country rankings and the top 50 from *Fast Track's Tech Track 100* for high technology companies are presented in Exhibit 4-2. The individual country bars in Exhibit 4-2 are for the top 50 high technology companies in each ranking to keep the same number of observations underlying each bar. The top two countries for high-growth technology companies in Panel A are the US and China – the distribution for the US ranges from 346% (90th percentile) to 166% (10th percentile), while for China,

it ranges from 193% (90th percentile) to 57% (10th percentile). The dominance in terms of growth rates for the US in the 2008 and 2009 rankings is visually striking. It is illustrated, for example, by the 10th decile of the US (166% compound annual growth rate) exceeding the 90th decile for nine of the other 12 countries, with the exceptions being China (193%-90th percentile) and Canada (167%). In Panel B, the dominance of the US high technology companies is very marked over each of the other five countries with Deloitte rankings in the 2000 and 2001 rankings.

4.3 Revenue Growth Rates and Company Age

Section 3 of this report shows the decline in the extreme high growth rates that a subset of companies have in their early years (see Appendix 3.A.2). This finding is related to prior research that shows that, on average, there is a negative correlation between company growth rates and company age[2]. Both *Inc.* and *Fast Track* report the year of incorporation for each company in their rankings. Using this information, we can examine the effect of company age on the growth rate of the companies in their rankings. We use the start of the "end year" in the growth rate period when computing the age of the company.

Given the four-year revenue period used to compute and rank total revenue growth rates in the *Inc.* and *Fast Track* rankings, the first growth "period " with available data is Year 1 to Year 4. We convert this total growth into a CAGR. The successive periods used to compute the CAGR will be Years 2 to 5, Years 3 to 6, etc. Exhibit 4-3 reports the results. While there is evidence across all three samples of the dispersion of CAGRs reducing over time as companies age, it is most marked for the two samples from the United Kingdom in Exhibit 4-3. In all three samples, we see marked reduction in the high-end growth rates as companies age.

The Exhibit 4-3 tests of the compression of the growth-rate distribution as a company ages are noisier than those we presented in Section 3 and we will present in Section 5. In both Sections 3 and 5, the same company is compared over time, and the analysed growth rates represent non-overlapping periods. However, the consistency of our findings here for large samples of US companies and British early-stage companies with our prior results reinforces the prior general conclusion. There is evidence from multiple approaches that the distribution of revenue growth rates becomes more compressed as companies age, and that much of this reduction is driven by a reduction in the high end of the growth rate distribution.

4.4 Growth Rate Persistence Over Time

A key idea underlying our **Ladders and Snakes Growth Path** concept (see Section 3.1) is that the norm for many companies is not continued growth year in and year out. Instead, executives have to anticipate some up years and some down years. Section 3 reported sizeable evidence of declining growth, zero growth and, indeed, negative growth. This concept applies to both revenues and profits.

Business gravity is an important related concept. This concept operates at the individual company level and reflects the forces that pull a company with above-average growth in one period down towards the average (norm) in the next and subsequent periods. An extreme version of business gravity would be when the rate of growth goes negative (the "snake" in the "ladders and snakes" concept). Empirically, the question for almost all companies is not whether business gravity will apply to them, but rather when it will apply to them. For instance, Google in its early years had extremely high revenue growth rates:

2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
408%	233%	117%	92%	72%	56%	31%	8%

Google was a standout six-time member of the Deloitte Technology 500. However, note that even it could not defy business gravity as regards its revenue growth declining sizeably as it aged.

Evidence on the frequency with which companies appear on high growth rankings over time provides insight into business gravity. A powerful business gravity effect would imply a high turnover of companies in the rankings over time. Exhibit 4-4 reports the per cent of companies that appear once, twice, three times and greater than three times for each ranking organization. The majority of companies in every single ranking in Exhibit 4-4 appear on the ranking list only once, implying a very high turnover. The per cent of one-time-only companies is 70.6% for *Inc. 500*, 74.8% for *Fast Track* and an average of 75.5% across the 13 Deloitte country rankings. Business gravity would imply that after an extreme high ranking, there would be a progressive decline in that ranking over time. A company may be in the top 100, then over time decline to be in the top 500, and then drop out of the top 500. The one-time per cent of companies in the top 100 of the *Inc. 500* is 86.0%, and that declines to 70.6% for membership of the *Inc. 500*. A similar pattern occurs for the "High Technology North American" sample. The per cent of one-time-only companies in the top 50 is 89.2% for the US and 79.1% for Canada. For the Deloitte North America 500, the one-time-only per cent drops to 66.3%.

One non-business gravity explanation for companies not staying on the high-growth company rankings is that some high-growth companies become public companies via an IPO. This explanation would apply to *Inc.* and *Fast Track* but not to the Deloitte High Technology rankings. Deloitte includes both private and public companies. A private company that has an IPO remains on their rankings. Deloitte's average per cent of one-time only companies on their 13 rankings in Exhibit 4-4 is 75.5%, which is similar to the private company only rankings of *Inc. 500* (70.6%) and *Fast Track* (74.8%).

4.5 The Elite Few as an Engine of Revenue Growth

Our Section 3 analysis of the **Mountain of Revenue Creation and the Elite Few Creators** highlighted the asymmetric contribution of a small percent of companies to total revenue creation by all early-stage companies. The Section 3 sample includes a broad spectrum of companies, ranging from those with high growth, those with minimal growth, and those with negative growth. The companies in this current Section are all high-growth companies by construction of the various rankings. A finding of the *Elite Few Creators* for this potentially more demanding sample of companies would reinforce the importance of these companies to economy-wide revenue creation.

We applied the *Mountain of Revenue Creation* methodology outlined in Section 3.2 to the two organizations that disclose revenues and revenue changes for all the individual companies in their rankings. The cumulative revenue curve starts with the company with the largest revenue creation, and then adds the number two largest revenue creator, etc. All companies in these high-growth surveys have revenue creation, so the cumulative curve does not become flat and does not decline as it did for the broader set of companies examined in Section 3. Exhibit 4-5 shows strong evidence of the *elite few* having a very strong revenue-increase contribution. In the US *Inc. 500* sample, the top 1% of the companies account for 20.5% of revenue growth, something like a 1/20 rule. The top 10% of the companies account for 56% of growth for the whole 500 companies. The broad United Kingdom sample in *Fast Track 100* shows a very similar pattern with the top 1% responsible for 20.8% and the top 10% accounting for 55.2%. The *elite few* in the United Kingdom technology sample in *Tech Track* is even more noticeable, with the top 1% providing 31.4% of growth and the top 10% giving 60.3%.

The *elite few* phenomenon holds when looking at the top end of the growth population (Section 4) as well as the population (Section 3) of early-stage companies. The fact that growth is highly asymmetrical indicates that the contribution of the new ventures' sector to the overall growth of the economy is focused on a very small number of companies. The ratios of 1% generating 20% of growth and 10% generating 55% indicate this high concentration. This *elite few* and the infrastructure that exists for this *elite few* appears to need better recognition as an important engine for growth in the economy. ■

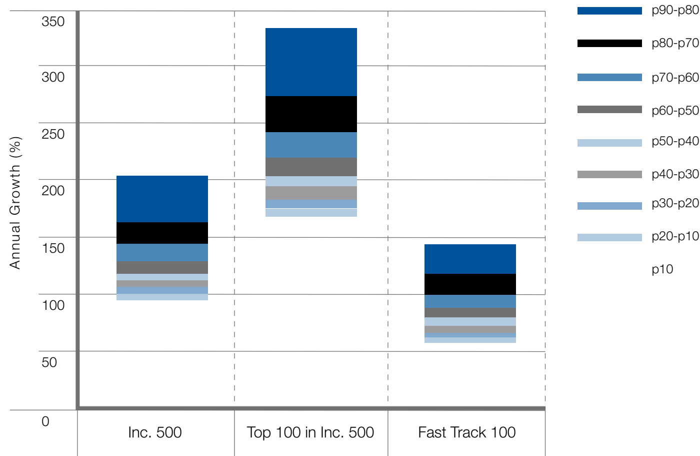
Section 4

[1] An example of research paper using *Inc. 500* ranking data is Markman, Gideon D. and William B. Gartner, "Is Extraordinary Growth Profitable? A Study of *Inc. 500* High-Growth Companies," *Entrepreneurship Theory and Practice* (September 2002: Vol. 27, No. 1): 65-75.

[2] For a review, see Coad, Alex, *The Growth of Firms: A Survey of Theories and Empirical Evidence*, Cheltenham, United Kingdom: Edward Elgar (2009).

EXHIBIT 4-1:
GENERAL COMPANY SAMPLE: DISTRIBUTION OF ANNUAL REVENUE GROWTH RATES FOR PRIVATELY-HELD "FAST COMPANIES" IN US (*INC.500* COMPANIES AND TOP 100 IN *INC. 500*) AND UNITED KINGDOM (*FAST TRACK 100*)

PANEL A: COMPANIES RANKED IN SURVEYS 2008 AND 2009



PANEL B: COMPANIES RANKED IN SURVEYS 2000 AND 2001

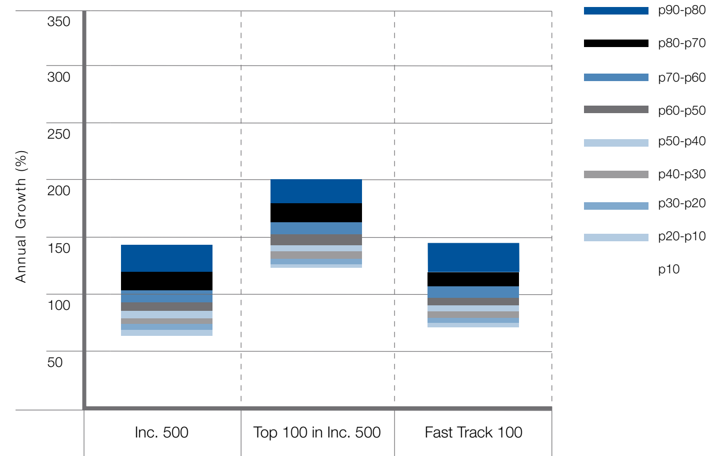
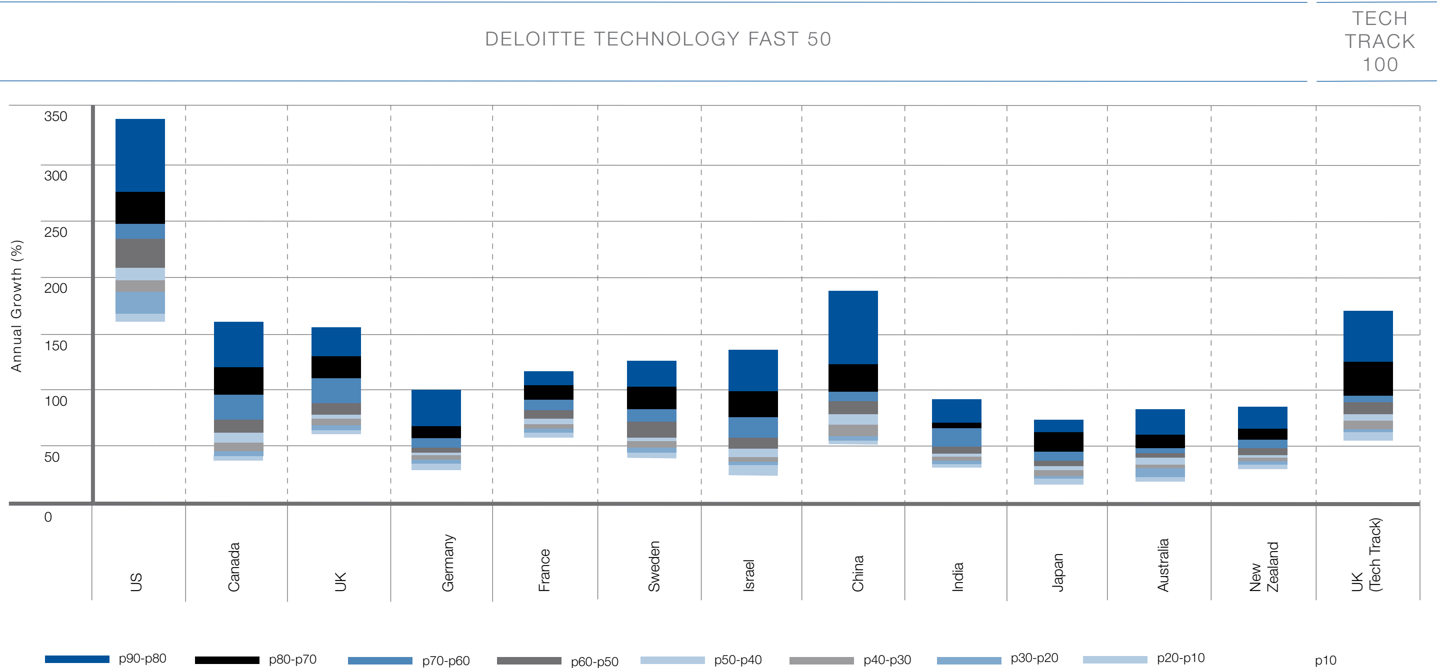


EXHIBIT 4-2: HIGH-TECHNOLOGY COMPANY SAMPLE: DISTRIBUTION OF ANNUAL REVENUE GROWTH RATES FOR DELOITTE *TECHNOLOGY FAST 50* SURVEYS OF PRIVATE AND PUBLICLY-TRADED HIGH TECH COMPANIES IN 12 COUNTRIES AND FOR TOP 50 IN *TECH TRACK 100* SURVEYS OF BRITISH PRIVATE HIGH TECH COMPANIES

PANEL A: COMPANIES RANKED IN SURVEYS 2008 AND 2009



PANEL B: COMPANIES RANKED IN SURVEYS 2000 AND 2001

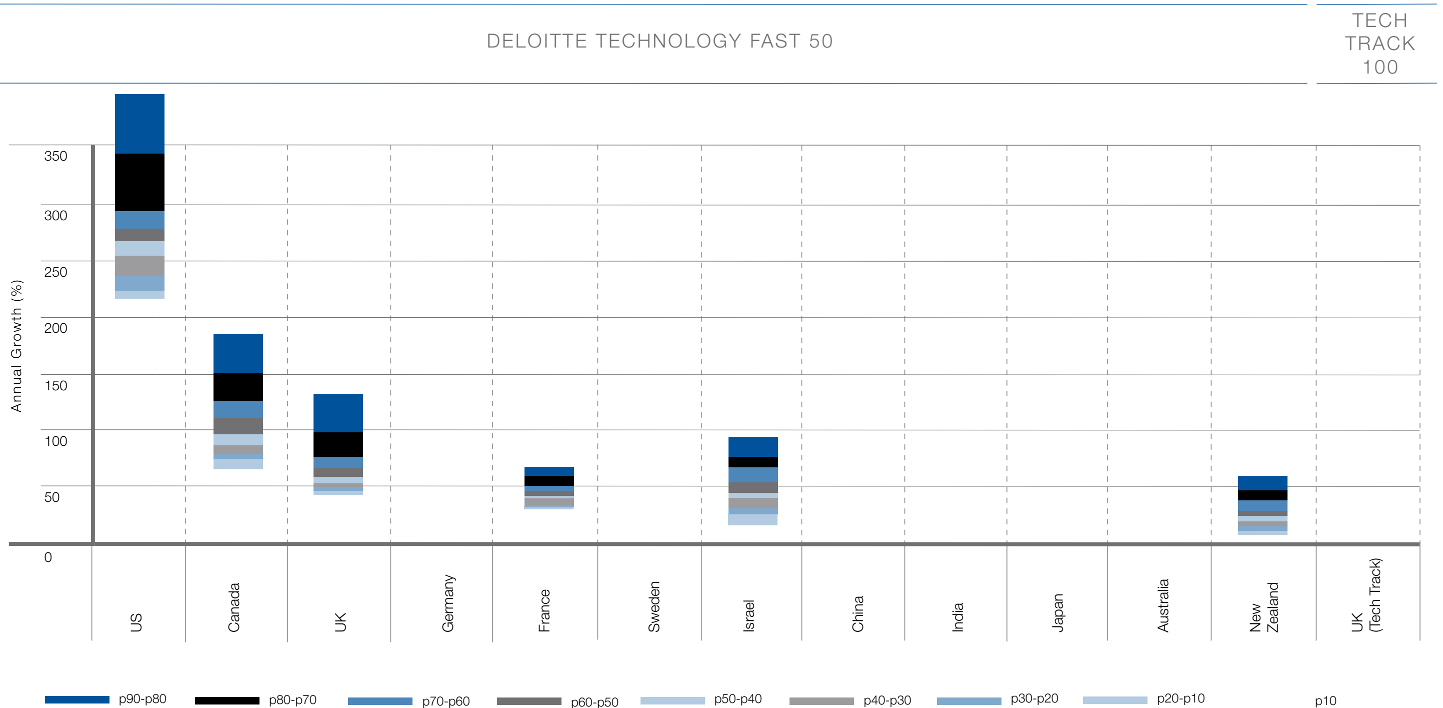
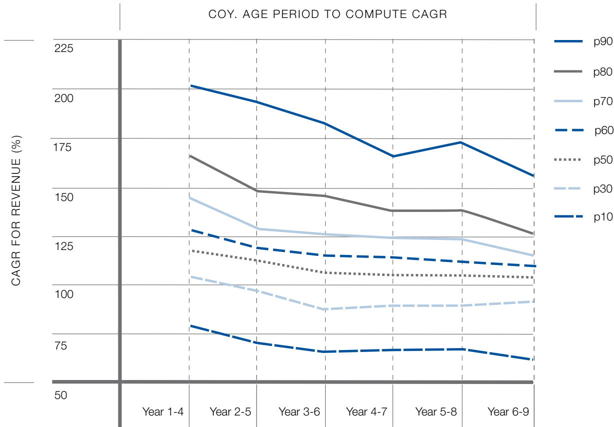


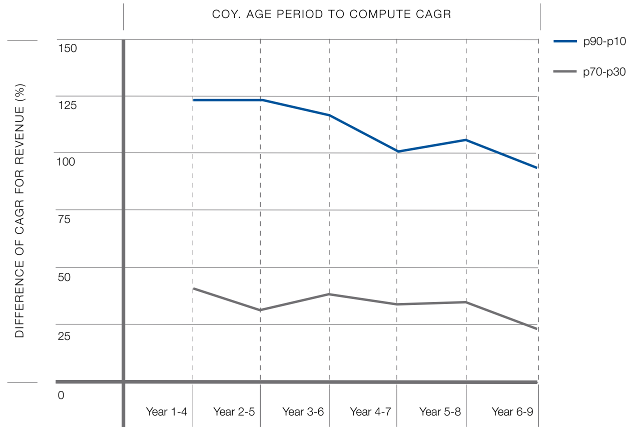
EXHIBIT 4-3: ANNUAL REVENUE GROWTH RATE DISTRIBUTION COMPRESSION

USA: Inc. 500 DECILES



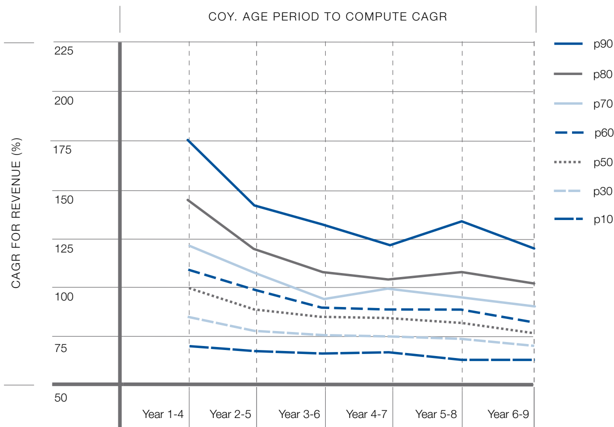
Source: Inc. 500 2005-2009

DISPERSION



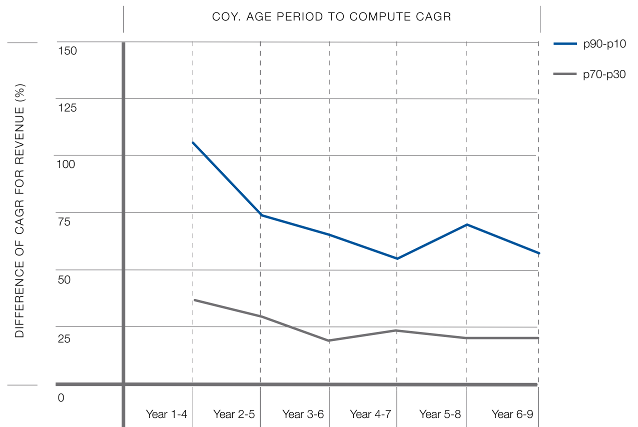
Source: Inc. 500 2005-2009

UNITED KINGDOM: FAST TRACK 100 DECILES



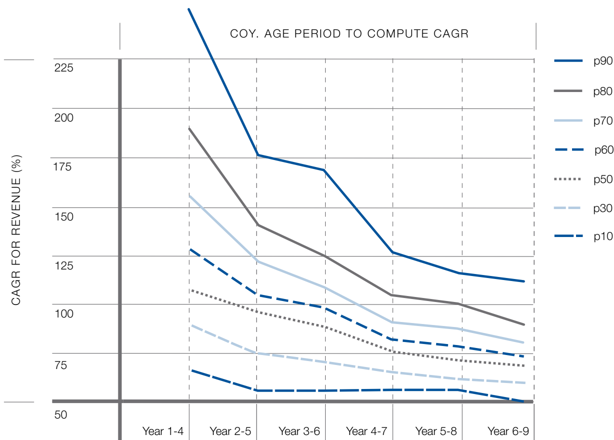
Source: Fast Track 100 1997-2009

DISPERSION



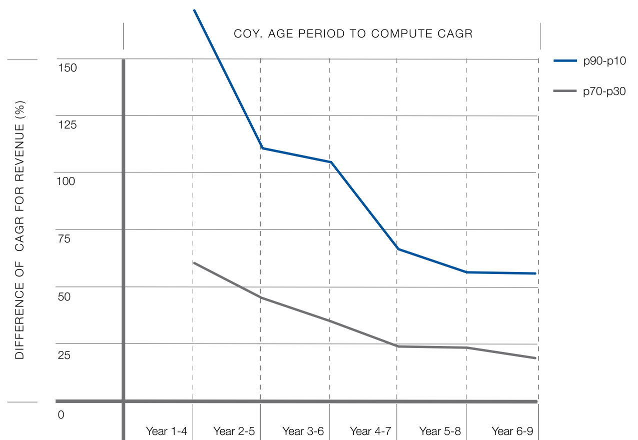
Source: Fast Track 100 1997-2009

UNITED KINGDOM: TECH TRACK 100 DECILES



Source: Tech Track 100 2001-2009

DISPERSION



Source: Tech Track 100 2001-2009

EXHIBIT 4-4: PERSISTENCE OF RANKING MEMBERSHIP: FREQUENCY WITH WHICH COMPANIES APPEAR IN ANNUAL RANKINGS OVER TIME

PANEL A: GENERAL COMPANY SAMPLE

	Survey Years	# of Companies*	Once	Twice	Three	> Three
USA: Inc. 500	2000-2009	2,725	70.6%	21.7%	5.8%	1.9%
USA: Top 100 in Inc. 500	2000-2009	623	86.0%	11.7%	1.8%	0.5%
United Kingdom: Fast Track 100	1997-2009	837	74.8%	18.8%	5.5%	1.0%

PANEL B: HIGH TECHNOLOGY COMPANY SAMPLE: DELOITTE *TECHNOLOGY FAST 50* RANKINGS

	Survey Years	# of Companies*	Once	Twice	Three	> Three
US	1997-2009	470	89.2%	9.8%	1.1%	
Canada	1998-2010	425	79.1%	14.1%	5.9%	0.9%
United Kingdom	1998-2009	394	80.0%	16.8%	2.8%	0.5%
Germany	2004-2008	113	69.9%	20.4%	6.2%	3.5%
France	2001-2009	235	68.9%	18.3%	8.5%	4.3%
Sweden	2004-2009	155	78.7%	16.8%	4.5%	
Norway	2002-2009	168	55.4%	25.6%	10.1%	8.9%
Israel	2000-2010	267	55.1%	25.1%	6.7%	13.1%
China	2005-2009	96	60.4%	28.1%	8.3%	3.1%
India	2005-2009	121	95.0%	3.3%	1.7%	
Japan	2003-2008	139	64.8%	23.0%	7.2%	5.0%
Australia	2002-2009	207	68.6%	17.9%	9.2%	4.4%
New Zealand	2001-2009	279	85.7%	13.3%	1.1%	
Total		3,069	75.5%	16.7%	5.06%	2.9%

PANEL C: HIGH TECHNOLOGY COMPANY SAMPLE: DELOITTE *TECHNOLOGY FAST 500* RANKINGS

	Survey Years	# of Companies*	Once	Twice	Three	> Three
North America	1997-2009	3,657	66.3%	20.8%	8.1%	4.8%
Asia Pacific	2003-2009	1,585	70.6%	20.5%	5.6%	3.3%

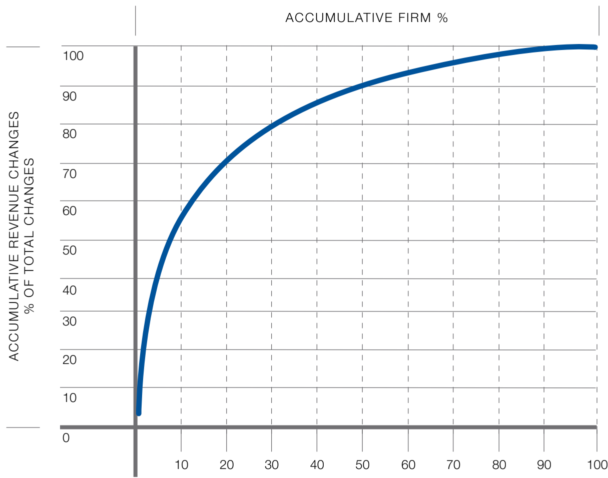
PANEL D: HIGH TECHNOLOGY COMPANY SAMPLE: *TECH TRACK 100* (UNITED KINGDOM)

	Survey Years	# of Companies*	Once	Twice	Three	> Three
United Kingdom: (Tech Track)	2001-2009	465	58.3%	29.0%	8.0%	4.7%

* Companies appearing first time in the last three years are dropped to avoid overstating companies appearing only once (or twice) due to future years not being available for most recent first time appearers.

EXHIBIT 4-5: ELITE FEW REVENUE CREATORS IN HOT COMPANY LISTS

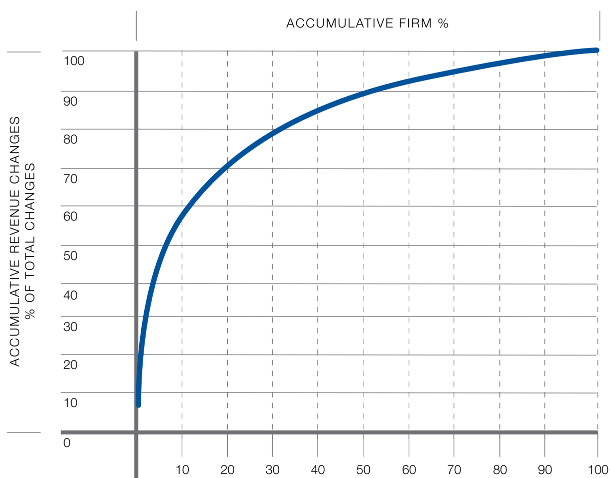
PANEL A: US: *INC. 500*



N=5000
Source: Inc. 500 2000-2009

AS % OF TOTAL REVENUE CREATED		
TOP 1%	TOP 5%	TOP 10%
20.5	42.1	56.0

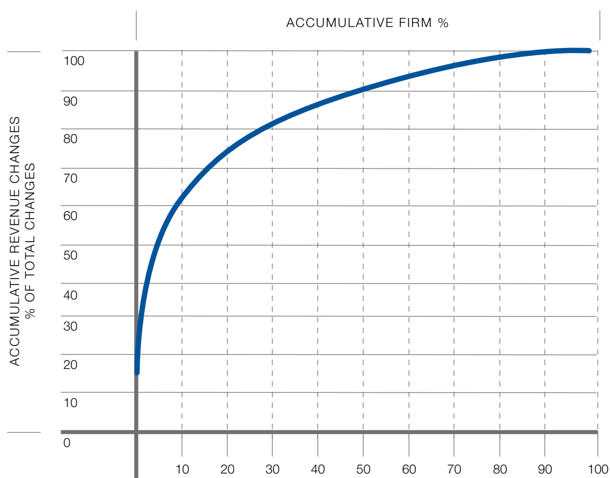
PANEL B: UNITED KINGDOM: *FAST TRACK 100*



N=1300
Source: Fast Track 100 1997-2009

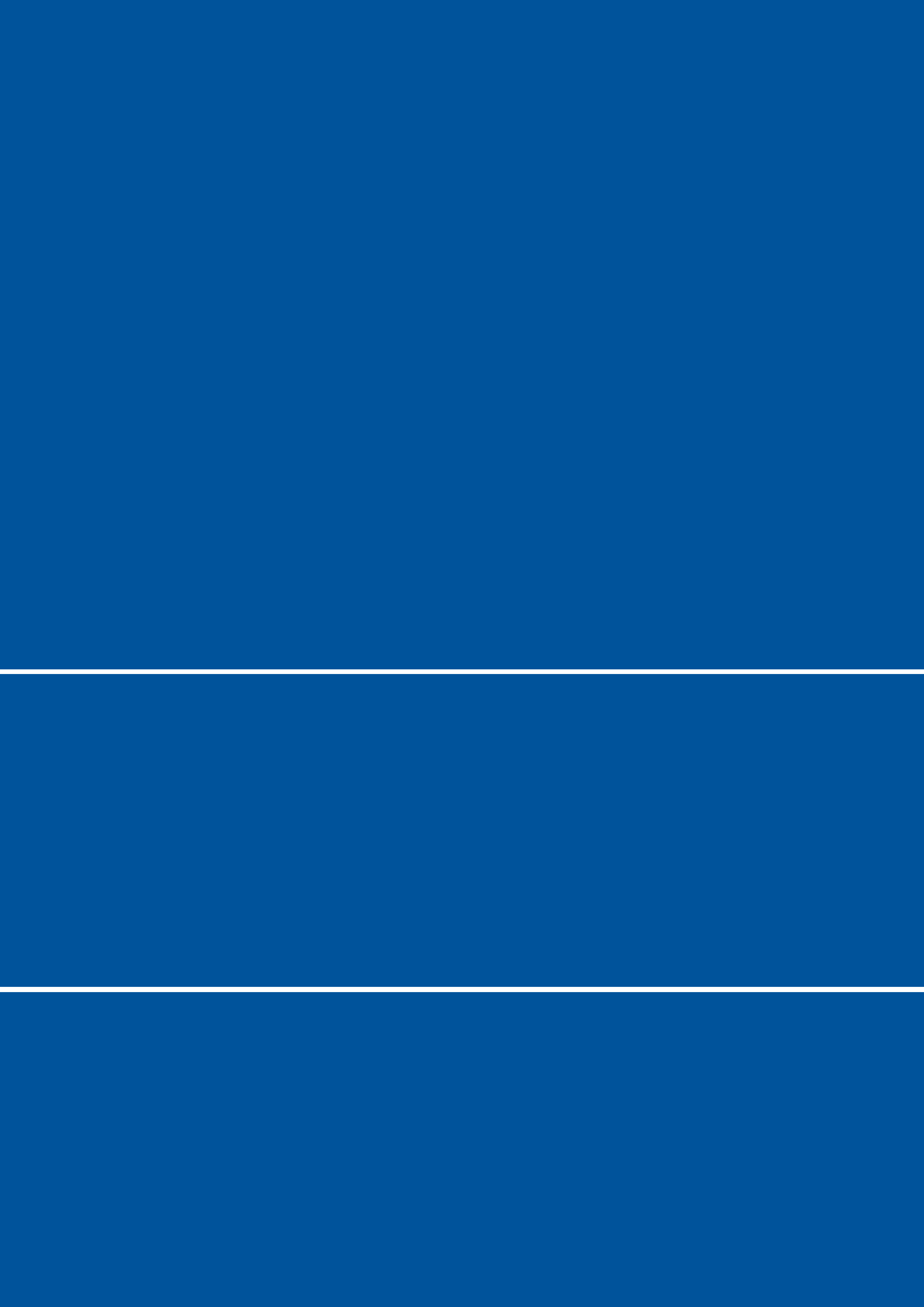
AS % OF TOTAL REVENUE CREATED		
TOP 1%	TOP 5%	TOP 10%
20.8	43.6	55.2

PANEL C: UNITED KINGDOM: *TECH TRACK 100*



N=900
Source: Tech Track 100 2001-2009

AS % OF TOTAL REVENUE CREATED		
TOP 1%	TOP 5%	TOP 10%
31.4	50.2	60.3



Section 5

Early-Stage Company Growth: Management Systems Adoption as a Growth Accelerator – Evidence from CEO and CFO Surveys

Section 5 – Early-Stage Company Growth: Management Systems Adoption as a Growth Accelerator – Evidence from CEO and CFO Surveys

Authors:
Antonio Davila, George Foster, Martin Haemmig and Ning Jia

This section reports results of the most extensive research project done on the association between management control system adoption and company growth. As part of the research for this report, we developed a rich database relating to 110 companies from around the globe. We call this database the FORUM sample. The CEO and CFO of each company provided us extensive internal data about when they adopted various management systems as well data on aspects of their growth on a year-by-year basis. There is a small but minimal overlap in the 70 "Executive Case" companies analysed in Sections 1 and 2 and the 110 companies examined in this Section

One key finding of our research is that companies that adopt an extensive array of management systems in their first five years have significantly higher growth rates than companies with minimal adoption of management systems in their first five years. This finding is consistent with the adoption of management systems being a growth accelerator; the related conclusion is that non-adoption of management systems is a growth inhibitor.

We also report for these 110 companies that the distribution of annual revenue growth rates of early-stage companies becomes more compressed over time. The distribution of growth rates is most dispersed in the earliest year for which we have extensive data (Year 2 to 3) for the 110 companies. It becomes less dispersed as these 110 companies grow older. This reduced dispersion in the distribution of growth rates is largely driven by the reduction in the extreme high-end (positive) part of the growth rate distribution as companies get older. This finding for our sample of 110 companies is similar to what we report for much larger samples in Section 3 (see Section 3.A.2) and Section 4 (see Section 4.3).

The management literature has conflicting viewpoints on the association of management system adoption and company growth:

- **Growth inhibitor viewpoint:** Management systems adoption by early-stage companies adds to company bureaucracy and stifles innovation, thus likely inhibits growth.
- **Growth accelerator viewpoint:** Adopting systems helps provide a structure that enables management to better focus on key areas and provides a communication mechanism that assists in coordinating increasingly diverse resources and opportunities as a company grows.

Prior research by several members of this Forum project team – termed the SEMAS project[1] – found strong support for the growth accelerator viewpoint based on a sample of 78 US companies. This section of the World Economic Forum report presents further strong evidence from CEO- and CFO-provided data supporting the growth accelerator viewpoint.

5.1 Background on the Forum Sample of 110 Companies

We define a management system as one "that has a documented process and periodically and purposely executes on that process." We collected information on the year of formalization of 13 different management systems. The choice of 11 of these 13 systems was influenced by results of the SEMAS project, where we examined the adoption of 46 different systems. We also added two new categories related to "marketing/branding" and "quality management systems," based on feedback from executives on our prior research and subsequent interaction with many executives. Respondents indicated the calendar year of "formalization" for each management system adopted. Given our information about the calendar year in which each company was incorporated, we can determine the event year (Year 1, Year 2, etc.) that each company adopted each of its chosen systems. Each of the 110 companies provided us with responses to both a two-page CEO survey and a two-page CFO survey.

Our FORUM sample has very large differences across many of the variables examined. Exhibit 5-1 provides the country and industry breakdown of the FORUM sample. This 110-company sample is diversified on multiple dimensions – the countries included, the industries included and the wide distribution of founding dates. This diversification increases our confidence that the findings reflect underlying factors affecting growth rather than reflecting a particular industry (such as information technology) in a particular region or country (such as Silicon Valley in the US) at a particular period.

5.2 Summary Results

There is, on average, systematic growth from Year 1 to Year 5 for headcount and revenues of the sample of companies. Exhibit 5-2 shows the 90th, 70th, 50th, 30th, and 10th deciles of the distribution of company revenues each year. The distribution is rebalanced each year, so each decile over time does not refer to the same company each and every year. The revenue growth is relatively faster than the headcount growth, as is evidenced by the upward trending plots for the revenue per headcount variable in Exhibit 5-2.

Using information from the CEO and CFO surveys, we are able to document the relative build-up of management systems from Year 1 to Year 5 for the 13 different management systems. Exhibit 5-3 shows the relative build-up of management systems across the companies in the sample. Financial planning systems are the most widely adopted systems each and every year. Financial evaluation, HR planning and strategic planning systems are also adopted more frequently and at an earlier stage than many other systems.

There is much diversity across companies in both the number of management systems adopted and the speed of adoption. This diversity enables us to probe whether companies that adopt management systems earlier or more extensively exhibit higher growth. Exhibit 5-4 shows the average headcount growth for three groups of approximately equal sizes along with management systems adoption intensity – (1) low, (2) medium, and (3) high – in Year 2 (Panel A) and Year 5 (Panel B).[2] Panel C puts companies into three groups according to the change in management system intensity between Year 2 and Year 5. (High indicates the group with the greatest number of systems added, and low indicates the group with the least number of systems added.)

The general finding is that either (1) the early adoption or (2) the systematic build-up of management systems over time is significantly associated with growth in headcount. We have conducted further econometric analysis that strongly supports this finding. However, the relationship is more complex than that shown in any one panel in Figure 5-4. There are at least two different paths of systems-adoption build-up that are not fully captured in one of the three panels in that figure. One path is rapid adoption of systems by Year 2, which is captured by Panel A. Companies that fall into the "high" category in Panel A, could well be placed in the low systems adoption group in Panel C. This could arise if they add minimal extra systems in Year 3 to Year 5, because they started from a very high base in Year 2. A second path of adoption is to start from a low base in Year 2 and then aggressively build up management systems in Year 3 to Year 5 as management deems appropriate. These companies get placed in the low systems intensity group in Panel A but high in Panel C. Our econometric analysis takes both paths into account and finds significant positive associations between (1) headcount growth, and (2) aggressive management systems adoption by either Year 2 or systematic build-up between Year 3 and Year 5. Section 2 of this report includes quotations from executives on growth accelerators and growth inhibitors. The most direct conclusion from the above analysis is that the absence or limited adoption of management systems is a growth inhibitor. There is little evidence in our sample of 110 companies that companies with limited adoption of management systems in Year 1 to 5 exhibit high or even medium growth in their first five years.

5.3 Management System Adoption Drivers

Management makes decisions on an ongoing basis as to the timing and extent of management systems adoption. What are the factors that drive these decisions? We conducted econometric analysis of this question and conclude that headcount levels and headcount growth explain company build-up of management systems better than do revenue levels and revenue growth. While headcount growth and revenue growth are positively correlated, we find that when both are simultaneously included as potential drivers of management system build-up, it is headcount growth that is the dominant factor.

5.4 Compression in the Distribution of Growth Rates as Early-Stage Companies Age

Exhibit 5-5 presents the distribution of company growth rates as companies age. The same pattern of the distribution compressing as companies age occurs for both the revenue growth rate and the headcount growth rate. This same pattern was observed in both Section 3 (for the 110 country database of companies) and in Section 4 (for the Fast Growing Company Rankings database). One way to document this compression is to compute a dispersion measure for the growth rate distribution. The right-hand panels in Figure 5-5 report one such dispersion measure – the difference between the 90th percentile and the 10th percentile. The downward slope of this dispersion measure is largely driven by the reductions over time in the very high growth rates that sizably reduce as companies age in their first five years. ■

[1] An overview of a series of research papers is in Davilla, Antonio, George Foster, and Ning Jia, "Building Sustainable High Growth Startup Companies: Management Systems as an Accelerator," *California Management Review* (spring 2010: Vol. 52, No. 2): 281-311. See also Strehle, Florian, Bernard R. Katzy, and Tony Davila, "Learning Capabilities and the Growth of Technology-Based New Ventures," *International Journal of Technology* (2010:Vol.52, Nos. 1/2): 26-45

[2] For Year 2 (Panel A), the cutoffs are low intensity (0 to 1 systems adopted in Year 2), medium (two to four systems), and high (five to 13 systems). For Year 5 (Panel B), the cutoffs are low intensity (zero to five systems adopted in Year 5), medium (six to nine systems) and high (10 to 13 systems). For the changes in management systems between Year 2 and 5 (Panel C), the cutoffs are low intensity (zero to one additional system adopted), medium (two to four additional systems), and high (five to 13 additional systems).

EXHIBIT 5-1: FORUM CEO/CFO SAMPLE OVERVIEW

PANEL A: COUNTRY AND INDUSTRY

	Business & Financial Services	Consumer Goods & Services	Energy	Healthcare	Industrial Goods & Materials	Information Technology	Line Total
Argentina	0	3	0	0	0	3	6
Australia	1	3	0	2	3	4	13
China	1	5	0	3	9	6	24
Ireland	4	3	1	2	2	7	19
Spain	4	2	0	1	2	4	13
USA	5	1	1	5	0	5	17
Other	3	4	0	2	0	9	18
Total	**18**	**21**	**2**	**15**	**16**	**38**	**110**

PANEL B: FOUNDING DATE

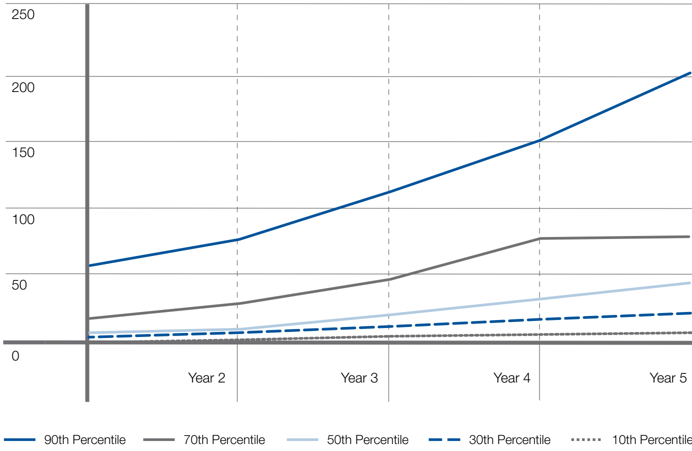
	Total	Percentage
1996-1998	14	13%
1999	10	9%
2000	17	15%
2001	10	9%
2002	7	6%
2003	15	14%
2004	18	16%
2005	12	11%
2006-2008	7	6%
Total	**110**	**100%**

PANEL C: FINANCIAL COMPOSITION

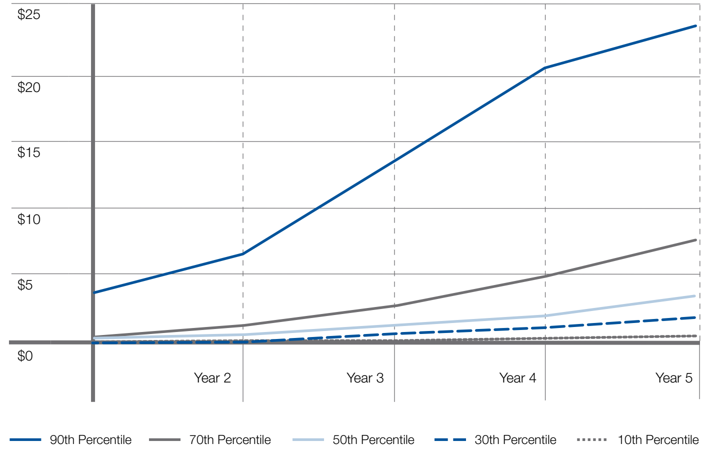
	Total	Percentage
VC-backed	42	38%
Non VC-backed	68	62%
Total	**110**	**100%**

EXHIBIT 5-2: GROWTH PATHS OF FORUM CEO/CFO SAMPLE OF 110 COMPANIES

PANEL A: HEADCOUNT



PANEL B: REVENUES
IN MILLIONS (US$ M)



PANEL C: REVENUES PER HEADCOUNT

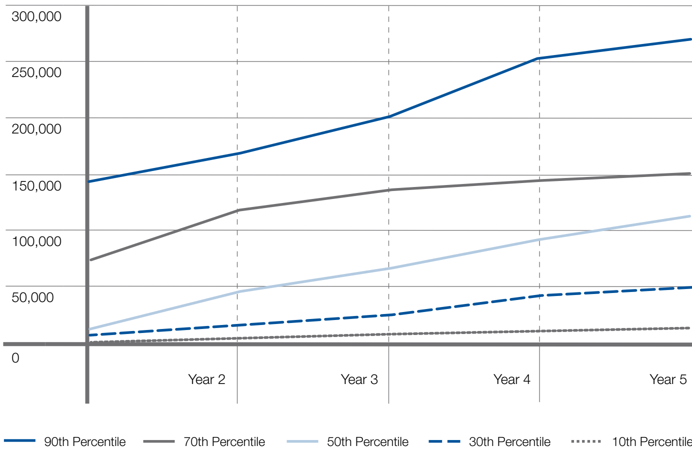
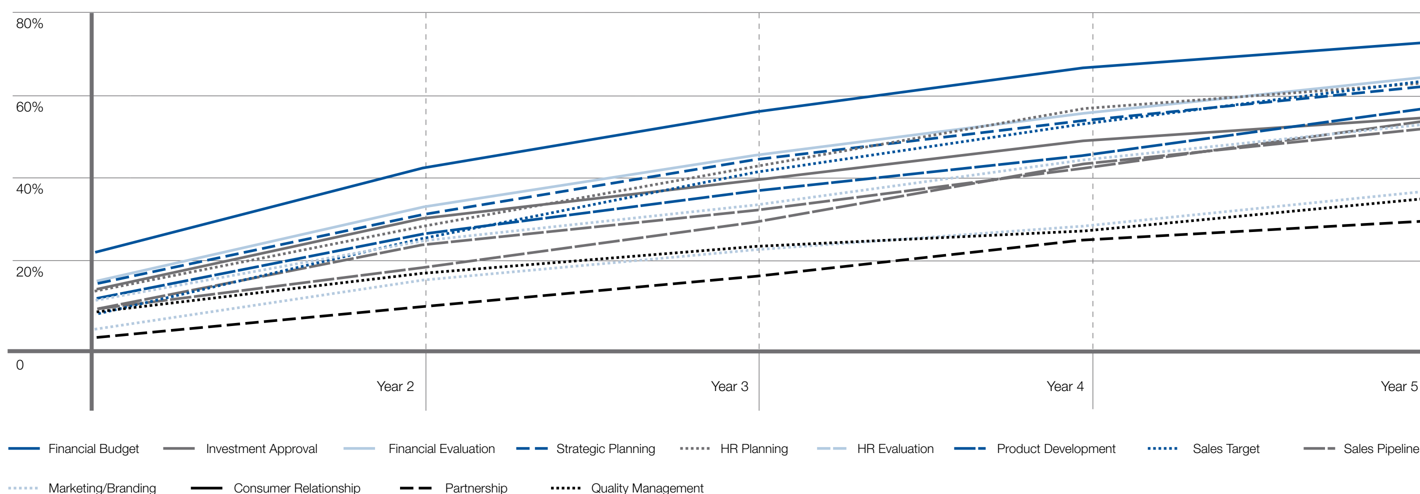


EXHIBIT 5-3: MANAGEMENT SYSTEM BUILDUP FOR FORUM CEO/CFO SAMPLE OF 110 COMPANIES

PANEL A

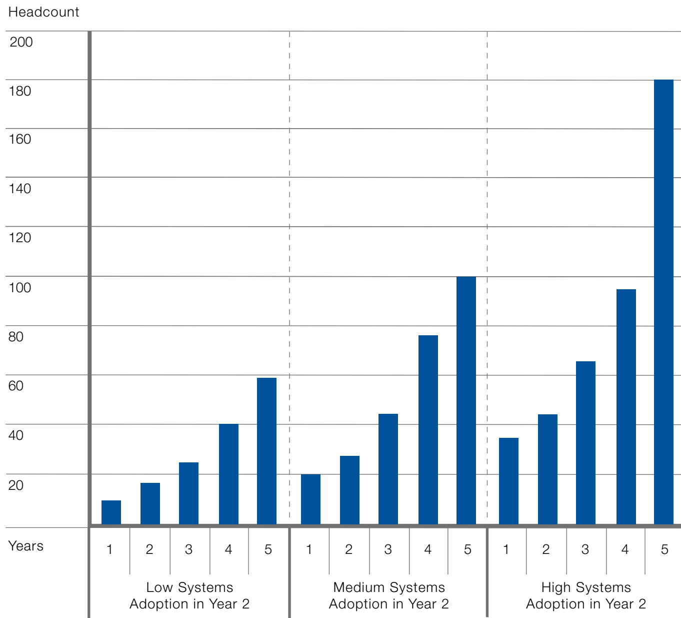


PANEL B

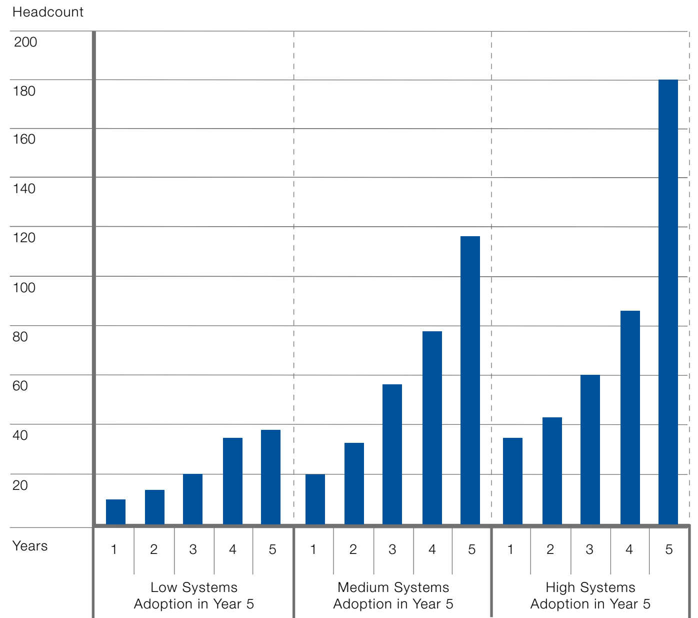
System	Description	PERCENTAGE OF COMPANIES HAVING ADOPTED THE SYSTEM BY THE END OF:				
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Financila Budget	Financial Operating Budget	24%	44%	57%	67%	73%
Financial Evaluation	Actual to Budget Performance Analysis	16%	35%	46%	56%	65%
HR Planning	Human Resources – Written Job Descriptions	15%	30%	44%	57%	64%
Sales Target	Sales Targets for Sales Force	9%	27%	43%	55%	64%
Strategic Planning	Definition of Strategic (Non-Financial) Milestones	16%	33%	45%	55%	63%
HR Evaluation	Human Resources – Written Performance Evaluation Reports	13%	28%	38%	46%	57%
Product Development	New Product/Project Development Milestones	15%	32%	41%	50%	55%
Investment Approval	Capital Investment Approval Procedures	10%	25%	34%	44%	55%
Customer Relationship	Customer Relationship Management	13%	26%	35%	45%	54%
Sales Pipeline	Sales Pipeline Information	10%	20%	31%	45%	53%
Marketing/Branding	Marketing/Branding Project Evaluation Analysis	5%	17%	25%	29%	37%
Quality Management	Quality Management System	9%	19%	25%	29%	36%
Partnership	Partnership Development Plan	4%	11%	18%	26%	31%

EXHIBIT 5-4: HEADCOUNT GROWTH FOR YEARS 1 TO 5 OF COMPANIES WITH DIFFERING LEVELS/CHANGES OF MANAGEMENT SYSTEM INTENSITY

PANEL A: RANK BY MANAGEMENT SYSTEM INTENSITY IN YEAR 2



PANEL B: RANK BY MANAGEMENT SYSTEM INTENSITY IN YEAR 5



PANEL C: RANK BY MANAGEMENT SYSTEM INTENSITY CHANGE BETWEEN YEAR 2 AND YEAR 5

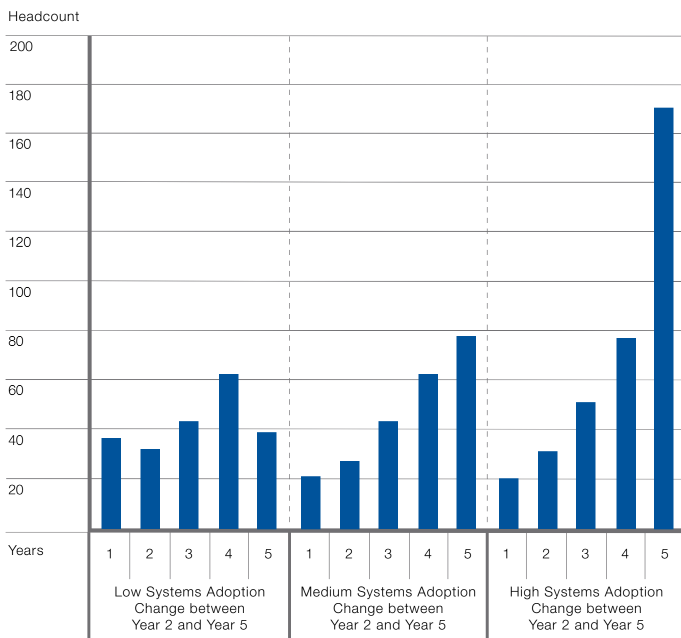
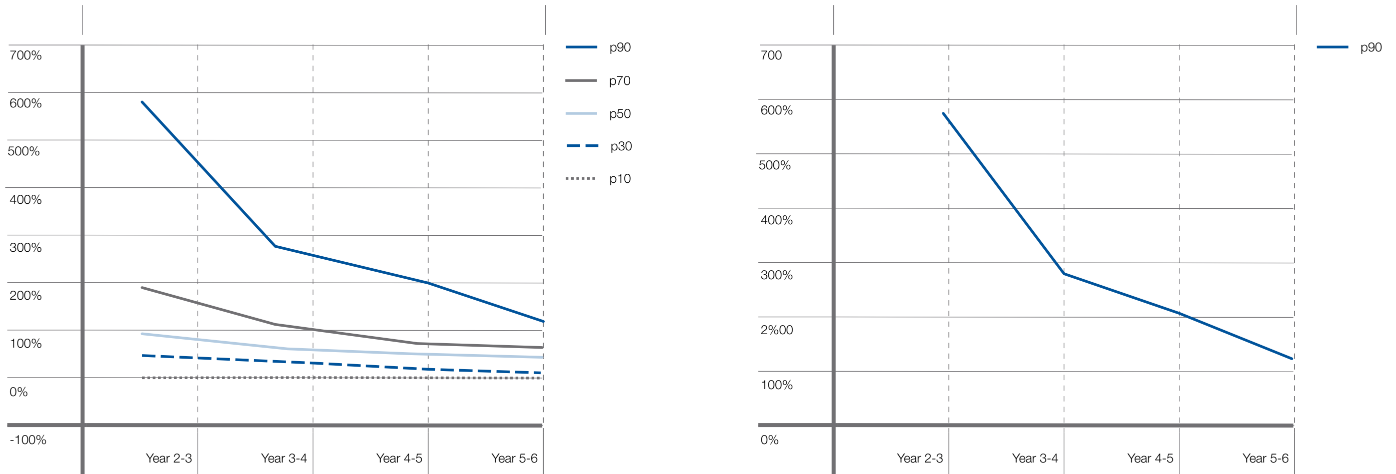


EXHIBIT 5-5: GROWTH RATE DISTRIBUTION COMPRESSION OVER TIME FOR HEADCOUNT GROWTH RATE AND REVENUE GROWTH RATE FOR CEO/CFO SAMPLE

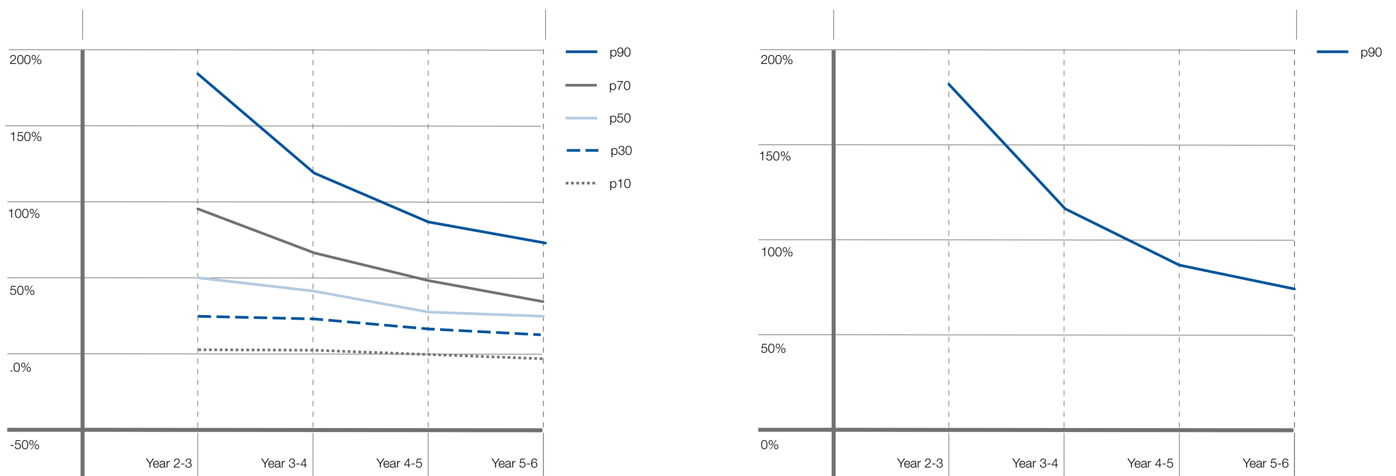
PANEL A: REVENUE GROWTH RATE

DISTRIBUTION DISPERSION (90TH PERCENTILE - 10TH PERCENTILE)



PANEL B: HEADCOUNT GROWTH RATE

DISTRIBUTION DISPERSION (90TH PERCENTILE - 10TH PERCENTILE)



Appendix 5.A: Background on How the Forum Database was Built

This study builds on a prior study, the SEMAS research project. This project examined a sample dominated by California venture-backed companies from the information systems/technology sector; the time period was the early 1990s to the early 2000s.

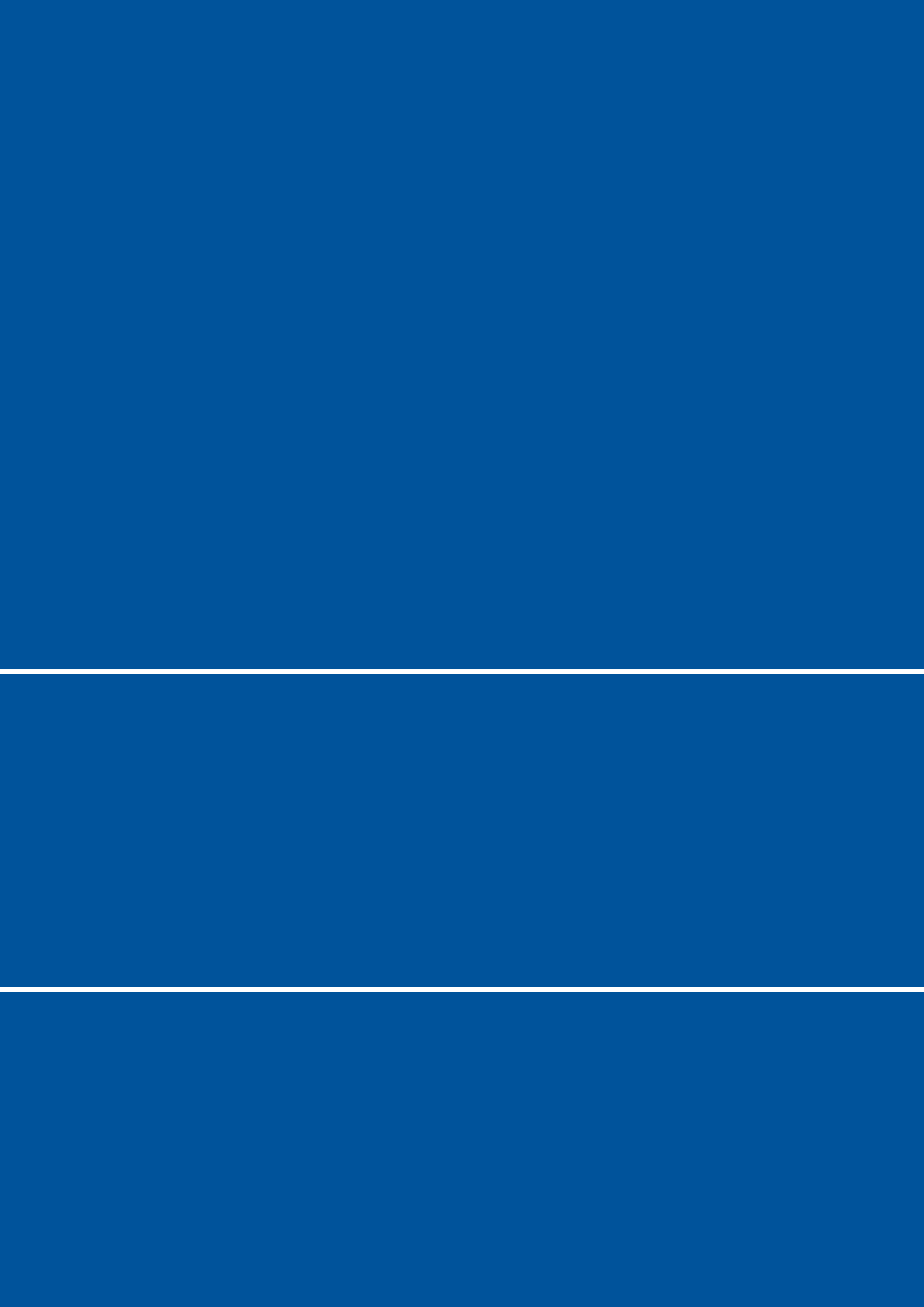
Our FORUM sample had two main criteria in its build phase. The focus was on companies that were: (1) a new venture in the 1996 to 2006 period, and (2) had achieved revenues of at least US$ 5 million at some stage or headcount of at least 50 internal employees at some stage or both.

The new venture requirement was central to being able to concentrate on the early development of a company from its incorporation. At their incorporation date, the companies in our FORUM sample typically have only a small founder team and no revenues. Ventures that are spin-offs, or much older companies that are restarts, have heritage systems and infrastructure that often are the result of generations of prior company and executive experience. The requirement to have the start date be in the 1996 to 2006 period was to enable us to collect at least three to four years of post-start data in key variables, such as headcount and in some cases, but far from all, revenues.

The minimum size requirements were based on our prior SEMAS experience that many companies start "small" and stay "small," in part due to the aspirations of their founders (such as owners/managers trading off low growth aspirations in return for retaining control). Our prior experience was that even with a minimum size requirement we would observe dramatic differences across many of the key variables of interest in the final sample. This turned out to be the case. The headcount or revenue lower limit was used to include companies that either (1) had revenue build-up with not a large headcount build-up, or (2) had headcount build-up, but little or no revenues in the early years. The (1) case could be due to a chosen business model or to extensive use of outside contractors. The (2) case could be due to a company having an extensive discovery period (such as with some life science companies) or requiring an extensive brand recognition period.

Many companies in our sample satisfy both the minimum revenue and minimum headcount requirements. The stipulation that the minimum was achieved "at some stage" rather than by the most recent year was to allow for companies that scale beyond these minimums, but then subsequently de-scale. Each of these restrictions results in the sample having generalization limitations. However, the companies that qualify for our restrictions are a very important set in many economies around the globe. The results of our analysis do not generalize to the many companies that have very few employees and very little revenues over extended periods.

The current analysis extends the prior SEMAS research in multiple ways. First, we use a broader sample of companies, both on the basis of country or region and on an industry basis. Second, we also include many companies with data for the decade from 2000 to 2009. Third, we examine management system adoption, not just in Year 2, but also (1) the build-up of management systems between Year 2 and Year 5, and (2) the level of management systems in Year 5. Fourth, we look at the relative headcount growth and revenue growth as a driver of management system adoption. The build-up of management systems is an important manifestation of the professionalization of management in a company. It is part of a shift from a personal management style to a professional management style that can occur in some companies as they grow or age.



Section 6

Venture Capital Investment Activity for Early-Stage Companies Around the Globe

Section 6 – Venture Capital Investment Activity for Early-Stage Companies Around the Globe

Authors:
Bryan Pearce and John de Yonge (Ernst & Young), Martin Haemmig, Antonio Davila and George Foster

Data provided by Dow Jones VentureSource
(http://www.dowjones.com/privatemarkets/)

Venture capital (VC) is one type of financing that some high-growth-oriented founders and employees of early-stage companies find attractive. Distinctive features of VC are that the investment is for equity in the new venture and is made at a relatively early stage in the life of the company. This VC leverages the ability of the venture to grow fast and build value for the equity owners and other constituents. In some cases, the VC is essential to enabling the new to be up and running. The US is generally agreed to be the genesis of professionally managed VC funds. Examples of early VC firms, which were started in Silicon Valley in the 1960s, include Draper and Johnson Investment Company, Sutter Hill Ventures and Asset Management Group.

For several decades after the 1960s, there were two dominant features of the VC industry:

1. Most VC firms (the investor) were based in the US, with the two highest concentrations of firms being in Silicon Valley in Northern California and Boston in the New England region.

2. Most individual companies receiving venture funding (the investee) were based in the US, and the large majority of their early operations were US centric.

The last 20 years have seen major shifts in both number 1 and number 2. They were driven by the mobility of technology, capital and people as well as the establishment of entrepreneurial ecosystems orchestrated mainly by governments in innovation hotbeds. The key shifts changing number 1 are the establishment of new VC firms outside the US, which are independent from the US firms, and the establishment by US VC firms with offices outside the US. The two major shifts changing number 2 are VC-backed companies that start outside the US and some US-backed investee companies that have a decidedly global component to their activities at an early stage (sometimes from day one). The consequence is that the VC industry now has a growing global dimension. This global dimension is consistent with highly motivated and committed entrepreneurs existing in all parts of the globe.

This section presents some summary descriptive statistics that showcase both the global nature of where venture investments were made in the second half of the 2000-2009 decade and some key differences in the nature of the investments in different geographies.

Geographic Mix of Investments. Exhibit 6-1 (Panel A) shows the still-dominant position of the US in terms of the geographies of investee companies. From 2005 to 2009, the US per cent of total VC investment was in the 65% to 73% range and in the US$ 23 billion to US$ 33 billion range. Europe comprised 15% to 20% of total investments (in the US$ 5 billion to US$ 7 billion range). Countries with lower per cents are Israel (in the US$ 1 billion to US$ 2 billion range) and China (in the US$ 1 billion to US$ 4 billion range). Panel B highlights the geographic hotbeds for 2009. VC investment was largely dominated by Silicon Valley and other traditional hotbeds of entrepreneurship, such as New England, Southern California and New York. The importance of Silicon Valley is still unmatched in this industry. The top 14 hotbeds in 2009 included three from Asia: Beijing, Shanghai, and Bangalore (Japan was not part of this analysis).

Venture Capital Funding Stages. Exhibit 6-2 (Panel A) presents the distribution across the life stages of companies with VC investment for US, Europe, Israel and China. Dow Jones distinguishes four development stages in its VentureSource database – two pre-revenue (start-up and product development) and two revenue (pre-profit and profitable). The US and Israel venture-backed companies receive higher support in their two pre-revenue stages vis-à-vis Europe and China, in terms of number of VC rounds. VC rounds in China are very heavily focused on the last two of the four VentureSource life stages (pre-profit and profitable). Europe lies between US/Israel and China in terms of number of VC rounds in the last two life stages. Panel B presents the percentage of venture investment amounts. Europe looks more like the US and Israel with this measure of VC activity. The Panel A conclusion that Chinese VCs are very much focused on later stages of the early-stage company life cycle is reinforced by the Panel B information on VC invested.

Venture Capital Investment by Sectors. Exhibit 6-3 presents a per sector breakdown across geographies. VentureSource makes four sector classifications: IT, healthcare, business and consumer, and other. Panel A presents percentages based on the number of active private VC-backed companies, while Panel B presents percentages based on VC capital invested to date. The IT sector is very dominant in Israel, and the strongest sector in the US, Canada and Europe. Healthcare is increasing in the US, Europe and Israel. In 2008 and 2009, healthcare was between 24% and 33% of all VC invested in companies in the US, Canada, Europe and Israel. The two Asian countries of China and India

have a much different profile than the other four countries in Exhibit 6-3. Business and consumer is the main sector attracting VC investments in both China and India.

Headcount of Venture-Backed Companies. Exhibit 6-4 (Panel A) shows the average headcount per start-up across the various geographies and for different industry groupings. China again follows a very different pattern with an average headcount often five to 10 times larger than the US, European and Israeli ventures. This headcount evidence is consistent with Chinese VC investments being concentrated more in the latter stages of the company's life cycle. Interestingly, Europe's average headcount is below that of the US and Israel. European early-stage companies typically are smaller than those in the US and Israel. One of the reasons is that the average company receives three to four times less capital in the same stage of development when compared with the US. Panel B shows the average headcount per stage of development and industry across the four geographies. Across the four VentureSource development stage categories and across each of the three industry classifications, the Chinese VC-backed ventures consistently have a higher headcount vis-à-vis the US, Europe and Israel.

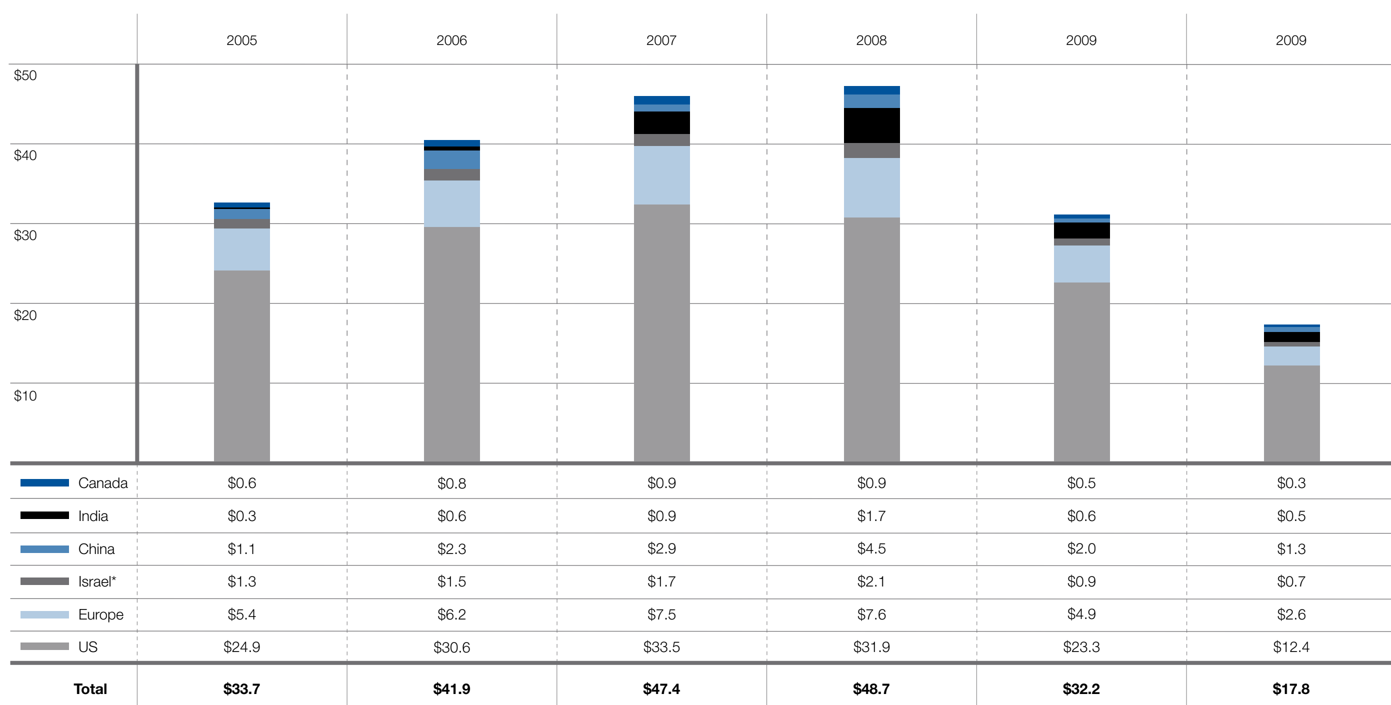
Pre-Money Valuations. Exhibit 6-5 (Panel A) provides information on the valuation of start-ups across the various geographies. The US and Israel start-ups have a similar pattern with growing valuations from 2003 to 2006. In both, there was a decline in 2009, in part due to the global financial crisis. Valuations in Europe were much lower than in the US and Israel. For example, the 2009 (2008) median valuations are US$ 20 (US$ 23) million in the US, US$ 14 (US$ 30) million in Israel, while only US$ 3 (US$ 9) million in Europe. China's valuations grew from US$ 10 million in 2005 to US$ 43 million in 2009, reflecting the trend in China towards later-stage and larger rounds with high PE ratios and typically fairly good returns for investors when compared to the western countries. Panel B presents valuations across stages in the life cycle, across industries and geographies. China company VC investments are mostly focused on "business and consumer services" with very significant valuations for later-stage companies. The lower valuations in Europe vis-à-vis the US show up consistently across each of the stages of development categories and each of the three industry classifications.

Exits of Venture-Backed Companies. Exhibit 6-6 (Panel A) provides information across geographies on the number and amount of exits through IPOs. The US had a sizeable IPO window between 2004 and 2007, with between 44 and 78 venture-backed companies exiting each year. The amount raised peaked in 2007 at almost US$ 7 billion. In 2008, 2009 and 2010 (January to June), there were minimal IPO exits in the US, Europe and Israel. In contrast, China IPO exits in 2009 and 2010 (January to June) were very active, both relative to prior years in China and relative to the US, Europe and Israel in the same period. The large increase of IPO exits in China mainly resulted from the opening up of the two new SME and growth company exchanges that provide liquidity and cater to this particular segment. The average holding time from the first formal VC investment to an IPO in the US ranged from 6.2 to 9.4 years between 2005 and 2010/1H, and from 5.8 to 8.1 years in Europe, while it declined in China from 5.2 years to 2.6 years by 2010/1H.

Panel B provides information on exits through mergers and acquisitions (M&A). An M&A exit in either the US, Europe or Israel is far more common than an IPO exit, with the IPO window effectively shut during the global financial crisis. In China, yet again a different pattern exists. An IPO in China is relatively more frequent than an M&A exit. However, Chinese acquirers prefer companies that are already profitable and contribute instantly to the bottom line of the parent company, while the Western corporations often acquire their target companies in the pre-profit stage at much lower prices. The average holding time from the first formal VC investment to an M&A in the US declined from 6.3 to 5.3 years between 2006 and 2010/1H, with 6.7 to 5.3 years in Europe. In China during the same time period, it fluctuated from 3.4 years to 2.3 years – although the number of transactions by Chinese entrepreneurial companies was rather marginal, and the initial VC investments occurred again in a rather late stage of the company's development. ■

EXHIBIT 6-1: GLOBAL VENTURE CAPITAL INVESTMENT (US$ BILLIONS)

PANEL A: ANNUAL INVESTMENT 2005-1H 2010

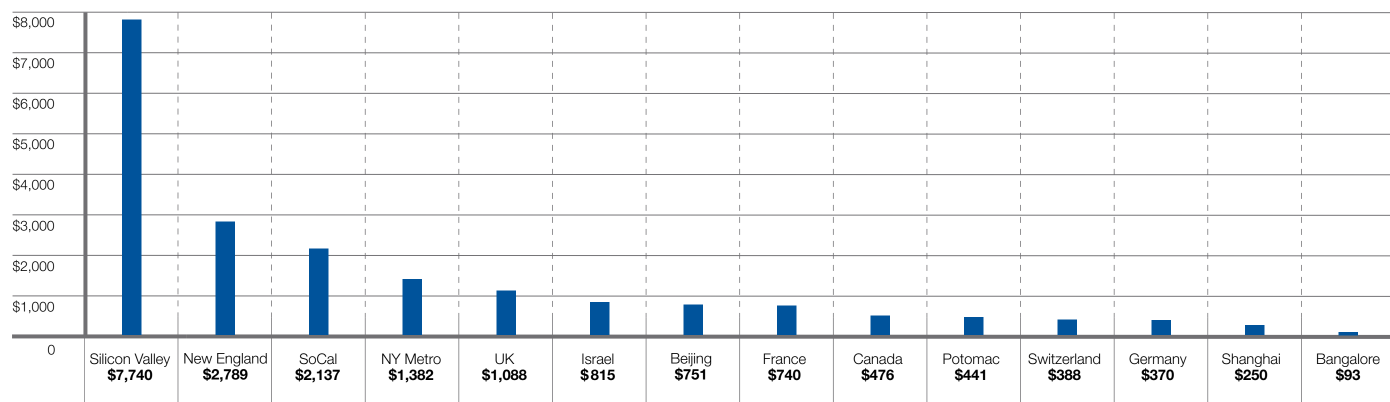


	2005	2006	2007	2008	2009	2009
Canada	$0.6	$0.8	$0.9	$0.9	$0.5	$0.3
India	$0.3	$0.6	$0.9	$1.7	$0.6	$0.5
China	$1.1	$2.3	$2.9	$4.5	$2.0	$1.3
Israel*	$1.3	$1.5	$1.7	$2.1	$0.9	$0.7
Europe	$5.4	$6.2	$7.5	$7.6	$4.9	$2.6
US	$24.9	$30.6	$33.5	$31.9	$23.3	$12.4
Total	**$33.7**	**$41.9**	**$47.4**	**$48.7**	**$32.2**	**$17.8**

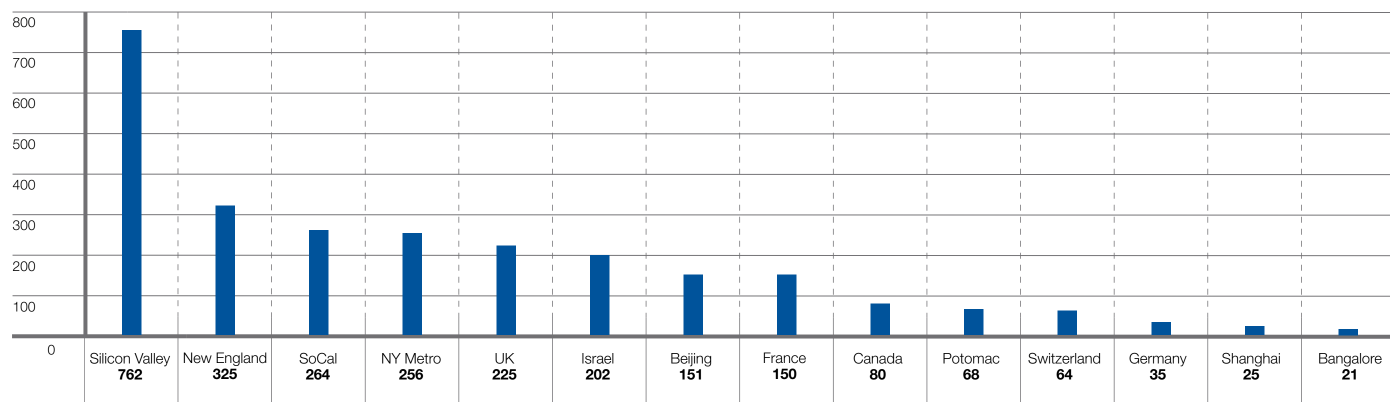
Source: Dow Jones VentureSource
*Israel HQ companies only

PANEL B: ANNUAL INVESTMENT FOR 2009 BY HOTBED GEOGRAPHY

RANKING BY AMOUNT RAISED (US$ M)



RANKING BY NUMBER OF ROUNDS

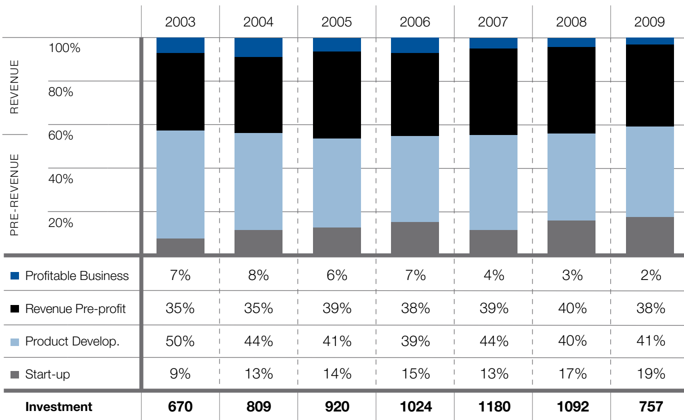


Source: Dow Jones VentureSource
Israel data based on Israel Site

EXHIBIT 6-2: VENTURE CAPITAL INVESTMENT BY STAGE OF DEVELOPMENT

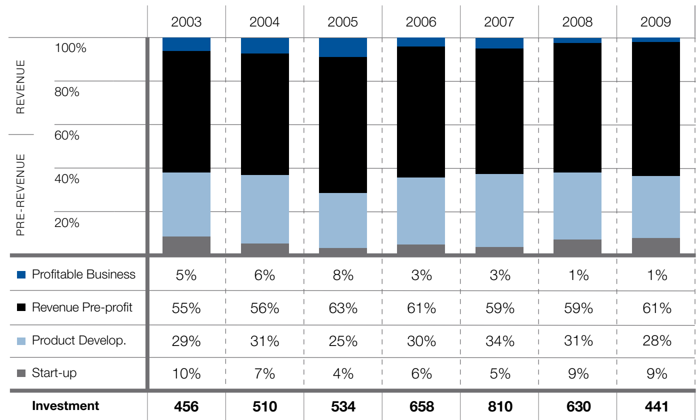
PANEL A: NUMBER OF VC INITIAL ROUNDS

UNITED STATES



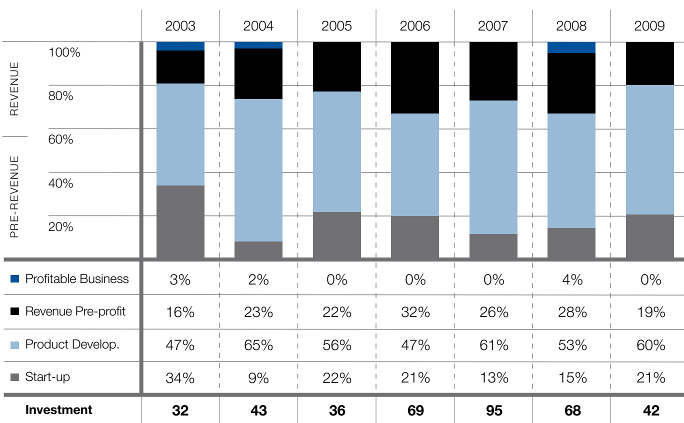
	2003	2004	2005	2006	2007	2008	2009
Profitable Business	7%	8%	6%	7%	4%	3%	2%
Revenue Pre-profit	35%	35%	39%	38%	39%	40%	38%
Product Develop.	50%	44%	41%	39%	44%	40%	41%
Start-up	9%	13%	14%	15%	13%	17%	19%
Investment	**670**	**809**	**920**	**1024**	**1180**	**1092**	**757**

EUROPE



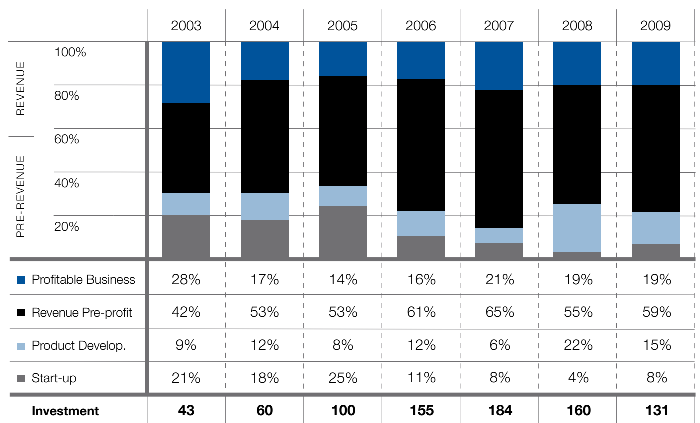
	2003	2004	2005	2006	2007	2008	2009
Profitable Business	5%	6%	8%	3%	3%	1%	1%
Revenue Pre-profit	55%	56%	63%	61%	59%	59%	61%
Product Develop.	29%	31%	25%	30%	34%	31%	28%
Start-up	10%	7%	4%	6%	5%	9%	9%
Investment	**456**	**510**	**534**	**658**	**810**	**630**	**441**

ISRAEL



	2003	2004	2005	2006	2007	2008	2009
Profitable Business	3%	2%	0%	0%	0%	4%	0%
Revenue Pre-profit	16%	23%	22%	32%	26%	28%	19%
Product Develop.	47%	65%	56%	47%	61%	53%	60%
Start-up	34%	9%	22%	21%	13%	15%	21%
Investment	**32**	**43**	**36**	**69**	**95**	**68**	**42**

CHINA

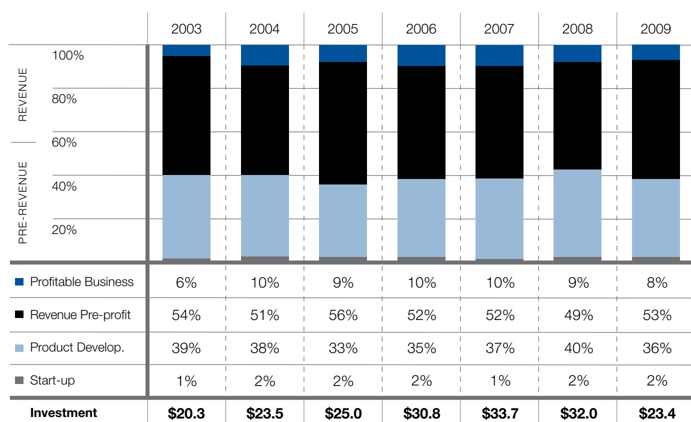


	2003	2004	2005	2006	2007	2008	2009
Profitable Business	28%	17%	14%	16%	21%	19%	19%
Revenue Pre-profit	42%	53%	53%	61%	65%	55%	59%
Product Develop.	9%	12%	8%	12%	6%	22%	15%
Start-up	21%	18%	25%	11%	8%	4%	8%
Investment	**43**	**60**	**100**	**155**	**184**	**160**	**131**

Source: Dow Jones VentureSource

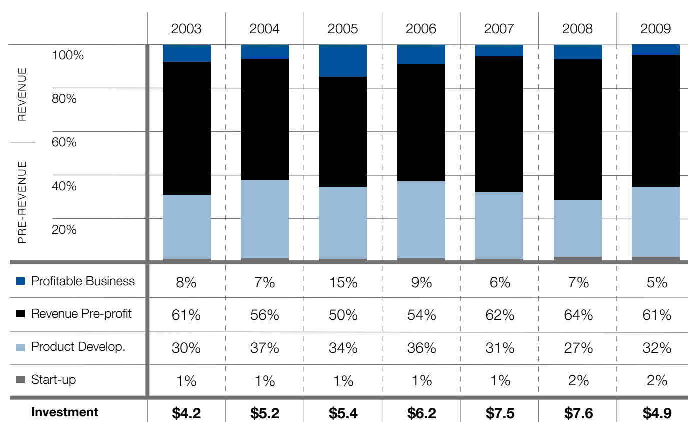
PANEL B: VENTURE CAPITAL INVESTED (US$ BILLIONS)

UNITED STATES



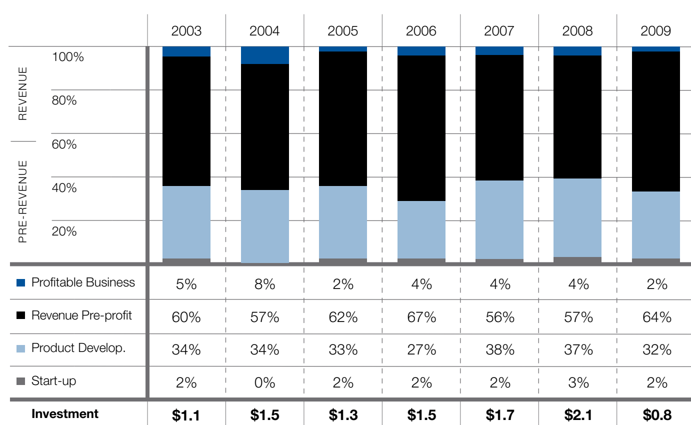
	2003	2004	2005	2006	2007	2008	2009
Profitable Business	6%	10%	9%	10%	10%	9%	8%
Revenue Pre-profit	54%	51%	56%	52%	52%	49%	53%
Product Develop.	39%	38%	33%	35%	37%	40%	36%
Start-up	1%	2%	2%	2%	1%	2%	2%
Investment	**$20.3**	**$23.5**	**$25.0**	**$30.8**	**$33.7**	**$32.0**	**$23.4**

EUROPE



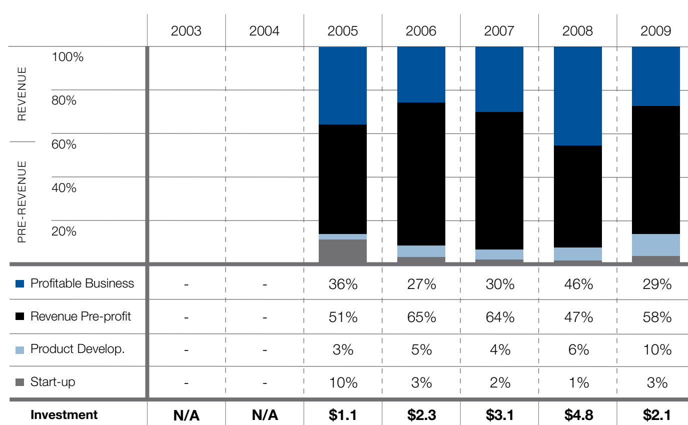
	2003	2004	2005	2006	2007	2008	2009
Profitable Business	8%	7%	15%	9%	6%	7%	5%
Revenue Pre-profit	61%	56%	50%	54%	62%	64%	61%
Product Develop.	30%	37%	34%	36%	31%	27%	32%
Start-up	1%	1%	1%	1%	1%	2%	2%
Investment	**$4.2**	**$5.2**	**$5.4**	**$6.2**	**$7.5**	**$7.6**	**$4.9**

ISRAEL



	2003	2004	2005	2006	2007	2008	2009
Profitable Business	5%	8%	2%	4%	4%	4%	2%
Revenue Pre-profit	60%	57%	62%	67%	56%	57%	64%
Product Develop.	34%	34%	33%	27%	38%	37%	32%
Start-up	2%	0%	2%	2%	2%	3%	2%
Investment	**$1.1**	**$1.5**	**$1.3**	**$1.5**	**$1.7**	**$2.1**	**$0.8**

CHINA



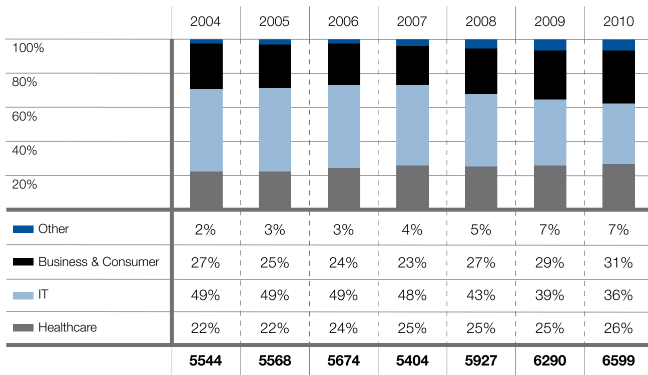
	2003	2004	2005	2006	2007	2008	2009
Profitable Business	-	-	36%	27%	30%	46%	29%
Revenue Pre-profit	-	-	51%	65%	64%	47%	58%
Product Develop.	-	-	3%	5%	4%	6%	10%
Start-up	-	-	10%	3%	2%	1%	3%
Investment	**N/A**	**N/A**	**$1.1**	**$2.3**	**$3.1**	**$4.8**	**$2.1**

Source: Dow Jones VentureSource

EXHIBIT 6-3: SECTOR-COMPOSITION OF CAPITAL INVESTED TO DATE IN CURRENT PRIVATE VENTURE CAPITAL-BACKED COMPANIES (US$)

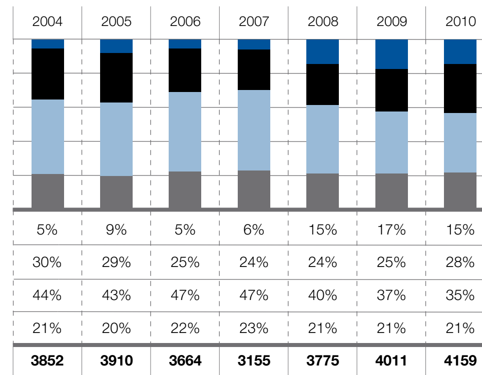
PANEL A: CURRENT NUMBER OF ACTIVE PRIVATE VC BACKED COMPANIES

UNITED STATES



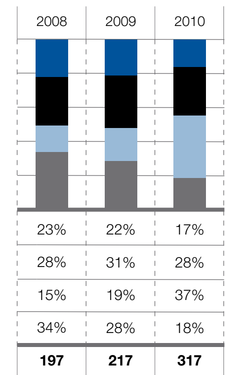
	2004	2005	2006	2007	2008	2009	2010
Other	2%	3%	3%	4%	5%	7%	7%
Business & Consumer	27%	25%	24%	23%	27%	29%	31%
IT	49%	49%	49%	48%	43%	39%	36%
Healthcare	22%	22%	24%	25%	25%	25%	26%
	5544	**5568**	**5674**	**5404**	**5927**	**6290**	**6599**

EUROPE



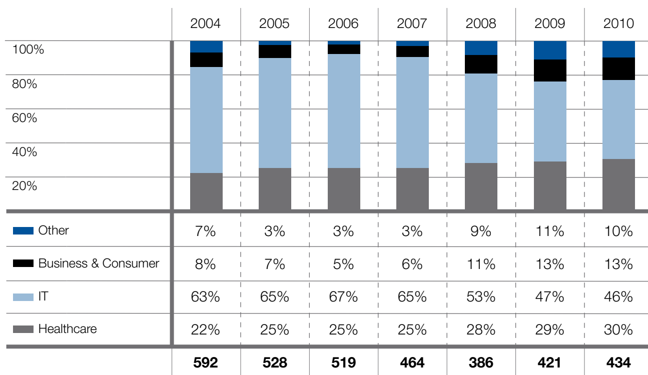
	2004	2005	2006	2007	2008	2009	2010
Other	5%	9%	5%	6%	15%	17%	15%
Business & Consumer	30%	29%	25%	24%	24%	25%	28%
IT	44%	43%	47%	47%	40%	37%	35%
Healthcare	21%	20%	22%	23%	21%	21%	21%
	3852	**3910**	**3664**	**3155**	**3775**	**4011**	**4159**

CANADA



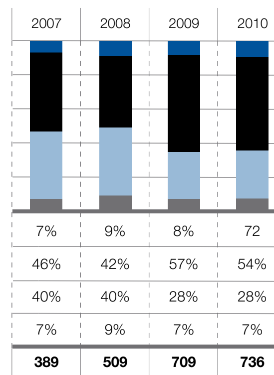
	2008	2009	2010
Other	23%	22%	17%
Business & Consumer	28%	31%	28%
IT	15%	19%	37%
Healthcare	34%	28%	18%
	197	**217**	**317**

ISRAEL



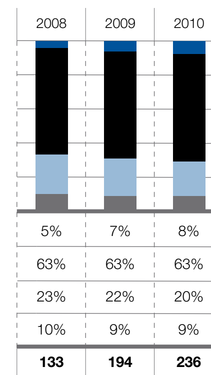
	2004	2005	2006	2007	2008	2009	2010
Other	7%	3%	3%	3%	9%	11%	10%
Business & Consumer	8%	7%	5%	6%	11%	13%	13%
IT	63%	65%	67%	65%	53%	47%	46%
Healthcare	22%	25%	25%	25%	28%	29%	30%
	592	**528**	**519**	**464**	**386**	**421**	**434**

CHINA



	2007	2008	2009	2010
Other	7%	9%	8%	72
Business & Consumer	46%	42%	57%	54%
IT	40%	40%	28%	28%
Healthcare	7%	9%	7%	7%
	389	**509**	**709**	**736**

INDIA



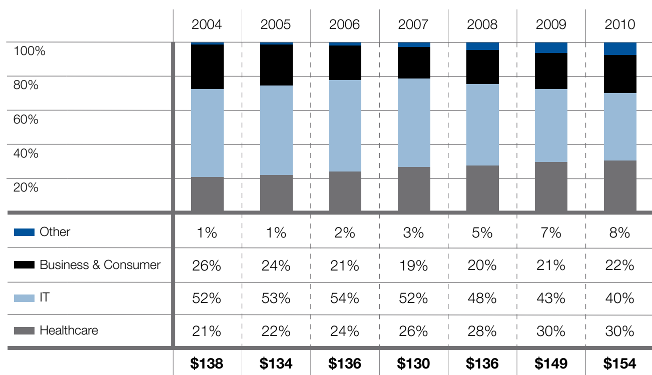
	2008	2009	2010
Other	5%	7%	8%
Business & Consumer	63%	63%	63%
IT	23%	22%	20%
Healthcare	10%	9%	9%
	133	**194**	**236**

Private and independent VC-backed companies that received at least one round of financing in the prior six years.

Source:
Dow Jones VentureSource

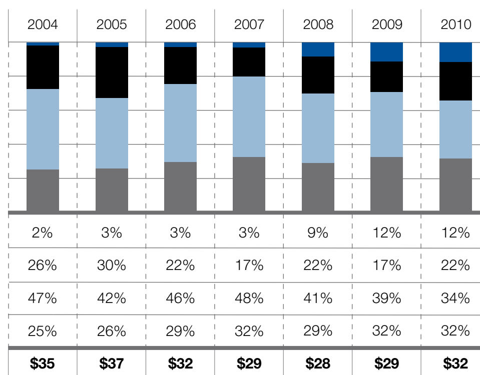
PANEL B: CAPITAL INVESTED TO DATE IN CURRENT PRIVATE VC BACKED COMPANIES

UNITED STATES



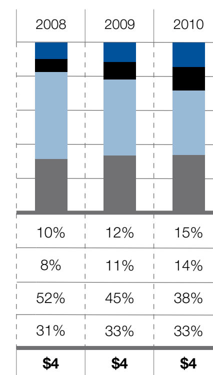
	2004	2005	2006	2007	2008	2009	2010
Other	1%	1%	2%	3%	5%	7%	8%
Business & Consumer	26%	24%	21%	19%	20%	21%	22%
IT	52%	53%	54%	52%	48%	43%	40%
Healthcare	21%	22%	24%	26%	28%	30%	30%
	$138	**$134**	**$136**	**$130**	**$136**	**$149**	**$154**

EUROPE



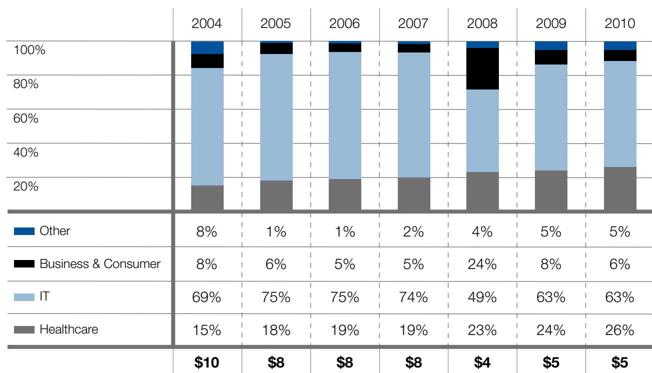
	2004	2005	2006	2007	2008	2009	2010
Other	2%	3%	3%	3%	9%	12%	12%
Business & Consumer	26%	30%	22%	17%	22%	17%	22%
IT	47%	42%	46%	48%	41%	39%	34%
Healthcare	25%	26%	29%	32%	29%	32%	32%
	$35	**$37**	**$32**	**$29**	**$28**	**$29**	**$32**

CANADA



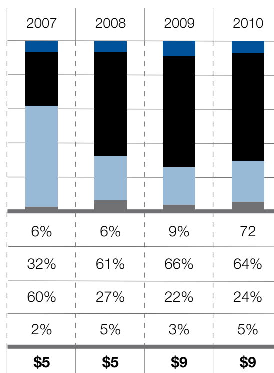
	2008	2009	2010
Other	10%	12%	15%
Business & Consumer	8%	11%	14%
IT	52%	45%	38%
Healthcare	31%	33%	33%
	$4	**$4**	**$4**

ISRAEL



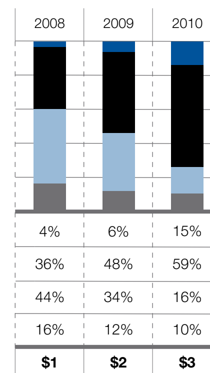
	2004	2005	2006	2007	2008	2009	2010
Other	8%	1%	1%	2%	4%	5%	5%
Business & Consumer	8%	6%	5%	5%	24%	8%	6%
IT	69%	75%	75%	74%	49%	63%	63%
Healthcare	15%	18%	19%	19%	23%	24%	26%
	$10	**$8**	**$8**	**$8**	**$4**	**$5**	**$5**

CHINA



	2007	2008	2009	2010
Other	6%	6%	9%	72
Business & Consumer	32%	61%	66%	64%
IT	60%	27%	22%	24%
Healthcare	2%	5%	3%	5%
	$5	**$5**	**$9**	**$9**

INDIA



	2008	2009	2010
Other	4%	6%	15%
Business & Consumer	36%	48%	59%
IT	44%	34%	16%
Healthcare	16%	12%	10%
	$1	**$2**	**$3**

All figures (US$ B)

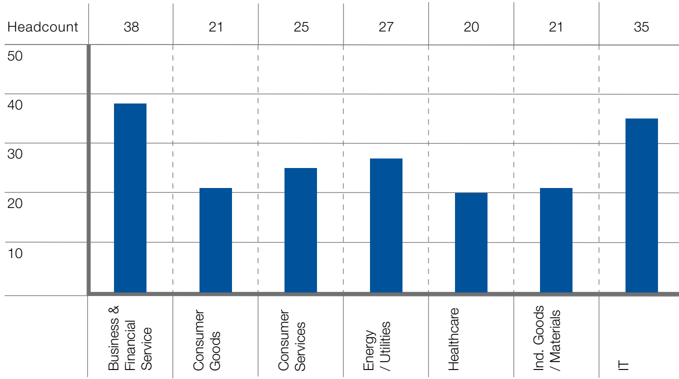
Private and independent VC-backed companies that received at least one round of financing in the prior six years.

Source:
Dow Jones VentureSource

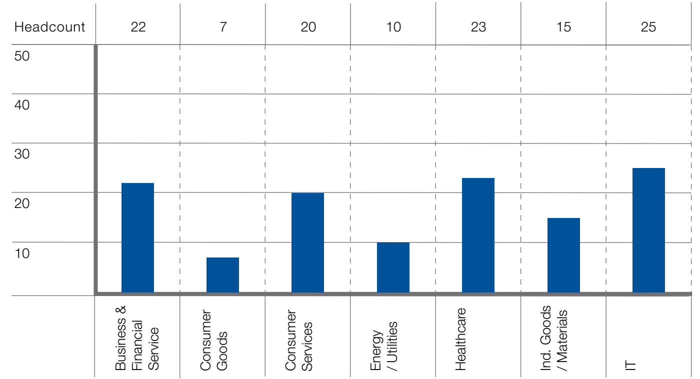
EXHIBIT 6-4: MEDIAN HEADCOUNT OF VENTURE CAPITAL-BACKED COMPANIES

PANEL A: BY INDUSTRY

UNITED STATES

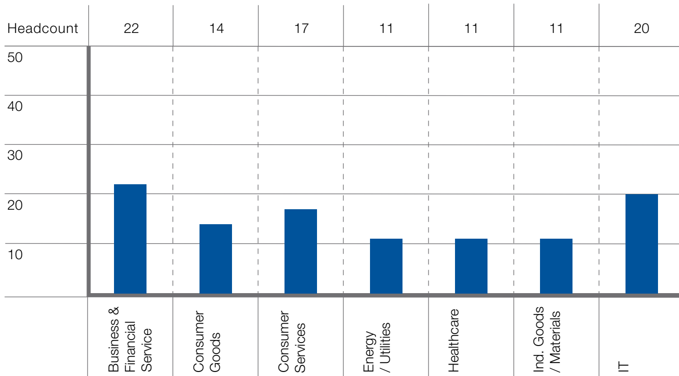


ISRAEL



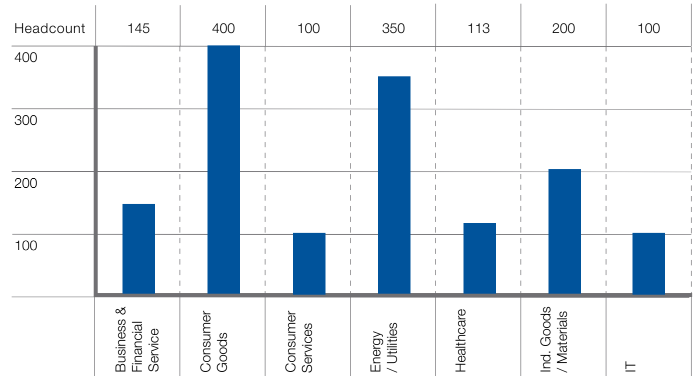
Note: Israeli site

EUROPE



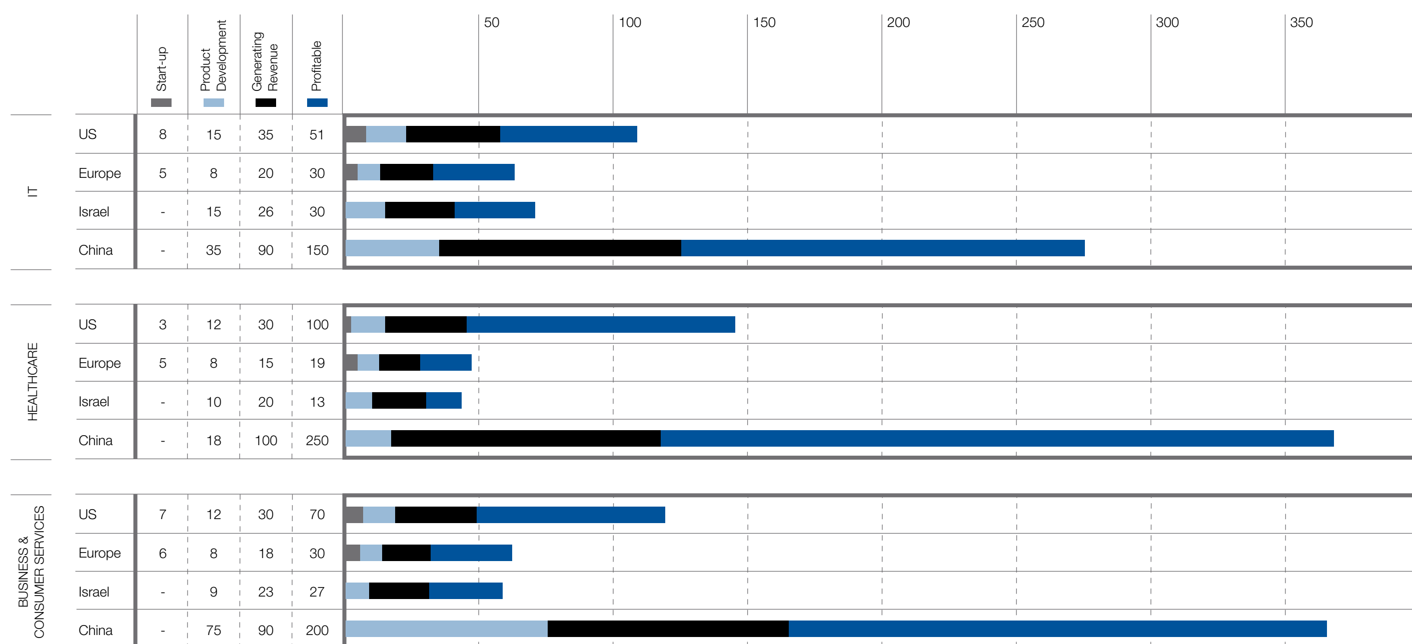
Source: Dow Jones VentureSource

CHINA



Note: Mainland China

PANEL B: BY STAGE OF DEVELOPMENT



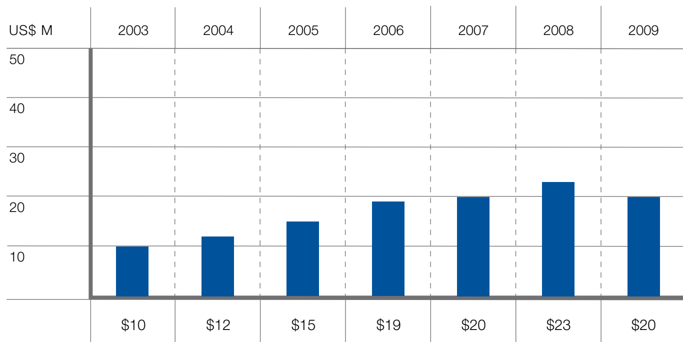
		Start-up	Product Development	Generating Revenue	Profitable
IT	US	8	15	35	51
	Europe	5	8	20	30
	Israel	-	15	26	30
	China	-	35	90	150
HEALTHCARE	US	3	12	30	100
	Europe	5	8	15	19
	Israel	-	10	20	13
	China	-	18	100	250
BUSINESS & CONSUMER SERVICES	US	7	12	30	70
	Europe	6	8	18	30
	Israel	-	9	23	27
	China	-	75	90	200

Note: Mainland China Source: Dow Jones VentureSource

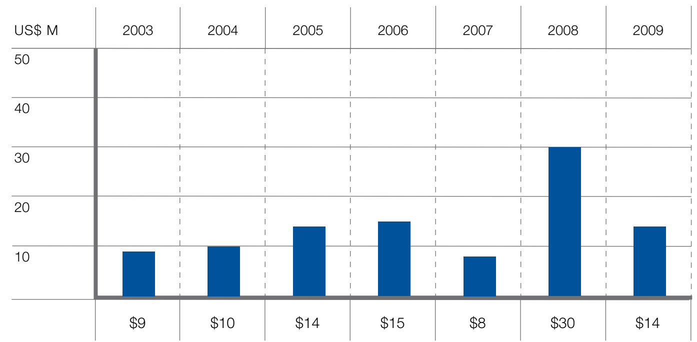
EXHIBIT 6-5: MEDIAN ANNUAL PRE-MONEY VALUATIONS FOR VENTURE CAPITAL-BACKED COMPANIES

PANEL A: BY GEOGRAPHY

UNITED STATES

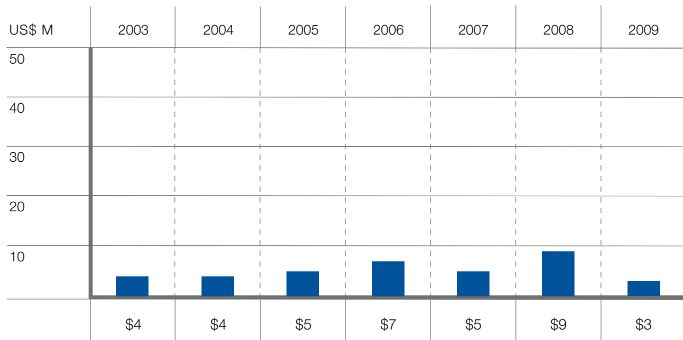


ISRAEL



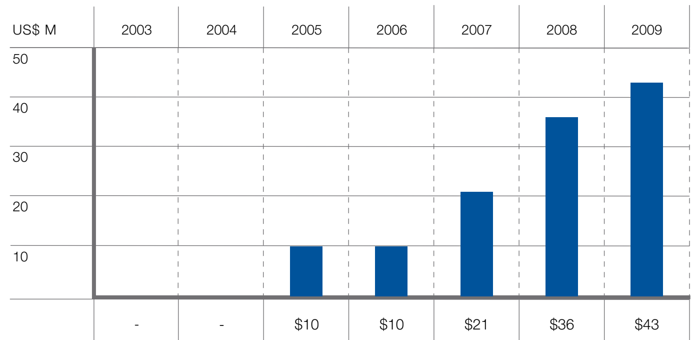
Note: Israeli site

EUROPE



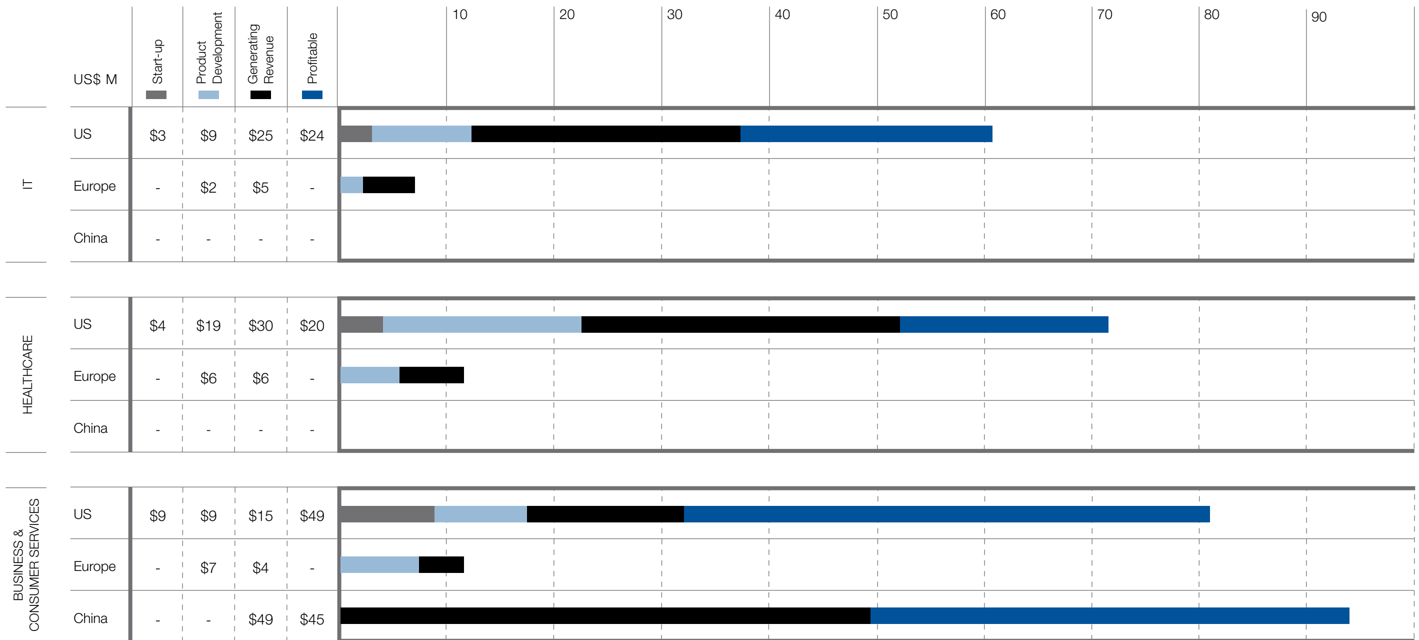
Source: Dow Jones VentureSource

CHINA



Note: Mainland China

PANEL B: BY STAGE OF DEVELOPMENT



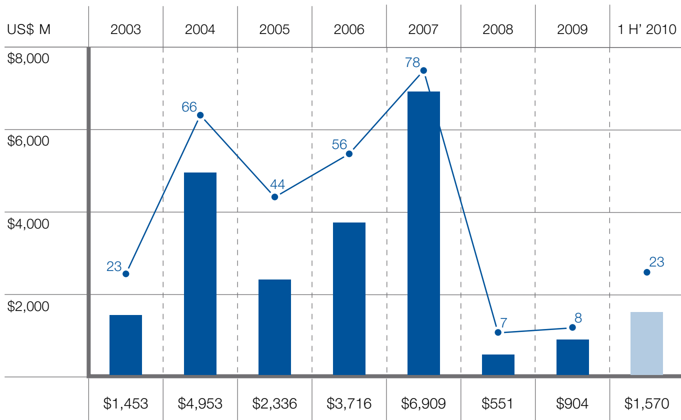
Note: Insufficient sample to include Israel medians

Source: Dow Jones VentureSource

EXHIBIT 6-6: INITIAL PUBLIC OFFERING (IPO) AND MERGERS & ACQUISITIONS (M&A) EXITS FOR VENTURE CAPITAL-BACKED COMPANIES

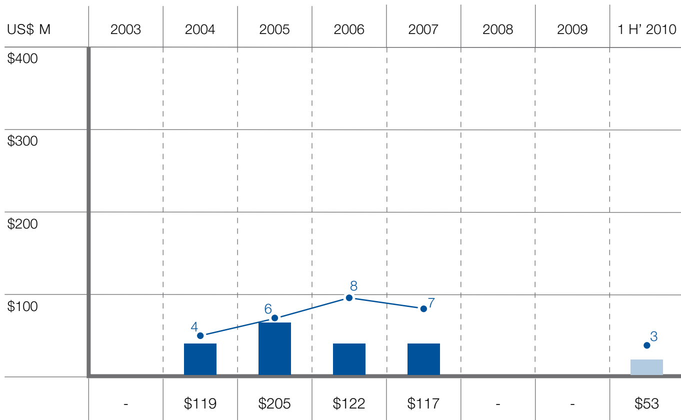
PANEL A: VENTURE CAPITAL-BACKED IPOs

UNITED STATES

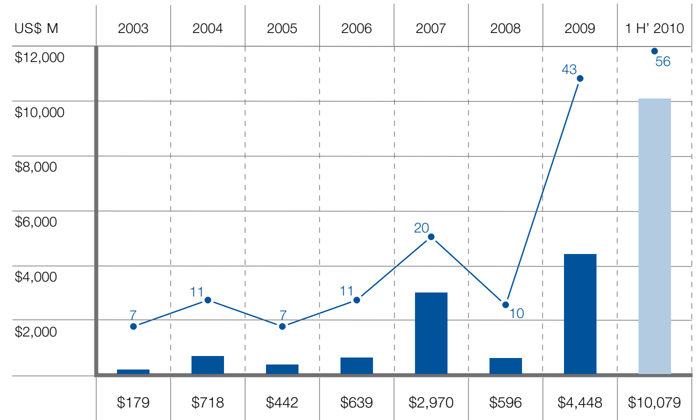


EUROPE

ISRAEL



CHINA

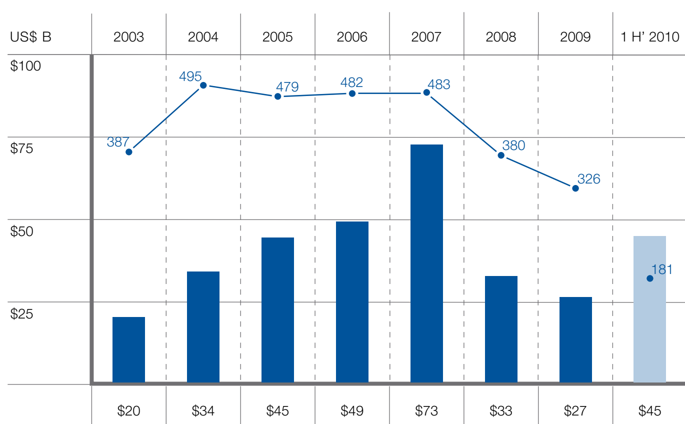


Amount raised — Number of transactions — Source: Dow Jones VentureSource

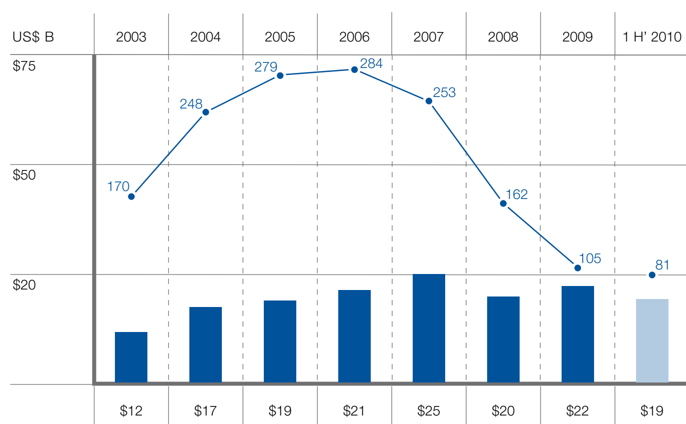
EXHIBIT 6-6: INITIAL PUBLIC OFFERING (IPO) AND MERGERS & ACQUISITIONS (M&A) EXITS FOR VENTURE CAPITAL-BACKED COMPANIES

PANEL B: VENTURE CAPITAL-BACKED M&As

UNITED STATES

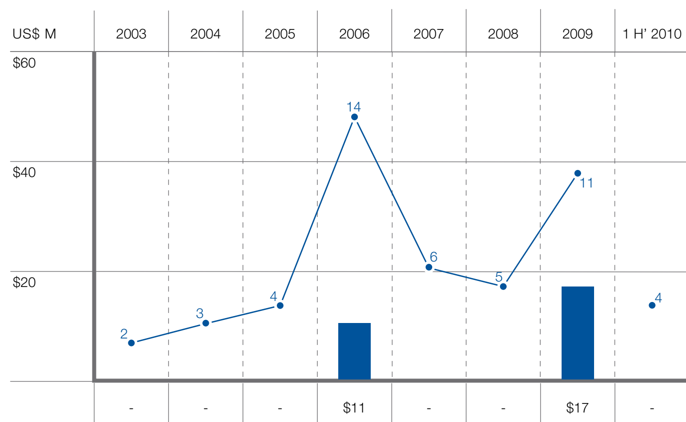


EUROPE



ISRAEL

CHINA



Median deal value (US$ B) Number of transactions Source: Dow Jones VentureSource

Air Arabia
Atlassian
Atrapalo.com
Baidu, Inc.
Betfair
Business Objects
Check Point Software
Technologies LTD
China Lodging Group
Ctrip.com International, Ltd
DocSolutions

eAccess & EMOBILE
eBay
EnOcean GmbH
eSilicon
Etihad Airways
Financial Technologies India Ltd
Fortescue Metals Group
Globant
Grid Dynamics
Icebreaker
Jazz Pharmaceuticals

Karuturi Global Ltd
Kaspersky Lab
Keynote Systems, Inc.
Macromill, Inc.
Medallia, Inc.
MercadoLibre, Inc.
Microsoft Corporation
MindTree
Net-a-porter.com
Pharmacy 1
Refinancia

ResMed
Scribd Group
Skype S.A.
Suntech Power Holdings
Tiny Prints
Web Reservations International
WPP
Yola

Section 7

Executive Cases: Interviews with Senior Executives of Early-Stage Companies

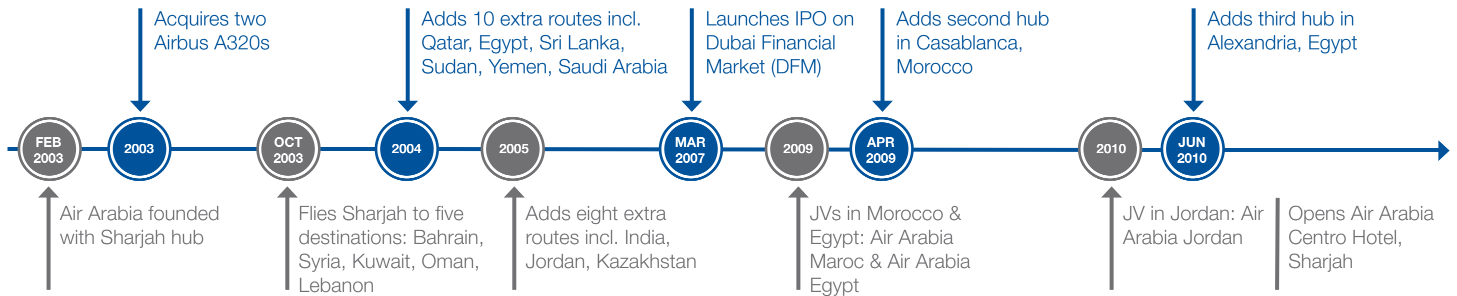
Air Arabia | Sharjah, UAE

OVERVIEW:

Air Arabia is in the low-cost carrier (LCC) segment of the regional and global airline carrier industry. It was founded in February 2003 by the Sharjah Government, which is ruled by His Highness Dr Sheikh Sultan Bin Mohammad Al Qasimi. Air Arabia is headquartered at the Sharjah International Airport – its first and still its major hub – in Sharjah, one of the seven emirates in the United Arab Emirates. It was the first and remains the largest LCC in the Middle East. The stated company vision is "to be one of the world's leading budget airlines in terms of profit margin, innovation, reputation and operational excellence." It achieved break-even in its first year. Air Arabia has achieved consistent annual growth while being profitable each year beginning in 2004. This is a remarkable feat in an industry where the landscape is littered with bankruptcies and financially-challenged carriers. Air Arabia's business strategy from the outset was to be a premier, low-cost, safe and reliable airline carrier for commercial and tourist travellers. In 2007, it changed its status to a stock company listed on the Dubai Financial Market (DFM). It was the first publicly-owned airline in the Arab world and its IPO was the biggest in the UAE at the time.

AIR ARABIA

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Adel Abdullah Ali is the founding chief executive officer of Air Arabia and a driving force in its continued growth. He has over 28 years' experience in the aviation industry. Immediately prior to Air Arabia, he served as vice-president (commercial and customer service) for Gulf Air, where he played a key role in the airline's recovery. Prior to that, he worked at multiple senior positions with British Airways – including general manager (Middle East and Africa). Ali received the 'World's Low Cost Airline CEO of the Year Award' in 2007, 2008 and 2009. He has been ranked among the 28th most influential Arabs by Arabian Business magazine.

Arif Masood Naqvi is the founder, chief executive officer and vice-chairman of Abraaj Capital Holdings. Abraaj is the largest private equity group in the Middle East and an investor in Air Arabia. Naqvi was designated a New Asian Leader by the World Economic Forum from 2002 to 2003. He previously worked with Arthur Andersen, American Express, Olayan Group and The Cupola Group, which he founded in 1994.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Ali: "I have been in the aviation industry for some time and worked with major airlines that had its footprints in the progress of the world's aviation. For a very long time, I believed the industry was too expensive and legacy carriers do introduce products and procedures that didn't add real value to the business but had an inflating cost attached to it. At the same time, air fares in the Middle East region were overpriced and, as a result, the middle- and lower-income segment couldn't afford this method of transportation. Looking for alternatives and having monitored the progress of the LCC concept in North America and Europe, it was ideal to introduce the same clever concept of low-cost travel, but customized to the region's preferences. I offered my previous employer the opportunity to introduce an LCC model to the Middle East and North Africa (MENA) region, but my employer declined. Therefore, I pursued it myself and based my business plan on introducing a dynamic low-cost airline into the Middle East and North Africa region. Even though most of the industry peers objected to the idea and predicted failure, claiming that the region is not meant for low-cost travel, after completing my business plan I was convinced more than ever that this region is no different than the US or Europe – people would travel more simply if we allow them to do so. In fact, in the absence of any other method of transportation between Arab states, LCCs would allow people to travel and bring the whole region closer – especially when you take into consideration the demographic aspect of this region, where a big expatriate population resides.

"Air Arabia took off in October 2003 with very modest capital and two leased aircraft. The appeal for low-cost travel has been very welcoming and, as expected, people shifted from busses and land transportation to Air Arabia. We had very busy flights for a new airline and the fact that we financially managed to break even after our first year of operations is an indication of how badly this product was needed in this area. It's changing the philosophy of air travel in the MENA region that Air Arabia was capable of bringing to this part of the world."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Ali: "Air Arabia's vision since its inception has always been about people – offering people the chance to travel more often to more places. The fact that the company was named 'Air Arabia' illustrates our very early vision of serving the whole range of the Arab world and not only one city or country. The focus has always been and remains on running profitable, innovative and excellent operations to offer our customers the best rates in the market along with superb, value-added services. At the same time, our main asset remains our people. We have established young, motivated and multi-functional teams that are passionate about the brand and what Air Arabia is all about. The aspiration was for the airline to grow to about eight aircraft in five years, based on the constraints that were imposed on air transportation and civil aviation in the Arab world. As Air Arabia became more successful, the philosophy of those airports changed and enabled us to grow to reach 25 aircraft in seven years. Air Arabia has grown fast to become a distinguished airline among its global peers. The company received many awards and recognitions along the way that developed its brand equity and reputation. In 2009, Air Arabia was declared the world's best LCC by a highly-reputed publication."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Ali: "The strategy will always remain the same: to be the preferred airline serving all airports in the Arab world and providing value for air travel stretching from the Atlantic Ocean all the way to the Indian Ocean. We have built a very competitive cost culture and managed to continuously run one of the lowest operational costs among all global airlines. Our ruthless cost culture is reflected in the small and big decisions we make on a daily basis. At the same time, we have been able to maximize our operational efficiency and maintain the highest levels of operational reliability. Air Arabia has been awarded the world's best utilizer of an Airbus A320 aircraft for the past five years by Airbus.

"After successfully introducing the low-cost business model to the region, we have seen the great potential that exists. Air Arabia was transformed into a publicly-owned joint stock company in March 2007, floating over 55% of the company's capital in the stock market. This step took Air Arabia to higher levels. Not only did we become the Arab world's first listed airline, but we also raised the required funds to progress with our expansion strategy. In 2007, we signed a confirmed order with Airbus to acquire 44 Airbus A320 aircraft and broke ground on constructing a 300-room budget hotel at Sharjah Airport. In addition to our main base at Sharjah International Airport, UAE, we started operations from our second hub in Casablanca, Morocco, in mid-2009, which allowed us to extensively serve Europe. By June 2010, we started operations from Air Arabia's third hub in Alexandria, Egypt, and our operations grew to reach over 65 routes from three strategically located hubs. We are currently in the process of establishing our fourth hub in Amman, Jordan. Over the past seven years, Air Arabia has managed to sustain solid growth rates in terms of passenger numbers and profits and as a result, the airline is considered among the world's fastest growing airlines."

What were the major growth accelerators for your company in its high-growth years?

Ali: "It took a lot of hard work and dedication to build a brand that is rated among the top 40 most admired brands in the Arab world. Key accelerators for this growth can be summarized as:

1. Clear commitment to our customers to make air travel much more affordable by allowing people to pay less and fly more
2. Running safe, secure and reliable operations
3. Clear and flexible business strategy with the right people and empowered teams in place to achieve it
4. Financial well-being and cost-conscious culture on all levels
5. Best use of technology to utilize assets, increase productivity and control cost
6. First mover advantage and dynamics of the emerging Middle East market"

Naqvi: "Although MENA is one of the fastest growing passenger traffic markets in the world, LCCs account for a marginal 4% of it versus about 30% in the US and Europe. Air Arabia has consistently followed an aggressive growth strategy, including acquisition of new aircraft as well as geographical expansion. A great strength of Air Arabia is that it has proactively sought and identified new hubs in the region and established these new bases as partnerships, which create immense growth opportunities for the airline. Despite the current global conditions, Air Arabia remains well positioned in an under-penetrated market, and we expect it to continue growing its market share."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Ali: "Air Arabia managed to break even from first year of operations and continuously recorded profits year after year. The company that started with a modest capital of US$ 15 million seven years ago is worth over US$ 1.2 billion today and is the Arab world's biggest airline by market value. This all hasn't been achieved without a clear business and financial strategy. The successful IPO that took place in 2007 has boosted the company's growth by allowing us to expand our fleet size and establish new hubs and joint ventures. At the same time, we have always been careful with the financing direction we take and every venture we pursue takes into its life the return on investment to our shareholders. Air Arabia has been distributing dividends to its shareholders since we went public. Being a profitable airline is a core objective and part of our mission statement, but also sharing the success and profits with our shareholders has been part of Air Arabia's journey."

Naqvi: "We believe that the region offers substantial growth opportunities for Air Arabia given it has the ability to fund growth from internal cash flow and needs limited further external funding. The company has a strong net cash position of US$ 495 million as of 30 June 2010. When it comes to managing costs, Air Arabia is the leader in its class. It managed to consistently achieve the highest level of aircraft utilization in the A320 family, with a flying time per aircraft of over 14 hours per day and more than 99% on-time performance."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

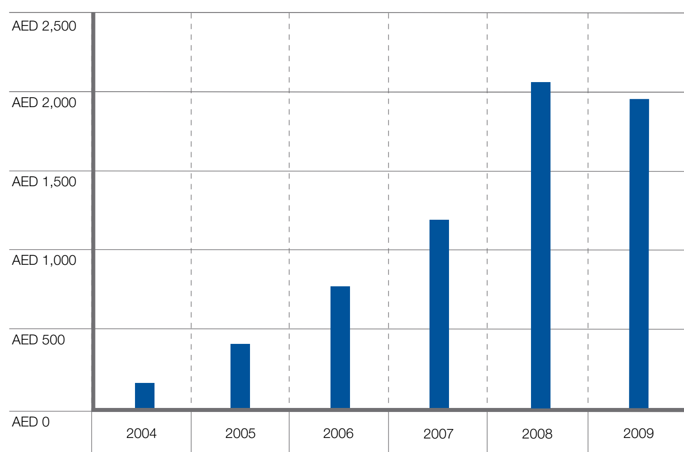
Ali: "Being in the aviation business, you have to accept the fact that challenges are part of daily life. It is important to have the business flexibility to overcome them.

1. In a region where luxury is emphasized, LCCs were originally met with some scepticism when Air Arabia introduced the concept to the region, but have since proved their legitimacy. This was the main challenge we had to deal with – changing the way air travel was perceived in this part of the world.
2. Open skies have been and will always remain a challenge in the Arab World, holding airlines from further growth. Even though the sky liberalization agreement between Arab states was originally signed in 2004, implementing it in real life is still considered a challenge.
3. Protection of national carriers, which many Arab countries still apply today.
4. The geo-political characteristics of the Middle East impose a continuous challenge to all operating airlines. From political instability to natural phenomena, economy implications and oil prices – airlines do tend to pay a higher bill and this is always reflected in the company's bottom line.
5. Recruiting the right talent is always a challenge for airlines. In such a complex business, human talent is considered the company's biggest asset, and with the fast-driven economy we are living in, investing in the right talent and keeping them is considered a challenge."

Naqvi: "The aviation industry is undeniably sensitive to economic recession. However, in such an environment, LCCs benefit from travellers switching away from more expensive, full-service airlines in order to reduce costs. The industry is starting to see increased competition from new LCC start-ups and aggressive expansion of existing carriers. Flydubai, for example, is a new low-cost airline based out of Dubai, Sharjah's neighbouring city. Nonetheless, there is ample growth opportunity for more LCCs in the region and Air Arabia is well-established to grab its share of that growth."

Give examples of dark moments or negative periods" that your company or you faced as part of your journey as an executive with this company.

Ali: "I don't recall 'dark moments' per se. There have been periods where we had to face serious challenges, but I believe every cloud has a silver lining. During the recent economy downturn, over 30 airlines across the globe filed for bankruptcy in less than a year as the result of soaring oil prices that reached US$ 148 per barrel and lowering demand on air travel. The pressure of change was too fast and too heavy to cope with. Air Arabia had to weather the same storm and make tough decisions to overcome this period of unprecedented instability. Even though we run an efficient and low-cost business operation, a major review of cost structure areas, fuel hedging strategies and competitive margins had to take place to face the pressure on yield margins. At the



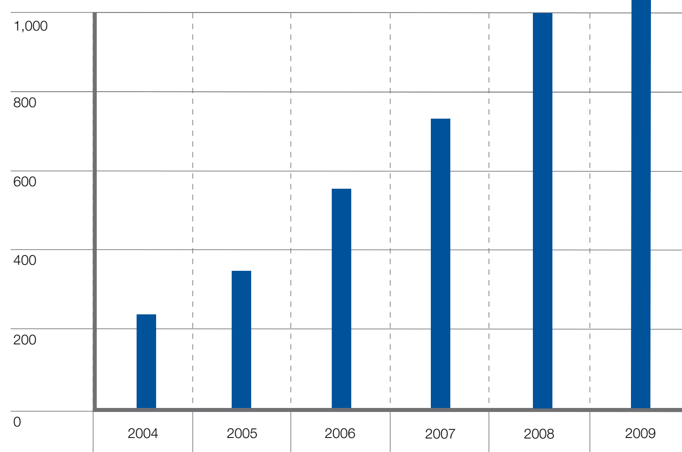
end, we managed to surpass this challenge without having to go into any redundancy or hold any expansion plans we had set earlier."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Ali:

1. "Being an entrepreneur has a lot to do with being a people person. Creating a fun culture, motivating working environment, and empowered teams is very important in building a successful business.
2. No matter how successful or big your company grows, you should keep your feet on the ground. Complacency should have no place. Nothing beats having a nice chat with on-board passengers or crew.
3. Cost consciousness is very important in running an efficient business. Especially in our industry, where every penny really counts.
4. The ability to take risks and not give up with the first battle you lose.
5. Be ready for the worst when times are good so you don't have to react in bad times."

Naqvi: "Adel pioneered the low-cost model in the region at a time when scepticism was high. His vision at a strategic level combined with his motivational capabilities and his obsessive attention to costs and efficiency have helped him build a successful, world-class operation and have made him one of the most highly-respected executives in the aviation industry. He was named 'Airline CEO of the Year' by Aviation Business magazine in 2009, and received several similar awards in 2007 and 2008. Adel has built, retained and grown a world-class team with highly experienced management. The fact that many of the key



members of the start-up management team are still in place today is testimony to his leadership." ■

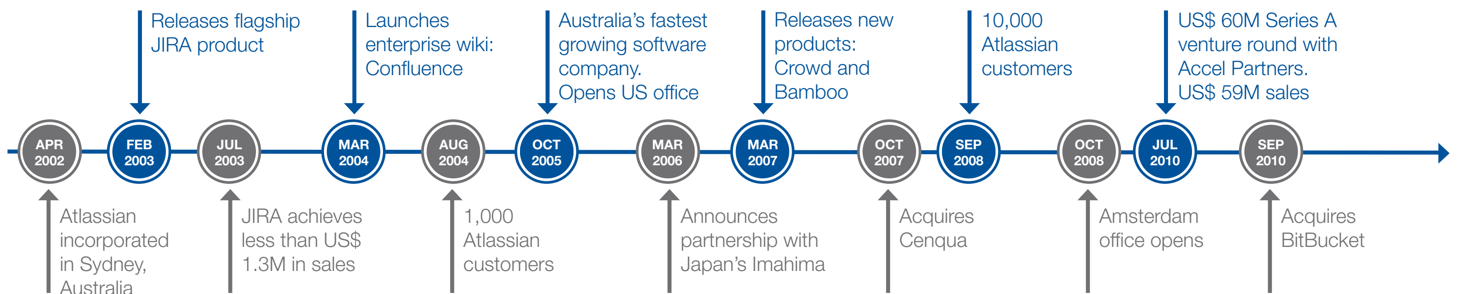
Prepared by George Foster, Max von Bismarck, Xiaobin He, Kerry Wellman, and Abraaj Capital, 22 November 2010

OVERVIEW:

Atlassian is a software company that makes software collaboration and development tools to help teams deliver products faster and cleaner. The company's flagship product, JIRA, is used for issue tracking and project management by more than 11,000 organizations in 107 countries. Customers of JIRA and follow-on hit products span the Fortune 1000, public enterprise, academic, science and technology sectors. Co-founders Scott Farquhar and Mike Cannon-Brookes were each 22-years-old when they started the company in 2002 with US$ 10,000 on a credit card. The company was profitable from the outset, with sales tripling in its first few years to US$ 15 million. With growth rates above 30% in 2010, Atlassian is on track to break the US$ 100 million sales barrier in 2010-2011. In July 2010, the co-founders received a US$ 60 million minority equity investment from a US venture firm, Accel Partners, on sales of US$ 59 million.

ATLASSIAN

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Mike Cannon-Brookes is co-founder and co-CEO of Atlassian. He was born in the United States, the son of a Citibank executive, and raised in the United Kingdom, Hong Kong, Taiwan and Australia. Cannon-Brookes dropped out of an information technology scholarship at Sydney's University of New South Wales (UNSW) in 2000 to start his own company, which he sold. Prior to co-founding Atlassian, he joined an Internet start-up called Internet.com based in Sydney.

Scott Farquhar is co-founder and co-CEO of Atlassian. He was born and raised in Sydney, Australia. Farquhar graduated from Sydney's University of New South Wales (UNSW) in 2001 with a degree in business information technology.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Cannon-Brookes: "Scott and I were at university together on a business information technology scholarship. I dropped out to work for a start-up called the Bookmark Box, which another friend and I had started. We sold that after about nine months. It wasn't a huge exit, but going back to university didn't feel right, so I went to work for another company called Internet.com (now Jupiter Media). After the dot-com crash, I wanted to do something else and targeted Scott who had finished university. We knew we didn't want to join a big company. We gave ourselves the time and space – one year – to explore a whole series of different ideas and play with different things and try to find a model that worked. Freedom mixed with desperation is a funny thing. We were very motivated to find something that worked and we wanted to create something where we would want to work."

Farquhar: "We were doing third-party support for a Swedish software services company, Orion Software Services. We did that for six months but it was a terrible business to be in because you can't fix bugs because you can't get access to the source code and it was hard to find customers. So we ended up doing our own product, which was an issue tracking system called JIRA, because we knew there was nothing out there to track issues when you do software support, especially for Open Source software, which is free but hard to use. We identified this big gap in the market because software was both free and difficult or really, really expensive and complex. Once we decided to build our own software, we knew we wanted to build a lasting company that was the best at what it did."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Farquhar: "Our original vision when we left university was to earn the same amount of money that our mates were making, but have more fun doing it. So that was earning US$ 48,500, which is what graduates our year made in bigger organizations. Once we decided to build our own software and we were focused on JIRA, we always wanted to be a big software company. We never said we wanted to do one product, and so actually we wanted to build a long-term software company, something enduring."

Cannon-Brookes: "JIRA had that kernel of value that customers responded to and we could create a conversation with customers around 'can you make it do this; can you add this?' It felt like we were on to a problem that people were having. We had a very modern, Web-enabled approach from the start, which was different than competitors. It resonated. So we ditched everything else we were doing and focused solely on JIRA. That was one of the pivot points for us as a company. We were smart enough to ditch everything else until JIRA had the right combination of features to have a life of its own."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Farquhar: "People ask why we were successful. For me it was three things:

1. Clearly defined need: We produced a simple-to-use product, when there was nothing simple to use. We weren't venture-backed, so we couldn't spend two years developing the software. We had to sell something quickly.
2. Defined a niche market: We dominated a niche market and were very strong in the Java community and still are, so we hired Java developers even though we hire a broad range of software developers for our products now.
3. Disruptive pricing: If you want to sell something quickly, as we did, you can't sell this stuff for hundreds of thousands of dollars. We'd sell for under US$ 10,000. But we had a renew model, which was 50% of the original purchase price. Other software companies renew at 15-20%. But if you sell something for a low price, you have to sell a lot of it. And we needed to be global, so it needs to be on a website, easy to download, easy to install. But we also made sure the annuity stream is a higher percentage."

Cannon-Brookes: "We certainly latched on at the right point in time where we could sell enterprise software purely over the Web without a sales team. We had a very low friction, high transaction business model. We had the right mix of market size and low price to be able to build a profitable business with that model. It is much more common now to do that. But back when we started, enterprise software had many, many zeros on the end and you needed sales people in many countries to sell it. We also spend more on R&D as a percentage than other software companies because we live and die by products that work and speak for themselves."

What were the major growth accelerators for your company in its high-growth years?

Cannon-Brookes: "Starting our second product (Confluence) when we did was an envelope-stretching gamble that paid off in the end. It was quite risky. We had a successful first product and a very small team of six or eight developers at the time. The idea to start a second product was not immediately received well internally. But it forced us to think much more about the business we wanted to be, rather than just 'those guys that make JIRA'. That was the turning point that stopped us from being a one-trick pony, which probably would have seen us sold to another company, rather than being a viable company with a portfolio of products. We had to think much more about the process of innovation and the process of creating new products. It made it a much more complicated business, but it is one of the reasons we are able to stand alone and have unique brand."

Farquhar: "Our growth was a pretty straight line actually. There were probably a few inflection points that look pretty small now. The way we used online advertising was important to us. We were very, very early adopting Google AdWords back when Google AdWords were five cents per click. So, you spend five cents to easily acquire a customer which totalled US$ 10,000. We quickly gained traction and we didn't spend a lot on it. If we were smart, we would have spent much more. So that was an accelerator for us – being early in that market was a very cheap form of marketing, in the way that Facebook ads are probably more fairly priced these days."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Cannon-Brookes: "Bootstrapping 2002-2010. We were bootstrapped from 2002 to 2010, starting with around US$ 10,000 on a credit card. Sometimes, being able to raise venture money too early is a dangerous thing. In my experience with Internet.com in 1999-2000, I saw a lot of good venture money go into really spurious investments that quickly evaporated. I was jaded about the value of venture money at that time. Also, we were lucky enough not to have a snowball's chance in hell of attracting venture money. We were two 21- to 22-year-olds who would have pitched to VCs and said, 'Look, we think we can figure this out along the way'. But cash was not our problem. We were profitable and kept doubling down on the company. We certainly evaluated venture funding along the way. It just didn't make sense for us to take in venture money until recently."

Farquhar: "Venture capital investment July 2010. For us, the reason for taking capital was we wanted to be a long-lasting company. We don't want something that we're going to flip and sell. To do that you need to eventually diversify your capital base. We also wanted to reward our employees. No employees had any option or stock until now. So, over eight years, everyone had been paid in cash, because we had always said we wanted to remain private. And we do want to do an IPO, so we really want Accel for the advisers and the connections – and to help us hire great people."

What were the major challenges your company had to handle in its high-growth years and how were they managed?

Farquhar: "Managing growth – Specifically the management team. We've evolved the management team a full cycle. We're in version two of every person in the key roles. When you have a US$ 2 million business, and two years later you're a US$ 15 million business, the challenges are very, very different. So, we replaced our HR person, our head of engineering, our head of support, our head of product management – we replaced the entire management team. That's challenging."

"Lack of mentorship – There was no mentor, probably arrogantly. In the early days, everybody giving advice focused on the pricing model, and the business model. We said, 'No, that's never going to work'. You make US$ 100,000 you'll never make US$ 1 million. So you begin to just ignore them. So there were people with experience in growing a company. But I guess we were so burned by people saying we couldn't do it, or that we had to do it the traditional way."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Cannon-Brookes: "Generally, one of the things we are bad at is not celebrating along the way. It's a bit like boiling a frog slowly. It's not like the movies where there is this one big finish line. There are many, many small victories along the way and one long grind to improvement. You really have to learn not to get stressed out about a lot of things. It's one of the reasons I think having a co-founder is important. You can balance each other when you get too dark or too overconfident. Nothing is ever as good as it seems or as bad as it seems."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

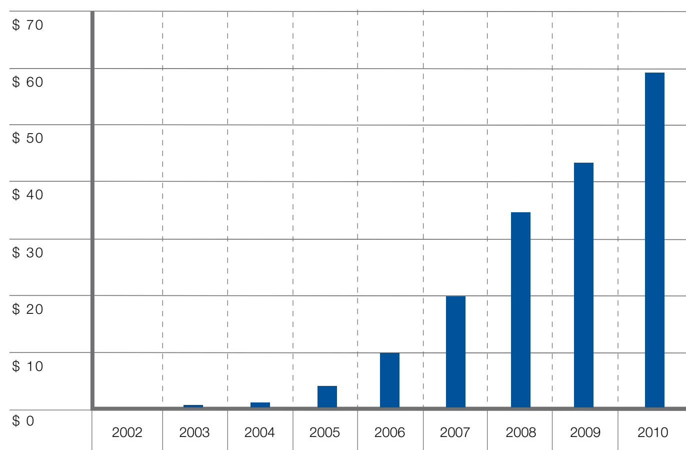
Farquhar: "Just go for it. The biggest thing preventing people from starting their own thing is 'I need to get some more money behind me, or I need to flesh out my idea more'. No, no, no. Just go and do it, because when I was at university, the biggest downside risk for me was I'd have to go back and live with my parents for a few months. The downside risk is so much lower when you're young.

"Start with a co-founder: If you can't convince anyone else in the world that you respect enough to be a co-founder that your idea is a good idea, it's probably not." ■

Prepared by George Foster and Sandy Plunkett, 15 November 2010

ATLASSIAN

REVENUE
MILLIONS (US$ M)



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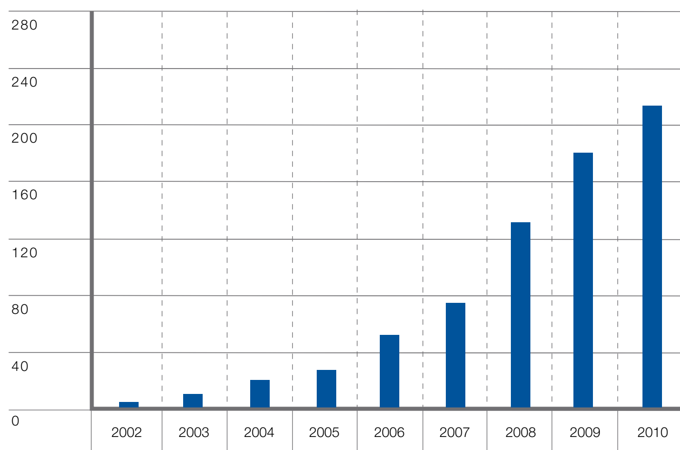
HEADCOUNT



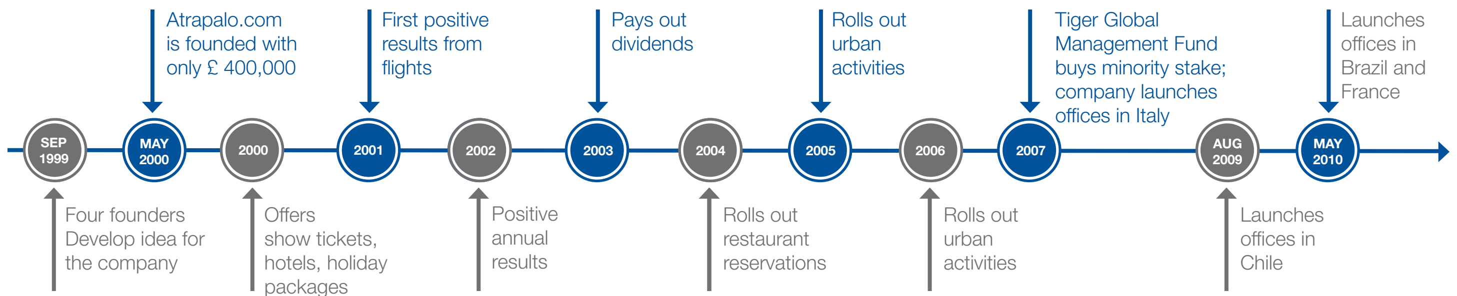
Atrapalo.com | Spain

OVERVIEW:

Atrapalo.com is an Internet distribution platform for tickets and reservations associated with entertainment, such as theatre and concert tickets, restaurants and online travel agency services. The company was founded in 2000 and has become the undisputed leader of urban entertainment in Spain. By 2009, revenues were more than € 170 million, and the company had expanded operations into Italy, France, Chile and Brazil. The company is privately held.

ATRAPALO.COM

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Manuel Roca is a co-founder of Atrapalo.com and has been its chief executive officer since the company's inception. He is a graduate of the Economics and Advanced Management Program, IESE, and his favourite pastime is mountain climbing, where he gets his best ideas. The other three founders are Ignacio Giral, Marek Fodor and Ignacio Sala.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Roca: "The idea was to fill empty spaces, such as seats and beds, using the Internet as an efficient and cheap tool to distribute these products. The characteristic that is common to all the products we work with is that they expire on the day the service is provided, so whatever you haven't sold one day you won't sell the next day because it is not there anymore. A seat to a concert or on an airplane is either occupied or empty at the time of the show or the takeoff. If it is empty, it is lost and cannot be sold. With this concept in mind, we have created a platform where every hotel owner, airline, restaurant owner, show promoter, etc., is able to give us, at a really interesting discount, the open capacity that is about to expire. Nowadays, we work with seven main products that can be grouped into two larger groups: (1) travel-related products such as flights, hotels, vacation packages and cars and (2) urban-related products such as tickets, restaurants and urban activities.

"Our large growth comes both from being in a growing market and from our unique positioning in terms of having good deals from our suppliers for our clients. In addition, we have been very focused on creating a strong brand, in contrast to other competitors that have focused their efforts on advertising in search engines.

"We started the company with the idea of building a large company to offer to our users a unique Internet solution that covers all the activities that someone can do in his/her free time. We see ourselves as a free time organizing tool, and our aspiration is to replicate our model in different countries, scaling our platform internationally."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Roca: "Our aspiration has been always the same: offering the best possible deal for the user. If we achieve this objective, we satisfy both parties – user gets a better price, and the supplier sells capacity that otherwise would have been consumed with no revenue – making the Atrapalo experience a happy one."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Roca: "Our strategy is based on different aspects:

1. *Network effect*. We create a network effect in every product so that users think we have all the deals for that product, and suppliers think we have all the demand they need. It is very important for us to have a good supply of events and travel products as well as to have traffic to our website. If we manage to have these two sides work, then the network effect makes it very hard for our competitors to break into our market.
2. *Complementary products.* We build a portfolio of products that are linked through a common concept. Atrapalo.com is a site that offers the best deals for leisure time. We focus on options to fill your leisure time – this is the common thread in Atrapalo's products. The products we offer complement each other. Users often get the first experience of our service through our urban products, mainly because our website makes it easier for them to buy, the average price is lower and our repetition rate is high. Then those users are more likely to come back to Atrapalo when they want to buy a travel product, even if the frequency of these types of purchases is much lower. The urban products are an important and distinctive feature that allows us to move customers into the travel agency services.
3. *Win-win concept.* Our business model is simple and easy, based on offering a win-win proposition to both our suppliers and customers. The revenue model is also simple: if a user buys a product, we receive a commission from the sale."

What were the major growth accelerators for your company in its high-growth years?

Roca: "We have two growth accelerators: A constant effort to update our platform, with a high rate of change and evolution, to be ahead of what the market demands. The customer experience and the customer behaviour through our web are critical. How the information is presented, the efficiency of the search process, the simplicity of the purchasing process.

"The second accelerator is to work on content acquisition. We grow through the traffic on our web that depends on the quantity of deals that we have on our website as well as its quality, interpreted as not only the typical quality but also the discounts that we can offer to our users.

"These two growth accelerators have been supported by the constant focus on the brand. The strength of the brand is an important aspect that drives traffic to our website and also towards our suppliers. We built our brand through word of mouth, offering a unique win-win proposition to theatres and theatregoers, and then we extended our product line to include hotels and travel."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Roca: "The initial funding was certainly an important aspect because we started at the end of the Internet bubble and we did not find investors. Yet, we all left our jobs to show that we really believed in the idea. We put in our own savings, and we got additional funding from families and friends. The initial capital was less than 500,000 euros.

The company has been cash-flow positive since the first year, so cash flow has not been a worry since then."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Roca: "We faced two main challenges:

1. *Technology.* The first challenge was to keep up with developing the platform and scaling the systems to take advantage of the growth that we were experiencing. The issue that we faced was not as much from a customer perspective. The traffic that we were getting was much higher than what we had initially expected. Also, our proposition to the suppliers was an attractive one and we did not find it that challenging to convince them to use Atrapalo as an alternative distribution channel. Atrapalo offered them the option to sell capacity that otherwise would go unused. The major challenge in our early years was to keep up with execution. There were two aspects to it: The first one was technological and we had to scale up our systems fast enough to meet the demand that was coming to our website. We addressed this challenge by investing heavily in technology. Most of our investments during the first five years went into technology. We did not invest in marketing, instead relying on word of mouth, but we wanted users to have the best possible experience at our website.
2. *People.* The second challenge was to structure the company for growth and motivate middle management. As we grew beyond the first few dozens of people, it became clear that the only way to go forward was to create a well-defined organizational structure and to find a way to reinforce the motivation of people that were coming in. We addressed the latter one through coaching every selected manager to be sensitive about the meaning of leadership in order to

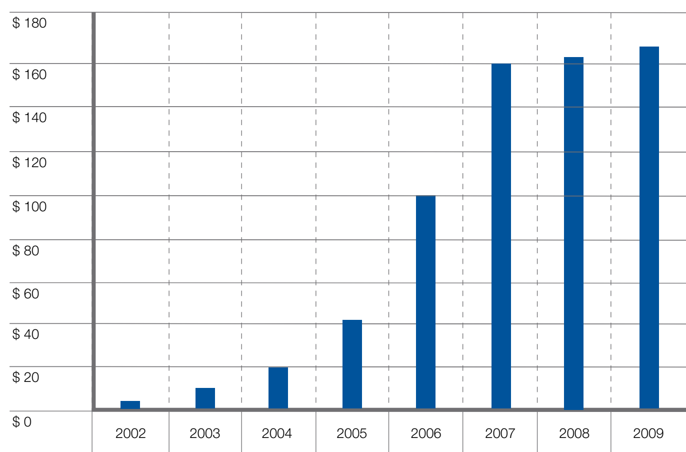
gain respectability from his/her collaborators. We also defined an organization centred on products. Every product is a business unit separated internally from others so we keep the management focused on their responsibility giving freedom to ask for the resources that they need."

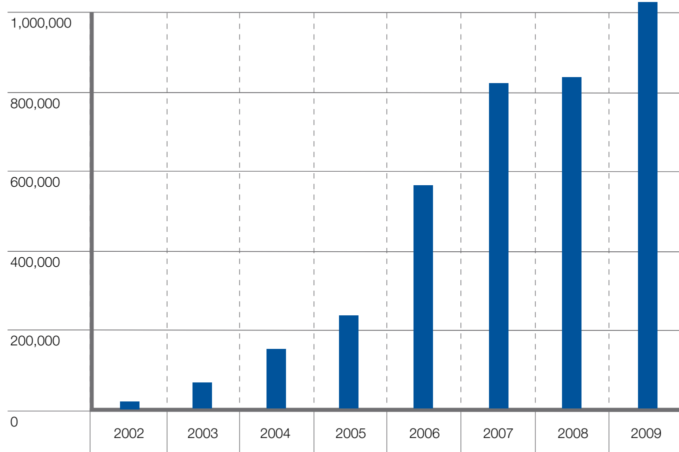
Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Roca: "The darkest moments I faced were during the first months of the company. There was a lot of uncertainty about whether customers would understand the service – what we offered and how to use it. Every time we added a new product this uncertainty was present. In a sense, we did not know if the business model would be simple enough for people to understand, appreciate and use. So the first few months were very challenging, with a lot of tension as well as excitement. But I would say that the reality check on the business model was a tough moment. After the business model was proved and the brand was growing stronger, the issues were more typical around execution and responding to competition.

"The second dark moment was creating middle management. Operations are crucial in this business, and management has to be on top of it at all times. When the company was small, all of us were on top of it. When we created the middle management layer, however, there was confusion among us, and it was unclear who was doing what, what should be delegated and how to supervise. Until the dust settled there was tension and uncertainty in the company.

"Finally, there are always periods of tension around potential acquisitions because the attention shifts to the acquisition, and we lose concentration on what is important for our users and customers."





What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Roca: "These are my lessons:

- The most important thing among the great ideas you may get is business execution and how you manage the company. Business execution and managing people. This is the most difficult part above all.
- Employees are the most important asset you have in your company, at least in a company like Atrapalo that depends basically on talent.
- Focus, focus, focus.
- Understand the concept of being successful because the company is always facing new challenges that could swap it out from the market.
- A combination of be patient, have common sense, and be persevering to wait long enough to see your product/service grow, together with being agile to change concepts if they don't work as they are expected.
- You can do excellent things with average people, but technical engineers must be outstanding." ■

Prepared by Antonio Davila and George Foster, 18 November 2010

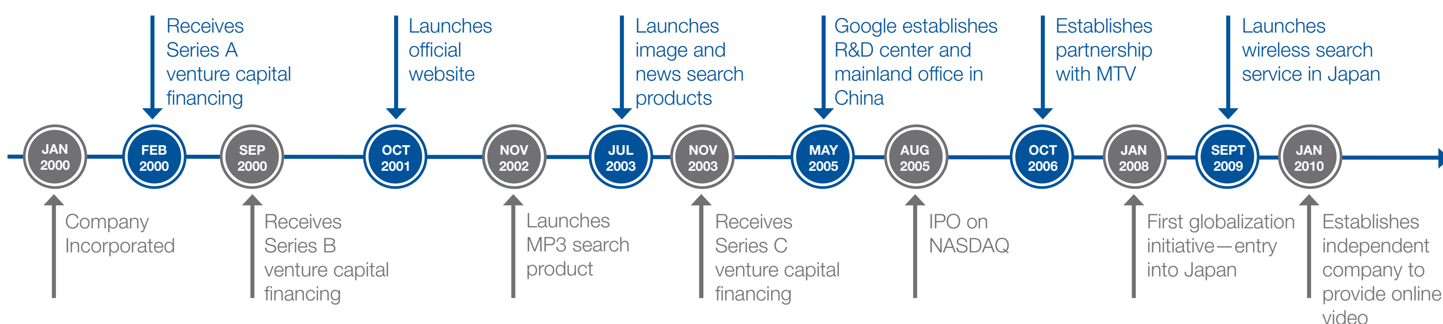
Baidu, Inc. | China

OVERVIEW:

Baidu is the largest Chinese search engine company. It offers numerous search and community services, including MP3 search, image search, video search, Baidu Encyclopedia, Baidu News and Baidu PostBar. Baidu was founded in 2000 by Robin Li and Eric Xu, both of whom had studied and worked in the US before they returned to China. The company is registered in the Cayman Islands. Baidu went public with an IPO on NASDAQ in August 2005 and has undergone dramatic growth since then.

BAIDU, INC.

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Robin Li is the co-founder, chairman and chief executive officer of Baidu. Prior to founding Baidu, Li was known as a leading search engine expert. From 1997 to 1999, he was a staff engineer for Infoseek, an Internet search engine pioneer. From 1994 to 1997, he served as a senior consultant for IDD Information Services. Li holds a BS degree in information management from Peking University and an MS degree in computer science from the State University of New York in Buffalo.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Li: “We recognized that Internet search in Chinese (as well as other character-based East Asian languages that, among other things, do not separate words with spaces) was an underserved market. During my years on Wall Street and in Silicon Valley, I had thought deeply about not just how to deliver better relevance through searches, but also how searches could be vastly improved for the Chinese.

“Baidu was set up as a search engine service providing ‘powered by’ search for portals when it was first founded in late 1999. We received service fees for doing that. But because we believed in the viability of the paid-search business models that had emerged in the US (from Overture), we made the decision to elevate Baidu from a back-end search service to a front-end, stand-alone service with a strong brand. This was risky, of course, because the major portal players would stop working with Baidu. But it was clear to us then that (1) the Internet would grow quickly in China, (2) search would be a pivotal area benefiting from growth in all sectors of the Internet and (3) there was an almost endless supply of small and medium enterprises that were our potential customer base. In other words, there was tremendous growth potential in this business. And more importantly, we could do a better job than anyone else.

"We rolled out our first pay-for-performance platform in September 2001. In 2005, we listed on NASDAQ, and on the fifth anniversary of our IPO, our stock was trading at over 3,800% of its initial offering price."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Li: "From the very beginning, Baidu's mission has been 'to provide the best way for people to find information'. The company has stayed true to this development goal ever since.

"On Baidu's 10th anniversary, we decided on a vision for the next 10 years of its development: 'We aim to increase revenue growth by 40 times, establish Baidu as a household name in one-half of the markets in the world, and strive to become the world's largest media platform'."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Li: "Baidu's initial strategy focused solely on search and optimizing search for the Chinese market. Baidu was the most aggressive among all competitors in this area in indexing Chinese content. We incorporated search features that were better suited to Chinese users: related search, a longer and taller search box to accommodate Chinese characters, and search results tweaked to take into account cultural factors in determining relevance. Baidu fortified its search position with many products that could be integrated into search results, boosting the company's brand and creating a stickier user experience. We have rolled out, in succession, the following products: our community site, Baidu Postbar; our community question-and-answer service, Baidu Knows; Baidu Image Search; Baidu Video Search; and many niche vertical search areas particular to China's users. We continue to place the needs of the users first, always striving to deliver whatever it is they're looking for. Today, that's not just information or entertainment content; it can be applications, software or many other services that we can now deliver directly in search results.

Baidu realized that the business model for search is novel in China, and the large majority of the company's initial opportunity was with SMEs, so we built a large sales force to educate and develop the market. This was a competitive edge that came out of our recognition that the Chinese market is simply less sophisticated and requires some hand-holding to develop."

What were the major growth accelerators for your company in its high-growth years?

Li: "The major growth accelerators have been the rapid growth in the number of Chinese Internet users, the increase in time spent online by the average user, and the expansion of the amount of information in Chinese on the Internet.

A growing Internet user base simply means a greater number of potential users of Baidu, and we have steadily increased market share to its present 80%. Increased time online naturally increases the number of queries per user, and each query represents an opportunity to deliver a paid link. In addition, the growing volume of information in Chinese makes search even more indispensable to users as they surf the web."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Li: "Baidu underwent three major financings before its initial public offering, and each time has been critical to the company's development. This was especially true of the company's public offering. For Baidu, the IPO was not about how much funding we were able to acquire in the process. Rather, it was significant as a major branding event. Many came to know Baidu and began talking about it overnight. It was a great marketing opportunity for Chinese businesses and consumers, and it attracted many additional users for Baidu as a result. Ever since, not only has Baidu been able to continue its high-speed growth in generating traffic flow, but also Baidu's clients have been increasingly convinced that the prospects of search are promising and that there is much to gain from working with our company. In this sense, Baidu has propelled the Chinese search market towards a greater level of maturity."

What were the major challenges your company had to handle in its high-growth years and how were they managed?

Li: "The biggest challenge facing Baidu is to constantly improve services for clients and users through continuous technological innovation. China's Internet population has surpassed 400 million, which means more and more needs will emerge within China. A search engine must continuously innovate in order to keep up with user needs and improve user experience. Baidu's 'box computing' technology arises from the company's 10 years of insight into user needs. The technology envisions that, in the future, people will see nothing but a search box appearing on their computer screens only a second after turning on their computers; then, by simply telling the search box their questions and needs in their own ways, they will be able to find the answers they need."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Li: "Baidu's transformation phase between 2000 and 2001 left a strong impression on many. At the time, our business model mostly aimed at providing mainstream websites with search technology services without promoting Baidu as an independent brand. After the burst of the Internet bubble, mainstream websites no longer wanted to invest in search technology. In the summer of 2001, we decided that it was time for Baidu to undergo a major transformation.

"I had been in very heated debates with investors and the board of directors on this issue. I recall being in a conference room at the Shenzhen branch taking conference calls from members of the board of directors. I knew right then that consensus would not be achieved through logical reasoning, but through a demonstration of the founder's fierce determination. Later on, one of the directors told me that the board was not moved by my theories or reasoning, but by my attitude. Now it is proven that Baidu made the right decision.

"We formulated a large-scale upgrade plan for Baidu in 2002, and our goal was to surpass the biggest industry competitor in technical target, with a special focus on Chinese search. I took the lead on this 'Project Blitzen' in the ensuing five months. At the time we had only 15 engineers to develop products that the competitor had 800 employees to produce. Our long hours and hard work paid off, as we managed to seize the commanding heights in user experience delivery in only nine months. From then on, Baidu's road to success became increasingly pleasant and manageable."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

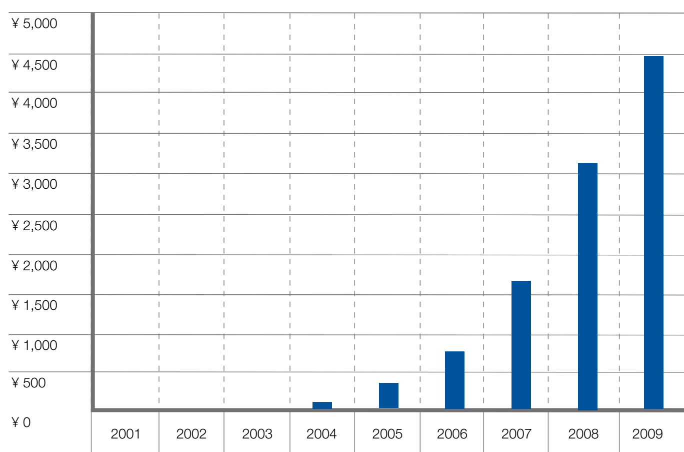
Li: "The past 10 years have been a period of high-speed development for Baidu. The company has grown from less than US$ 5 million in valuation to a US$ 35 billion market capitalization, achieving a valuation growth of 7,000 times from its founding to now.

"The major reason for Baidu's success has been its focus. Baidu chose a domain that it enjoys and is most skilled at, and throughout the development process we have never wavered in our determination to focus on search. The second reason for Baidu's success is technological innovation. Baidu has constantly increased investments in research and development. Baidu never dared to relax in the search technology front. Rather, the company has always worked hard towards providing the market and users with the best search technology and service.

"In the next 10 years, China will undergo rapid economic growth. The continuous growth of China's Internet population and Internet businesses will establish a solid foundation for China's Internet industry to globalize. I think the entrepreneurs of this generation share a very important responsibility, which is to do more and do better so that China's corporations will enjoy greater influence on the world stage." ■

BAIDU, INC.

REVENUE
IN MILLIONS (¥ M)



BAIDU, INC.

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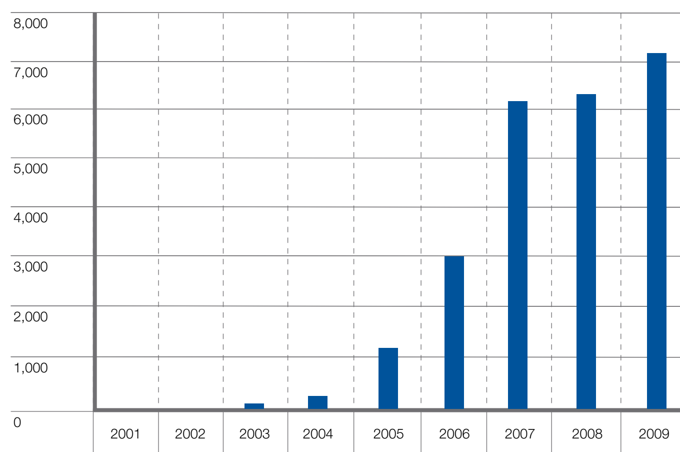


Prepared by George Foster, Antonio Davila, Martin Haemmig, Xiaobin He and Ning Jia,15 November 2010

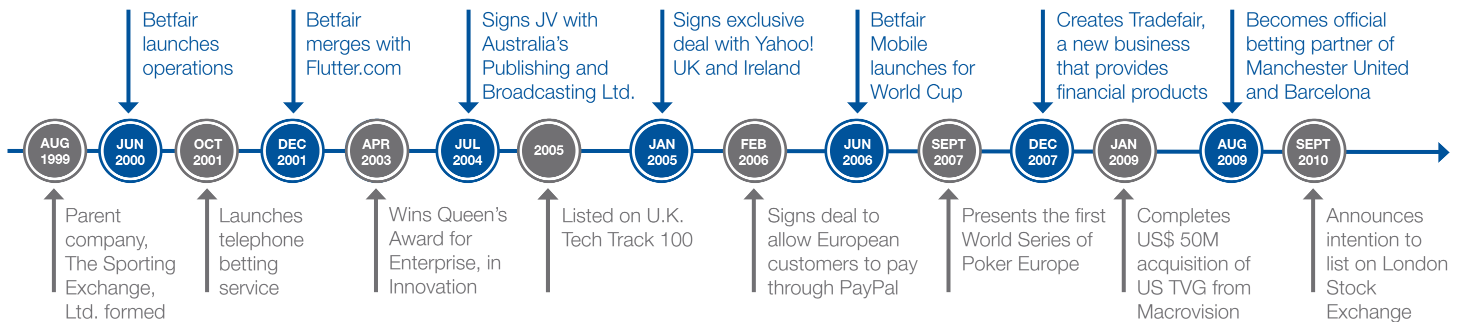
Betfair | United Kingdom

OVERVIEW:

Betfair was founded to apply free-market principles to sports betting by creating an exchange where customers come together to bet against each other, thereby eliminating the need for a traditional bookmaker. Betfair launched operations in June 2000 and has since grown into the leading sports betting exchange in the world. In 2010, Betfair grew to more than 3 million registered customers and processed more than 5 million transactions per day. In September 2010, Betfair announced its intention to list on the London Stock Exchange.

BETFAIR

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Edward Wray is co-founder of the Betfair Group and was chief executive until 2003, when he moved to Australia to set up Betfair's Australian joint venture. He became chairman in 2006 and is now based in the United Kingdom. Prior to founding Betfair, Wray spent eight years at J.P. Morgan & Co. as a vice president in the debt capital markets and derivatives area.

Josh Hannah was chief executive and co-founder of Flutter.com, which merged with the Betfair Group in 2002. Hannah is now one of the general partners of Matrix Partners and has been a director of Betfair since February 2002.

What was the source of the initial idea and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Wray: "In the late 1990s, my business partner, Andrew Black, was frustrated by the inefficiencies of the betting market, especially when compared to the stock market. He believed that the betting market would be more efficient if there was an exchange that allowed people to trade freely with each other rather than all having to trade with one designated group (bookmakers). We asked ourselves the key question, 'Would a betting exchange idea have appealed 10 years earlier?' We answered 'yes' to the appeal, but 'no' to the question of whether it would have been possible 10 years prior to 2000, because the necessary technology wasn't available. We then looked at the growth of the Internet and concluded that what we believed was an intrinsically interesting idea was now possible as well as potentially broadly appealing. The core of our initial idea has changed little since we first started in 2000. While we have added other features, the core of our business still comes through the betting exchange model we started in 2000. We facilitate individuals with opposing views to come together to trade. It's interesting that we have often been called 'the eBay of betting'. The subtle difference is, at eBay the auction prices can only go in one direction while at Betfair our prices can go up and down. We are effectively a two-way eBay."

Hannah: "In 1998, the SF (San Francisco) Bay Area was caught up in a fever pitch of entrepreneurism where overnight success seemed possible. My Flutter.com co-founders, Vince Monical and Mark Peters, and I were in love with what eBay had created in a consumer marketplace. At the time, there was vigorous debate as to whether eBay or OnSale, an auction site that took inventory and sold its own goods, was a better model. We loved the marketplace model, uniquely facilitated by the Internet, and searched for other domains of application. Vince came up with the idea of sports betting – an inefficient business, but very suitable due to the purely digital nature (no shipping of goods). When we found we couldn't do it legally in the United States, we identified the United Kingdom as the best initial market, raised US$ 5 million in venture capital, and moved to London. We started operations in June of 2000, and Betfair launched a month later. Our initial product looked more like the eBay of betting – you bet against another individual – while Betfair was like the NASDAQ of betting, with aggregated prices and orders, but less social and more efficient. We quickly adopted the best features of both products and within six months or so, they were essentially identical and competing head-to-head. The core exchange product has stayed pretty true to that vision over the intervening decade."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Wray: "When we started, we had little idea of how big it was going to be. We believed we had something that was very interesting and likely, over time, people would recognize the superiority of betting exchanges over bookmakers. I never sat there and developed a business plan that outlined the size of the market opportunity and our possible share. What happened over time is, when we reached a certain level, we'd ratchet up our expectations. This occurred multiple times in our early years. We are now at a level we never dreamed of 10 years ago, but as a result, our targets are even higher. As regards to our aspirations globally, we have always believed that our model has general applicability to all sports betting. It is a fundamentally better model and we are confident over time this will be recognized. However, our global growth will be impacted by differences in regulations across countries (such as the current heavy regulatory constraints in the US on online betting)."

Hannah: "We believed initially this would be a very large business and highly disruptive, and that has proven to be the case. However, we did think the social element of betting against other fans would grow the market, and the skew of customers would be more casual and social, and the core of the business has turned out (to date) to have the highest appeal with the most serious punters."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Wray: "We have a straight-forward business model. We facilitate people betting directly with each other. Unlike traditional bookmakers, we do not take risks related to the outcomes of sporting or other events. We are giving much more control and flexibility to the customer. When customers place a bet, they are taking a risk by definition so they don't ask to be paid for the privilege. A bookmaker also takes risks but will demand to be paid for taking those risks. We take the costs of risk borne by a bookmaker out of the system and hence make it more cost-efficient for those betting. We can offer customers better odds than bookmakers. Better odds bring on more customers, which in turn make the betting exchange even more efficient. The result is your classic network effect that has played a powerful role in driving our growth."

Natural Growth Rate: "We deliberately restricted our initial markets to a limited number in horse racing and football where there would be liquidity. We wanted markets where there would be a concentration of buyers and sellers. We found that these markets had a life of their own as they built up liquidity and attracted even more bettors. We had to let each market grow at its natural rate. We were lucky to be a very early mover

and the first to reach genuine scale and create a snowball effect. Indeed, we called the 2001 initiative to merge with Flutter, which was our nearest competitor, 'Project Snowball'."

Rewarding Loyalty: "We focused heavily on ways to make our customers' money go further in contrast to our competitors. This gave us a huge advantage. We aggregated pools of liquidity, which meant we were not constrained by the pure P2P model that seeks exact matches for each side of the transaction. We can aggregate and disaggregate (mix and match) in the same ways that financial markets do. Building liquidity in each of our markets was something that we made a priority (although we never once used our own money to establish this liquidity – we always relied entirely on our customer base). Our policy of only charging a commission on winnings was a distinguishing feature. We only make money from a customer who wins, whereas the traditional bookmaker model is an adversarial one in which the bookmaker only makes money when the customer loses. Aligning ourselves with our customers in this way was instrumental in creating our customer-friendly proposition. We also provided a classic loyalty scheme so that the more you used the service, the cheaper it became."

Hannah: "In my view, the core power of the Betfair proposition lies in its simplicity. Many web businesses have very complex value propositions. However, Betfair experienced rapid growth in a large part to a simple idea that resonates: do exactly what you are doing today but cheaper. We have recently seen this with start-ups such as Gilt Groupe and Groupon. If you find a way to sell a product at a disruptively cheap price, customer acquisition is easy. You just change the hard part of being an entrepreneur from 'how do I find customers?' to trying to invent a way to offer something at a price no one has ever before done. In our case, the exchange and the fundamental efficiency it brings to the business enable that to happen."

What were the major growth accelerators for your company in its high-growth years?

Wray: "Major growth factors include:

1. *Network Effects.* We got a lot of success out of our 'member get member' programme. Members who really liked our service told other members and the virtuous circle developed. It was classic network effects 101.
2. *Negatives of Traditional Betting Alternative.* The traditional bookmaking model that was our competitor is an adversarial one. The bookmaker wins when the customer loses and vice versa. In contrast, Betfair only makes money when our customers win, as we charge a percentage of the winning bet but do not charge the losing members. The traditional bookmaker model does not have an incentive to make their customers win more often whereas Betfair does have this incentive. We provide our customers with tools to make their betting more successful (e.g. form guides, expert advice, etc.). Another negative of the bookmaker model is its opaqueness. It is not readily transparent how bookmakers make money whereas with Betfair it is totally transparent.
3. *Attention-getting Promotions.* When we launched Betfair in 2000, Andrew and I walked around London in a mock 'bookmaker' funeral procession. This got attention. We also appeared in the Sunday Times business supplement posing with a bookie in a coffin and holding a sign saying: 'In loving memory of the bookie, who empties punters' pockets, took shirts off their backs, never made a decent price and died with the birth of open-market betting'. It was very tongue-in-cheek but it helped give us that all-important kick-start in terms of publicity.
4. *United States Regulations.* In a perverse way, the US regulations' severely limiting online gambling was a great help in our achieving high growth rates for such a long period, especially in our very early years. The regulations meant large well-resourced US online gambling companies did not exist. We were not always looking over our shoulders at US competitors (with access to huge armies of technically-trained people). Such companies, if they had existed, could have made our life very difficult. Loosening of these regulations will be a growth accelerator for us. For example, the recent change in California regulations (AB 2414) means that we can have exchange-based betting in California. We believe this will be a huge bonus for us."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Wray: "We tried to raise money in 1999. We were turned down by every VC we approached. We tried to raise institutional money and we failed. Our initial round was a little over one million pounds. We tapped friends and family — some of my friends were investment bankers from the days when I worked at J. P. Morgan — as well as putting in our own money. In late 2001, we merged with Flutter, which had been backed by Europ@Web, Benchmark Europe and Index Ventures, among others. This was an all equity transaction and the investors in Flutter joined our list of investors. Flutter had some cash remaining on its balance sheet that did help provide growth capital."

Cash Flow Focus. "Our inability to raise equity money in our early days turned out to have had an important positive impact on the management of Betfair. From day one, we did the non-Internet thing and said, 'We have to get this venture to cash flow positive at the very earliest date.' We achieved that in about nine months. After that we could let it grow at its natural pace. I have often said the best thing that happened to us was that we failed to raise large amounts of money at the outset.

Had we raised a lot of money, the danger was we would have built a cost culture into the business and thrown a lot of money at a lot of things that did not yield results. We had so little money we had to be completely ruthless in our prioritization. We have always been very focused on cash flow."

Hannah: "What we lacked in understanding of the details of the UK betting market, the Flutter team made up for in our understanding and ability to finance a business. As was customary in the heady market of 1999, we raised a Series A round of US$ 5 million fairly quickly, and on the back of a short PowerPoint deck. In September 1999, I moved to London and by October we were quickly building the site. The financing market in Europe got white hot at that time – US funds such as Benchmark and Accel raised large funds dedicated to the market – but there was not nearly the pool of entrepreneurs or deals to invest in that existed in Silicon Valley. And we, uniquely, were the type of people they recognized and trusted (Stanford MBA, Wharton MBA, ex-consultants, etc.). Plus, we had a damn good idea. The fact that we had huge blind spots in our knowledge of the local market and technology were glossed over by the hot environment. With the urging of our Series A investors, we decided to raise our Series B before the website was even built or launched, or frankly even before we had much of a working prototype. In April 2000, on the eve of the bubble bursting, we raised a US$ 39 million Series B round with five firms participating. This funding base left us well capitalized through the bust, and gave us a competitive weapon against Betfair, which benefited from better market knowledge. When we merged the companies, the capital raised by Flutter proved sufficient to carry the combined entity through to profitability."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Wray: "At the start of Betfair, I believed all the problems of high growth I had heard about would be good problems to have. When we got there, I found they were horrible. When you are growing very fast you always underestimate the resources you will need going forward. Many challenges related to scaling. Important ones included:

1. *Staying in front of the technology demands of our growth.* We sometimes had big challenges with our systems availability on Saturdays afternoons, which is our highest demand period. I know eBay likewise experienced operational systems problems (with both hardware and software) in their early days. This is one area where our limited financial backing constrained us in making capital investments.
2. *Finding how the whole organization was growing in terms of culture.* Finding that, as we got bigger, a higher percentage of the people we hired viewed working at Betfair as a job and had less of an ownership mindset that characterized our early day hires.
3. *Physical infrastructure.* We moved into a building that we thought would house our company for some time and quickly we were again looking for space that was much, much larger. We did not see at that time the amount of space that we would need in a very short period.

"Several factors helped us to address these and other problems of managing growth. First, being in the sports industry meant that many people found us a very attractive company to work for or associate with. Sports have a buzz factor and are a great calling card in recruitment. Second, we further built a culture that put technology as a central priority and we continued to hire a superb set of technology people. To this day, we consider ourselves a technology company. Third, we did not obsess about the short run profit implications of our decisions as long as they did not cause us to become cash flow negative. Fourth, we turned having a great product and great technology into an advantage in our recruitment. The most important lessons I have learned have been on the people side — getting the right people and letting them flourish. When you see great people, hire them even if you do not have a specific job for them in the short run. If you grow the way you want to grow, you will have a job for them tomorrow.

World View: "Internationally, the biggest challenge is regulation. The first big country beyond the United Kingdom was Australia, which was very attractive in terms of distance and clock. We already were a 24/7 business in terms of sports covered, but adding Australia increased this complexity, especially from an operational point of view."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Wray: "Growth itself can bring dark moments. When you are climbing a ladder, if you fall off the first rung it does not hurt. However, the higher you climb the more painful any potential fall becomes. This is something you have to live with. There is a realization that, if you mess it up when the company reaches a sizable level, it will be painful. There were times I went to bed thinking 'game's up' and when you wake up you find it is not. The many systems challenges in our early years created some very stressful Saturday afternoons that were at times particularly dark moments."

Hannah: "I would highlight these (dark periods):

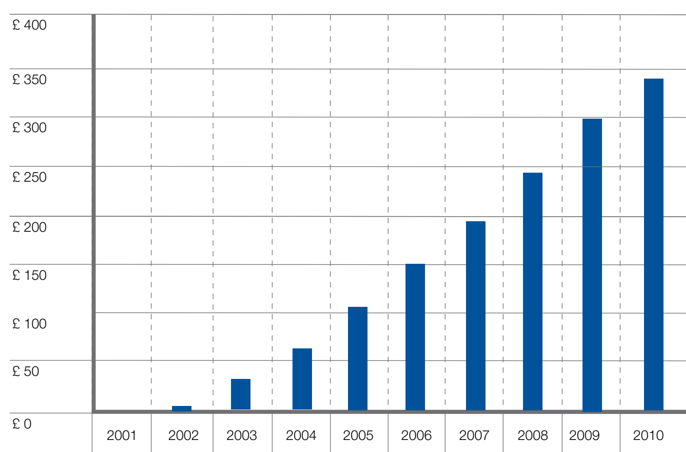
1. Marketplaces have the obvious problem of being great businesses at scale but hopeless initially when there are few customers. We went from bubble-era excitement – raising loads of cash and being a high profile 'success' – on the back of nothing but hype. In May of 2000, the bloom came off the Internet bubble in the United

Kingdom, and in June 2000, we launched to few customers. Quite quickly, we found ourselves with a business doing maybe US$ 20,000 a month in net revenue, and US$ 1M a month in costs. While revenue was growing nicely at 30 percent month-over-month, it would take a long time for those lines to cross. Moreover, the whole mood of the market had turned sour simultaneously.

2. The process of merging the two companies was challenging for me. I led the charge as I thought it was the right business move to combine our user bases for more liquidity, remove duplicate costs, and create a clear winner. However, it is hard to arrange a private merger with all the disparate views of management and shareholders on both sides, and it feels risky as a CEO to advocate it. If I tell my board that I think we should merge with our competitor and take the smaller share of the combined pie, and then the deal falls through, what have I told them about me and my aspirations for the business? Will they lose faith in me? In addition, Ed was insistent on being CEO for the combined company, and my ego was such that I wasn't going to take a lesser position, and so it would mean leaving management. Moreover, by agreeing to be the smaller party in a merger, we'd lose our brand and the identity we created. To me, it was clearly the right business decision, and with hindsight, it was also a good personal decision, but it was challenging at the time."

BETFAIR

REVENUE
IN MILLIONS (£ M)



What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

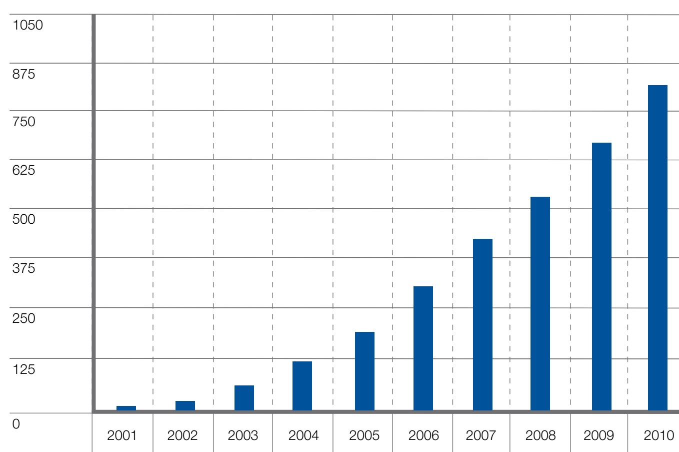
Wray: "Some important lessons are:

1. *The three Ps are important:* Persevere, as you will have many setbacks; be professional in everything you do; and be passionate.
2. *Being able to overcome problems is a pivotal skill:* After you overcome each problem, you will feel good because you know you are on the right end of that problem and that some other company will have to handle it.
3. *The most undervalued commodity in an entrepreneurial venture is time:* You must get things done in a time-efficient way and with minimal distraction.
4. *When you get lucky, two things are essential:* (a) quickly take advantage of it; and (b) don't kid yourself it was not luck. Be brutally honest with yourself." ■

Prepared by George Foster, Arvind Iyengar, and Hamish Stevenson / Fast Track, 18 November 2010

BETFAIR

HEADCOUNT



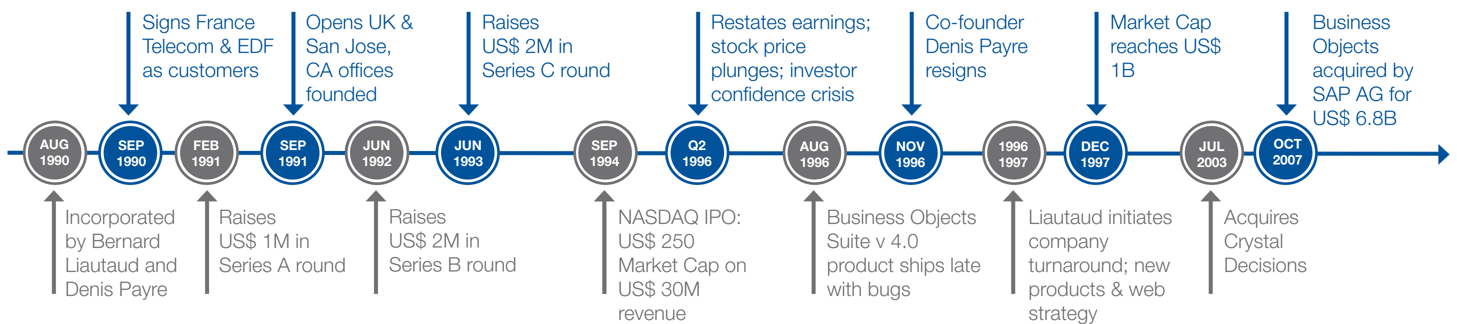
Business Objects | France

OVERVIEW:

Business Objects is a software company that was incorporated in France in 1990 when the founders, Bernard Liautaud and Denis Payre, pioneered a new market for business intelligence analysis and reporting software. The company's products enhanced business-user access to Oracle's complex relational database software. In 1994, the company was the first European software company to go public on the NASDAQ, raising US$ 25 million. From 1996 to 1997, Business Objects experienced a crisis in investor confidence, with the share price plummeting from US$ 55 to US$ 5. It achieved a dramatic turnaround in 1997/1998. In 2007, Business Objects was acquired by SAP AG for US$ 6.8 billion.

BUSINESS OBJECTS

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Bernard Liautaud, co-founder of Business Objects in 1990, was the chief executive officer for 15 years. In September 2005, he became the chairman and chief strategy officer, a position he held until the company was acquired by SAP AG in September 2007. Since 2008, Liautaud has been a partner in the European venture capital firm of Balderton Capital and a member of the SAP AG Supervisory Board. Liautaud was born and raised in France. He earned a Masters degree in engineering at Stanford University in the early 1980s and then worked for a short period with the French embassy in Washington, DC. In 1986, he returned to France to work with Oracle in its Paris headquarters, where he was responsible for product marketing.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Liautaud: "I was working at Oracle from 1986 to 1990. Database sales were growing fast in corporations, but use was limited to IT people. The business users who most needed the information could not access the data, because the data structure was too complex. In 1989, I was approached by a freelance French developer who had developed a primitive help tool for databases. My partner Denis Payre and I worked with the developer some more. We came up with the idea of allowing users to ask any question of the database by using more common vocabulary, which we called 'business objects'. This concept of a semantic layer on top of a database was immediately appealing to customers. Oracle was not interested in pursuing in-house development of the software, so Denis and I started our own company and paid the developer in royalties. We created a small direct sales force to sell our software to enterprise customers, primarily Oracle customers. We soon expanded to any company in need of a tool to access and analyse corporate data. As a French company starting out in the software business, we immediately knew we needed to internationalize, so within months we were in the US raising venture capital. Within a year, we had raised US$ 1 million from US angels and European venture firms. We immediately opened offices in San Jose, California as well as the United Kingdom. Over time, we evolved the idea to include a full suite of business intelligence, data management and enterprise performance management products. However, the core of the product and the vision remained unchanged throughout the entire company."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Liautaud: "The aspiration of my partner and I was to create a US$ 50 million business in five years. Our contract developer was an artistic type who was not interested in building a company, so we continued to pay him quite hefty royalties for several years, basically 25% of every sale, which was ridiculously high. But without immediate cash to pay him, we had no other choice. As sales were doubling in those first three years, we enhanced our vision to be the first European software company to go public on NASDAQ and to be the number one company in the business intelligence market. In 1994 as we were preparing to go public, the contract with the developer became untenable, and we had a lot of pressure from our venture investors to find a way to change it. It was a tough negotiation, but we paid [the developer] a lump sum in cash and a portion of equity, and that ended the royalty agreement. This was a win-win deal. We went public a year ahead of schedule. We continued to grow our vision of the company as the global leader in business intelligence, data integration and performance management. [We became] one of the top three European software companies and one of the top 15 global software companies."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Liautaud: "Our strategy was to become the de-facto standard for end-user access, packaged software on top of relational databases. We had a great value proposition that was easy to explain to customers: to make business information easier to access for any business user. We also set out from day one to expand geographically. We had both worked at Oracle and developed a strong partnership in the early years. We worked with them exclusively, and they took us into their accounts and helped with marketing. Then we opened our solution to work with all databases. This weakened our Oracle partnership, but it strengthened our position with customers. We could provide something that no database vendor could ever provide: openness and database neutrality. Our business model was a simple licensing and maintenance model. We built a direct sales force to begin with, but complemented it rapidly with a strong indirect channel. At the end, we had 45,000 customers, and 50% of our business came from our partners."

What were the major growth accelerators for your company in its high-growth years?

Liautaud: "It was critical to our growth to maintain clarity on our growth drivers: product expansion, geographic expansion and customer-mix expansion."

Product Expansion: "At first, we had a high rate of repeat business from our customers. After six months of a first deal (US$ 50,000 - 100,000), they would come and standardize for a larger transaction (US$ 500,000 - 1 million). Meanwhile we developed new products based on new operating systems from Windows 95, NT and Unix that we could continually up-sell to them. We expanded our sales force 100% annually."

Geographic Expansion: "We expanded into new countries very rapidly from the get-go. Although we started in France, we established a presence in the United Kingdom and in the US after just one year of operations, when we had fewer than 10 employees in Paris. After three years, the US represented one-third of our revenue."

Customer-Mix Expansion: We sold to companies of all sizes through whatever channel – direct or indirect – was most appropriate."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Liautaud: "Financing was key. We knew from the outset that we wanted to start the business based on the Silicon Valley model, so getting US venture money was critical. After operating for seven months with no outside money, we did three rounds of venture capital [financings]:

1. US$ 1 million in February 1991: US$ 200,000 from 10 US angel investors led by Arnold Silverman and Donald Lucas; the remainder from France's Paribas Technologies and France Telecom subsidiary, Innovacom
2. US$ 2 million in June 1992 from the same investors and Dutch-American investors Atlas Venture
3. US$ 1 million in June 1993 with Round 2 investors

"Achieving that financing early allowed us to grow very rapidly. In 1993, we had several hundred customers and were profitable on sales of around US$ 15 million. However, we were extremely frugal from our early beginnings. In 1994, we went public on NASDAQ. We raised US$ 25 million. The pre-money IPO was approximately US$ 125 million, but at the end of day one, the stock had increased significantly and the market capitalization was US$ 250 million.

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Liautaud: "We had many of them.

1. *Managing the US and European operations simultaneously:* "The US is a key market and is generally where headquarters are located. In 90% of cases, especially for software companies, France is the sales subsidiary of a US company. Here, it was the other way around. Finding the right talent and convincing top sales, marketing and technical people in the US that they should work for a French company was not easy. Maintaining the trust between the two operations was a constant challenge. We succeeded by moving people back and forth between Europe and the US. I moved to the US and back to France a couple of times in those early years.
2. *Managing growth and evolving the executive team:* I had to turn the team over a few times to have people of the right calibre at the right scale in the company.
3. *Adjusting to life as a US public company:* I had to learn how to manage market and investor expectations and communicate significantly more than in the early years. Maintaining the spirit of a young company when you are a larger company is also an ongoing challenge."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Liautaud: "The year 1996 was a very tough time for the company and for me personally. We went public in 1994, and the first year and a half as a public company went amazingly well. We were growing 100% every quarter and increasing profitability to 17%. We thought we were invincible: in six to seven quarters, we had increased our value by 10 times. But we didn't know what was coming and that we were going to face serious trouble. In one year, we had a very large deal in Germany turn bad on us, and we missed Wall Street expectations several times. We also missed a major product release, and the stock price went from US$ 55 down to US$ 5. All our glory and credibility disappeared. On top of that, my partner left the business. Many of our people in the US left. The company was declared 'almost irrelevant' by *The Wall Street Journal*. Companies were circling around wanting to buy us, as we were becoming quite cheap. But we decided we didn't want to let the company go. I wanted to turn the company around, and the board supported me in that. So we made a number of key moves:

1. Relocated the management and headquarters to the US to be closer to the customers, partners and the financial community
2. Changed our software development process completely to better control releases and increase quality
3. Innovated with a brand new Web product at a time when the Internet was just beginning to get commercial traction: We were the first company in the business intelligence market to release an Internet version
4. Hired a new CFO to tighten processes and expenses

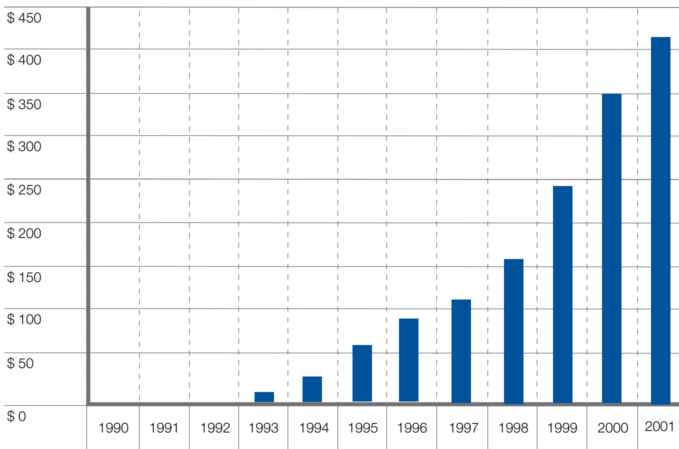
Thanks to these changes, we turned the company around. We grew the business at 50% for several years in a row. We expanded our margins from 0 to 18%. Our stock went from US$ 5 to US$ 300."

What are the key lessons about entrepreneurship and successful growth strategies you have taken from your company experience?

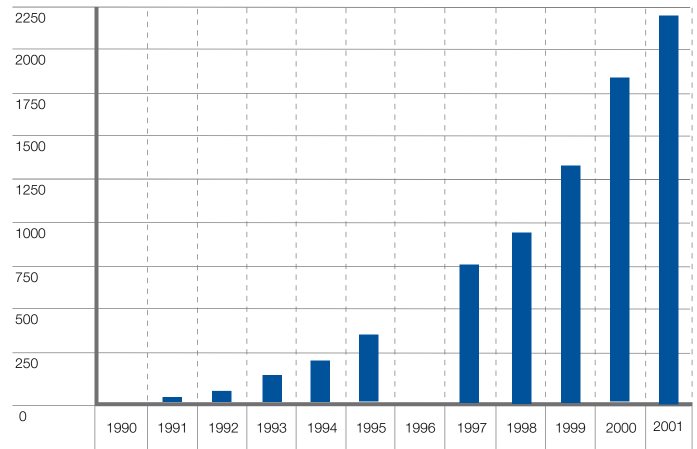
Liautaud:

1. "The famous lesson from Jim Robbins' book, Good to Great: 'Confront the brutal facts but never lose faith in the positive outcome'. This is essential to come through victorious from difficult periods.
2. "Have a clear concept of value and innovation: We started with a great innovative concept that was easy to explain to our customers and we created a brand new market.
3. "Follow a proven entrepreneurial model: a) attract venture capital and have options available for employees to participate in its financial success, b) go global as early as possible, c) find the better market for going public.

BUSINESS OBJECTS



BUSINESS OBJECTS



4. "Encourage a culture of passion: Adapt quickly to changing circumstances and always be clear about the growth drivers. Cascade goals all the way down in the organization and measure or monitor. Communicate [goals] heavily to your team, so they can lead their own teams.
5. "Take advantage of a global talent pool: it completely changes the fabric of an organization and creates new opportunities." ■

Prepared by George Foster and Sandy Plunkett, 22 November 2010

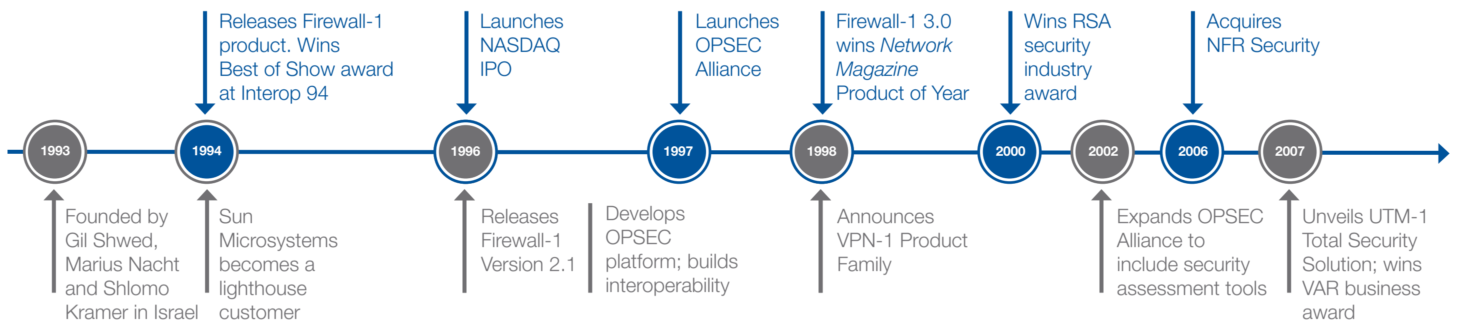
Check Point Software Technologies Ltd | Israel

OVERVIEW:

Check Point Software Technologies Ltd had its genesis when Gil Shwed, the company's co-founder and long-time CEO, worked in the Israeli Defense Forces and became dissatisfied with the available software solutions' ability to ensure only certain information passed between two classified networks. Started in 1993, Check Point patented and was a champion of the "stateful inspection" technology that was used in its first generation of firewall products. Check Point's Firewall-1 product was released in 1993. In 2000, Network Computing named Firewall-1 one of "the top 10 most important products of the decade". From 1993 to 2001, Check Point grew to over US$ 500 million in annual revenues through a sequence of products that quickly gained leading market positions. Research and development was based in Israel, and sales and marketing offices were set up in all its major markets in its early years. It uses an indirect sales strategy with its own sales engineers providing support. Check Point is known for its focus on customers and financial management, as well as technical prowess. It is the winner of numerous marketing awards. It has consistently had a net income-to-revenue ratio above 30%, in both up revenue years and the several down revenue years that occurred during the early 2000s.

CHECK POINT SOFTWARE TECHNOLOGIES LTD

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Gil Shwed is Check Point's co-founder, chief executive officer (since the company's founding in 1993) and chairman (since 1998). He was also president from the company's incorporation in 1993 until 2001. Shwed has received numerous awards, including an honorary Doctor of Science from the Technion-Israel Institute of Technology, the World Economic Forum's Global Leader for Tomorrow, and the Academy of Achievement's Golden Plate Award. Shwed is a member of the board of trustees of Tel Aviv University and chairman of the board of trustees of the Youth University of Tel Aviv University. He attended Hebrew University in Jerusalem.

Jerry Ungerman is the vice-chairman of the Check Point board of directors. From 1998 to 2000, he was the company's executive vice-president, and from 2001 to 2005 he was president. He was appointed vice-chairman of Check Point's Board in 2005, and is responsible for leading partner and customer relations. Prior to Check Point, Ungerman had extensive high-tech sales, marketing and management experience at Hitachi Data Systems (HDS). He began his career with IBM after earning a bachelor's degree in business administration from the University of Minnesota.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Shwed: "The original idea for security technology that could ensure secure passage of information between networks occurred when I was a 20-year-old soldier for a technology unit of the Israeli Defense Forces (IDF). My task was to connect two classified networks and ensure that only certain information passed between them. The solutions I found in the marketplace didn't satisfy my needs and drove me to come up with my own solution, one that was flexible, programmable and very fast.

"A few years later, in the beginning of 1993, I saw the emergence of the Internet. At that time the Internet made its first steps from a purely academic network into an open network for everyone. The first question every company's system administrators asked before connecting their network to the Internet was, 'How do I keep my network secure?' At this point, I realized that there was an exciting market for the idea and we started Check Point with the vision of making Internet connectivity secure."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Shwed: "Check Point was founded with the vision of making Internet connectivity secure. When we started in 1993, the Internet had several hundreds of companies connected. It was a small yet exciting and fast-growing market.

Our vision didn't change, yet the use of the Internet has grown beyond everyone's expectations and so did Check Point.

"Initially, we thought that the addressable market included around 15,000 networks and that achieving US$ 10 million in sales would be a great success. Check Point past the US$ 10 million mark in two years and we just crossed the US$ 1 billion mark in sales in 2010."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Shwed: "Our business model focused both on making the software extremely easy to understand and use and distributing it through a network of local value-added resellers (VARs). Software, like our initial firewall product, usually sold in a complicated transaction that included consulting, installation and customization services and took many weeks to complete. Making the software fit on one 1.4 MB diskette, with installation that takes less than 10 minutes, and providing a graphical user interface that is easy to understand enabled us to bridge the geographical gap, as Check Point started in Israel and our initial target market was the United States. Working with local VARs enabled us to reach many markets quickly – even before we hired our own sales force. The combination of a product that can be distributed in high quantities with a distribution network that scales easily enabled us to accommodate the high growth of the Internet in the 1990s."

What were the major growth accelerators for your company in its high-growth years?

Shwed: "The growth of the Internet was the main growth driver for Check Point. We built a product that could be easily distributed with a distribution network that could take it everywhere. On top of that, one of the key accelerators for our success was a distribution agreement that we signed our first year with Sun Microsystems. Back in 1994, Sun was the primary platform for Internet gateways and servers. Making them our key distributor gave us quick access to a huge distribution network and the credibility of a large company, as at the time there were only three founders/employees at Check Point. However, that distribution contract didn't stop us from building and growing our independent network of VARs and distributors, and from building our sales force – both are the key pillars of our growth since 1997."

Ungerman: "Some additional accelerators were:

1. Technology leadership. From the start we were technology innovators. First, with 'stateful inspection', which we patented in 1993. In 1994, we brought to market easy-to-use, shrink-wrap firewalls. In 1996 we were first to merge VPNs and firewalls.
2. High-profile Internet security breaches, network attacks, viruses, worms, etc. The continuing number of such events highlighted the importance of using state-of-the-art Internet security products, which benefited us greatly.
3. Partnership programmes. Our OPSEC (Open Platform for Security) was a powerful way to increase the attractiveness of our products to potential and existing customers. By certifying the products of other vendors in related spaces as OPSEC certified, we guaranteed to decision-makers that a broad set of products would be integratable and interoperable with our Check Point products. This overcame an important barrier to companies wanting to purchase best-of-breed products that may come from multiple vendors. Many hundreds of companies became our OPSEC partners, which was a remarkable achievement for a company that was still relatively young and far from large.

4. Choice of an indirect sales strategy. By choosing an indirect sales strategy from the outset, we gained broad market penetration across many parts of the globe in a short period. There is no way we could have built the global presence we quickly achieved if we had to set up direct sales offices in all major markets in our early years. However, Check Point did build our own sales and sales engineering organization in each local market to support our partners. This extensive support was key to our rapid growth.
5. Gil Shwed was and is pivotal to Check Point's growth. He quickly mastered the leadership and business responsibilities of the CEO role in addition to maintaining his key role in the evolution of our technology road map. Unlike many technology-trained founders, Gil was laser-beamed on customers and marketing. Gil evaluated several models that Israeli companies could adopt, including (1) the Israeli expatriate model, in which the company is based in Israel with Israelis running subsidiaries around the world; (2) the 'dot-com' model, where the founders relocate to the US and try to behave like Americans; (3) the American model, which US venture capitalists prefer, where you appoint a US CEO but leave major development efforts in Israel; and (4) the global model, where you build a global management team with important members coming from each of the major markets. Gil was adamant that the global model was to be the Check Point blueprint. We have benefited greatly from that choice, although it has meant large travel demands on all the management team (none more than Gil himself)."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Shwed: "When we started Check Point, venture capital money wasn't easily available in Israel. We raised US$ 250,000 from another software company in Tel Aviv. We never needed to raise more money and became profitable after spending less than half of that amount. We have been profitable every quarter since 1994, with net income of 40- 50% of our revenues and profits are expected to exceed US$ 500 million in 2010. We became public in 1996. Being public helped in creating currency for acquisitions and for sharing the wealth with our employees. Today, Check Point has over US$ 2 billion of cash after acquisitions and stock buy-backs of more than US$ 2 billion."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Shwed: "The biggest challenges we faced were around creating the right organizational structure. We needed to build every function of the company, create a global company and recruit many people, all while operating at a very high pace. One thing we learned is that, while we needed to hire the best talent possible from all over the world, the founders had to do every job until we got the right person in place.

"While the three founders did not have much experience in sales and marketing, we spent the years from 1994 to 1997 almost exclusively travelling around the world and building our sales and marketing organization. Only in 1999 can I say that we reached a stable organizational structure with all the relevant people in place. The key was to play every functional role in the company until we could put the right person in place."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Shwed: "There were many challenges that we faced during the years since we founded the company. In the first years, we needed to convince people that the Internet was a real market. Many potential distributors thought that the Internet was a research network and had no commercial potential. Thus, convincing people to be our first distributors in 1993 to 1994 was by far the biggest challenge.

"The next big challenge came in 1997, when we experienced great success and had many successful teams but we needed them to work as a single global company – with R&D in Tel Aviv, marketing in Silicon Valley, sales everywhere, and so forth.

"Creating scalable work processes and management structure was the next big hurdle. In 2001 to 2002, following the dot-com bubble bursting and September 11th, we had to work hard to create growth (or actually face a 30% decline, like in 2002) instead of doubling every year, as we had been doing. This was a big change in the company's culture and processes."

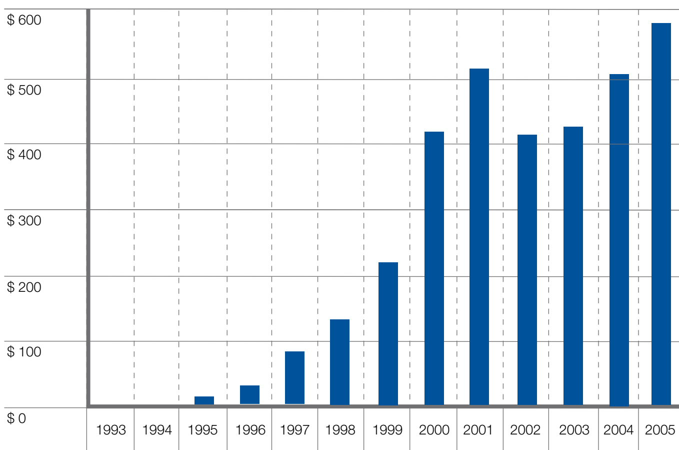
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Shwed: "There are many good lessons I've learned throughout this process:

1. Key leaders in an organization need to be extremely flexible with the ability to get into a completely new field and build a team and strategy to handle it.
2. You never stop being an entrepreneur. At every step you need to build a working and stable infrastructure, and yet still challenge yourself with shaking things up and finding the next new opportunities.
3. In order to succeed, you need an innovative product, a growing marketplace and a great team of people. It is impossible to succeed without the right people, but the other factors are critical to successful growth.

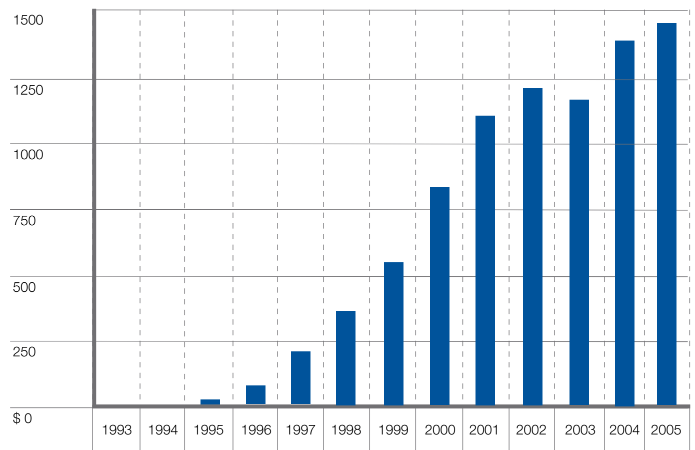
CHECK POINT SOFTWARE TECHNOLOGIES LTD

REVENUE
IN MILLIONS (US$ M)



CHECK POINT SOFTWARE TECHNOLOGIES LTD

HEADCOUNT



"Whenever you do something, try to do it in the best possible way. If it works, you will establish a precedent that will last for many years. So try to do the right things in the right way the first time." ■

Prepared by George Foster, Antonio Davila, and Ning Jia, 22 November 2010

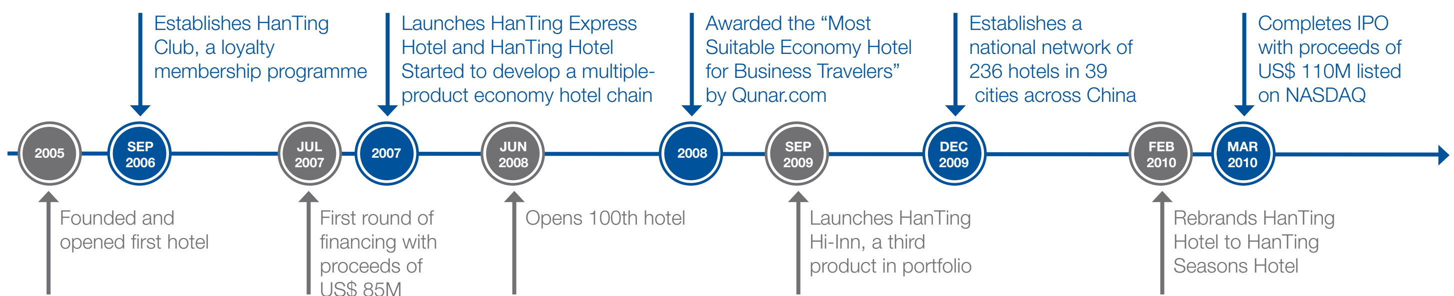
China Lodging Group | China

OVERVIEW:

The China Lodging Group, registered in Delaware, USA, with the HanTing Inns & Hotels (NASDAQ: HTHT), is a leading economy hotel chain operator in China. Founded in 2005 with headquarters in Shanghai, the company since 2007 provides business and leisure travellers with high-quality and conveniently located hotel products under three brands – HanTing Seasons Hotel (business), HanTing Express Hotel (business), and HanTing Hi-Inn (budget). As of 30 June, 2010, the company had 324 hotels (187 leased-and-operated and 137 franchised-and-managed) and almost 37,782 rooms in 51 cities across China, with another 159 in development.

CHINA LODGING GROUP

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Qi Ji is the founder and executive chairman of the board of directors of HanTing Inns & Hotels. Prior to founding HanTing, Ji co-founded Home Inns and Ctrip.com, which are both listed on NASDAQ.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Ji: "While working at Home Inn as CEO, I realized that the market for economy and budget hotels is large and the products and services provided by Home Inn and most other economic hotels could be substantially improved. I believed that a multi-brand hotel group with a differentiated service level could lead to a strong market position. However, the Home Inn board disapproved the idea and thus I decided to do it anyway with a new team and other investors.

"When the Home Inn board decided to employ another CEO to replace Mr. Ji for its IPO and lead it as a public company, Mr. Ji realized his dream and founded HanTing, which uses a three-tier branding concept."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Ji: "After founding Ctrip and Home Inn, I realized that the huge potential for China's servicing industry was still underserved. China has the biggest population in the world and China will become the largest servicing market; hence, this will give birth to the largest servicing companies. In the past 30 years, China was famous for 'Made-in-China'; during the next 30 years, China will become known for 'Service-in-China'. Unlike my first two companies, which I helped co-found, I have a clear vision from the first day to build the HanTing brand to be number one in the world in terms of number of hotels. Yes, you hear me correctly, the largest in the world. The reason is very simple. If you are the largest in China, you may likely be also the biggest in the world."

Describe the strategy/business model that enabled your company to achieve its high rate of growth.

Ji: "Since HanTing is a late-comer to China's hotel industry, its older peers have grown fast and have become quite large already. In conjunction with the decision to enter this industry, we decided to focus at HanTing to be 'premium positioned' in the mind of our customers. In return, they may be willing to pay slightly more and stay more frequently with us without increasing our operating cost. We have a clear target cost-per-room and are able to maintain it. The three-tier model permits to build the mind-share early with customers through the budget hotel, HanTing Hi Inn, and move them up the value chain to our mid-level product, HanTing Express Hotel, and finally all the way through to our flagship branded product, HanTing Seasons Hotel, as they progress in their career; hence, managing them through the life cycle. In summary, the three key strategies focused on differentiating from competition include:

1. *Service and products:* Excel in service at the same cost per room – total quality management (TQM) through 'key customer complaints' – and act on it.
2. *Location:* Focus on economically more developed cities.
3. *Branding:* Three-tier brand with customer 'Life-Cycle-Management'. Establish 'premium' brand first, then focus on increasing loyalty.

We already reached 68% of repeat customers (registered members) in 2009, but we need to strive even higher."

What were the major growth accelerators for your company in its high-growth years?

Ji: "There are four factors that drove growth:

1. *Competition.* This forced HanTing to grow very fast, especially since 2007. At that time, there were several existing large hotels chains that targeted the same customer segment. As a latecomer to the market, HanTing had to be better than its competitors, both in the view of customers and in managing its operating expenses. Otherwise, we would have experienced an early death.
2. *Demand side.* The requirement for hotels in our category in China, like HanTing, is higher than the supply side and may stay there for some time, especially in the second and third tier cities in the country.
3. *Execution, execution, execution.* We have to provide superior service and a good infrastructure at the best cost in each hotel category. We have a very disciplined, return-driven development model, which we have strictly followed since inception. Economies of scale at HanTing are in our favour.
4. *Human resources policy.* HanTing hired more than 6,000 employees within the first five years, and have these core elements in our HR strategy:
   - *Training:* HanTing established the 'HanTing College' to train all levels of management in our hotel chain.
   - *Qualification:* Every employee and position has to be qualified.
   - *Measure and compensate*: Use 'balanced score card' to measure performance and compensate accordingly.

HanTing leverages and promotes internally its acronym for its own corporate values, by focusing on: *H* (Humanity) *T* (Teamwork) *I* (Integrity) *N* (No excuse) *N* (Novel)."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Ji: "Given my background as co-founder of Ctrip and Home Inns, we had a few good VC brand names that supported us early on. We had to raise substantial VC/PE capital in order to scale rapidly to specific milestones. CDH Venture Partners was a substantial investor in Series A and took the sizable stake of Series B. It all culminated in an exciting IPO in March 2010 that was not really a great exit environment on NASDAQ.

Series A (07-2007): US$ 85 million
Series B (07-2008): US$ 55 million

Major VC/PE investors: CDH Venture Partners, Chengwei Ventures, IDG Capital Partners, Northern Light and Pinpoint Investment Capital.

IPO: On 26 March 2010, the China Lodging Group Ltd went public on NASDAQ, raising US$ 110 million (offering 9 million ADRs), and traded 12% higher at the end of the first day. The IPO price was set at US$ 12.25 per share and traded in the first five months between US$ 13.50 and US$ 20.00 (5 August 2010)."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

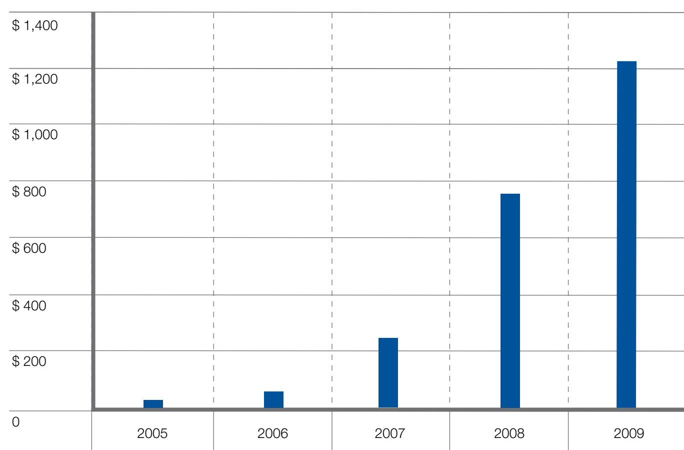
Ji: "Challenges focused on the company's 'growth and leadership'. They include:

1. *Managing a high-growth company.* The key is to get everyone at the company on the same page. If you can do that, then everybody will stay calm and confident when facing problems or changes.
2. *Managing my own aspirations and limitations.* My ambitions for HanTing have been high since I left Home Inn as their CEO. My objective is to grow faster and bigger than Home Inn, which may easily lead to mistakes; hence, I need to be careful. Yet, my experience at Home Inn is very valuable this time round.

3. *Professionalizing management.* We transitioned successfully from a smaller company managed by a legendary entrepreneur and founder, to a larger company managed by a professional management team There are some principles to pursue, which are: (a) being open-minded, (b) trusting others, and (c) respecting others. They sound easy but, trust me, it is much harder than you think, especially in China, where a CEO is considered to be God."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Ji: "The negative period for the company was during the global economic downturn in 2008. We had to slow down expansion due to fund limits and the unfavourable environment. The company then focused more on

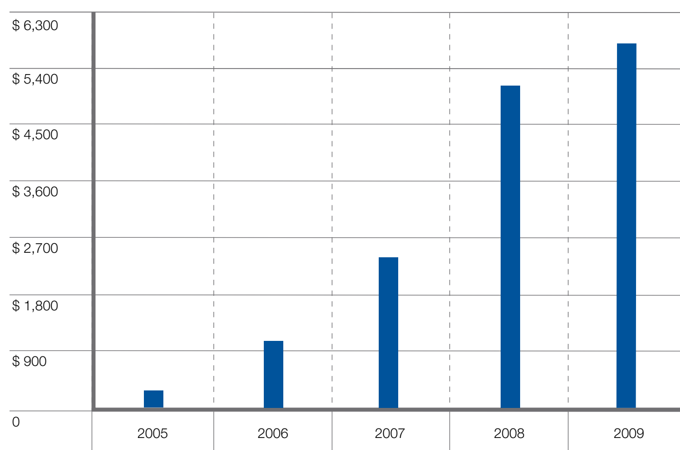


strengthening the internal management and on hotel product fine-tuning related to customer feedback. We enhanced our IT system and stream-lined workflow processes and, as a result, we successfully reduced costs and increased efficiencies. Eventually, our efforts during the tough period turned out to become a solid base for the next stage of growth when the economy recovers in China. The lesson we learned is that customer satisfaction is always the first priority for our business as we are in the service industry."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Ji: "Being this my third company as a co-founder over the last decade, I have learned a great deal.

First: To successfully start a company in China, entrepreneurship needs to be combined with professional management because most companies are very founder/CEO centric, and everybody expects the CEO to know it all and to make most decisions. The CEO, therefore, becomes the bottleneck in the company but also a major risk factor. As a result, the growth rate of the company and its maximum size are determined by the CEO's capability and his management team. Second: In the service industry, quality is the key and the customer is king. Given our strong culture in China, we should combine traditional



concepts with modern management (financing, technology, leadership). Third: When the economic environment is changing, don't gamble. As a professional management team that builds and operates a company, we should focus on the business itself – i.e. focus on profitability, how to form a professional team, and how to establish systems that help to scale the company. The problem in China is that it is hard to find good schools that teach these basics. In manufacturing, we have learned to scale, but in the service business, we are still early in the learning curve." ■

Prepared by Martin Haemmig, George Foster, Xiaobin He, and Ning Jia, 22 November 2010
Supported by Sinolinks/Goshawk Group (Fernando Bensuaski)

Ctrip.com International, Ltd | China

OVERVIEW:

Ctrip.com International, Ltd (NASDAQ: CTRP), registered in the Cayman Islands, is a leading travel service provider of hotel accommodations, airline tickets and packaged tours in China. Since its inception in 1999, Ctrip has experienced substantial growth through high-quality services and has become one of the best-known travel brands in China. In mid-2010, its market capitalization reached approximately US$ 5 billion, and the company had more than 10,000 employees.

CTRIP.COM INTERNATIONAL, LTD

TIME-LINE / KEY EVENTS

QUOTATIONS FROM:

Qi Ji has served as director of Ctrip.com since its inception and is the current executive chairman of China Lodging Group (HanTing). He was the CEO of Ctrip from 1999 to 2000 and its president from 1999 to early 2002.

James Jianzhang Liang is the current chairman of the board of Ctrip and was the CEO from 2000 to 2006. He worked at Oracle for nine years and holds a Master of Science degree from Georgia Tech.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Ji: "In 1999, there were many 'black-box-operation' travel agencies. Initially, we founders of Ctrip wanted to establish a full-service online travel agency to provide transparent packages. At the early stage of operation, we recognized that hotel reservations were the most profitable area and didn't require delivery and logistics. In addition, the e-business environment with an online payment system turned out to be a complicated issue in China at that time. Hence, about six to eight months into the operation, we converted the online travel agency into a hotel reservation-focused company in order to pioneer the business-to-consumer (B2C) model in this industry in China. Five to six years later, when the company reached the number one hotel booking position in China, we went back to the original idea and started to move the company into a full-service agent. The order of the service rollout was as follows: 1) hotel reservation, 2) air tickets booking, and 3) package tours, which remains the smallest business area as of today."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Ji: "The co-founders never imagined building such a big company. Given our international background and network, we believed that we

could raise venture capital, get listed quickly and make a bucket of money each. As the business started to pick up, the company was offered millions of dollars to be acquired by Expedia from the United States. However, because of 9/11 and its consequences, the acquisition did not go through. In addition, it was only then when we realized the potential value and decided to build the company to a larger scale and get it listed on the NASDAQ. Once we became a public company and had access to capital from the public market, we changed our scope and envisioned becoming the biggest online travel agency in China. Wall Street perceived us as the Expedia of China."

Liang: "Each founder may have a slightly different horizon. The finance guys usually have a shorter term perspective. I recalled in the early days, Ji Qi and I talked about how we would walk into every hotel and get treated like kings (sort of achievement oriented). But I would say at the end of 1999, during the bubble times, more than any other time in the history, entrepreneurs tended to have a short-term perspective, not just in China. Being acquired by some foreign firms was never seriously pursued, because listing was a much more common exit. Of course, after the bubble burst and IPO required making significant profit again, I had to start thinking [about] building the business for the long term. Looking back, the five-to-10-year plan I did in 2001 and 2002 was surprisingly accurate."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Ji: "It was the 'early-mover' (not necessarily first mover) advantage in the online reservation market with the focus on attacking the traditional hotel reservation agencies. By using the Internet platform, we could quickly reach customers nationwide at a very low cost and at their convenience (24/7). The new business model offered another advantage. We started to understand the value of digital information. The ability to reach customers online allowed us to provide more services at a very low cost and provide customers last-minute special discounts. None of the traditional travel agencies could do this at a large scale. Apart from market coverage and cost advantage, another growth driver was related to company organization. Execution at every step in the value chain and processes within our organization were key growth factors. This was very difficult, because we couldn't get experienced staff in this field, and we had to learn quickly from mistakes."

What were the major growth accelerators for your company in its high-growth years?

Liang: "First of all, the establishment of a call centre with high quality service differentiated us from other online players. Second, heavy investment in an online technology platform with an emphasis on outstanding user experience. Third, aggressive offline sales and marketing efforts, including the deployment of a team of 500 plus people to distribute Ctrip cards at major airports. But ultimately, it came from the right strategy and strong leadership that attracted an outstanding team. Fourth, our human resources strategy and the development of a company culture have been important. Since Ctrip was an Internet-based company, we could easily attract and motivate young people in the early years. From the very beginning, Ctrip had an employee stock option plan (ESOP), although at that time nobody in China really understood what it meant or how it worked. Since the travel industry paid low salaries, we focused on above-average pay through performance measures. We implemented the 'Balanced Score Card' system, by which executives could get 50% of their total package as bonus; other managers, 50%; and employees, 10 to 15%. After the NASDAQ listing, Ctrip strengthened its employee training and initiated a career development programme. With the rapid growth of the company, we started to strengthen the corporate culture of Ctrip, which centred around: 'C' ➜ Customer; 'T' ➜ Teamwork; 'R' ➜ Respect; 'I' ➜ Integrity; 'P' ➜ Partnership."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Ji: "Early good VC (venture capital) brand names were key in order to scale rapidly to reach specific milestones and to attract leading VC (venture capital) investors into the second and third round of financing.

1. Series A: RMB 325 million (US$ 40 million) from China Enterprise Investment. IDG China, Ecity Investment, etc.
2. Series B: RMB 543 million (US$ 65 million) from Carlyle Asia, CIPA Company Investment, Softbank Asia, IDG, SI Technology Investment, Orchid Asia, etc.
3. Series C: RMB 181 million (US$ 22 million) from Tiger, IDG China, Modern Express, etc.

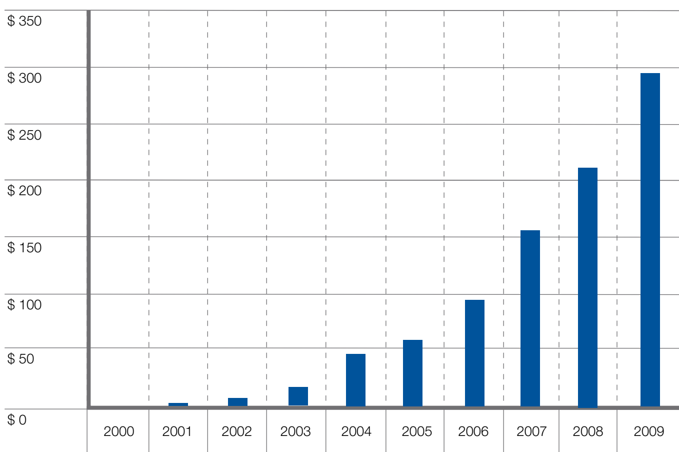
"On the day of IPO (9 December 2003), Ctrip (NASDAQ: CTRP) opened at US$ 24.01 and closed at US$ 33.94, representing an 88% increase above its offering price of US$ 18. The company raised US$ 76 million on its IPO. In H1, 2010, the stock traded between US$ 31 and US$ 44 per share, resulting in a market cap of approximately US$ 5 billion."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

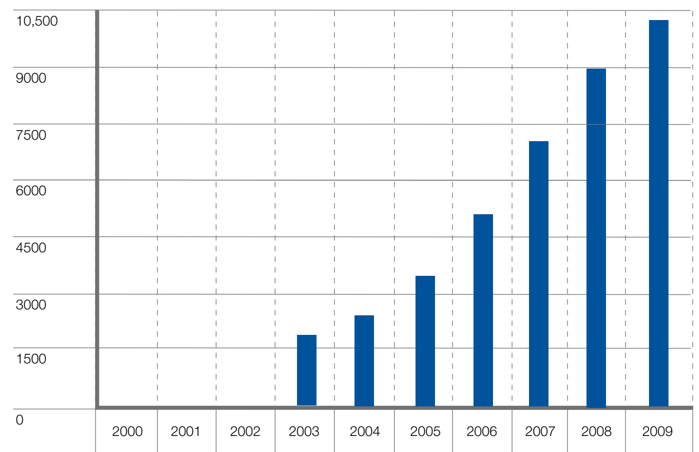
Ji: "They were very diverse and market-, founder- and company-specific to Ctrip:

1. First was dealing with managing rapid changes in the industry. The dot-com crash in 2000 and 9/11 reduced our business volume; hence, we had to focus on profitability. Just prior to the market crash, we acquired three leading hotel companies, which had low P/E ratios.
2. Second was cooperation among four co-founders and keeping the team together. Each of the co-founders is a great entrepreneur and can run a company independently. We all had different views and quarrelled about Ctrip's future direction during challenging economic times. Some co-founders even considered leaving the company, but job options during the economic downturn were limited. Luckily, our market in China bounced back, and we focused again on moving the company forward.
3. Third was focusing on profitability, especially in an uncertain economic environment. As we were worried about cash shortage, we developed a plan to get the company to profitability quickly."

CTRIP.COM INTERNATIONAL, LTD



CTRIP.COM INTERNATIONAL, LTD



Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Liang: "There were two difficult time periods for us. The first one was during the dot-com bust period. We were not profitable at that time, and all VCs seemed to disappear. We had to adopt a very down-to-earth strategy and save every penny on sales and marketing. Fortunately, we found a way to do this, by using person-to-person selling at the airports.
"The second difficult period was during the SARS epidemic. Our sales volume dropped almost 90%. We faced a tough situation of how to survive this period. We worked with our employees to implement a pay cut so that we did not have to lay off too many people. This arrangement eventually allowed us to recover quickly when the epidemic was over."
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Ji:

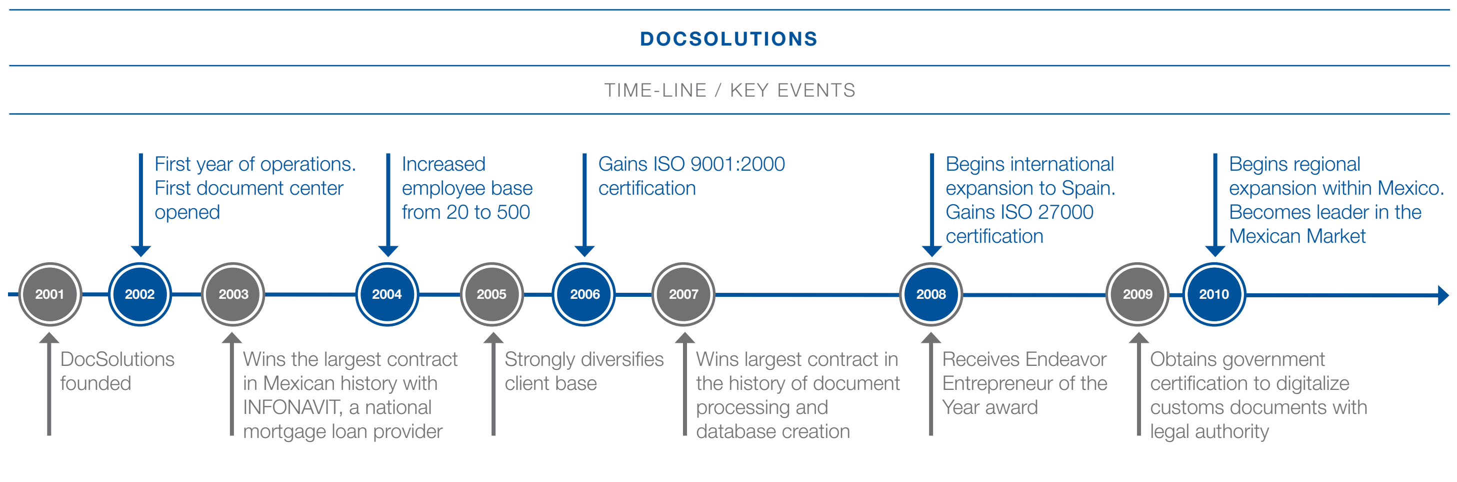
1. "The initial idea and business model of a start-up will evolve over time. The key is to quickly adapt and navigate through uncertainty.
2. In high-growth companies, you need to respect and leverage diversity in the skill set of the management team. However, everyone should share the same values and dreams.
3. When starting a company, try to leverage market hype and ride the wave early. However, don't lose sight of the fundamentals, which are focus on customer satisfaction and early profitability. In other words, ensure operational excellence, which is a challenge in China, due to high staff turnover. This is why ESOP is helpful to keep [employees]. And bonus paid on profitability also helps in this part of the world.
4. When operating as a foreign company in China, you may need to set up PRC and international entities to enable a manageable business operation. For example, Ctrip today has over 17 entities in mainland China, USA, Hong Kong and Taiwan, which are all consolidated." ■

Prepared by Martin Haemmig, George Foster, Xiaobin He, and Ning Jia, 22 November 2010
Supported by Sinolinks / Goshawk Group (Fernando Bensuaski)

DocSolutions | Mexico

OVERVIEW:

DocSolutions specializes in the design and operation of customized solutions for document management and information processing. Founded in 2001 by brothers Guillermo and Gabriel Oropeza Ibáñez, their father, Gabriel Oropeza Griffith, and their sister, Estela, the company is family held with 100% Mexican capital. Currently, DocSolutions operates seven document centres covering over 10,000 square metres (107,000 square feet), located in two industrial parks in the northern area of Mexico City (Cuautitlán). The company employs over 300 full-time workers, and the yearly average for project-based personnel is typically between 500 and 1,000 employees. The company has evolved its strategy over time to become a more forward-looking information management company. It aims to cover the whole document life cycle, including the front end of the document production process as well as the back end storage of physical and digital documents. In 2008, DocSolutions was announced as an Endeavor company.



QUOTATIONS FROM:

Guillermo Oropeza Ibáñez is the co-founder and currently director of development and planning at DocSolutions. He has a BS and a MS in mechanical engineering from the Massachusetts Institute of Technology. His brother Gabriel (Notre Dame: MBA) is the commercial director. The current CEO/director is Marcelo Cohen.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Guillermo Oropeza: "All we knew from the start was that we wanted to build a business, but we didn't know what type, so we defined a set of principles and criteria around which our business would be based. We wanted a business-to-business model with the biggest market possible, with the ability to penetrate into many different companies and industries, while adding value to our clients. We wanted something that was not capital-intensive – a business that would finance itself upon gaining some momentum. And we wanted to make it big. Luckily, someone knocked on our door offering us record storage services, and we said, 'This could work with our requirements'. So we did a study of the market and founded the company in 2001. However, the business model we had chosen came up short. While it required low investment levels allowing us to step in, these low barriers of entry quickly allowed others to do the same, so it gradually started to fill up with competitors. We realized our business then could be described and understood as a real estate business, in which companies rented storage space for their documents. Market opportunities and pressure at the same time allowed us to change our paradigm. We began to understand that those boxes we were storing at our facilities had information and that this information once had a lot of value sometime upstream. With this subtle emphasis shift, we began to realize that there was a lot of value to be delivered and captured by managing information at the earliest stages, rather than stepping in late only to store old documents. We understood the value of information at its earliest stages, and developed a complete set of services to manage it all throughout its life cycle. So we changed from a real-estate company to a technology company in which we connect directly with the information flows and the processes supported by documents, offering a far more efficient, integrated and sophisticated service than our competitors."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Guillermo Oropeza: "We knew from the outset that we wanted to create a scalable business that we could make big and continue to grow. But we didn't even think as a joke that nine years later we would have the goals that we have today. Our goals are now highly ambitious and would have seemed completely unattainable when we were starting up. We now see our goals as high, but reachable. We have grown 100 times from year two to year nine, and our goal is to grow 10 times more in the next five years. When we look back, we now have the satisfaction and confidence that things can be done. We've taken the bar very high, and we need to keep up with our self-created aspirations, but we know we should not be frustrated and that we should have the patience to get there – it's important to think towards the future and not forget that entrepreneurs are long-distance runners more than sprinters. We are endurance athletes and, consequently, our goals are long-term."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Guillermo Oropeza: "Staying true to our initial vision around document management, we began complementing our services and participating in different but related industries – first in storage of hard copy of documents, then we began moving backward to document-based business process outsourcing, then one more step backward to develop the technology for Enterprise Content Management (ECM). That integration of operating and technological capacity put us in a 'sweet spot' that made a lot of sense to clients. The integration of these three industries, both on the physical and digital planes, really integrates a business' entire model. But that's only the theoretical element. The practical element is our proven capacity for execution. This capability has provided us with great references and increased our contracts exponentially through reputation. We began to gain prestige based upon our execution. Having a great idea is essential to any good business, but it means nothing without being able to efficiently put your idea into practice. Execution assures a business' future. This is the combination that has given us our success, our high growth rate.

"If the business grows, everyone that forms part of the business grows with it. To get the best results you have to get your sleeves dirty, get down in the trenches. This is fundamental because you can't have a winning team if it doesn't feel like it is part of something bigger. You must make your collaborators think like you, maximize risks, reduce costs, deliver on time, exceed the client's expectations and generate long-term relationships. This type of execution allowed us to win our first big contract and take the business, in our second year of operations, from 20 to 500 employees in one month."

What were the major growth accelerators for your company in its high-growth years?

Guillermo Oropeza: "What has given us our accelerated growth has been successfully and repeatedly implementing our business model. That is, we have hit home runs over and over again, while we have built enduring and long-lasting relationships with our clients. The experience and reputation that this has given us, directed intelligently towards each subsequent project, is a great takeoff point for our next big step. The sum of these steps is what gives you accelerated growth. The key has been not to hit a home run and then be happy with it. If we stay in our comfort zone then the motivation to grow is lost, and growth is the principal objective of the company. That allows us to create a company with ever higher standards and capacities. Each year, we have at least one big project, and a huge reason as to why we are continually able to hit home runs is due to the credentials that the previous home runs have given us. More credentials lead to more projects, which lead to more credentials. It's a virtuous cycle."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Guillermo Oropeza: "We began with a relatively low investment. When we identified the type of business we wanted to have, we drew up a business plan, which laid out the required initial investment and what kind of costs we would confront over X period of time. So we knew, more or less, what was needed to start up. Our father handed us a living inheritance so that we would have a boost to begin our lives, telling us, 'Here is your inheritance, do with it what you will'. We decided to join forces and used it as the seed capital for our business and that's what gave life to DocSolutions. In the beginning, the business was financed with this money, and since it was not a capital-intensive business, it quickly began to finance itself with the income. Today, the company is totally solvent, profitable and debt-free. We are in a fairly enviable financial position at the moment."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Guillermo Oropeza: "At the beginning there were some moments where it seemed like it would take forever to reach the break-even point. There was a lot of anguish initially with our family having to put in more and more money, but we knew we would come out on top. You have to be an optimist and try to believe that the business will succeed, although that can be the most difficult part. Among the most difficult challenges was to land the first big project, but more importantly was actually executing. That was a mega challenge. I think that maintaining a steady rhythm of growth has been, in itself, our greatest challenge. That has translated into many sub-challenges: to go from losses to profits, to get through that negative period. Then, to continue betting on the company with process-oriented people, new technologies and new process continues to make the company more efficient and increases its growth capacity. Investing your resources drains you, but it's a bet for the future. It's also quite difficult to attract good people to come on board and then inspire and incentivize them to stay on board. Since you're betting on a project that is just being born, those people must also bet on the future of the company as much as you. Because the projects are won by people, they must be motivated to look beyond the obstacles, which are innumerable.

"Now that we have a more significant size and have gone international, we have new kinds of challenges: communication, cultural issues, wanting to be there face-to-face with a client but not being able to, and having to trust and delegate to your people. We also need to be more alert about what is going on in the world and continuously improving and polishing our business model. That is, we must maintain a certain degree of constant anxiety and unconformity about the way the business is going in order to stay motivated to innovate and grow the company. This is the engine that allows us to move the organization forward and make it better at every level."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Guillermo Oropeza: "Losing a project that you've worked hard for really hurts. It is tough to put forth all your efforts and resources and know you are among the finalists and then not win a project despite displaying your best practices and principles. But after accepting the loss, we must look up, and keep on going."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

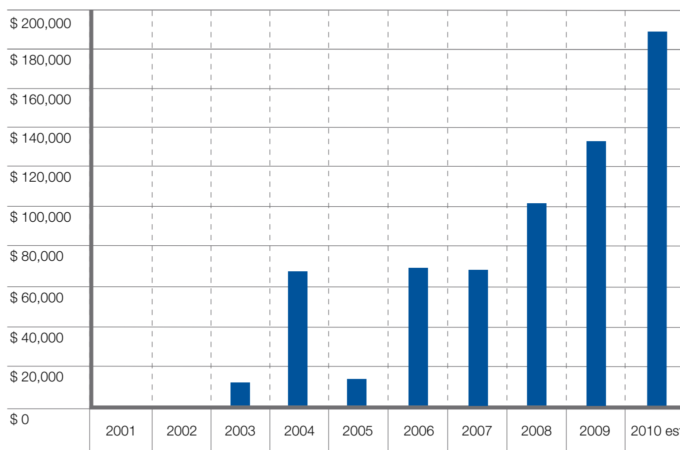
Guillermo Oropeza: "These are the key takeaways for me:

- Diversify the client base; don't service only one industry or sector of the economy. Always have many fronts.
- Don't be afraid to take the first step and become an entrepreneur. And by this I mean the continual process of entrepreneurship, to create a new project or expand to a new region. Be cautious, of course, but you must be ever more daring than shy. Trust your feelings, and even without having performed all the analytical work, bring the right people around you and you'll have a winning strategy.
- Bring together a team of people that share your vision, and have an attitude of winners. Especially those that are at the top, responsible for the operations and development of the business.

DOCSOLUTIONS

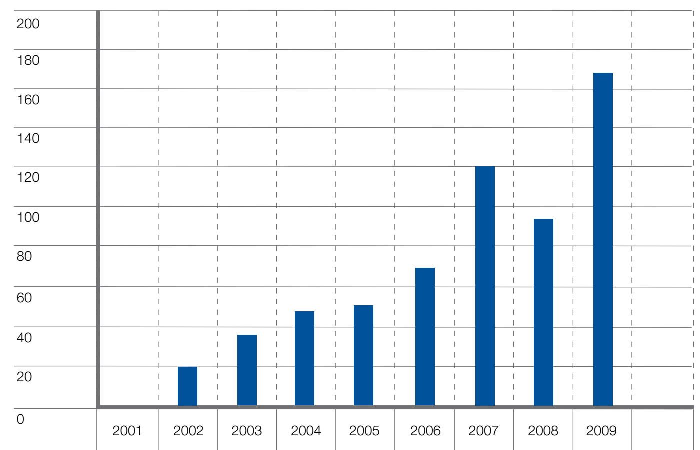
REVENUE

(PESOS)



DOCSOLUTIONS

HEADCOUNT



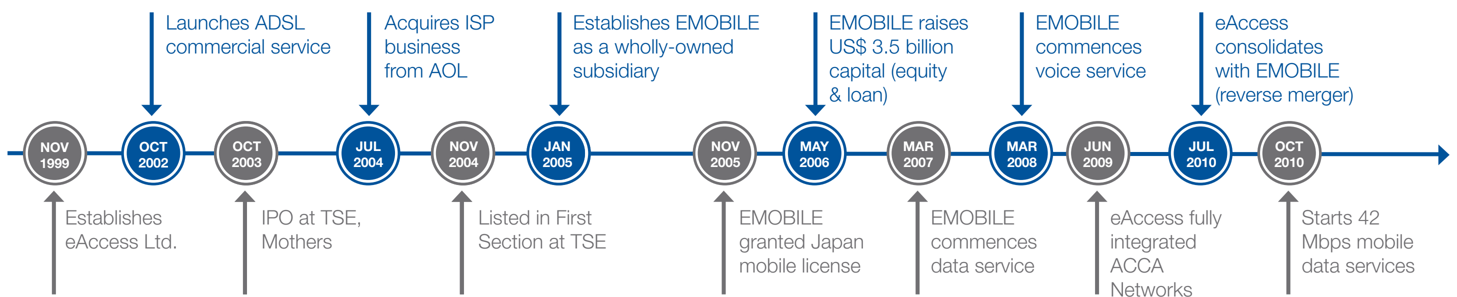
- Understand your business from the outside. Extracting yourself from the day-to-day and looking at it from the outside in can be extremely difficult, but ultimately a game changer.
- Look towards the whole industry to be aware of what's going on and constantly compare your business to find new areas of opportunities.
- Develop key strategic alliances with partners that naturally complement you. Treat your partners fair.
- The last would be to look at every corner for the possibility to innovate, and never pass up a business opportunity, regardless of how challenging you might think it will be." ■

Prepared by George Foster and Endeavor Center for High Impact Entrepreneurship, 24 November 2010

eAccess & EMOBILE | Japan

OVERVIEW:

Listed on the Tokyo Stock Exchange (TSE), eAccess and EMOBILE are group companies with a focus on broadband communications. Established in December 1999, eAccess is a leading ADSL wholesaler and was one of the fastest companies in Japan to go public after its inception. About one-third of the cable broadband market is ADSL (US$ 3.4 billion), which the company shares with the NTT Group and Yahoo!BB (Softbank Mobile). Founded in January 2005, EMOBILE started mobile, broadband, data-communication services in March 2007 with a proprietary network across Japan. The US$ 100 billion mobile market in Japan is shared among five companies that offer nationwide mobile phone service (NTT DoCoMo, Softbank Mobile, KDDI/au, Willcom and EMOBILE).



QUOTATIONS FROM:

Sachio Semmoto is a five-time serial entrepreneur in Japan in the telecommunications market. A graduate engineer from Kyoto University, he joined NTT, the national telecom company, in 1966. In the 1970s, a Fulbright scholarship enabled him to earn his PhD in engineering from the University of Florida, and he then returned to NTT. With deregulation in 1984, he started DDI (today KDDI), a wire-line rival telephone company to NTT, with the backing of Kyocera and Sony. Profitable within three years, KDDI spawned a wireless carrier (now called au) and the Willcom wireless data service. After his tenure as a professor at Keio University (1996-1999), Semmoto launched eAccess (an ADSL provider) in November 1999 with Eric Gan, and the company went public in October 2003. In 2005, at the age of 62, Semmoto started EMOBILE, within eAccess, to expand into the mobile broadband market. While the eAccess management team is Japanese (except for Hong Kong-born Eric Gan), the outside directors of the board are predominantly from Asia, Europe and the US, which is uncommon in Japan. Semmoto is an outsider by any dimension, challenging the status quo of traditional Japanese management practice.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Semmoto: "There were three key elements:

- *Market needs*, which evolved historically from the Internet era to the IT revolution and eventually to the broadband explosion
- *International survey*, which showed that US companies (e.g. Covad, Northpoint Communications and Rhythms NetConnections) are modeled the way
- *Filling gaps in the Japanese market*, which started to evolve through deregulation and the availability of venture capital with local exits"

"The changes over time were significant in the development of the broadband market from fixed-line to the mobile communication market:

- One-and-one-half years later than eAccess, Softbank (led by Masayoshi Son), entered the fixed-line ADSL broadband market and slashed the prices in the Japanese market by 50%. This paved the way to a dynamic, innovative and competitive environment.
- Despite its high-tech wizardry, Japan was trailing in the Internet age due to monopolistic market forces. At the end of 1999, only about 20% of the population was online, compared with 40% in the United States. Moreover, prices were high; a heavy Internet user would pay up to US$ 200/month. In November 1999, we entered the ADSL fixed-line market with eAccess to provide low-cost, flat-rate services at US$ 25/month, and prices fell another 70% by 2006.
- With the ADSL business slowing, I decided with Eric Gan in 2005 to enter the mobile market (phone and data) with EMOBILE. EMOBILE introduced mobile broadband data service and created a totally new market."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Semmoto: "It may sound visionary and very ambitious, but we believed in the impossible dream of changing the world and providing ADSL to the masses at affordable prices. This provided value for (1) the users and society, (2) the shareholders, and (3) the employees and their families. "Changes happened over time because consumer preferences for mobile usage provided new and amazing business opportunities that had not been part of our initial vision. We therefore jumped on the bandwagon to complement our fixed-line ADSL business with mobile services by forming EMOBILE, a subsidiary of the ADSL provider eAccess. EMOBILE was one of three companies granted new mobile licenses by the Japanese government in 2005. We subsequently carved out a niche in delivering mobile broadband services via dongles and PC data cards. We have steadily increased data speeds on our HSPA network over the past few years in a bid to keep it ahead of our more established rivals.

"According to the latest Wireless Intelligence database, EMOBILE (1) controlled only 2% of the Japanese market at the end of Q2-2010 but took a 12% share of new customers during that quarter and (2) accounts for 11% of the country's HSPA (high-speed) connections. EMOBILE has grown its connection base by 52% year-on-year, with none of its competitors managing double-digit growth over the same period. Needless to say, such a growth rate is associated with the pain of growth, but we have been able to navigate through this quite well."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Semmoto: "To be a good example of a startup in a competitive environment that is dominated by a few 800-pound gorillas, we had to be innovative, frugal and fast. We focused on (1) acquisitions and partnerships, (2) business model innovation, and (3) cost leadership.

1. *Acquisitions and partnerships*. "To gain scale for eAccess in the telecom market, in July 2004 we acquired the profitable ISP business from AOL Japan. In January 2008, eAccess took a 9.5% minority stake in UCO (a fiber-optics communication unit). In addition, eAccess acquired the ADSL business of Tohoku Intelligent Telecommunications Co Ltd, a provider of communication services. Finally, eAccess acquired the remaining shares of ACCA Networks in June 2009, in order to almost double our ADSL market share in Japan. EMOBILE Partnerships: we initially partnered with reputable Ericsson for the large-city infrastructure rollout. Later, we teamed up with Huawai (China) for the rest of the national network and for some handheld consumer devices. For OEM devices (PCs and telephones), we had our technology embedded to gain scale. Finally, on the distribution side, we pushed for shelf space in the most popular chain stores across the nation and gained mindshare from the consumers through aggressive and innovative marketing campaigns.
2. *Business model innovation*. For eAccess: 'Coopetition' in technology and the market. For EMOBILE: Be 'first' in everything we do (technology and market approaches). We clearly understood the customer needs, our competition (I had worked for three of them, of which I was the founder of two) and the dynamics in the market. In addition, we were riding the wave of deregulation with new licenses.
3. *Cost Leadership with EMOBILE*. We developed and partnered. Look at our cost structure of the infrastructure vis-à-vis our competition – 1/10 per installation site, 1/9 for antenna space-rents, 1/5 for electricity costs (no air conditioning needed), and 1/3 of backbone cost (own IP)."

What were the major growth accelerators for your company in its high-growth years?

Semmoto: "They differ between the ADSL and mobile business. We need to be first in everything we do: (1) technology, (2) market. We were first in Japan's mobile broadband market in 2007 with flat-rate for 3.6 Mbps, 2007 with 7.2 Mbps services, 2009 with 5.8Mbps uplink speed, 2009 Japan's first 21Mbps services, and in October 2010 with 42Mbps services.

eAccess accelerators

- Deregulation
- Tough competition (speed and price) and market growth
- Cost sensitivity

EMOBILE accelerators

- Flat-rate service
- Bundled service of PC and communication with low initial charge
- Pocket WiFi (mobile everywhere through mobile hot spot)

"EMOBILE's latest upgrade in October 2010 to 42 Mbps on our high-speed 3G network is an attempt to maintain its unique position in the Japanese market, where it is positioned more as an ISP than a mobile operator. The latest upgrade also means that EMOBILE has attempted to double peak download speeds every year since its inception (call it Semmoto's Law in telecom). Due in part to its highly-developed fixed broadband market, mobile broadband has been less of a focus for the larger operators in Japan, which has allowed EMOBILE's data-centric business model to flourish. EMOBILE is banking that HSPA+ (84 Mbps in 2012) is more than a short-term solution. Even in a relatively small geographic market such as Japan, nationwide LTE (long-term evolution) coverage (+100 Mbps) will take time and will initially be limited to the main urban centers. In the meantime, EMOBILE should be able to offer Japan's fastest network speeds in most local markets using HSPA+.

HR Policy: Our HR policy has been an important growth accelerator. Key elements include:

- The initial core members of our team all came from the personal and industrial relationships, so it was instantly a cohesive team that could function from the very beginning. We all were business and operating people and technology experts in the telecom world. In addition, several key people joined us from the competition, since we had a much more entrepreneurial environment.
- From the early days on, we had an employee stock option plan (ESOP) for all employees. After the IPO of eACCESS, we launched a new ESOP (2005-2009), and in conjunction with the re-integration of EMOBILE into eAccess, we renewed another ESOP, since we wanted to attract and retain the best talents possible into the future.
- We continuously hire new and hungry graduates and instill our corporate culture in them early. They do not have to unlearn first. In this manner, we ensure a continuous learning path to help them grow. They are eager to do so, and we keep them hungry to excel."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Semmoto: "The financing for eAccess (established in November 1999) and EMOBILE (established in January 2005) were very different.

eAccess (total of ¥ 160 billion over 10 years, approximately US$ 1.5 billion)

- Private equity financing (2000-2001; closed last round just before 9/11)
- Project financing (June 2002)
- IPO on TSE Mothers (October 2003)
- Euro-Yen convertible bond (June 2004)
- Domestic straight bond (March 2005)
- Bank loan (May 2008)
- Bank loan (July 2009)

EMOBILE (total of ¥ 363 billion over one year, approximately US$ 3.3 billion)

- Equity financing, five rounds at different valuations within eight months (August 2005, October 2005, November 2005, March 2006, April 2006), totaling ¥ 143 billion (US$ 1.3 billion)
- Loans, ¥ 220 billion (US$ 2.0 billion)

"The rollout of a nationwide mobile network with about 3,000 antennas is very capital intensive, but that is the best way to differentiate our company from the competition, both in technology and in services."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Semmoto: "The two business entities experienced different challenges.

eAccess

- New entrant. Softbank Mobile, the major shareholder of Yahoo!BB, introduced a flat rate at half the market price in 2001, shaking up the market.
- Collapse of IT bubble. and tough financing – Raised ¥4.5 billion ($42 million) in 2000 and ¥4.0bn ($34 million) in 2001 through Carlyle, just prior to 9/11.
- Failure of IPO. Withdrew December 2002 IPO plans (insufficient demand).A new COO successfully prepared the September 2003 IPO.

EMOBILE

- Get mobile license. Softbank Mobile quarreled with the government, and EMOBILE was the beneficiary from this process (license for 1.7GHz).

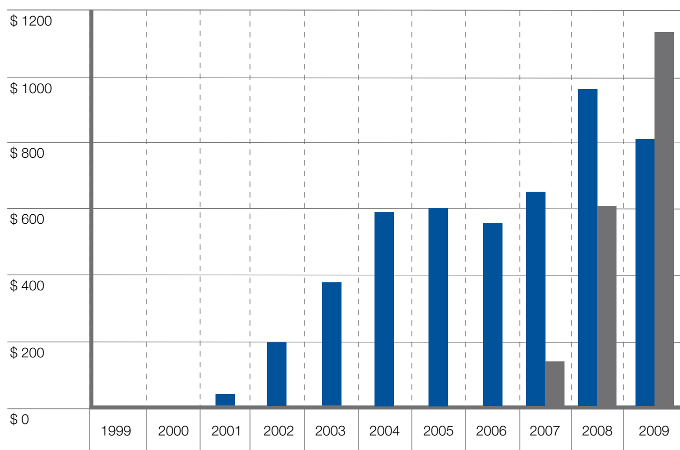
- Mobile network construction – 3,000 base stations required across the country. Google Map was used to seek (cheaper) alternative sites.
- Huge financing needs – Extreme needs within 1 year of ¥ 363 billion (US$ 3.3 billion) of which ¥ 143 billion (US$ 1.3 billion) in equity and ¥ 220 billion (US$ 2.0 billion) in loans.

NOTE: "eAccess and ACCA Networks Co businesses both suffered when they failed in December 2007 to win licenses to supply next-generation wireless services via WiMAX technology. Consequently, eAccess took an equity stake in ACCA and eventually completed a 100% acquisition and integration in June 2009."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

eAccess & EMOBILE

REVENUE
IN MILLIONS (US$ M)



Semmoto: "In June 2001, when a new competitor (Yahoo!BB/Softbank) entered the ADSL market with extreme pricing (flat rate at half the market price), I felt that our company might not be able to survive. The competitor's strategy was to acquire mass subscribers with extremely low prices (although at a high acquisition cost), leveraging its financial power. The competitor could tolerate considerable losses in an initial stage and aimed to capture earnings over time. As eAccess was a pure start-up with limited funding ability, we had planned for steady growth over time, while focusing on profits in the short term. However, because of the destructive new entrant, we were forced to fundamentally change our business plan. We thoroughly reviewed the pricing strategy, subscriber forecast, and cost structure and then developed a new business plan in a very short time. Consequently, we were able to redesign a business structure that led to further growth. In other words, the initial threat turned out to be an opportunity in streamlining our business for the long term."

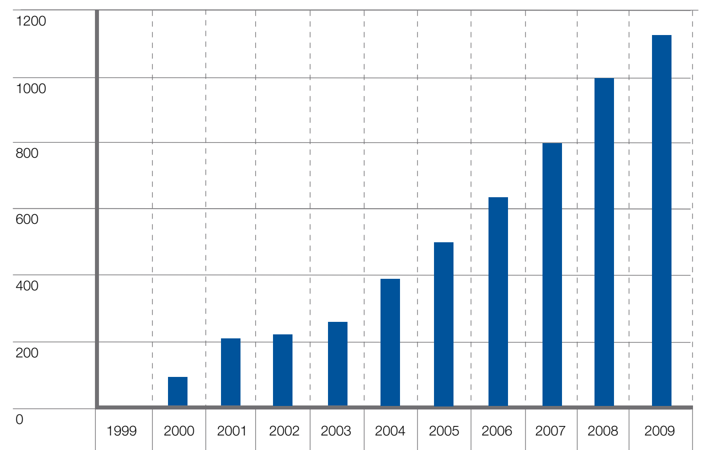
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Semmoto: "They are related to markets, technology and leadership:

- Catch the wave of emerging trends early, but then drive for market and technology leadership
- Plan well in advance, but be ready for radical challenges from the market (then adjust quickly)
- Take bold risks (e.g. from ADSL to mobile), but try to mitigate as much as possible
- Don't compromise on partners, but be sure the partnership is mutually beneficial for all parties involved
- Set high targets and be positive, but adjust (e.g. sales targets to higher levels) if the market picks up faster than expected
- Never look back once you decided to go ahead, but make sure you don't repeat mistakes (self-inflicted wounds).
- Never give up and do continue until you succeed, but be open to alternative routes to get there
- Be both bold and patient, but be willing to help drive policy changes at the governmental level, even if it proves painful
- Always take the higher level of challenge, but 'walk the talk', especially if you challenge the status quo or go for 'mission impossible'
- Thank all the people who support you, but be sure you give the credit to those who really deserve it (don't decorate yourself) However, everything depends on the corporate culture you create and the leadership team you hire to execute the company's strategy." ■

eAccess & EMOBILE

HEADCOUNT

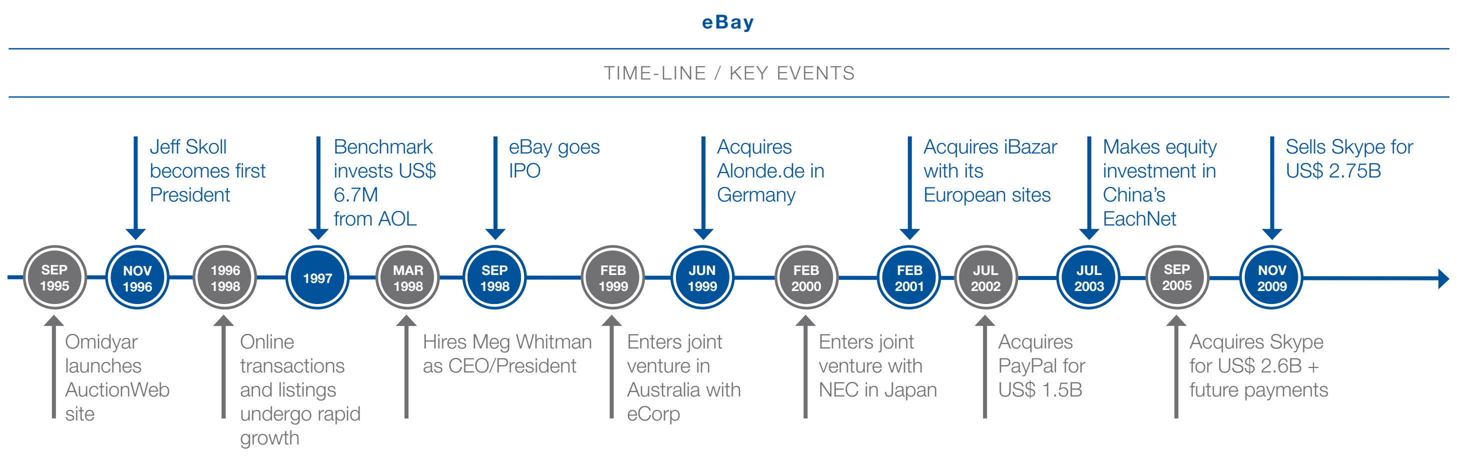


Prepared by Martin Haemmig and George Foster, 17 November 2010

eBay | US

OVERVIEW:

Short for Echo Bay Technology, eBay had its genesis as a person-to-person Internet commerce site. It was set up as a trading platform that promoted efficient exchanges between sellers and buyers. Formed in Silicon Valley, eBay grew out of AuctionWeb, an online open marketplace Pierre Omidyar had launched in September 1995. While not the first mover in the online auction space, eBay was the first company to significantly scale. Its subsequent continued growth has positioned it as a major online commerce company.



QUOTATIONS FROM:

Pierre Omidyar has been eBay's Chairman since he founded the company in 2005. Before starting eBay, he had co-founded Ink Development Corporation, which later became eShop and was acquired by Microsoft. After graduating with a BS in Computer Science from Tufts University, Omidyar went to work at Claris, a subsidiary of Apple Computer. He is the co-founder and founding partner of the Omidyar Network, which aims to "enable people to connect over shared interests and build individual businesses." In 1996, Omidyar hired **Jeff Skoll** as the company's first President (1996-1998). Skoll wrote the original business plan, which laid out much of the path eBay subsequently followed. A serial entrepreneur during his University of Toronto and post-graduation years, Skoll received an MBA from Stanford University (1993-1995). He then joined Knight Ridder in the online media projects area. In 1999, he founded the Skoll Foundation, a leading supporter of social entrepreneurship. Skoll is also active in producing movies that promote social causes via his company Participant Media. **Brad Handler** was the first in-house counsel for eBay (1997-2001). He has degrees from the University of Pennsylvania and University of Virginia School of Law. In 2002, Handler co-founded Exclusive Resorts, a successful vacation home concept aimed at the high-end of the market. **Matt Bannick** was a member of eBay's executive staff from 1999 to 2007. He played a key role in the international expansion of eBay's operations. He is now managing partner of the Omidyar Network.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Omidyar: "When I first came up with the idea for what I originally called AuctionWeb, it was really an experiment. I didn't necessarily begin with the goal of starting an online trading company. I wanted to take an existing model around marketplaces and see if it could work in the virtual world. I had a basic belief that most people are good, and I started there. Today, I still believe that is true.

"One of the fascinating things I saw early on was the self-organizing nature of the eBay community. They created their own set of values and norms. Buyers and sellers saw opportunity in the platform, and the community rallied around the opportunity. The technology played a key role because it helped level the playing field and allowed users to connect to one another in ways that would not have happened in the physical world. Feedback Forum was added to the platform early on when I realized that people had no easy way to verify the transactions and share their experiences with others in the community. The trust this created for both buyers and sellers has been critical. Ultimately, eBay created opportunity for people to support themselves financially. The platform provided a level playing field for millions of people.

"The original values were also essential to the success of the company. We quickly learned that if we lived and truly believed in those values, the entire community would prosper: the buyers, the sellers and eBay as a company. We couldn't tell the community, 'You live the values' while we operated differently. Over time, eBay grew rapidly. We went from 20 employees to 200 to 10,000 globally. But at every point along the way, we needed to live the values through our day-to-day actions. Eventually, we created behaviours (the values in action). The values never changed, and they were helpful to us as we were challenged – we always went back to the values for guidance."

Skoll: "The initial idea was that person-to-person trading was inefficient and that the Internet could provide a more efficient way to trade. Person-to-person trade typically took place at yard sales or via classifieds, which were generally geographically dependent and unable to effectively set market prices. The initial idea was to create a ubiquitous online marketplace that would allow people to find each other and their wares and bid on the items via an auction format. Over time, the auction marketplace became divided into categories, international-specific sites were set up, and other formats – including fixed price – were introduced into the marketplace."

Handler: "The original idea of Pierre Omidyar (the founder of eBay) is still the driving force of eBay. Person-to-person commerce on the Internet can and will work if you provide people with background rules and a friction-free platform for online commerce. Over time, certain safeguards were added, such as trust and safety initiatives, credit card processing and intellectual property protection programmes."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Skoll: "The vision was to create the premiere online trading community in the world. The company grew faster than the original business plan, exceeding its five-year goals in the second year."

Handler: "The initial plan was to reduce barriers to person-to-person trading. That vision has not changed. However, over time, eBay has built a large business, enabling business-to-consumer trading. eBay also expanded into 'Buy It Now' offerings, providing a non-auction format for person-to-person commerce."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Skoll: "Buyers were able to bid for free, while sellers paid a listing fee and a commission upon sales. Buyers and sellers were able to comment upon each other with regard to the transaction, so over time, community members developed reputations, which in turn made it more transparent for people to do transactions with one another. A virtuous cycle evolved – buyers wanted to be in a marketplace with the most listings; sellers wanted to be in a marketplace with the most active bidders. In time, the virtuous cycle proved to be a core part of the defensiveness of the company's market share. In countries where eBay was the first online auction company and where it developed the virtuous cycle, competitors were never able to dent eBay's market position. In countries where eBay was not first, eBay either acquired (e.g. Germany, France) or joint-ventured (e.g. Korea, South America) to become the number one provider. Yahoo got to Japan first and developed the virtuous cycle, so eBay was never able to dislodge Yahoo in Japan."

Handler: "eBay was not the first or the only site to offer an auction format for commerce. The reason eBay succeeded was our belief that individual sellers could be trusted. This belief manifested itself in creating an open site where anyone could buy or sell without needing a credit card. Circa 1996-1998, eBay was alone in this belief. Other sites required a credit card for access to their platform. By not requiring this obstacle, eBay was able to grow much faster than its rivals. Later, when a credit card requirement was added for sellers, it was not required for buyers. By opening the site in this way, we were able to maintain a sizeable lead over all of eBay's competitors."

What were the major growth accelerators for your company in its high-growth years?

Skoll: "The initial introduction of the auction format, traffic deals (particularly with AOL) and the entrance of competitors who spent vastly to attract people to the auction space – only to see those customers go to eBay (Onsale, Excite, Yahoo, Amazon, MSN).

"The use of stock options was a huge advantage in the early days of the company as it attracted top talent yet kept costs down. Once the company had gone public, this took a bit of a flip as many of the early people left after they had vested their options, but by then, the management and team had been well-expanded and professionalized."

Handler: "eBay is a creature of the times. Pierre's idea perfectly captured the growing relevance of the Internet for the everyday consumer. A few years earlier, eBay would have failed due to its inability to get critical mass in buyers or sellers. A few years later, and others would have stumbled onto the secret for success.

"Additionally, Pierre understood that the role of eBay was to provide a framework for commerce and then get out of the way. This minimalistic approach was responsible for making sure commerce was as friction-free as possible.

"Finally, we recognized that our customer was more than the winning bidder. Our customer was every seller, every bidder and every browser on the site. Building for the experience of all three constituencies was core to eBay's success. This small recognition ensured a balance between buyers, sellers and browsers."

Bannick: "Some additional general growth accelerators were:

1. The addition of the fixed price format to the auction price format.
2. PayPal's continued growth after the acquisition. Adding PayPal to the eBay website helped fuel the growth of the core eBay market place business as it added to the ease of use by our buyers and sellers."

"Some growth accelerators in the international arena were:

1. The flexible approach to international expansion. We did organic in the United Kingdom (Greenfield), acquisitions in Europe (Alonde.de and iBazar), joint venture in Australia and minority equity in Latin America (MercadoLibre).
2. PayPal's international growth was very important."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Handler: "eBay was cash-flow positive from inception. In mid-1997, eBay took US$ 5 million in venture funds from Benchmark Capital. The funds were never needed as cash flow supported eBay's growth. In September of 1998, eBay went public on NASDAQ."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Skoll: "The company had numerous challenges in its first five years. Technology: the initial version of the site was written in a shareware environment and was not well-structured to scale. The first several years of the technology brought numerous outages and glitches that were a constant frustration for the company and its customers. The system had a major collapse in 1999, nine months after going public and was down for most of several days. That finally forced a complete system changeover – team, technology, software – that was implemented in 2000 and 2001.

"Growth: the company was one of the fastest-growing companies in the history of the world in its first five years. HR, infrastructure, changing management (hiring Meg Whitman as CEO) were all challenges for the company – as were keeping up with the business end, including questions of whether to take venture investment (we did, Benchmark Capital in 1997), be acquired (rejected several offers in 1997-1998) or go public (did in 1998).

"There were many challenges keeping up with the legality of items on the service, ranging from outright illegal to illegal in certain places but not others, to copyright issues and moral issues."

Handler: "The biggest challenge for eBay was making sure the site was a 'clean, well-lighted place for commerce'. To do this, we partnered extensively with law enforcement and spent a tremendous amount of revenue on trust and safety initiatives. Most of this activity was invisible to the community. However, our focus on these areas was critical to the long-term success of the site."

Bannick: "Growth challenges in international arena included:

1. Integration challenges with acquisitions. These always occur. For example, in Germany, we converted Alonde.de from a site where listings had been free to one where a paid listing model was implemented. The inevitable result was a big reduction in listings on the German site. This caused fear and tension with some of the original German management team members who had stayed on after the acquisition. They saw their listings go way, way down. This, however, was not a long-term problem. When you have a paid listings model, the quality of listings (as in the conversion factor) is much higher.
2. Japan was a challenge for eBay. We arrived too late. By the time we arrived, Yahoo had already established a dominant position and had network effects operating. We also had site issues in Japan, with the site coming down several times.
3. In China, we made the mistake of moving from a 33% equity position in EachNet to a 100% ownership position. We were no longer a Chinese firm but now an American firm in China. For any company in China, this will create a problem, and it did for us. Being perceived as a 100% American firm in China brings a host of issues that do not help grow the business. Switching over to the eBay platform rather than staying with the EachNet platform in China also did not help the growth of our business there. We would have been better off with a Chinese platform and product that was separate from that of eBay."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Omidyar: "In the early days of eBay, my view was that as long as it was legal, we could sell it on eBay. That changed over the years. We decided there were instances where it made sense to limit sales of certain items. One of the few times we made a decision to limit legal items was when a member of our board became very upset about Nazi paraphernalia being sold on the site. It was a tense time, and there were lots of discussions – you could argue that some of these items hold significant historical value despite the fact that they offend many of us (me included). The community had key input into these discussions and helped us figure out how to proceed. In the end, I think we made the right decision to prohibit those items from being sold on eBay. Since then, we've also limited other items that promote hate, racism, etc. I think it was the right decision."

Handler: "Obviously, the site outages were a huge problem for eBay. The core issue was a failure to properly plan for the hyper-growth of the site. Compounding this problem was a push on the part of the executive team to funnel money into marketing rather than site maintenance. As long as the site was functioning, it was easy to ignore the engineering team's pleas that the site was running on Band-Aids™ and fumes. Engineering was telling the executive team that resources must be poured into a complete site overhaul. Unfortunately, those pleas were discounted by members of the senior team until it was too late."

Bannick: "One particularly dark moment in the international arena was when our head of the Indian website was arrested and placed in jail. This arose when one of our sellers posted an item that the Indian authorities perceived to be pornographic. This was a nightmare. They held him personally responsible. We had to work intensively at all levels to secure his release, and we did. One lesson we took from this was that we had to do a better job about educating the authorities in different countries about our business model. We also have to recognize that some people at times want to grandstand. What one group in the country's authorities wants to do may not always be what other groups in those authorities want to do. Relationship building is very important, as is building greater understanding of how eBay's business operates. When we go into new countries, both relationship-building and education (on both sides) take time and hard work but are essential."

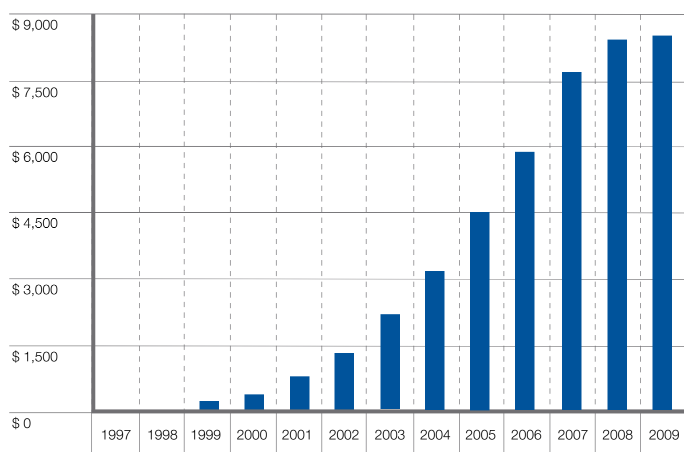
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Omidyar: "Often when you are successful, people want you to keep doing the things you did to become successful – versus what you need to do in order to continue being successful/growing, including taking risks. One of the things I found really rewarding while working in Silicon Valley is that risk is not only accepted – it's encouraged. There are tons of experiments going on there all the time. Risk is, in part, how work gets done there. For me, failure only happens when you don't learn from your experiences.

"I'll be honest, I like to challenge preconceptions. When I was working on eBay, there were a lot of people who told me it would never work. I was taking an old model and applying it in a new way. If I hadn't

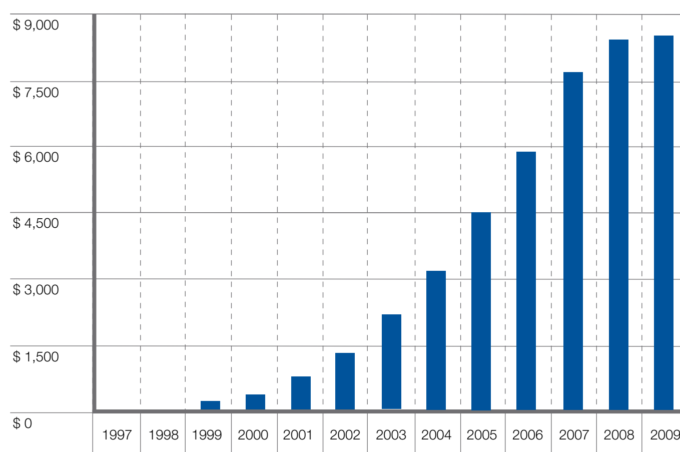
eBay

REVENUE
IN MILLIONS (US$ M)



eBay

HEADCOUNT



taken that risk, eBay most likely wouldn't be here today. In order for entrepreneurs to contribute, they first have to take risks. Being an entrepreneur is a tough occupation – you have to believe in what you're doing, even when others are pointing out all the reasons why your idea won't work. You have to develop a higher risk tolerance and be ready to find the lesson in each idea that doesn't work."

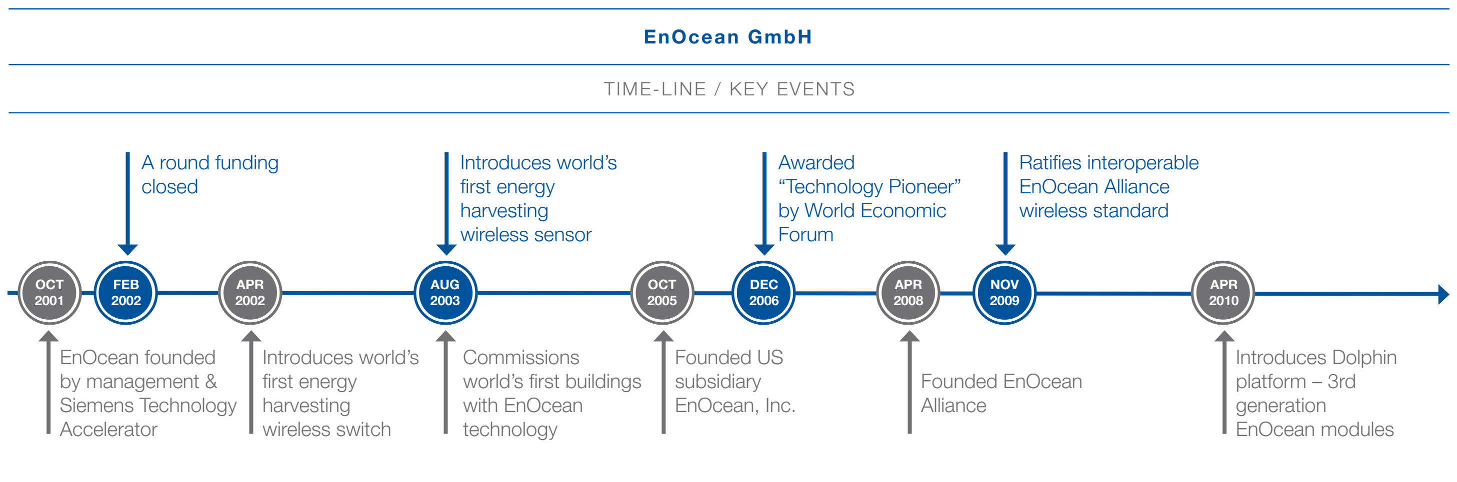
Handler: "Listening to your customer is always important. That is a pretty well-established rule for successful companies. However, if you are fortunate enough to have hyper-growth, the call of your customer may be distorted. Rather than listen solely to your customer, you have to make sure your infrastructure can support 10 times the growth you are seeing. You need to invest time and resources into the behind-the-scenes part of your business or risk a total failure." ■

Prepared by George Foster, Antonio Davila, and Ning Jia, 15 November 2010

EnOcean GmbH | Germany

OVERVIEW:

EnOcean GmbH is the originator of patented self-powered wireless technology. It was founded using technology originally developed within Siemens AG. Headquartered in Oberhaching near Munich, EnOcean manufactures and markets maintenance-free wireless sensor solutions for use in buildings and industrial installations. Its solutions are based on miniaturized energy converters, ultra low-power electronic circuitry and reliable wireless. EnOcean and its product partners offer sensor systems that operate without batteries or an external power source to promote energy-efficient buildings.



QUOTATIONS FROM:

Markus Brehler has been chief executive officer of EnOcean since its founding in 2001. He started his career at Siemens AG, holding a number of management posts. The first eight years were in R&D. Before joining Siemens Technology Accelerator – where he helped prepare the launch of EnOcean – he managed the marketing department of the mobile phone accessories division. He has management qualifications from Massachusetts Institute of Technology, Stanford University, INSEAD and the Indian Institute of Management. He became a Technology Pioneer of the World Economic Forum in 2006.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Brehler: "The invention of 'energy harvesting wireless' was initially done within Siemens Corporate Research. With first prototypes, Siemens decided around December 2000 not to commercialize the technology due to a change in corporate strategy. An internal incubator – Siemens Technology Accelerator (STA) – was asked to evaluate options to capitalize on the IPRs and decided to found a company. One of the later co-founders, who was venture manager at STA, started to develop the business model and I was asked to volunteer with advice on the strategy/business model. In parallel, the (future) founders called on potential lead customers and agreed on a milestone to start the business with one lead customer only. With that lead customer (which faltered six month later) we founded the legal entity and started fundraising with German VC firms. We expanded the business model and two founders attended executive education at Stanford/Geoff Moore to provide a 'whole product' solution. Since then we've commercialized Energy Harvesting Radio Technology to Enable Smart Building Automation Solutions."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Brehler: "The founding team of five former Siemens employees started with the vision of building a multimillion dollar company within three years. We learned a few things the hard way:

1. The change our technology delivered to the target industry was disruptive.
2. This led to a multiyear phase of confidence building and a change in agent training for market growth.
3. Our OEM business model allows us only limited control over sales to the final customer. In addition, our aspirations on the product and technology side were very ambitious. It took us several steps and high investments until 2010 to create the full feature set needed in all aspects of the business. As a consequence, our sell-through started soft in 2003 and growth started in 2005. On the other hand, our long-term vision grew over time and we are now defining a global industry standard where we:
   - Have customer lock-in
   - Help each of our existing customers grow steadily
   - See a gravity field of our eco-system where new customers state: 'We have to use EnOcean'
   - Serve a market that has a several billion potential

The trail of orders gets longer every month and the hurdles we had to pass are now hurdles for those that try to follow us. We have more and more convinced the world that devices with batteries create issues and we maintained our head start in this market by being the only commercial enabler of energy harvesting wireless solutions."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Brehler: "During the preparation of the company foundation, the business model of EnOcean was developed: We do OEM business supplying modules – energy harvester, radio, microprocessor, and firmware – for automation solutions, starting in building automation. This business model is still in place today with some minor sidesteps to speed the development of the market. Our customers integrate EnOcean modules into their finished goods like wall mounted switches, occupancy sensors, daylight sensors or gateways to backbone systems like BACNET or TCP/IP. Our strategy involves:

1. *Scalability:* A small number of different modules can serve all target applications.
2. *Interoperability:* All solutions created by different product manufacturers can be combined.
3. *Branding:* We created the need for "energy harvesting wireless" and branded it as a synonym for EnOcean.
4. *Make market:* We are not just a technology supplier to our OEMs but educate the market and all stakeholders.
5. *Our vision:* EnOcean is an enabling technology usable in many markets (building management systems, manufacturing automation, automotive and many others).

In 2004, we focused very narrowly on building automation in lighting for flexible office space in buildings larger than 5,000 square metres, widened this year to get closer to our vision."

What were the major growth accelerators for your company in its high-growth years?

Brehler: "The growth accelerators included:

1. A product platform designed in a modular way and easy to integrate for many customers in multiple applications. We lowered the threshold to use radio technology as we take care of all hurdles, e.g. type approvals.
2. We did market education with training of specifiers and facility managers to create a market pull (value chain: we ship to OEM customers like Leviton; they ship to wholesalers like Rexel, who sell to installers and then to the customers).
3. We support the installation and commissioning of our solution in buildings every time and everywhere to make sure it works.

4. We initiated write-ups of case studies by customers to initiate peer-to-peer communication and reach the ‘pragmatists’.
5. We created our own trade magazine, Perpetuum, in high-quality print to spread the word and build confidence.
6. Extensive PR work and applying for (and winning) many awards.
7. We exhibit at all major industry shows, even if those shows are created to attract final product customers and our OEM customers are exhibitors as well.
8. Our strategy from the very beginning was to create interoperable products with our OEM customers. This enabled us to be perceived as a ‘standard’, a multi-vendor solution for end customers, and lured more OEMs into the newly-created ecosystem.
9. In 2005, we founded EnOcean Inc. in Boston, Massachusetts, and hired a seasoned serial entrepreneur, resulting in 50% revenue contribution from North America in 2009.
10. Eventually in 2008, we founded the EnOcean Alliance, a non-profit Inc. in San Ramon, California, to create standard and spread the word.”

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Brehler: “We incepted EnOcean GmbH with TEUR 200 of equity, shared by Siemens STA and the five founders. Six month later in February 2002, we were able to close the first fundraising with VC firms Wellington Partners, enjoyventure and Siemens VC. Since 2002, we raised around MEUR 30 in total equity from VC firms. As financing rounds in Europe are generally smaller than in the US, we were forced to make efficient use of our resources and focused on European markets first, expanding with a small subsidiary in the US from 2005 (with a staff of one until the end of 2007). Doing all sales and marketing from our local headquarters has limited our growth. Right now, we are adding people in different promising markets (US, France, United Kingdom) and evaluate further markets. We are still investing heavily in the development of our technology and could have grown faster with more resources. However, we doubt that, within the markets where we were very active, the growth could have been accelerated significantly by more money. We realized that the industry we serve is conservative and slow in building confidence. We built that confidence over nine years and can answer the question asked in 2003: ‘Where does that technology work for 10 years?’ with the reply, ‘in over 100,000 buildings!’”

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Brehler: “Our initial OEM clients wanted to keep our unique technology on an exclusive basis. We added further OEMs, proving that open standard systems will end with a much wider adoption and business success for everybody. The ramp-up from zero volume to more than a million per year was a major challenge. We had to ‘learn’ about all features of our products during ramp-up of mass manufacturing. Tangible products, close to the borders of physics, need very cautious and rigid engineering and experience at all stages of development and suppliers. We went through a learning curve within EnOcean and with our suppliers that included:

1. Finding that we not only developed products, but had manufacturing processes in parallel.
2. Introducing tighter processes, quality management and much more intense communication with suppliers. We moved suppliers from remote locations in Romania to a couple of hours driving distance and right now substitute manual work by automation.
3. Facing low-cost battery-powered competition and the need to get our value adds to the OEM. Energy harvesting wireless has better total cost of ownership and the EnOcean solution is demanded by the market – we created the market pull.

We needed to do fundraising in parallel with growing the business and could only do this with a strong and broad management team where the CEO is not a bottleneck for all decisions.”

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Brehler: “The dark moments were:

1. Founding of EnOcean GmbH four weeks after 9/11 meant we faced a tough time for fundraising. Although we did not close our Series A until February 2002, we were still one of the earliest VC investments in Germany after 9/11.
2. Revenue in 2004 was 80% under budget. This created high pressure from VC investors and added the need for more funding.
3. Leading-edge technology, a new team and new suppliers led to major delays in some product introductions.
4. CFO got severely sick.
5. Another tough fundraising started in October 2008 with many diverse existing shareholders.”

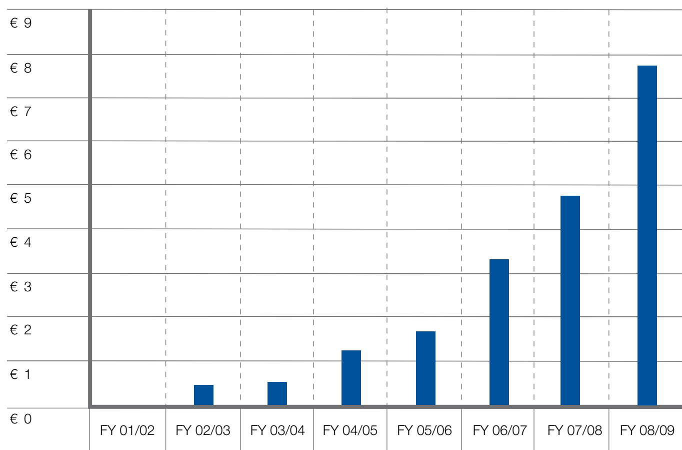
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Brehler:

1. "A great and sustainable idea and vision is needed to enter conservative industry.
2. The target industry defines the sales cycles and needs to be taken into consideration, or else tons of marketing money would have been just burned in the early years.
3. We are innovators who do not rely on intermediaries to identify customers who are visionaries as well as those who are end-users.
4. Visionaries are not usually the incumbent market leaders, but small companies and often owner-managed.
5. We needed a lot of stubbornness to push EnOcean through.
6. Our business model needs deep and trustful relationships with all stakeholders as product cycles are greater than 10 years.
7. OEM business gives limited control over sell-through so there is a need to make the market.
8. Innovation is a social phenomenon so getting talked about is crucial.
9. Hardware-based inventions need time to mature and require a learning team of knowledgeable people and suppliers.
10. A stable but growing and learning management team (all founders on board) is very helpful." ■

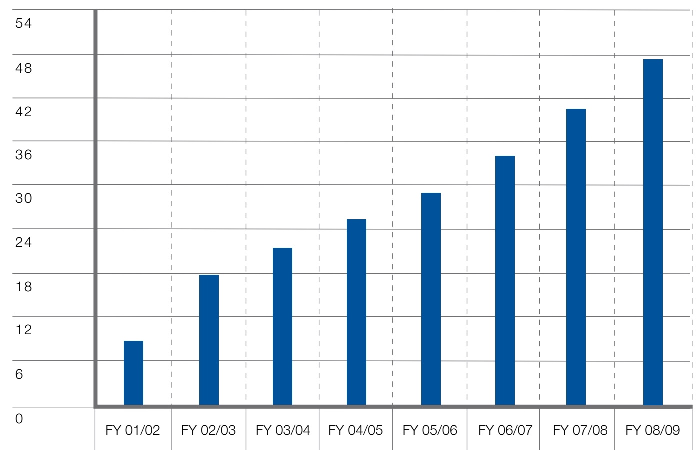
EnOcean GmbH

REVENUE
MILLIONS (€ M)



EnOcean GmbH

HEADCOUNT

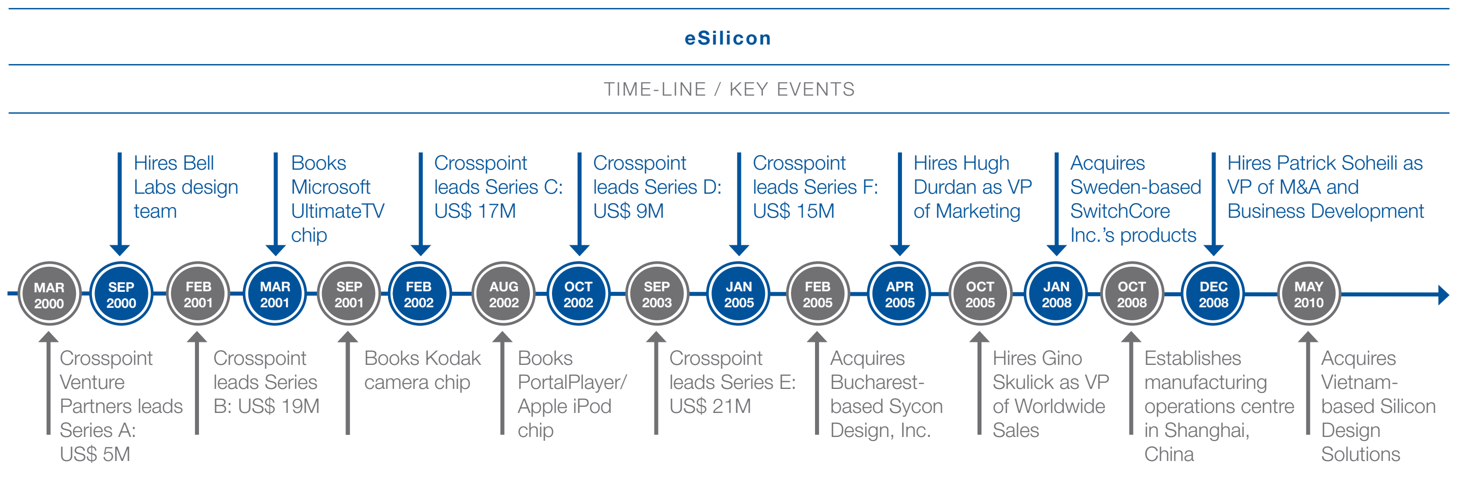


Prepared by George Foster, Max von Bismarck and Kerry Wellman, 24 November 2010

eSilicon | US

OVERVIEW:

Founded in 2000, eSilicon is a fabless semiconductor company based in Sunnyvale, California. eSilicon designs and manufactures custom application-specific integrated circuits (ASICs). The world's largest independent fabless ASIC supplier, eSilicon is considered a pioneer of the fabless ASIC (semiconductor Value Chain Producer) model. Since its founding in 2000, eSilicon has received a total of US$ 86 million in venture capital across six series (A-F). By 2011, eSilicon will have grown to more than 300 employees with offices located across North America, Europe and Asia.



QUOTATIONS FROM:

Jack Harding is chairman, president and chief executive officer of eSilicon. He brings over 25 years of management experience in the semiconductor industry, spanning the electronic document access (EDA) and integrated circuit (IC) sectors. Prior to co-founding eSilicon in 2000, Harding was president and CEO of Cadence Design Systems. He joined the company when Cadence Design Systems acquired Cooper & Chyan Technology (CCT), where he had served as president and CEO and was responsible for leading the company to an IPO. Prior to CCT, Harding served as the executive vice-president of Zycad Corporation. Harding began his career with distinction at IBM. He holds a BA in chemistry and economics from Drew University, and he attended the Stern School of Business at New York University.

David Spreng is founder and managing general partner of Crescendo Ventures. With over 20 years of experience in the venture capital business, Spreng represents the investor Crescendo Ventures on the eSilicon Board. He has been active in the formation and development of nearly 50 technology companies, with 17 IPOs and a dozen trade sales. Spreng graduated with distinction from the University of Minnesota. He currently sits on the boards of Compellent (NYSE: CML), Envivio, eSilicon and Gale Technologies. He is a member of the World Economic Forum's Technology

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Harding: "In the realm of start-ups, it would fall into the 'idea spinout' category. I had been CEO of a much larger company (Cadence Design Systems), and I felt that the market in which Cadence operated was going to flatten and stagnate. I believed that the business model of eSilicon would be a viable path out of that conundrum. It was clear this was not going to happen at Cadence, so I simply decided to do it myself. It wasn't a spinout in the financial sense – it was arm's length. It evolved out of the larger company's commitment to its existing strategy. "We are a services company that monetizes our value by shipping silicon and chips. But we are more of a service and infrastructure company than we are a chip company per se. It's just that shipping products was the easiest and most predictable way to monetize the value.

"There are two factors that are critical here. The first is the undeniable growth and complexity of the semiconductor industry. It's just getting harder and harder and harder to make chips in each new semiconductor process generation. The second is this notion of what I call the complexity paradox. As the complexity increases in the semiconductor industry, a broader supply chain that is more disintegrated than previous generations serves the industry. So the communication gets worse as the solution set to resolve the complexity gets greater. The gap between the complexity and the communication links among the entities expands. That created a business model opportunity that we filled with eSilicon." What was the initial growth vision or aspiration of the founding team?

Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Harding: "The vision and our expectations have not changed at all. We've changed tactics, we've become more sophisticated, but the vision to be who we are today was quite literally crafted 10 years ago. We set a vision based on undeniable secular trends that proved to be durable and reliable, and therefore, our activity had to do more with how we spun ourselves around those trends.

"The market opportunity has grown along a very predictable curve. The semiconductor business, in total, is smaller than Wal-Mart Corporation. So it's not an outrageously difficult job to get your arms around the market segments or the growth rates and monitor them. And it's a highly monitored industry. The curveballs have all come in the forms of exogenous variables such as the dot bomb or the 2008-2009 recession – things like that, which were not predictable. But the fundamental trends have held true to quite a narrow band."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Harding: "The business model was to be balance-sheet-friendly and capital-light. We make chips for other companies (with their names on the chips); we don't own the finished goods inventory. And so we're not stuck with one of the big problems of the semiconductor industry, which is the ageing or irrelevancy of an inventory base. Secondly, we leverage everyone else's R&D investments, so our R&D is limited just to our connectivity methodologies. Thirdly, we don't own any capital equipment, so we don't have a CAPEX issue that looms over us every 12 to 36 months. We try to navigate around the bad things of the semiconductor business but still tap into the value proposition of high-performing, high-growth rate chips.

"The business model might have the additional attribute of being highly automated and one in which we untangle the cords that run between all of the suppliers in the ecosystem. We make it easy for people to engage with us on one end and get chips on the other."

What were the major growth accelerators for your company in its high-growth years?

Harding: "Since we earn money by shipping silicon for customers, we are somewhat dependent upon their chips' success in their channels. We made a chip for a customer at about year four that went into the first Apple iPod, so we enjoyed all of the fringe benefits of being associated with Apple's gigantic growth. In the last six years, we've repeated that over and over again. We've been very successful at having chips in other people's product lines that have been sold to OEMs with high volumes – or they've been sold as fabless chips, and we don't know where those go – where the volumes are high when they purchase them from us. Think of it this way: we have a customer portfolio that looks much like a mutual fund. And we cover multiple segments of multiple customer types, so we get the hedge of having different types in different markets, and we don't have the high beta of being stuck in a very tall, skinny market that is all or nothing. So that mutual fund portfolio effect is key to our strategy and sustainability.

"There are two other aspects. One is where we do invest – specifically, we have the ability to utilize and exploit available technologies from the supply chain to make a very complex chip. As a merchant supplier of chips (someone who makes custom chips for third parties), we're as advanced as any company in the world because we focus our R&D on the methodologies used to do that successfully.

"Point two is that, and this is unusual for companies of our type and our size, we've invested tens of millions of dollars in our IT infrastructure

to automate the business to do two things: keep our labour overhead down and keep the quality of our data and customer experience the best in the world. We've achieved both of those by investing in what we would call generally an 'e-hub'. The central automation allows our business to run without the interference of humans.

"Early on, we focused a lot more on the corporate marketing part of the business – that is, making the brand bigger than the balance sheet. And we applied the smart-guy model. I recruited the absolute best people I could find in the industry and paid them whatever it took to engender confidence in the marketplace and get a few toeholds that we could reference later on. As we grow, the smart-guy model ceases to work because we can't scale those people. We had to supplant that with processes and infrastructure practices that were repeatable."

Spreng: "Jack Harding's deep industry expertise, years of experience and over-the-horizon perspective made him the perfect CEO to found and build this company. In an industry that was becoming increasingly disintegrated, complex and capital-intensive, Jack pioneered a model that is coordinated, simple (for the customer) and extremely capital-efficient. He recruited top talent to serve as executives of the company, worked hard on corporate culture and invested heavily in IT to give customers unprecedented visibility of their chips' status. Over the 10 years since eSilicon was founded, Jack's vision, strategy and execution have redefined the industry and created a whole new segment called the semiconductor Value Chain Producer (VCP) market."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Harding: "The company was venture-backed. eSilicon was incubated with a terrific guy named Seth Neiman at Crosspoint Venture Partners. He and I had spent a lot of time sharpening the axe before we set out to get the company ramped. We set up a capital structure that was friendly, preferred and common so the board and the management team were in synch, and we had the philosophy that a great idea in a big market only fails if it's undercapitalized. I always worked with the knowledge that I would receive as much money as I needed, provided we met some reasonable milestones. I also continue to stay in the fat part of the curve when it comes to the trends that were driving the semi industry.

"Crosspoint led Series A. They were the first investor. There was no angel funding here. We went right to a full round of investment and had five subsequent rounds.

"We thought about the business for probably six months before we decided to fund it. And that turned out to be valuable time. If you're going to launch a missile to the moon, and you're one degree off here, it means that you miss it by 100 million miles up there. And I think the thoughtfulness we applied early on to the fundamental notion of the business paid great dividends.

"We've had different leads for each of the five rounds, and we raised money for the first five years. After the fifth year, we were actually able to fund ourselves through our own cash flow. So we were very successful in the sense that we got off of the VC intravenous drip pretty early on. "We raised US$ 86 million dollars in the first five years. One of the things I try to measure is how much money you waste along the way. I believe that we've probably wasted somewhere around US$ 15 million – not too much. When I can articulate where the waste was, and show up with the corrective actions to not do things like that again, it leads my investors to believe that their capital was applied very efficiently.

"My view is that one should only start a company that has IPO capabilities. It's an interesting, although distant, filter by which you measure the sustainability of a company. It's always been the goal. The practical matter is that if an acquirer comes in and sees a company that has no option to go public, the purchase price drops precipitously. Even if you decide you want to be bought, you can't act that way. Today, we're doing about US$ 25-30 million per quarter, and we're profitable. In absolute value terms, we're at a size where we could go public. Now, it's more of a strategic decision as to the overhead of becoming a public company and what we would do with the proceeds."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

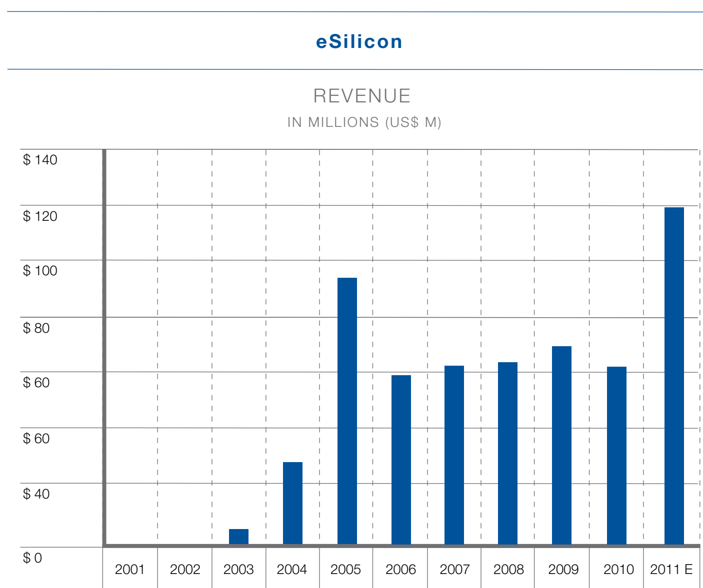
Harding: "I'd say they fall into two categories. The first one was credibility. Our average transaction size was about US$ 10-15 million over the life of a project. Getting someone to give us that project early on was quite a challenge from the credibility perspective, which is why I hired the senior people I did.

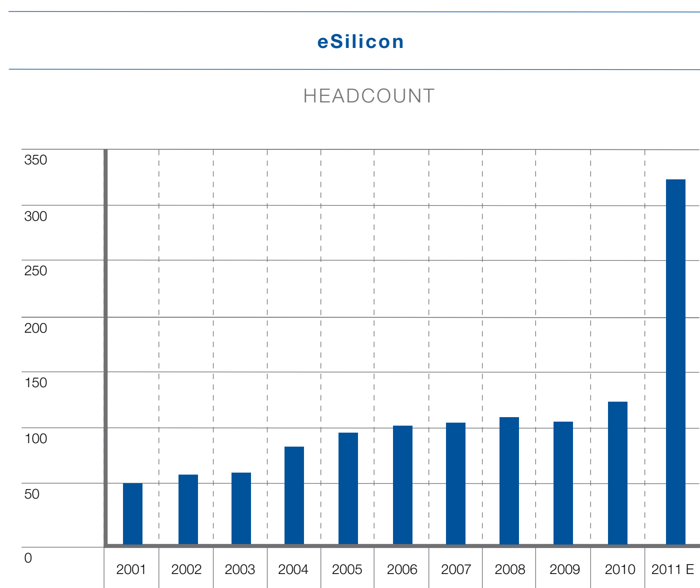
"In the second half of the life of the business, the challenges had to do with the fact that the major competitors, the major suppliers of chips that are in our general marketplace, all swung their cannons around on us, and said, 'We have to slow these guys down'. At first, the competitors didn't believe us, nor did the customers. When the customers started believing us, then the competitors did, and they applied the heat. So it was the worst of both worlds. I know the executives of the larger companies, and just socially or over a beer, they'd make no bones about saying, 'Jack, if you keep this up, you know that we're going to have to come after you'. That's not only a truthful statement, but it's also an artefact of Silicon Valley, where you could have those types of comments in a social setting, but they're very real nevertheless."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Harding: "One general and one specific. The general worst moments are as you're running out of cash and your board has given you a verbal commitment to fund you at some date, and there's no term sheet yet, and you know if someone has a bad day, you run the risk that you could have a fight over the funding. So that was a periodic dark day as I call it. That would come somewhat predictably, but it always and nevertheless hung heavily in the back of my mind. It was one of the few things that could interrupt my sleep. It would last three or four days until I had the paperwork. I didn't like it.

"A specific one: We were shipping a lot of chips indirectly to Apple for the iPod. Apple had notified us that a huge corporation, Samsung, had said, 'If you buy our flash memories from us, we'll bundle in that processor for free.' And so our customer went into a death spiral, and we lost our biggest revenue source, which was probably at the time somewhere around 65-70% of our revenue. That was a nightmare. There's no diving catch to be made because of the nature of the business. Whether someone uses chip A or chip B is a very discrete and highly thought about decision because chips are generally not fungible. So, once the decision was made to go with Samsung, there was no putting the horse back in the barn. The thing that saved us was the resiliency of our portfolio. Even though six years ago when this happened, our portfolio wasn't anywhere near as robust as it is today, it did carry us through those tough times."





What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Harding: "Point number one is about the motivation for entrepreneurs. On a risk-adjusted present-value basis, no rational person would ever be an entrepreneur if they did it just for the money. Most young entrepreneurs go into this thinking it's a quick route to the gravy train. And in fact it's not. It's more about creativity and self-actualization than it is about compensation.

"Point number two is about having the right venture capital behind you. I encourage people to seek senior partners who hold central power in the VC firm and will be your long-term funding champion.

"Point number three is about the people. A great product or technology misapplied in the market cannot be recovered by a bad management team. But a great management team can take a B product and win by making the right chess moves at the right time.

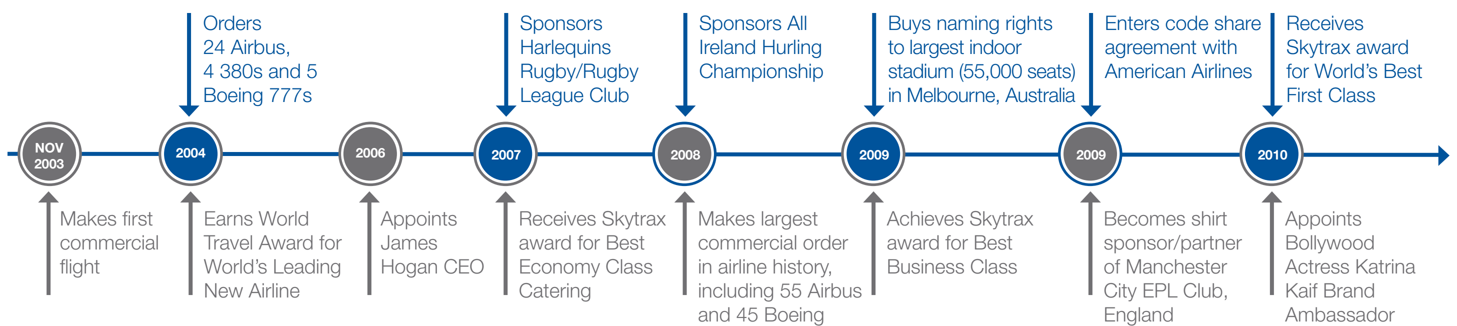
"Point number four is our three S's: speed, simplicity and self-confidence. Winning requires speed. Speediness is achieved through simplicity (non-bureaucracy and non-territorialism). Self-confident people feel good about their position in the company and deliver speedy solutions without behaving bureaucratically. A CEO has to ensure that the three S's are engrained into the company culture." ■

Prepared by George Foster and William Croisettier, 15 November 2010

Etihad Airways | Abu Dhabi, UAE

OVERVIEW:

Established in late 2003, Etihad Airways is the fastest growing global airline start-up in the history of commercial aviation. Both its planned growth and its achieved growth have redefined audacity for a start-up in this industry sector. The milestones it has achieved in its first seven years have earned it very early membership in the elite global carriers club, both in terms of customer satisfaction and attracting high-quality management and employees. Its 2010 awards include World's Best First Class from Skytrax, Best First Class – Business Travel Awards, ME Leading Airline and Best Long-Haul Airline – Business Travel Awards. At the Farnborough Air Show in 2007, Etihad placed one of the largest orders in airline industry history, purchasing US$ 43 billion in planes from Airbus and Boeing.



QUOTATIONS FROM:

James Hogan has served as chief executive officer of Etihad Airways since September 2006. His aviation and travel industry expertise spans more than 30 years. Hogan started his career in 1975 at Ansett Airlines and subsequently held senior positions in marketing, sales and operations with bmi, Hertz, Forte Hotels and Gulf Air. He is a fellow of the Royal Aeronautical Society and a former non-executive director of Gallaher Group. He is the 2010 chair of the World Economic Forum Governors Meeting for Aviation, Travel & Tourism.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Hogan: "The Emirate of Abu Dhabi was one of four original shareholding owner states of Gulf Air (Kingdom of Bahrain, Sultanate of Oman, Abu Dhabi and Qatar). As the dynamics of the region changed and economic development and diversification in the United Arab Emirates (UAE) accelerated, it became apparent that a single regional airline couldn't adequately meet the requirements of the respective owning states. "The government of Abu Dhabi decided that the needs of its rapidly growing economy would best be served by an airline with undivided interests, and Etihad Airways was established by government decree in 2003.

"From 2003 to 2006, Etihad Airways grew faster than any other airline in commercial aviation history, according to a study by Booz & Company. As the three-year start-up phase came to an end, the airline embarked on a programme of consolidation, aligning its growth and development more closely with the Emirates' economic aspirations and development strategy outlined in the 2030 plan, especially in the areas of tourism and aerospace."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Hogan: "Etihad had three mandates from its owners at the outset, which we still have: (1) to be the best-in-class airline, (2) to support the aspirations of the Abu Dhabi economic plan, and (3) to make money. "Although we are a government-owned carrier, we were established and have to operate as a commercial business. We have to 'stand on our own commercial feet'. We were formed with high expectations, and, if anything, those expectations keep increasing with our progress. A recent study by a major consulting firm reported to our board that, in the last five years, we have exceeded the 2005 performance projections in multiple areas. From 2005 to 2010, we have gone from 9 to 55 aircraft, from 1.5 million to 7.1 million passengers, from 2,000 to 8,000 staff, from a load factor of 60% to 75%, from 16 destinations to 64 destinations. And recognize that in 2008-2009, there was a global financial crisis. My mandate is to create a smart airline and not the world biggest airline – 'smart' equates to factors like customer satisfaction, price elasticity, load and yield factor."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Hogan: "As a completely new airline with a blank sheet of paper, we had the opportunity to break new ground without the baggage associated with more established airlines. With a view to becoming best in class, we have made a considerable investment in fleet and product. In the critical area of aircraft acquisition, we took into account the objective for Abu Dhabi to be a global aerospace hub. It is our aim to make a major impact on the economy and global stature of Abu Dhabi."

What were the major growth accelerators for your company in its high-growth years?

Hogan: "No airline has ever grown as fast as Etihad in its early years. Major growth accelerators include:

1. The Middle East's location on the globe. We sit perfectly between East and West. There are hundreds of millions of potential passengers within several hours of Abu Dhabi. We are well-situated to benefit from growth in the Indian market. For long-haul flights, the Middle East can be a one-stop flight as opposed to a two-stop flight.
2. Our customer segmentation. While we receive many awards for our premium classes, our economy cabin has several strong groups that help fuel our growth – including the religious pilgrimage traffic, the labour traffic from Asia and Africa to the Middle East and the leisure traffic. Our religious traffic and the labour traffic continue relatively strong, even with economy downturns or when health concerns cause tourism to drop. We can regularly run 85%+ load factors in our economy cabin out of Indonesia, Malaysia and the Philippines to the Middle East.
3. The product itself. We have best-in-class service in each of our cabins, and our many awards attest to this. Having a clean sheet of paper gave us huge advantages in achieving best in class. We have more than 110 nationalities in our workforce, and that helps us be much attuned to how service and care needs differ for different countries and for different groups.
4. Destinations. In addition to the major global destinations, we have also been successful in cities like Dublin, Brussels, Milan and Geneva.
5. Code-sharing. For example, our code-sharing with American Airlines has generated strong business out of Chicago and New York.
6. Quality of our people: the flight crew, staff and management teams. As a new venture with bold plans, we set out to hire a superb team of employees both for our flights and for our sales, marketing, etc. Very few airline executives will ever have the opportunity to be a part of such a new and bold start-up. Within the airline industry, Etihad is a very attractive place to work. Moreover, when executives move to Abu Dhabi, it heightens the buzz and a sense of feeling that we are altogether changing the airline industry and going at a pace unequalled before. This is an exciting challenge many want to be a part of. It was and still is very much of an 'all-in, sleeves rolled up' place.
7. Targeted brand promotion. We have rolled our sponsorship agreements in the sporting and entertainment industry to promote and build our brand in a targeted way: rugby in the United Kingdom (Harlequins), football in the United Kingdom (Manchester City), hurling in Ireland and stadium naming rights in Melbourne. We are now using a Bollywood Actress (Katrina Kaif) as our Brand Ambassador."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Hogan: "Like any start-up, we required and were given seed capital by our shareholders. After that, we went to raise capital in the global financial markets. The shareholders' capital provides a base for building the rapidly growing business in support of the Abu Dhabi 2030 Vision, but the majority of the capital required to finance major assets such as aircraft is raised in the global financial markets, most notably in the aviation finance markets. Twice a year, we undertake financial road shows where we cover strategy and the financial implications of our plans with existing and potential lenders. Etihad has actively broadened and diversified its access to the global markets by diversifying the range of lenders, geographical markets and the types of structures used. Ultimately, our mandate is to run Etihad as a financially independent entity."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

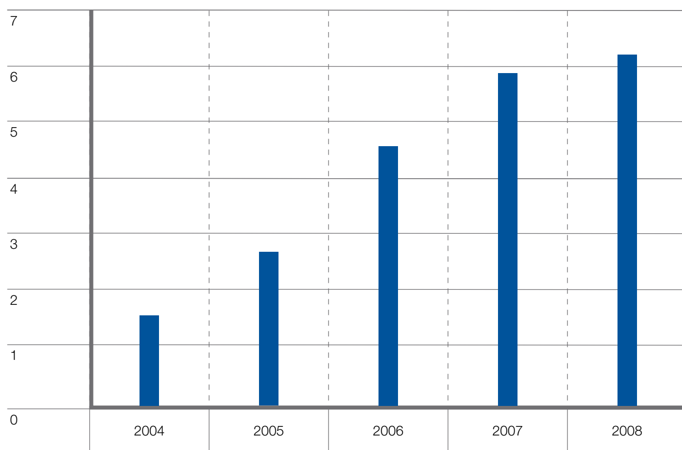
Hogan: "We literally started from scratch. There were an enormous number of pieces of the puzzle to put together in a short time. Some key ones were fleet decisions and acquisition negotiations, hiring and training of crew and staff, operations setup for maintenance, marketing offices in multiple cities and so on. There was a programmed ramp-up in all of these areas, which meant that it was essential to attract and retain experienced industry players. We placed high priority on having a hard-nosed attitude to cost management with our rapid growth. When you ramp up an airline as fast as we did in such a short timeframe, there are inevitably big setup costs. We are now starting to see the benefits of cost economies associated with some of the scale we have achieved as we enter a more mature phase of operations. These scale benefits show up in areas such as aircraft utilization, productivity and cost per mile measures. We have partnered with other Abu Dhabi groups, such as our outsourcing with Abu Dhabi Aircraft Technologies for the maintenance, repair and overhaul of our fleet. This has benefited our cost structure as well as helping them build scale and stature.

"One concern with managing our growth is balancing the too early versus too late acquisition of capacity. For a global airline, this is a big issue, especially given the costs of acquiring and maintaining our fleet of planes."

ETIHAD AIRWAYS

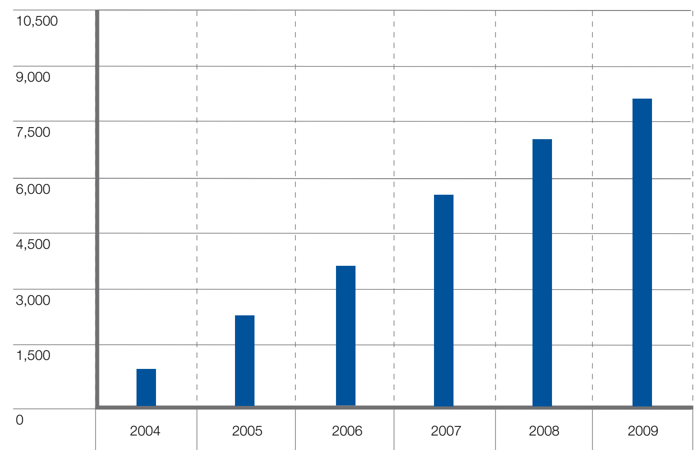
NUMBER OF PASSENGERS

IN MILLIONS



ETIHAD AIRWAYS

HEADCOUNT



Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Hogan: "The global financial crisis certainly was a dark period for the airline industry in general and, to a lesser extent, for Etihad, as reduced demand for our business and first-class cabins impacted our bottom line. Luckily for us, the Middle East and Southeast Asia were still growing (albeit more slowly) in 2008-2009. The GFC did push our break-even point back a year. However, many of us have been in the airline industry a long time and know that periods and events like this come along. The Swine Flu pandemic, and later, the Iceland volcanic ash airspace closure were also certainly negatives. You have to be flexible and be able to adapt quickly in this industry, or else you will not be a long-term player. We have worked very hard at building our resilience to move forward in these shock periods."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Hogan:

1. "People and behaviour. You should never lose sight of what drives the behaviour of your paying customers, and this has to be forward-looking. For example, we have to stay in front of the curve in terms of customer expectations as regards in-flight entertainment.
2. Recognize and embrace the diversity in your customer base. A global airline, by definition, draws customers from diverse geographies, religions, food requirements, economic status, and so on. You have to build your whole customer experience model so that the way you manage this diversity is a source of competitive advantage." ■

Prepared by George Foster and Xiaobin He, 15 November 2010

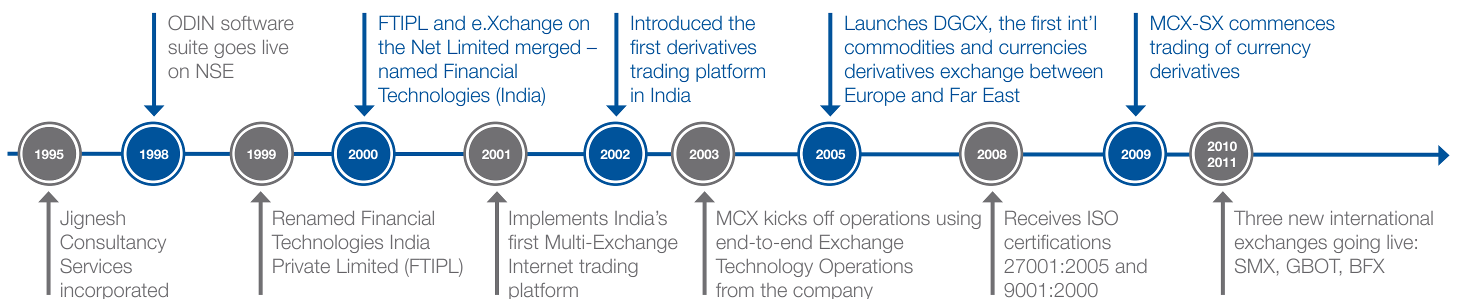
Financial Technologies India Ltd. | India

OVERVIEW:

Financial Technologies (FT) India Ltd operates one of the world's largest networks of 10 financial exchanges connecting the fast-growing economies of Africa, the Middle East, India and South-East Asia. The group also has six ecosystem ventures addressing the need for clearing, depository, information vending and payment gateway for these exchanges. The group is among global leaders offering technology Internet protocol (IP) and domain expertise for creating next-generation financial markets that are transparent, efficient and liquid. It was co-founded by Jignesh Shah and Dewang Neralla. The group's exchange ventures include the Multi-Commodity Exchange of India (MCX, 2003), National Spot Exchange (NSEL, 2005), Dubai Gold and Commodity Exchange (DGCX, 2005), Singapore Mercantile Exchange (SMX, 2006), Global Board of Trade (GBOT, 2006), Indian Energy Exchange (IEX, 2007), MCX-Stock Exchange (MCX-SX, 2008), Bahrain Financial Exchange (BFX, 2008), as well as Bourse Africa (2008). The Group's Ecosystem ventures include IBS Forex (2001), Atom Technologies (2005), National Bulk Handling Corporation (2005) and TickerPlant (2006).

FINANCIAL TECHNOLOGIES INDIA LTD.

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Jignesh Shah is co-founder and group CEO of Financial Technologies. A leading creator of next-generation and tech-centric financial markets, Shah has promoted public-private partnerships (PPP) with several countries and government entities in order to promote various global exchanges. He has been featured in the 'Top 30 Global Innovators in E-finance' by Institutional Investor magazine. Shah was also listed among the 'Dominant Financial & Futures Industry Leaders' by the Futures Industry Association. He graduated with a BE in Engineering from Bombay University. Starting at the Bombay Stock Exchange (BSE) in 1990, he worked on Project BOLT (Bombay Online Trading System). Shah was named a Young Global Leader by the World Economic Forum in 2007.

Dewang Neralla, co-founder and director (technology), is a technology strategist at the Financial Technologies Group. He has been instrumental in establishing a strong global product portfolio and has laid down the technology infrastructure that is the growth driver for the Financial Technologies Group's various divisions and subsidiaries. He holds a bachelor of engineering degree in computer science. Prior to FT, he worked at the BSE, including helping the exchange team design the BOLT trading system.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Shah: "My co-founder, Mr. Dewang Neralla, and I studied in the same college and had a common interest in stocks.

After having completed electrical engineering, I joined the Bombay Stock Exchange (BSE), India's oldest exchange for trading in stocks.
In January 1991, BSE decided to automate the numerous manual processes of the exchange, and the Technical Projects Department was in charge of this. Mr. Dewang Neralla had also joined BSE in the same team. Dewang and I, along with the rest of the team, were sent to Singapore, the US and other countries with developed financial markets to study their stock exchange operations. It was during this time that we both studied the history of Indian stock markets and deliberated upon its immense potential. We realized that every financial product could be digitized and internationalized, and we decided to explore this avenue. We quit our corporate careers and ventured out as entrepreneurs to start our own technology company. The company commenced operations in 1995 with a 15-member team and for the next three years we concentrated on developing the core product. In April 1998, we introduced our flagship electronic trading solution – ODIN – to the world. From then on, there was no looking back. Our company went on to set up a commodity exchange, gold exchange and mercantile exchange with a spotlight on fast-growing economies in Asia, Africa and the Middle East."

What was the initial growth vision or aspiration of your founding team? Was there a sizeable change in this growth vision or aspiration over time? If yes, please describe.

Shah:

- "We were envisioned to capitalize on the immense potential that India's financial markets posed.
- We always wanted to create and operate transparent and efficient financial exchanges.
- We had a very clear vision to become a 'specialized IT product company' and not a just a 'commercial IT company'."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Shah: "One of the main strategies of Financial Technologies Group of Companies that led to a high rate of growth has been the self-fuelling growth business model:

Technology solutions, exchanges, and ecosystem technology solutions: Our three lines of business drive each other. Thus, the demand for each line is created by the other, causing a ripple effect, which ensures revenue and growth for these businesses. From the technology solutions perspective, over 80% of Indian brokers are on our clientele list by becoming members on our exchanges. Hence, it's a close-knit community with whom our Group does business, and their association with FT is special and indispensable.

"The FT Group offers a product-centric business model and a highly robust and scalable exchange technology platform, which gives the highest level of reliability, scalability and functionality to its clients.
FT has earned its reputation by offering highly differentiated products to its clients, as compared with any other competitor, along with a strong orientation towards customer service and excellence, thus enabling us to have a clear and competitive advantage.

"Our domain expertise has been most critical to the growth of our business. We have developed a highly specialized knowledge in creating and operating financial markets. We possess the know how to leverage technology and operational synergies, which enable us to enjoy economies of scale for pre-trade, trade and post-trade. FT is a leader in offering global technology and domain expertise to create next-generation financial markets that are transparent, efficient and liquid. We establish, build and manage next-generation markets at the lowest operational and capital costs."

What were the major growth accelerators for your company in its high-growth years?

Shah:

- "Our founders shared a clear vision not just to be a commercial IT company, but to be an IT company that creates and operates transparent financial exchanges.
- It was liberalization and globalization that opened the doors to various sectors and seeded the idea of this company.
- In 2002, the Forwards Market Commission (FMC), the regulator for commodity markets in India, granted a green signal to private companies to set up commodity exchanges.
- In 2008, capital market's regulator, the Securities and Exchange Board of India (SEBI), encouraged the entry of more players in the stock exchange arena, thus inculcating a competitive environment in the marketplace.
- The different skill sets of our founders became a major strength for our company. While the Group understood financial products very clearly, Mr. Dewang Neralla went about creating exciting codes for digitizing them.
- The company strongly believes in giving intellectual challenges and satisfying its employees."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Shah: "Fifteen years back, we began with a meager start-up capital of rupees 5 lakh (approximately US$ 10,000), which was self-funded. We gradually grew from being a small company of few work terminals to a multibillion dollar company today, with a strong league of over 3,000 employees across 10 countries."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

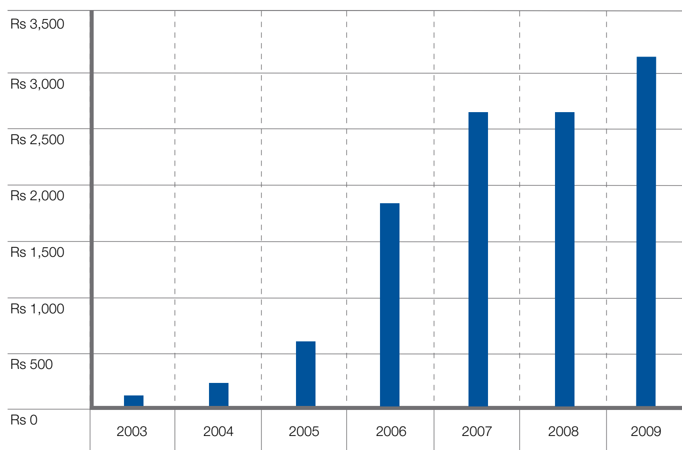
Shah:

- "Human Resources. During the IT boom, many key employees of our company were poached by others. Hence, employee retention was a major challenge. In order to confront this challenge, we continuously focused on providing intellectually stimulating projects to our employees.
- Entering the 'financial exchange' game was a huge challenge as the company had to compete with larger and older institutions in the marketplace."

FINANCIAL TECHNOLOGIES INDIA LTD.

REVENUE

MILLIONS (Rupees M)

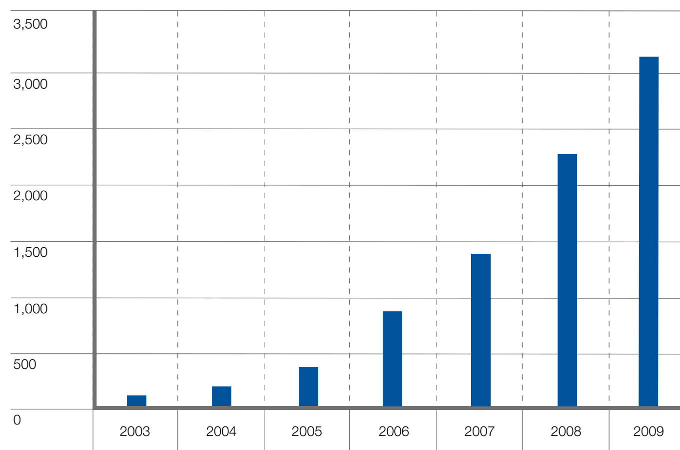


Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Shah: "I have always believed, right from my first day at the Bombay Stock Exchange, that results matter, efforts don't. Since then, we have faced many challenging moments, although I'm not sure I would call them dark moments. But, as an entrepreneur, I have been determined to succeed against all odds. One of the many challenges we faced was in transforming FT from a product company to a product-based service (IP) company as an 'exchange service provider'. This involved setting up Greenfield Exchange Ventures in emerging, but fast-growing regions from Asia to Africa. Back then, very few believed in the opportunities these regions offered and fewer believed in our ability to successfully shift the orbit. Today, a decade later, we are a global leader in this space operating 10 Exchanges and six ecosystem ventures in four of the fastest-growing international financial centres of the world."

FINANCIAL TECHNOLOGIES INDIA LTD.

HEADCOUNT



What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Shah:

- "One has to create one's own intellectual capital
- Eat, breathe, sleep and sweat the idea – only then will it succeed
- Go for a sector with infinite depth
- Question the norm and evolve" ■

Prepared by Martin Haemmig, George Foster and Xiaobin He, 19 November 2010

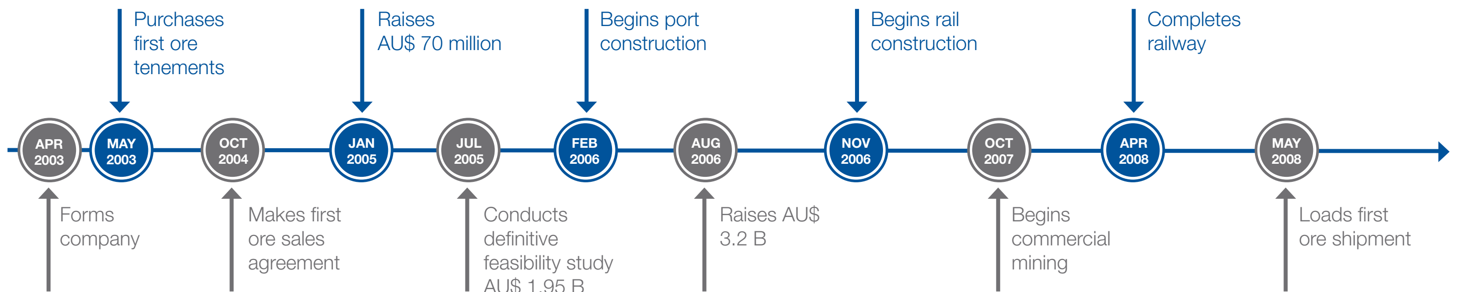
Fortescue Metals Group | Australia

OVERVIEW:

In 2003-2004, Fortescue Metals Group (FMG) identified a potentially sizeable iron ore body in the Pilbara region northwest of Western Australia. This ore body was "stranded" 250+ kilometres inland, and FMG did not have any easy access to rail and port facilities operated by two other major global mining companies in the region (BHP Billiton and Rio Tinto). Fuelled by the growing demand from Chinese steel producers, FMG conducted feasibility studies in 2004-2005. Then in 2006-2008, innovative financing of over US$ 3 billion enabled FMG to build both a railroad and port facility. Shipment of iron ore to Chinese steel company customers commenced in April 2008. Revenues in its first full fiscal year of shipment (2008-2009) were US$ 1.831 billion. During its first seven years, Fortescue Metals Group has grown to become the fourth-largest iron ore producer in the world (after BHP, Rio Tinto and Vale).

FORTESCUE METALS GROUP

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Andrew "Twiggy" Forrest is an Australian mining entrepreneur. He is the founding CEO and chairman of FMG (2003), which he built on a vision of creating a major iron ore company in the Pilbara region of Western Australia. Forrest previously founded and was CEO (1995-2001) of Anaconda Nickel (now Minara Resources). Many of the challenges Forrest faced while FMG battled major industry players he had previously encountered while with Anaconda.

Mark Barnaba is a member of the Fortescue Board. He is co-founder and executive chairman of Azure Capital, and an adviser to multiple Australian and global companies. Previously, he was co-chairman of Poynton and Partners, and GEM Consulting. He also worked for Goldman Sachs and McKinsey and Company. Barnaba holds a BCom (Hons) from the University of Western Australia and a MBA from Harvard University, and is an adjunct professor in Investment Banking and Finance at the University of Western Australia.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Forrest: "There were two initial circumstances that helped the development of the initial idea and were the starting points for the Fortescue story: (1) a view that the major incumbent producers, BHP Billiton and Rio Tinto, were too comfortable in their Australian duopoly status, and (2) a realization that China (and Asia in general) was emerging as a powerhouse of the international economy.

"It became obvious China (and Asia) would need raw materials to enable it to achieve the growth and standard of living for its citizens that its leaders required, and that steel – and therefore iron ore – was essential as China transitioned through industrialization, urbanization and globalization. "Once the market demand was identified, we began the real work to discover sources of high-grade iron ore and new, innovative, low-cost methods to supply that demand."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Forrest: "The iron ore industry relies on scale. It is a bulk commodity, so there was a determination right from the outset to grow the company and its output to achieve the critical mass that serious participation in the industry requires.

"Becoming the 'new force in iron ore' wasn't a marketing slogan – it was a vision and a cultural mantra adopted throughout the company. The long-term vision and ability to expand rapidly and take on the three major incumbents (BHP, Rio Tinto and Vale) have been core components of every project design since day one.

"Even though Fortescue has become the new force in iron ore in an amazingly short period of time – making it the fourth largest sea-borne iron ore exporter in the world – its vision remains firmly fixed on expanding the scale of its current output almost tenfold."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Forrest: "High-quality people and a company culture demanding that we challenge orthodoxy were instrumental in Fortescue's growth. A commonality of purpose through a clear vision and an attitude of never, ever, ever, ever giving up were also critical.

"In the company's formative years, none of the managers and employees who started with Fortescue was actively looking for work with the company. We targeted them because they had the personal attributes we needed to accelerate Fortescue from another Australian junior minerals explorer to a major, global mining company that achieved its vision. As momentum built, the public persona or personality of the company attracted like-minded people to our vision.

"If Fortescue had not challenged the status quo, BHP Billiton and Rio Tinto would have remained the only large-scale iron ore producers in Australia. We empowered our staff to challenge traditional thinking and, in doing so, to create new and innovative techniques and processes. That extended from executive management through to exploration, construction, mining and even administration."

What were the major growth accelerators for your company in its high-growth years?

Forrest: "Our relationship with China was and continues to be extremely important to our long-term future.

"Fortescue invested considerable time in talking to potential customers, starting a relationship and proving our capability to deliver to commitments.

"Talking to customers openly and clearly and honestly isn't rocket science, but it is often neglected by business, particularly big business. Having a very strong and experienced marketing team provided Fortescue with a competitive advantage when it was trying to sell its product into a market dominated by huge existing players. The marketing strategy had the top 60 steel mills of China identifying with us and dealing personally with the decision-making senior executive.

"Once people realized Fortescue's fortunes were largely tied to China's rapidly expanding fortunes, they quickly realized the potential of the company.

"We set stretch targets and then worked with our staff and business partners to do everything humanly possible to achieve them. As a result, we built a massive project in record time, and we ramped up our mining production at a rate never before seen in the Australian iron ore industry."

Barnaba: "Andrew is clearly a brilliant entrepreneur. He has now built two companies from nothing, with FMG literally rising from US$ 100 million to US$ 20 billion within six years, a feat managed by only a handful of companies globally over the last half-century. But that is not what makes Andrew so special. It is his devotion to the north of Australia (the Pilbara

region), to the indigenous population of this country and to philanthropy in general. Andrew is one of those people who is universally liked and makes you feel so special when you are with him. There are literally tens and tens of stories that can be recounted about how Andrew helped this person or that cause. What drives Andrew is making a difference and building something special – not wealth creation. He arguably is the best-known Southern Hemisphere businessman in all of China. There are very few Andrews anywhere in the world."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Forrest: "In its very infancy, Fortescue was largely convertible note and equity funded. Then the company was high-yield bond funded to US$ 2 billion for the major capital-raising to develop the rail, port and mines.

"The capital cost to fund the construction and early operation of a mine, rail and port is a massive barrier to entry. Until Fortescue came along, that barrier to entry had prevented every iron ore explorer in the Western Australian Pilbara from breaking the BHP Billiton and Rio Tinto duopoly – regardless of the size of their reserves or the skills, drive and desire of their board and management.

"For a company with no production track record and few assets apart from stranded iron ore deposits, securing approximately US$ 2 billion from the high-yield bond market to overcome that barrier to entry was extremely challenging.

"The bondholder covenants placed restrictions on Fortescue's ability to expand. These have proved challenging at times, but we have been able to work within those covenants to build a platform for growth."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Forrest: "The largest challenge was the changing nature of Fortescue's business. Over the course of five years, the company transitioned from being an exploration company to a construction company to a mining company. Now, as a miner focused on expansion, it is a hybrid of all three.

"Each of those phases of evolution has had competing objectives that require different management skills and experience to achieve the best result for the company.

"The changing nature of Fortescue prompted a massive recruitment programme as the company was transformed from a largely Perth-based company overseeing the planning and construction of mine, rail and port to a mining company employing almost 2,000 people. This change occurred within just 12 months.

"Attracting the right employees during a period of severe labour shortage was not without challenges. However, the appeal of working for a company with a mandate to grow and excel was attractive to many workers who wanted to break out of the traditional large corporate mining mould. It is clearly much more exciting to work for a company with strong growth prospects and vision than for a more bureaucratic, slower moving corporation.

"The global financial crisis (GFC) challenged all global commodity producers, and Fortescue was not insulated from its effects. While the pace of some projects was decelerated, there was a clear resolve that its effects would be temporary, and Fortescue needed to position itself to take advantage of the opportunities that would be created once the worst of the GFC was over.

"Fortescue has always planned for the future. We were conscious of the issues we would face 12 months ahead and worked to identify and address them before they became problems."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Forrest: "Securing US$ 2 billion in finance was the most challenging period of Fortescue's short corporate history. Most debt funders weren't interested in providing finance to a company that had no production track record, despite the skills and expertise of its board and management.

"A never-say-die attitude, a resolve to realize our dreams and an unwavering belief in the fundamentals that underpinned Fortescue's project were integral to overcoming some of those initial setbacks.

"The arrival of the global financial crisis when the company was only a few months into revenue also provided some significant cash flow and cash management issues, but our focused and rapid management action and the stimulus programme implemented by the Chinese government helped to overcome these concerns in short order.

"Tragically, there were fatalities associated with an accident in the construction of the company's infrastructure and a major cyclone (hurricane) event at the project's construction sites. The loss of life has left an indelible mark on the company. These were Fortescue's darkest days and affected everyone within the company.

"The Australian government's threatened imposition of the Resources Super Profits Tax in early 2010 was another dark period for the company. Without warning and without consultation, the government sought to impose a specific tax on the entire Australian mining industry. The company's strong view is that the tax would have rendered the Australian mining industry much less competitive with the rest of the world due its flawed design.

"We believe the subsequent replacement of the mooted Resources Super Profits Tax with a mooted Minerals Resource Rent Tax (MRRT) also suffered from the same lack of consultation and warning. The proposed MRRT again was deeply flawed and, in addition, gave protection to large, established, multi-commodity miners while undermining the ability of developing mining companies to obtain the necessary financing to develop their projects. We believe that if this tax is implemented in the future, the effects of that capital shield will be felt for decades to come as would-be profitable projects – and the export revenue and jobs they create – lie idle to the lack of infrastructure caused by the Minerals Resources Rent Tax.

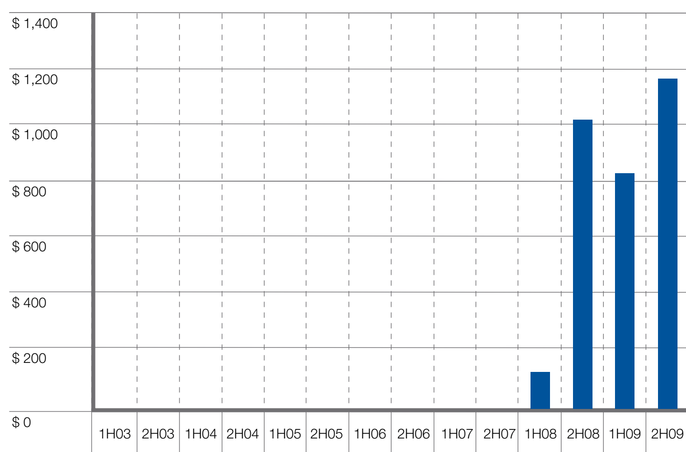
"The list of faults with both the Minerals Resources Rent Tax and the Resources Super Profit Tax is comprehensive and long, but the principles of both were flawed from the beginning. Taxation measures should promote investment, not penalize it, and governments should consult with industry before imposing significant reforms on it."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Forrest: "Hard work and determination are absolutely crucial, but they will only get you so far. They need to be complemented by a team that is empowered not just to provide solutions to problems, but to challenge orthodoxy and pioneer new approaches, methods and technologies – all driven by a clear vision and very strong never-say-die, achievement-based culture." ■

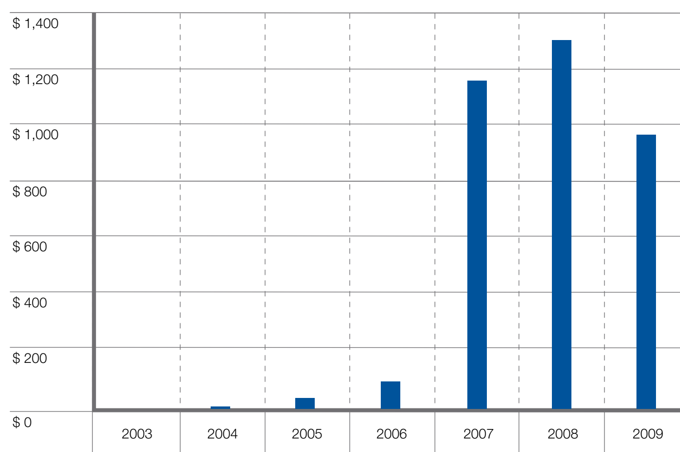
FORTESCUE METALS GROUP

HALF YEARLY REVENUES
IN MILLIONS (US$ M)



FORTESCUE METALS GROUP

ANNUAL CASH OUTLAYS
IN MILLIONS (US$ M)

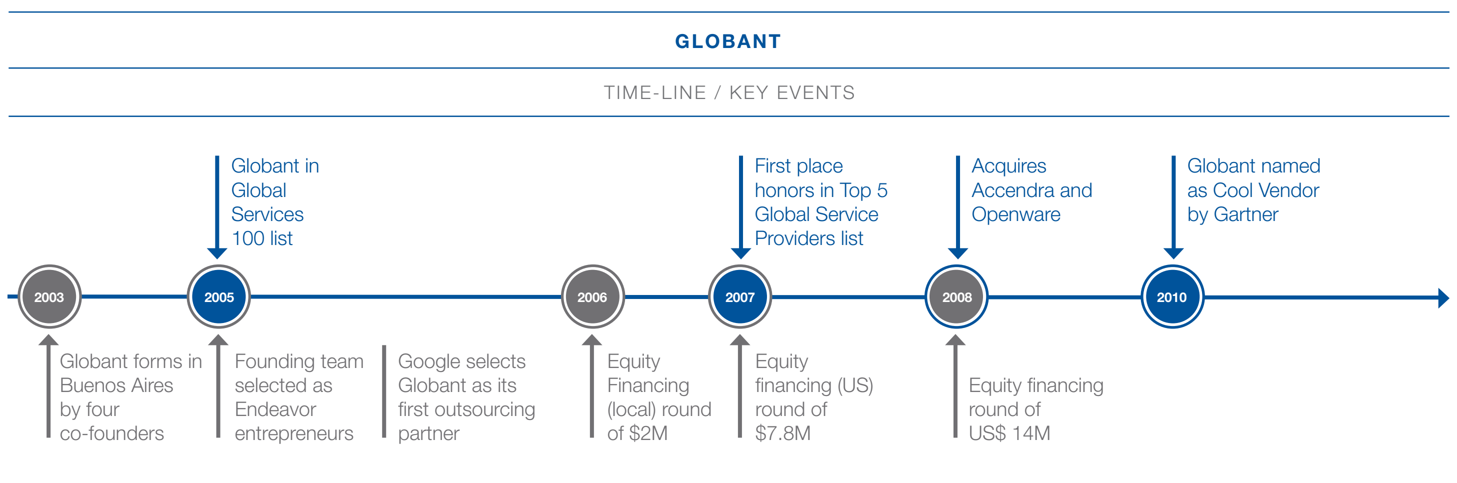


Prepared by George Foster, Dave Hoyt and Azure Capital, 15 November 2010

Globant | Argentina

OVERVIEW:

Globant was formed in 2003 by four founders (Martin Migoya, Martin Umaran, Nestor Nocetti and Guibert Englebienne) to combine the technology skills of Latin Americans (initially Argentineans) with the IT needs of global companies. The aspiration was to be the leading Latin America outsourcing company. The Latin America advantages Globant promotes include real-time communication, geographic proximity and integrated teams. The 'Day 0' focus on software development includes design and innovation to meet scaling as well as engineering and infrastructure needs. Products are built using a combination of open source technologies and proprietary software. In July 2005, Globant was selected as an Endeavor company by meeting criteria of being an emerging entrepreneur-driven market leader with high potential and a passion to excel.



QUOTATIONS FROM:

Martin Migoya, co-founder and CEO, has an engineering degree from National University of La Plata and an MBA from the University of CEMA, both in Buenos Aires. Prior to Globant, he was Director of Business Development and Regional Business Manager for Latin America at a large consulting and technology company. He has worked in Argentina, Brazil, Mexico and the United Kingdom.

Guibert Englebienne, co-founder and CTO, has a computer science/software engineering education from UNICEN University in Buenos Aires. He previously worked as a scientific researcher at IBM and later headed technology for CallNow.com. He has worked in Argentina, Venezuela, the United Kingdom and the US.

What was the source of the initial idea and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Migoya: "After the Argentine financial crisis in 2001-2002 and the destruction of the currency, my salary plummeted. I had US$ 20,000 in savings and I thought I could make more money trading. The only stock I made money on was an Indian-based outsourcing company. That started me thinking about starting a business from Argentina by packaging up Latin American talent for software development and selling these services to first world global customers. The financial crisis devastated many Argentine businesses but the devaluation of the currency allowed us to compete on price and talent with other outsourcing companies in other countries. I called Guibert, (Englebienne), Martín (Umaran) and Néstor (Nocetti) – all engineers working for multinationals – and said, 'Look, we have a big opportunity here and we need to take it.' We started the company with US$ 5,000. We had a very clear idea from the start to build better and more software products for global audiences. We wanted to make a change in the IT services industry and build a service organization oriented to develop premium software for global markets with a fresh approach from Latin America. While I didn't expect the success we have had to date, we started the company with a long-term view and every decision was about building for the long term."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Migoya: "From day one we were clear about two things. We wanted to change the status quo of the software industry in terms of how to design and build software, and we wanted to build a company for the long term. We always wanted to be the leader in what we did outside of Latin America. From the beginning, we operated differently than most Argentine IT companies that tend to hire contractors and extract dividends immediately. We hired everyone as direct employees and re-invested 100% of everything we earned. We were also prepared for our ownership to become diluted as we sought outside investors to help us grow. In 2004, when we had reached 100 employees, we realized we had something bigger than we had imagined and that's when we sat down with our first group of investors. It took us nine months to raise our first venture capital round, which was US$ 2 million. We held onto the right to sell the company or take it public when we – as founders – wanted to. That is still very important to us today. After that, Google selected us as their first outsourcing partner, and with Google as a customer it became easier to introduce ourselves to other companies, so our growth exploded. We raised another US$ 8 million in 2007 and another US$ 14 million in 2008, which was amazing because it was in November, just after the global financial crisis, when we asked for this money. We used the cash to make a couple of small acquisitions in Argentina that gave us important relationships and customers."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Migoya: "We create innovative software products that appeal to global audiences. That's what we do. But the key concept was to change how this was done to create more intellectual property for our customers. Software creation has been driven by an engineering approach. We brought more innovation in design to the industry because this is something we (Argentineans) have a unique sensibility for. We also leveraged our expertise in both Open Source software and commercial, proprietary software and blended them in a very smart way to get the lowest cost of ownership for our customers. To service big global customers, we created the concept of a software service company where robust engineering, innovation and design meets scale, and that's how we sell ourselves. Our development methodology is also unique. We use a methodology called 'Agile' which breaks down large design, development and implementation projects into smaller pieces that we call 'sprints'. It is very efficient, allows for more flexibility and the customer gets to see results at every step."

What were the major growth accelerators for your company in its high-growth years?

Migoya: "Part of our growth has been due to geopolitical or cultural differentiators in that we have exploited a huge talent pool for software creation in Argentina and Latin America. We are also working on the same time zone as our US and European customers for the bulk of the day, unlike in India or China. But there are other Globant-specific reasons for our growth:

1. *Engineering:* We base a lot of what we do on open source technologies whereas most companies are not doing that because they are restricted in their partnerships with big commercial companies. We have partnerships with big commercial software companies, too, but from the outset we blended both open source and proprietary technologies to create better software at a lower cost. This is key.
2. *Design:* The Argentinean creativity and taste, when applied to software design, has resulted in better interfaces. We have excellent art and design teams at Globant.
3. *Innovation:* We are constantly innovating and challenging and have structured the company to foster those traits. Therefore, instead of having a centralized team of innovators to solve specific customer challenges, we send the challenges out company-wide.

We choose the best handful of solutions and then work through them. This approach to problem solving has won us big projects like Nike and many others and is very important to our growth.

4. *Infrastructure:* We know that our applications must be up and running 24/7, so we have a team of experts working to enable high availability and security of our products.
5. *Signature customers:* We grew with the likes of EMC, Google, Sabre and Electronic Arts. After we got Google, we didn't have to explain ourselves anymore."

Englebienne: "We learn fast. Like any organization, we make mistakes but at Globant we put a huge premium on learning from them. Growth factors include:

1. *The complementary nature of the founding team.* We each have different skills that we respect. We also found extra strengths of each other over time.
2. *Organization structure.* Each of our areas of expertise (such as gaming, mobile and consumer experience) is now run as a studio with its own founding team. Each team is now managing a studio organization larger than Globant was for several years after 2003.
3. *Communication within the company.* We share our plans with everyone within the company. Our telephone operators can tell you our revenue budget numbers. We also run an 'Accounting for Non-Accountants' programme every month to improve our employee knowledge base."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Migoya: "We started the company in 2003 with US$ 5,000 and we self-funded through revenues and by reinvesting everything back into the company until the end of 2004 when we needed additional investment to grow in scale and infrastructure. In 2005, we raised US$ 2 million initial capital from Argentine investors managed by FS Partners. By then, we already had 150 employees. We raised an additional US$ 8 million in October 2007 from Riverwood Capital, a US venture fund. We raised a second US$ 14 million round with Riverwood Capital and FTV Capital a year later, right after the global financial crisis exploded. We used the money for headcount growth, to bring in experienced executives and professionals, and for a few small, strategic acquisitions. In 2008, we acquired Accendra, which is headquartered in Buenos Aires and had cultivated a strong relationship with Microsoft that we wanted to leverage. We also bought Openware, based in the city of Rosario in Santa Fe, Argentina. Openware had expertise in infrastructure and security software, and that acquisition resulted in consulting firm Deloitte & Touche becoming a Globant customer. So, our acquisition strategy at the time was for technology or customers."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Migoya: There were two major challenges:

1. "*Finance:* Financing was a nightmare in the early stages. Although we were earning revenue from day one (doubling revenue each year until 2008), we were trying to build the company for the long term and that meant we had to re-invest everything we earned for working capital and to hire people not as contractors, but as full-time employees. This consumed everything we had. We worked hard to get outside financing, but this was a learning experience because we also wanted a lot of control. We had to learn how to hand over certain rights without losing control of the company. This is a huge psychological challenge.
2. *Scale:* In the early years we did not have enough power and influence to convince big customers that we could scale as fast as they wanted from a software services company. Each new customer helped give us more infrastructure in a sense. Many VCs were also concerned about scale challenges. Being a services company tends to have a lower return than a pure product company. But we are a services company and we do it very well because we are doing it from Latin America and can compete on talent and price."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Migoya: "The global financial crisis (October 2008) was a painful hit. We had been growing at 100% per year since 2003. Then, in 2008, it was 15% in terms of revenue. We had grown to more than 500 employees. This changed the dynamics of the company and we worked very hard to get through it. We turned it around by exploiting customers' need for value-added services at a lower cost, which is what we can deliver using Latin American talent for software services. This was the idea from the start of the business, but after the crisis, we ran even harder and had renewed focus.

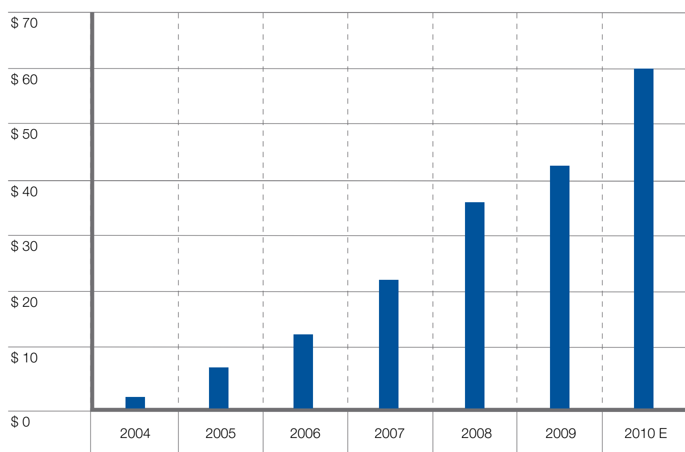
Money crunch. "Other dark moments have more to do with the entrepreneurial side of things like financing and not having enough money to pay salaries or enough power to convince customers they could scale as fast as they want. There are particular problems of every entrepreneur that once you've lived through, you don't want to face again. Another dark moment was a failed attempt at a spin-off. We started a small spin-off company for VOIP. We thought we could be successful in everything we started, but the people we placed to operate it were not very good and it failed. We suffered because of that. We found we were not as good as we thought."

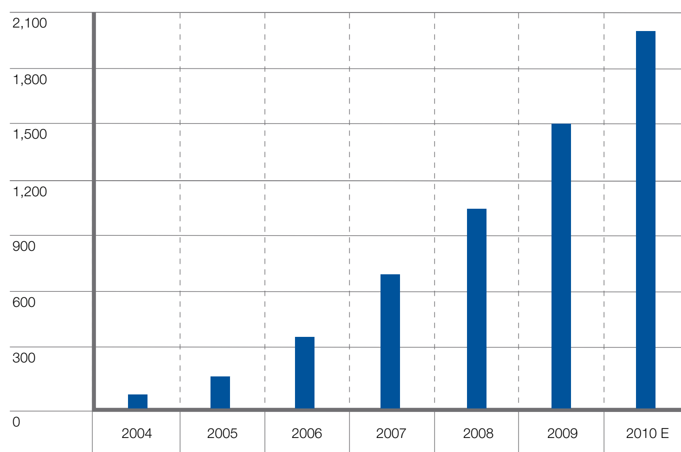
Englebienne: "There have been many dark moments, but our ability to learn fast has meant we have been able to leave those moments behind without regretting so much. We learned a lot from the 2008 global financial crisis, including the need to remain close to our customers. We also learned to run a tighter ship and trim our sails to survive the rocky seas."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Migoya: "We are trying to continually teach and inspire new rounds of entrepreneurs in Latin America. There are several key lessons we try to convey:

1. *Think Big.* I think if you want to be a successful entrepreneur you can't afford not to. You need to really believe that you can alter your environment with what you are doing.





2. *Money will follow.* Don't pursue entrepreneurship for money alone. You need to pursue your convictions and your passion instead of just the money. It took us a long time to learn that. This is very important.
3. *Serve others.* If you are starting a company and you think that you are doing this just for you and your partners, then you are wrong. You are doing it for a lot more people. What you are doing will affect many, many families and people. You have to teach, learn, and influence all the way.
4. *Enjoy it*. Because if you are not, then you will be suffering a very long time."

Englebienne: "Beyond Martin's points I would add:

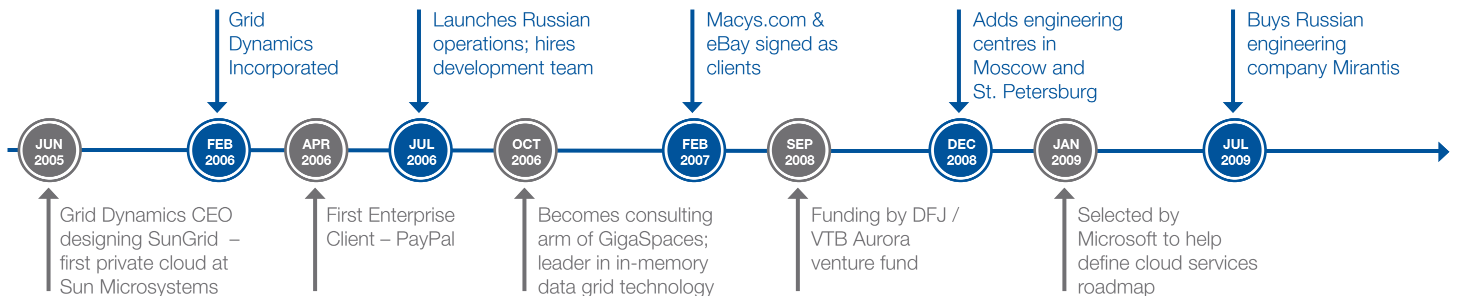
1. It's essential to build a strong team
2. Create a culture that is extremely appealing to those who work there
3. Develop an ability to learn fast" ■

Prepared by George Foster, Antonio Davila, Xiaobin He, Pilar Parmigiani and Endeavor Center for High Impact Entrepreneurship, 17 November 2010

Grid Dynamics | US and Russia

OVERVIEW:

Grid Dynamics was founded in 2006 by Victoria Livschitz, who previously worked at Sun Microsystems helping tier one enterprises scale extremely complex and large IT systems. The company was founded with the mission to become a global leader in scaling mission-critical enterprise systems. Housing 90% of its engineering organization in Russia, Grid Dynamics helps top enterprises like eBay, Macys.com, Cisco, and GE Money Bank build scalable and elastic application infrastructures for mission-critical business systems.



QUOTATIONS FROM:

Company president and CEO **Victoria Livschitz** spent a decade as a principal architect for Sun Microsystems pioneering the use of Java in factory automation, designing the industry's first real-time fraud detection system and architecting the first utility-computing product for software developers. She is the winner of numerous awards, including Sun Systems' Engineer of the Year. She holds a BS in computer science from Case Western Reserve University.

Boris Renski, EVP of Marketing & Alliances, joined Grid Dynamics with its acquisition of Selectosa Systems, a product development consultancy he had founded. He previously served as VP of business development at R&K, one of Russia's largest IT conglomerates. He holds a Bachelor of Science in information systems and business operations from Santa Clara University in California.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Livschitz: "At Sun, I was product architect where we developed the first cloud computing utility called SunGrid. I saw that computing in the next 10 years was going to change dramatically, driven less by the Moore's law and more by the fact that data on the Internet doubles every 11 hours. We were going to see enormous aggregation of computing. Things will have to be designed to be able to scale and most companies do this very poorly. Designing applications to extreme scale was my career specialty at Sun. I had a growing dissatisfaction working within a larger company. I would always have to be selling my ideas to some big suits. When you cannot get the mother ship to do what is right, you have to do one of two things – put up or shut up. So, at the age of 35, I founded Grid Dynamics."

Renski: "Victoria Livschitz was deeply involved in projects for over 15 years with major corporations. Having very early exposure in the role of key architect to the problems associated with engineering highly scalable application infrastructure of unprecedented scale, she was able to foresee the emergence of great demand in professional services in that space. It was clear that continuous evolution of internet technologies, coupled with the change in IT resources delivery model from on-premise to cloud would fuel the increase in complexity and scale of next generation data centres. Grid Dynamics was founded with a vision to offer this, much needed, engineering expertise in delivering highly scalable and elastic application infrastructure for mission-critical enterprise systems."

What was the initial growth vision or aspiration of founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Livschitz: "If you are a small company and you want to be an expert and a leader, you have to narrow your focus, especially if you are in a huge emerging area. At the outset, we narrowed our focus to applications scalability. As we progressed and the market evolved, we have been adding areas of scalability beyond applications scalability – areas such as high performance computing and cloud computing. We are now also adding specific industry areas of expertise like ecommerce and life sciences."

Renski: "Grid Dynamics originated as a product company, focused on developing a set of tools for helping enterprise applications leverage various cloud services. Grid Dynamics professional services division was envisioned as a vehicle for subsidizing the expenses associated with product development. However, over a short period of time, the market took the company where the need was the most acute – services in the space of delivering highly scalable application infrastructure. The impressive rate of enterprise adoption of the new, cloud based delivery model of IT resources constitutes a dramatic paradigm shift in the IT industry as a whole with many, very significant consequences."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Renski: "After we identified our market niche and service-based business model, we started to look into resources to bring our business idea into reality. From the very beginning, we realized that key growth factor is people with top engineering and computer minds. The Russian market has a high concentration of high-tech specialists that meet these criteria. And what is more important, Russia as a country with strong tradition in fundamental sciences.

On the sales and marketing side, our strategy is based on building partnerships with product companies delivering new, innovative solutions in the cloud computing space. As mentioned earlier, there are hundreds of companies in the space that focus heavily on pushing their products to market. They do not have the bandwidth to deliver professional services around their products, but do understand that it's a key component. Such companies are eager to spend resources to promote their new products and advertise Grid Dynamics as the professional services partner of choice. Leveraging marketing dollars of our 'product partners' gives us a great edge over competition in putting ourselves on the radar in this increasingly crowded space."

What were the major growth accelerators for your company in its high-growth years?

Renski: "We believe that our major differentiator is being able to inject cost-efficiency into the process of innovation, or, so called optimization of IQ per dollar. In other words, there are many professional service companies that know how to deliver cost-efficiency and execution excellence when it comes to solving well understood, predicable problems. However, there are very few that can predictably and cost-efficiently go to places where no one has been before; solve extremely complex engendering problems and do so in an efficient way. We believe we can and here is why. The secret to our success is based on three pillars:

1. HR and recruitment process optimized to source the best problem solvers and out of the box thinkers that Russian talent pool has to offer, augmented by Silicon Valley-based veterans of the IT industry with deep understanding of customer problem sets.

2. Investment in R&D in new technology offerings in the space of cloud and enterprise scalability. We have an internal R&D department that constantly monitors and evaluates new technologies that become available from start-ups, as well as large industry giants.
3. The idea of co-innovating with the leaders on one end and helping facilitate adoption in extreme use cases on the other. To give an example: we are vendor to Microsoft; responsible for helping them define roadmaps for their product offerings in the cloud and scalability space. The reason why they want our input is because we work with customers like eBay and Agilent (largest players in their industries) and are exposed to their problem sets. We help the likes of Cisco, Microsoft and Oracle (all of which are our clients) build their next generation products on one end and help the largest and biggest customers – like eBay, Agilent, Macys.com etc. – adopt these new technologies to build systems with unprecedented requirements in scale and availability."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Livschitz: "I created a company without external financing. I was a first time entrepreneur. I needed to prove the business worked before going out for financing in a serious way."

Renski: "Grid Dynamics started in February 2006 as a conventional 'garage start-up' with a few friends who invested in future growth. In 2008, after the initial stage of business development was over and the company was ready for the next strategic move, Grid Dynamics raised US$ 5 million in venture capital from DFJ/VTB Aurora venture fund. I believe it was the right time to do the right thing."

What were the major challenges your company had to handle in its high growth years, and how were they managed?

Livschitz: "Grid Dynamics is like an iceberg where 10% of its body mass is observable to most of our customers. Many of the real brains are in Russia. Building a multinational so that we all operate with the same values requires constant attention. I have a Silicon Valley mindset where you share value with those who help create the value. Stock options are a very effective way to do this. Yet, in Russia stock options are not easy to implement and some versions of them are illegal. In addition, labour laws can differ. These are all part of the ongoing challenge of having a global HR policy."

Renski: "Both challenges and upsides that face our company are consequences of hyperactive growth cycles. As a fast growing company, we always need to optimize our corporate structure to avoid misbalances, i.e. misalignment of sales and back-end operations when you over-sell or under-perform. In a fast growing start-up, each new client could be both a new opportunity and a disaster. For example, in the very beginning of our history, when we were a small company of 50 people, Microsoft signed a contract with us. It was a big event for us with huge growth potential, on the one side, but a project that required substantial resources to be relocated from other projects to this new one. As a fast moving start-up company, you always have to predict and be prepared for such situations.

"As a fast growing company you are usually ahead of the market and are never 100% sure what will be the next market trend. Constant fine-tuning is a necessary part of our life.

Attracting and retaining talent is central to our growth. Currently, most members of our Russian team are recruited from Saratov, Moscow and Saint Petersburg – cities known for the quality of engineering education. We have special programmes to track talent from the very early stages, supporting university programmes, sponsoring programming competitions etc."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Livschitz: "We certainly had our share of them. In our first few years as a start-up, especially one being bootstrapped, we had to worry about survival, about cash flow, about making the payroll, and so on. There were moments where I could see a sequence of unfavourable events putting us in the position of not making the payroll, such as a major customer putting an ongoing project on hold. To make this venture work, we had to be very street smart."

Renski: "Grid Dynamics is quite a young company, yet, I wouldn't say that we've faced a lot of dark moments in our history. Of course, as many other high tech companies, we were affected by the global financial crisis of 2008, it was kind of a test of strength for all of us. Fortunately, our business started to recover in mid 2009 and most financial indicators looked quite encouraging for Grid Dynamics by the end of the year."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Livschitz: "To start and build a company requires an incredible commitment that takes all of you. This is both the most difficult thing that I have ever done and also the most fulfilling. If you are absolutely driven by the vision of creating unique value, of creating jobs, making change, and making people's lives better, you should go out and start a company.

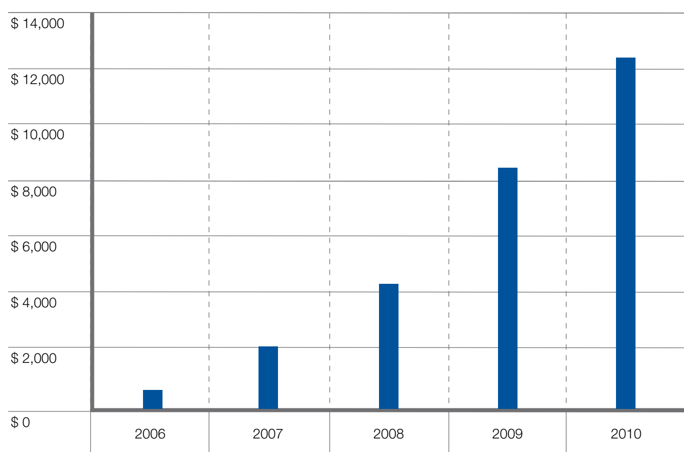
"You have to listen to what the market says. You have to ideally find a perfect blend between (1) being right about what the market wants and is evolving to, and (2) the capabilities you have and are building up. You have to be very open to what the market is telling you, no matter what you would like to be hearing.

Renski: "For me, the major lessons from our company's growth story are:

To be able to rapidly grow, you naturally have to regularly take a lot of risks. There are many events constantly taking place that can either make or break the company. It's a rollercoaster of dramatic ups and downs non-stop. Being able to stay focused with your eye on the goal at all times is key. It is important not to get overexcited about something great or de-motivated by something bad…keep steady and consistent all the time, despite non-stop ups and downs. Some days you wake up and feel – the company has made it. Others – you feel like bankruptcy is imminent. You have to show excellence in tactical execution and stick to the strategy no matter what your short-term feeling and impressions are.

"Corporate culture is a key to success. You must create a culture of excellence and commitment that motivates people to constantly deliver

GRID DYNAMICS



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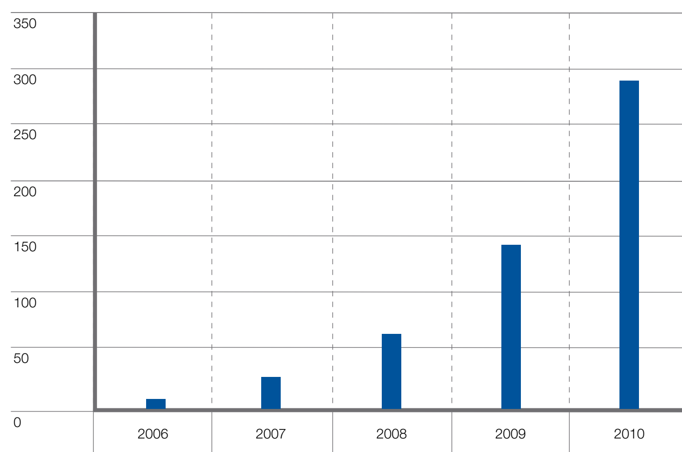


"Avoid the temptation when you are a small company of tying your future to large companies like Oracle or Cisco, You cannot tie your strategy and operations to a single large company and expect to be able to continue to ride that wave. There are multiple problems with a small company partnering with a much larger company: (1) they require an enormous amount of your energy and they can drain you, (2) they reorganize frequently and you can lose all your relationships overnight, and (3) no matter what the small company thinks about itself, you are not significant to them. You can quickly become collateral damage from decisions made at high levels where they are optimizing different things."

the best quality of services and with each project to find of a one-of-a-kind solution that meets individual customer needs.

"Importance of financial planning is often underestimated in rapidly growing companies. You always have to find a balance between a next stage of business expansion and profitability." ■

Prepared by Martin Haemmig and George Foster, 16 November 2010
Supported by Russian Venture Company (I. Agamirzian, G. Bikkulowa)

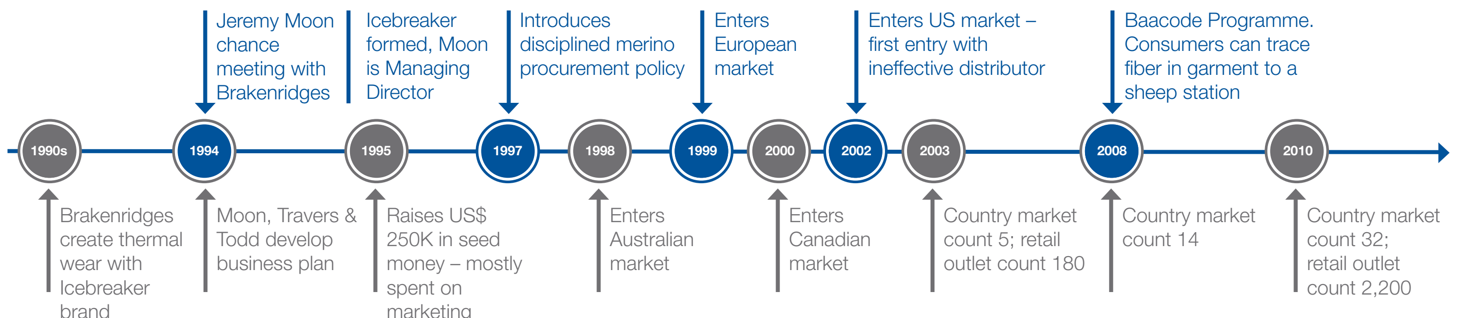
Icebreaker | New Zealand

OVERVIEW:

Icebreaker is a Wellington, New Zealand-based marketing company whose product is Merino wool-based apparel. Merino wool-based apparel provides buyers with an all-natural alternative to apparel made from synthetics. Its heritage is Merino thermal wear apparel developed by Brian and Fiona Brakenridge, who raised Merino sheep in New Zealand. Their apparel had minimal sales over several years. Jeremy Moon, with the help of Peter Travers and Noel Todd, developed a business plan for the marketing of Merino apparel that led to Icebreaker's formation in late 1994. Moon, at age 25, was the managing director. He has led the marketing of the Icebreaker brand and its products to a growing number of countries – two in 1998, five in 2003, 14 in 2008 and 32 in 2010. The customer count (retail outlets) has also expanded rapidly – from 180 in 2003 to over 2,200 in 2010. Icebreaker outsources its manufacturing and warehousing. The company is the winner of multiple awards, many for its creative marketing. The company is committed to sustainability and animal welfare, and in 2008 began a programme called "Baacode", to enable consumers to trace the fibre in their garments starting at the sheep stations (farms) that grew the Merino through its supply chain.

ICEBREAKER

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Jeremy Moon, before launching Icebreaker, was a project manager for CM Research. He holds a bachelor of commerce and a master of commerce in marketing from Otago University. He is the winner of numerous awards, including Sporting Goods Business "40 under 40" Award, and chairs the New Zealand government's Better By Design Group. **Noel Todd** is a director of Todd Corporation, one of New Zealand's largest companies. **Peter Travers** is a retired executive from the Bank of New Zealand. Travers and Todd have been key advisers and financial backers of Icebreaker from its genesis.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Moon: "Icebreaker, like many great things, started by accident. In 1994, an American girlfriend introduced me to a Merino wool farmer she had stayed with as she backpacked around New Zealand. Brian Brakenridge lived on an isolated island in Marlborough with his family and 8,000 sheep. He had developed some prototype thermal underwear made from 100% pure New Zealand Merino wool. He threw me a piece of this extraordinary fabric across the lunch table. It felt soft and sensual, looked lustrous and was totally natural. It was nothing like the wool I had grown up with, which was heavy and scratchy. And you could throw this stuff in the washing machine. My first thought was that maybe I could sell this to the Americans, and pay for a ticket to the US to see my backpacking beau. Hey, I was 24. But as I wore this fine wool T-shirt, it proved to me – and to the others we showed it to – how well Merino wool performed in the outdoors, and how wonderful it felt. I was so enthusiastic about this discovery that I never saw my American girlfriend again – she was jilted by sheep.

"To evolve the idea, I wrote a business plan, which had a clear future vision of growing an international brand from New Zealand. I broke it down into the different components which were: manufacturing, product design, brand design, channels to market, team and finance. Then got my thinking clear on each of those areas and used the business plan to raise US$ 200,000 from eight investors, who were people in business who could make some sort of contribution through their own experience or contacts. That was enough to incubate the business. Over time, the board and I have been the same for 15 years, so we have had to evolve the structure of the business based on the change and complexity, due to growth and markets that we were in. Every two to three years we have to tear up our operating plan and write a new way to go forward, or we would get constrained by the thinking of the past."

Todd/Travers: "Jeremy shared his vision after meeting the Brakenridge's with a family friend and corporate banker, who was similarly inspired. They spent a few weeks modelling a possible business development way forward, concluding to find five additional shareholders with 'quite significant investment funds'. They responded, 'If you invest, we will also!' and so 'Icebreaker NZ' was created in 1995, all with the objective of realizing the ultimate potential of this very distinctive New Zealand clothing product."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Moon: "In the initial business plan in 1995, the vision was to 'be the world leader in Merino outdoor clothing' – so this has not changed in 15 years. The founding challenge was 'how do you build an international brand from New Zealand'. The business model we have created is a response to that."

Todd/Travers: "The initial challenges were twofold: to establish market awareness of the integrity, character and culture of New Zealand pure Merino wool and the distinctive wearable value of pure Merino made clothing. At the same time, there was the challenge of establishing New Zealand-based Merino garment manufacturing. Market recognition was firstly established in New Zealand, and progressively into the Australian market. Manufacturing of pure Merino garments was well established in the South Island, near the mountainous regions of the predominant Merino clans. This was successfully achieved over the initial two to three years, with market awareness and demand spreading beyond to the UK market and progressively elsewhere. The first year of operations was around US$ 60,000. Growth has continued to accelerate over the 15 years, now reaching in excess of NZ$ 135 million (US$ 100 million)."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Moon: "The strategy was to enter the outdoor market and offer a natural alternative to synthetics that still had technical capabilities, and use design to create a powerful meaning for consumers through language, imagery and product.

"The business model is to outsource everything that we don't have a competitive advantage in. So we in-house all the core functions, including product design and brand design. But we outsource all the supply chain and logistics, so we have no manufacturing investment, which gives us the flexibility to create independent of the constraint of what it's possible to make and it lets us draw on the best technology all over the world.

"Around 2005, we evolved further when we shifted from being an exporter to being a global business – by that I mean we used to sell product from New Zealand into other markets, and now we have wholly-owned subsidiary companies in offshore markets, including Germany, Australia, the US, Canada, France, Switzerland and Eastern Europe.

"We start with the Merino wool growers, where we have three-year forward contracts, where we pay a premium for the best quality – we now buy 25% of New Zealand's fine wool – and ship the wool to our manufacturing partners in Shanghai, and then export finished products to our eight operating companies around the world, led and coordinated by our head office in Wellington, New Zealand."

Todd/Travers: "The fundamental strategy was to initially build a very focused product range, which was based on intensive and wide-ranging market research within initially New Zealand and Australia; concentrating production on the most positive distributor and market reactions, and progressively applying this process to global markets. The effect of this approach was positive in multiple respects, effectively being strongly market demand driven, minimizing of surplus product types, and thereby maximizing use of available working capital. These strategic principles were applied as the Icebreaker product range was progressively marketed country by country globally. The business model concentrated on focused selection of distributors, marketing strategies per country culture and characteristics, and recognition of distributor out-performance."

What were the major growth accelerators for your company in its high-growth years?

Moon: "It took us about seven years to reach a tipping point, where we had enough people creating a positive word of mouth which rapidly increased our awareness. We have always relied on below the line word of mouth and grass roots marketing campaigns, we never spend money on advertising. The last eight years have been learning how to commercialize this internationally and set off a sequence of these tipping points in every market we enter. This has let us build a business with sales in excess of US$ 100 million."

Todd/Travers: "Fundamentally, the globally growing awareness of the nature and benefits of clothing made from New Zealand Merino wool (i.e. no itch, no odour, warm, breathable); in turn endorsed by the location and character of the New Zealand Merino sheep, primarily located in the mountainous, often snow-clad country of the South Island. Another major growth accelerator was the strict inherence to the business principles of debtor and stock controls to ensure continued liquidity within the company. Jeremy Moon is himself a growth accelerator. He understands every facet and every nuance of the brand as if it were a family member. He has never dubbed himself as a 'thought leader', but all logical interpretations of the phrase confirm he is. He matured very quickly as a CEO, recognizing that delegation was important and employing the right people for the right job."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Moon: "We are a private company and I am CEO and the majority owner. My challenge is to empower the business and grow with it, and not to catch 'founders' disease'.

"Our long-term intention is to remain a private company. This means we have the freedom to work in the best long-term interests of the organization without being driven by the needs of the share market or by external investors.

"This meant that initially we needed to get disciplines in place around sustainable growth from very limited capital base, but also that drove great efficiencies in our thinking. We have excellent disciplines around how we use work and capital and minimizing capital expenditure to get the best use of our scare capital, we also reinvest the vast majority of profits onto our business, so this year's profits funds next year's growth. For example, this year we grow by US$ 20 million, and that's funded by last year's profit (retained earnings)."

Todd/Travers: "The investment funding by the initial shareholders, together with commercial bank funding, enabled Icebreaker to establish and build growth during initial years. As growth accelerated globally, increased bank funding became readily available, reflecting the belief and trust the bank had in Icebreaker's marketing and growth strategy, the diligent concentration on matters financial, including, for example, full use of growing annual net cash flow to fund expanding growth of business globally with the first modest dividend distributions in Icebreaker's 15th year of operation.

"The initial capital was introduced to the company by way of existing shareholders, participation and capital increases."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Moon: "Every aspect of the business needs to be redesigned every few years, so it's Icebreaker's state of perpetual flux and change as we learn to evolve. That means me as a CEO – I have to change my operating style every few years or I become the biggest constraint in the business. To do this, I have an active network of business people internationally who I draw on for insight and inspiration. My objective is to learn how to be a CEO of a billion-dollar business and that's an exciting growth curve for me and keeps me very challenged and engaged (but we are not in a hurry)."

Todd/Travers: "The principal challenge from early days to present times has, simplistically, been to manage growth on a controlled, sustainable basis as distribution has expanded globally, seeking in the process to achieve concentration in countries of greatest longer term potential, such as the US and certain European countries. These challenges are of an ongoing nature and will continue to be so as awareness and demand for pure Merino clothing products continue to grow globally."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Moon: "At the end of the first year, Icebreaker made a US$ 176,000 loss on total sales of US$ 110,000. We were almost out of cash. I paid myself and my first employee, Michelle Mitchell, a pittance. Within three years, sales had risen to US$ 750,000, and we made a profit of US$ 800. I remember one director saying, 'This is the first company I've been involved in where you can drink the profits and still remain sober'.

"Having burned my bridges in those early days, failure was not an option. I had to work out how to get Icebreaker to work, even when I felt like quitting. I remember driving home one day almost in tears of frustration at 2 am after an 18-hour day. We had made our first delivery and the sleeves were six inches too short, as the fabric had shrunk after it was cut. I was exhausted. I always felt that I knew what to do next, but not how to do it. Every day was a huge learning experience. I became a good listener and learnt how to ask the right questions, and how to find people who could help. They were always there if I looked for them, and I made sure I thanked them.

"It's very confronting to start a new company, a new category and a new product from scratch – especially when you've never done it before and don't know what you're doing. But when you start with nothing, it's also very unconstrained and free. Every day and every dollar counted so we learnt to learn quickly. And I had Peter and Noel – they were my conscience. They were rocks for me.

"No one liked us much in those first few years. We were trying to disrupt the status quo and ask questions like: 'When you're in nature, does it make more sense to wrap yourself in nature, or in plastic?' Ouch. The big guys didn't like us much but most of the time we were under their radar because we were tiny and nobody believed in us for many years.

"The most challenging area for me was learning to delegate when I saw myself as the expert in this area, as I had run all the parts of the business at some stage. But as we have brought on stronger management and have learnt from each other there is a down-deep trust between the senior management, and delegation is a pleasure not a chore."

Todd/Travers: "This is a 'challenging' question as, while there have been moments of frustration, Icebreaker has not encountered 'dark moments or negative periods' as such. These moments of frustration have been periodical operational problems (e.g., too much stock), there have not been any specific strategic negative periods. On reflection, this more positive result has primarily been the consequence of a combination of a few primary factors. For example, a very talented, strongly committed management team, which contributes to strategy and operations on a collective basis, i.e. effectively 1+1=3 – consistent with defined growth priorities and performance criteria. Leadership by example is an inherent culture, demonstrated inherently by our managing director, Jeremy Moon, 41 years old and originator of Icebreaker. One other aspect, which is important to Jeremy, is creating a family culture within the business, because everyone is important."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Moon: "Firstly, the most important outcome we can have is a positive customer experience that generates word of mouth.

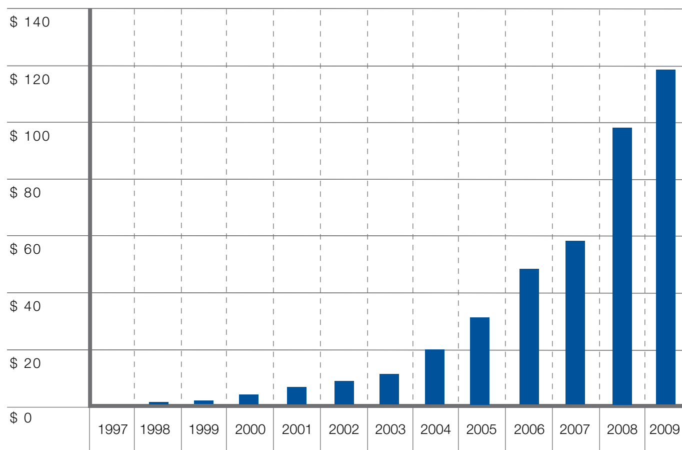
"To do this, we need to integrate our design and identity across every aspect of who we are and how we behave and what we make. So, I believe deeply in the vision of a deeply design-integrated company based on unlocking the creativity of the people within the business.

"Secondly, having very good financial reporting systems so we have an accurate gage of where we are and how we are progressing. The bank tells us that they get better reporting from us than some other publicly listed companies.

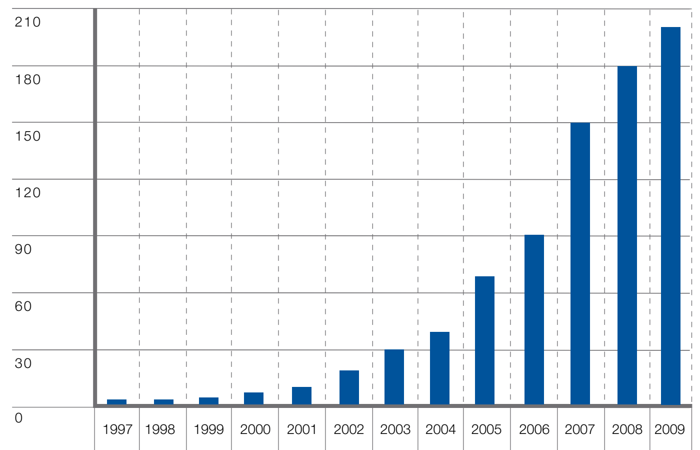
Todd/Travers: "There are numerous lessons, in particular for Icebreaker. When defining a 'vision' for establishing and expanding a business, test the reality of the concept with a range of already well experienced 'entrepreneurs', who have been 'around the block' multiple times already, who can define the possible pitholes, the critical performance criteria, the best performance team leaders and structure, and so on. Address and define the start-up and initial growth and investment strategy; to define the most viable financing structure, investment partners and financing sources; and consistently and stringently review development and performance on a regular basis.

"Another lesson which we have taken from the company experiences is constantly reviewing your forward plans. Jeremy has never wavered from his vision of a global approach." ■

ICEBREAKER



ICEBREAKER



"Thirdly, growing a strong management team and having a very dynamic culture based on exciting and excited people who enjoy each other's company is critical to our success.

"Lastly, we are all passionate about our superior product, which really makes a difference to our customers' lives – we have a deep belief in our product and provide the world with a superior alternative to plastic-based outdoor clothing."

Prepared by George Foster and Geoff Whitcher, 17 November 2010 Bikkulowa)

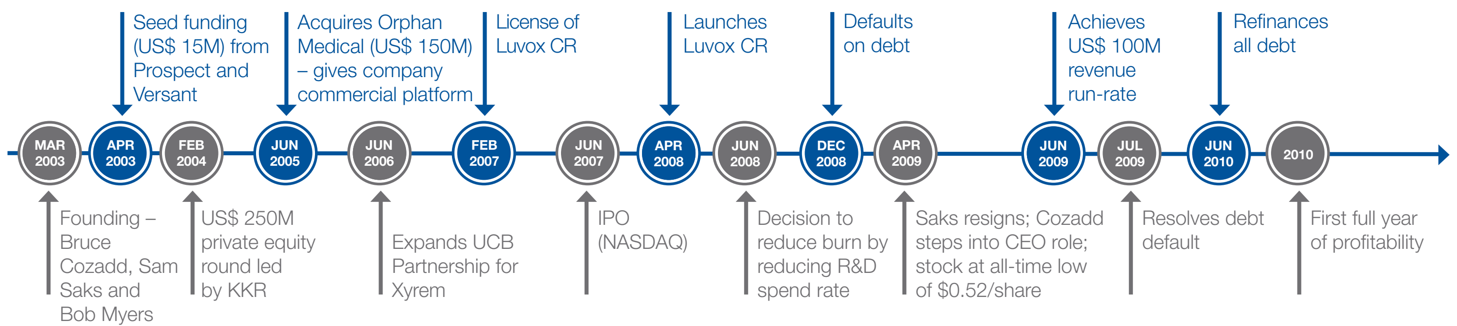
Jazz Pharmaceuticals | US

OVERVIEW:

Jazz Pharmaceuticals was founded in March 2003 as a specialty pharmaceutical company focused on identifying, developing and commercializing innovative products to meet medical needs in neurology and psychiatry. It combines the internal development and acquisition/in-licensing activities to build a broad portfolio of products and promotes them to target markets using an experienced and motivated sales force. Jazz Pharmaceuticals went public in 2007 and its revenue reached US$ 128 million in 2009.

JAZZ PHARMACEUTICALS

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Bruce C. Cozadd is co-founder and has been chairman and CEO of Jazz Pharmaceutical since April 2009. From 1991 to 2001, he held various positions with ALZA Corporation, a pharmaceutical company now owned by Johnson & Johnson. He serves on the boards of Cerus Corporation, a biopharmaceutical company, Threshold Pharmaceuticals, a biotechnology company, and The Nueva School and Stanford Hospital and Clinics, both non-profit organizations. He received a BS from Yale University and an MBA from Stanford University.

What was the source of the initial idea and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Cozadd: "In working with two venture firms, I summarized my thoughts on the best recipe for a successful specialty pharmaceutical company. This included thoughts on the ideal management team, financing strategy, portfolio strategy, and characteristics of products and development programmes that would be attractive targets, along with pitfalls to avoid. I then set out to execute on this plan by recruiting the management team. When it became clear that the team would include people I had worked with before, I elected to join the team rather than serving only as an organizer."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Cozadd: "The initial vision was to build a leading, independent, sustainable specialty pharmaceutical company. We felt it important to invest in both commercial and development activities and to promote our products to targetable physician audiences. On the development side, we wanted to use a portfolio approach with multiple 'shots on goal'. The company would be patient-focused and would strive to be an excellent place to work."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Cozadd: "The business model called for a commercial business initially formed around an acquired product, with a focus on high gross margin, promotional sensitivity and a targeted physician audience. Our sales force would consist of experienced representatives with an incentive plan closely aligned with our objectives. The development business would consist of a portfolio of projects where small investments could be used to de-risk potentially valuable opportunities, each of which would be a product that could be launched in the US through our specialty sales force. Ex-US partnerships could be used to help fund the development programs. One source of development programs would be combining drug delivery technologies with known compounds to create better therapeutic solutions to unmet medical needs. Our model called for an unusually large initial financing designed to allow the company to pursue multiple development programmes and run a true portfolio process without allowing funding constraints to unduly narrow that portfolio. This required attracting a unique mix of investors, including private equity firms."

What were the major growth accelerators for your company in its high-growth years?

Cozadd: "Growth accelerators included the following:

1. Rapid recruitment of an executive team that had substantial experience working together on a very similar business model, and with a track record of success that would attract financing
2. Completion of an unprecedented US$ 250 million private equity round less than 12 months after founding
3. Acquisition of a small but growable commercial business through a US$ 150 million acquisition (including US$ 80 million in debt financing) in 2005
4. Using ex-US partnerships and project funding of more than US$ 60 million to expand our development portfolio
5. Licensing a second commercial product candidate in 2007, with launch in 2008
6. Completion of a US$ 100 million + IPO in 2007
7. Positive clinical trial results on our fibromyalgia development programme in 2008 and 2009
8. Strong sales growth of both commercial products, reflecting volume and price gains."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Cozadd: "Our Series A financing (US$ 15 million) with two venture firms enabled recruitment of our management team and development of our business strategy. Our US$ 250 million Series B financing allowed aggressive growth and execution of our strategy, while combining the expertise of venture capital and private equity investors. We were able to leverage our commercial product acquisition to raise US$ 120 million in debt financing, and to use partnerships and project financing to grow our development portfolio. Equity financing, including our IPO, was then sufficient to get the company to profitability in 2009."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Cozadd: "We faced a number of challenges:

1. Our first attempt to acquire a commercial product ultimately failed when the selling company refused to honour our acquisition agreement. We walked away as we could not afford the time or cost of litigation.
2. After we successfully acquired the product Xyrem, we were subpoenaed in conjunction with a government investigation of promotional practices at the company we had acquired. This resulted in substantial legal expenses, investor uncertainty, and a US$ 20 million fine (we had acquired the liabilities of that company).
3. We had development programme failures (as predicted), including one late-stage failure. Fortunately, we had somewhat de-risked this investment through risk-sharing project financing.
4. Our 2008 product launch substantially underperformed relative to our forecasts. We managed through this by quickly and decisively reducing related expenses (including head count).
5. The worsening of the financial markets (including the market collapse in 2008-2009) left us unable to raise capital we had assumed would be available. This was managed though a strong will to survive and commitment by the entire company. All options and risks were evaluated and the executive team chose a challenging path with the goal of bringing a new product to market and serving patients for the long term. Among other difficult choices, we elected to default on our debt while focusing on getting the company quickly to profitability. We were able to work with our lenders to allow the company breathing room. Once profitable, we were then able to resolve the debt default and refinance obligations to strengthen our balance sheet.
6. Our former CEO resigned in 2009 during the difficult period mentioned above. The rest of the team worked closely together to restore confidence and maintain a positive working environment. Employee turnover remained exceptionally low throughout this period."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Cozadd: "Some dark moments included:

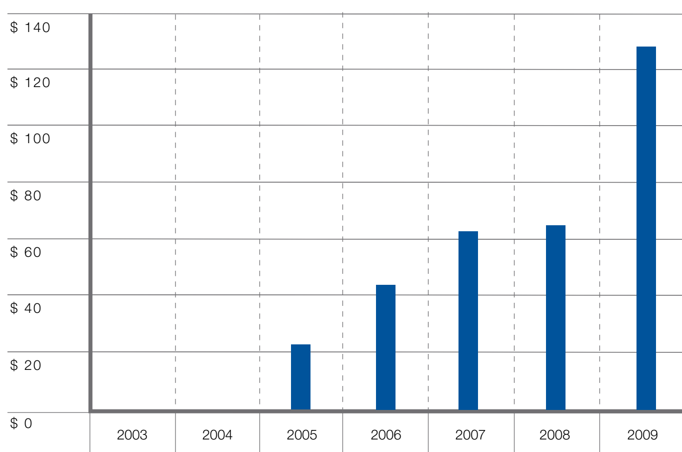
1. The need to reduce headcount substantially (approximately 50%) during the recession was clearly a dark moment, particularly as we realized that laid off employees would have a difficult time finding other employment. We treated them with great compassion and did everything we could to ensure they found other jobs. With our improved performance, we have been able to rehire some of these employees.
2. The 'dark cloud' of the government investigation caused great uncertainty and angst. We made a commitment to a real investigation, transparency with the government, and a strong commitment to ethical practices and compliance. In the end, our strong commitment to compliance convinced the government that the problems we acquired had been adequately addressed before we even knew of the investigation, and that our liability would be limited to fines for the acquired company's past practices.
3. During the period when the company was in default on its debt and at risk of being forced into bankruptcy, our prior CEO had resigned, and our stock was trading at less than US$ 1.00 a share, the stress was intense and my personal life suffered. It took great teamwork, commitment and resilience to manage successfully through this time."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

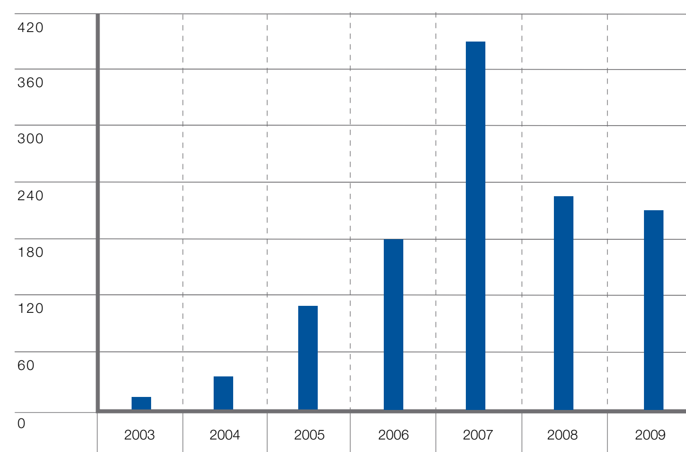
Cozadd: "Key lessons learned:

1. Operating and financing strategies must be aligned, and depending on the continued availability of capital, is a risk factor.
2. It is critically important to understand and plan for realistic downside scenarios.
3. With a strong focused management team, a company can succeed in a constantly changing environment.
4. Building a strong corporate culture can enable a company to survive significant challenges as employees feel a strong commitment to each other and the company.
5. Hire the right people and keep them motivated." ■

JAZZ PHARMACEUTICALS



JAZZ PHARMACEUTICALS



Prepared by George Foster and Xiaobin He, 24 November 2010

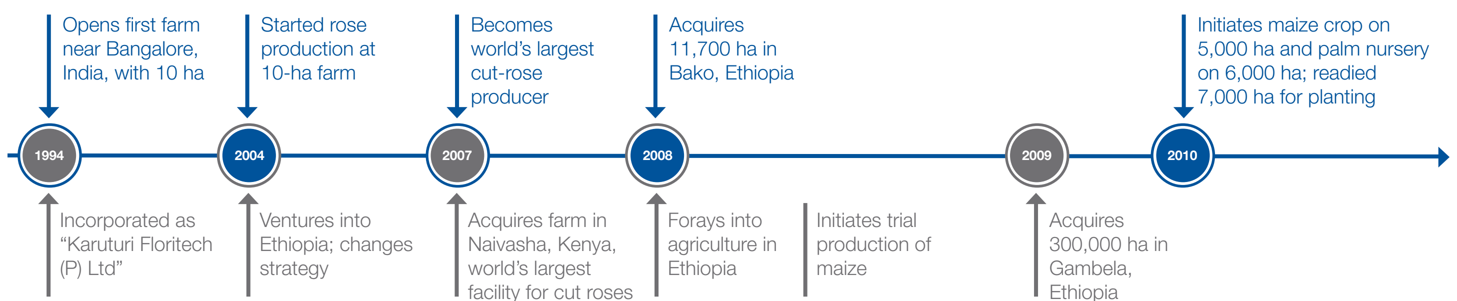
Karuturi Global Ltd | India

OVERVIEW:

Established in 1994 in India, Karuturi Global Ltd (KGL) has a deep-rooted and diversified presence in agriculture (maize, rice and palm), floriculture (cut roses), and food processing (gherkins). KGL is the world's largest cut-rose producer, having a 9% share of the European market. KGL has 292 hectares of greenhouses under cultivation for its floriculture business and 311,700 hectares developed for agricultural production. KGL has revenues of US$ 122 million with a market capitalization of US$ 460 million. It is led by the husband and wife team of Ram and Anitha Karuturi.

KARUTURI GLOBAL LTD

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Ramakrishna Karuturi (MD) is a serial entrepreneur from an agricultural background. His family owns over 2,000 acres of land in the rice belt of Karnataka, India. He started with his father's company, Deepak Cables – the largest producer of aluminium conductors in India – but within two years moved on to set up Karuturi Floritech, now named Karuturi Global. Karuturi set up his key team, which has diversified experience in agriculture, floriculture and marketing, and most of the initial management team is still with the company. Karuturi holds a BS degree in mechanical engineering from Bangalore University and an MBA from Case Western Reserve University in the US.

Anitha Karuturi, wife of Ram, is the co-promoter and an executive director of the company. She is responsible for finance and compliance functions. She holds a BS degree in computer engineering.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

R. Karuturi: "After receiving my mechanical engineering degree from Bangalore University and an MBA (dean's honour) from The Weatherhead School of Business at Case Western Reserve University in the US, I joined my father's business, Deepak Cables. However, I had always wanted to do something different. On Valentine's Day I planned to offer a red rose as a gift to my wife. This was the moment when I realized that there was a large demand for this product, yet insufficient supplies. I then started to study the rose and flower business, and I setup a 10-hectare farm in Doddaballapur in Bangalore, India. That was the boom time of India's Silicon Valley, where lots of entrepreneurs and large business houses had land in the vicinity of Bangalore because this region is well suited for roses. It was a not easy to grow the business. There were no international flights into Bangalore, logistics were a big challenge and the local market was still in its infancy. I took the lead in forming the South India Floriculture Association. As its president, I worked with the government not only to create incentives, but also to initiate charter flights on special occasions to channel roses from different growers to the flower exchange market in Holland. However, I realized that the logistics cost was too high to export from India to Europe on an ongoing basis. In addition, land prices were increasing in India.

"In 2004, I ventured to Ethiopia, which was promoting rose production and providing a lot of incentives to investors, besides having the logistical and weather advantage over India. It turned out to be the right place at the right time with the right product. The investment climate was favourable so I started this venture on a 10-hectare farm. As time passed, the company bought more land in Ethiopia for the floriculture business. The strategic move from India to Ethiopia gave a serious

boost to the company, both in terms of revenue and profitability. In 2007, the company acquired Sher Agencies Ltd, in Naivasha, Kenya, which was already a mature farm. As a result, we become the world's largest producer of cut roses. While the company was busy expanding its greenhouses for roses, the Ethiopian government approached our company to cultivate land for agriculture. This again turned out to be well timed. The world was going through a food crisis, and the need for developing Africa as a food bowl was being debated worldwide. Initially we leased 11,700 hectares of land, followed by another 300,000 hectares. The leases were on favourable terms for the company."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

R. Karuturi and A. Karuturi: "The aspiration was always to provide the best product to the customer at the right time with a decent vase life. We always maintained the quality standards and turnaround time to provide the freshest product to the consumer. Over time, there were two major changes in our vision. The first was our move to Ethiopia followed by the acquisition of Sher Agencies, and the second was our move into agriculture business, which could be revolutionary. Our new vision is to become one of the largest food producers in the world. We are currently rated in the top 25 transitional corporations in agriculture by UNICAD."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

R. Karuturi: "Our strategy for growth was to be cost effective, so we took all necessary measures in terms of achieving high growth and trimming costs. Our strategy to move from India to Ethiopia was the biggest change for our company, as Ethiopia and Kenya are very low-cost producing countries. This move gave us an advantage on various parameters in terms of freight cost, labour cost, suitable climatic conditions, tax holiday, land availability, logistics, government thrust, etc. There were significant savings in freight costs (25% of the total cost) and transportation costs (50% price difference compared to India), which helped the company boost its profitability. The company's high rate of growth is linked to the promoter's ability to take giant steps and calculated risks. The acquisition of Sher Agencies was one big jump, and now the entry into agriculture production will become even more significant."

What were the major growth accelerators for your company in its high-growth years?

R. Karuturi: "The key accelerators to our sustained growth included:

1. *Change of Location.* The major accelerator for our growth was venturing into Ethiopia and later acquiring Sher Agency, the largest farm in Kenya. These moves changed the company's revenues from US$ 4 million to US$ 120 million between 2006 and 2010.
2. *Cost controls.* We did major cost cutting in our Kenyan farm.
3. *Distribution Channels.* We increased our distribution channels in countries like Australia, Japan, Germany and North America.
4. *Diversification.* Venturing into agriculture production"

A. Karuturi:

1. "Our move into Ethiopia, Africa
2. Adapting swiftly to new situations and new locations
3. The main accelerator at this point is the acquisition of large acreage of agricultural land in Gambela, Ethiopia"

Briefly describe the financing of your company and how this financing impacted the growth of your company.

R. Karuturi: "Our company required a lot of capital to finance its growth. We started by raising money from the market and from financial institutions. We were the first Indian floriculture company to pay back our loan from IDBI Bank, while others struggled for SOPs. The 2004 entry into Ethiopia was financed by us, the promoters, bringing the initial capital and then we raised US$ 75 million through convertible bonds in 2007. Our company was highly regarded in the market, thanks to its innovation and unique business model. Subsequently, we faced some challenges in 2008 but were able to raise US$ 20 million in bank loans for the agricultural venture, while we continued to grow the floriculture business with internal accruals. Most recently the company raised US$ 16 million from IL&FS in private equity and currently has a US$ 15 million Global Depositary Receipt (GDR) issue underway. We are also in the process of raising another US$ 250 million through a mix of debt, Overseas Corporate Bodies and equity through its overseas subsidiary."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

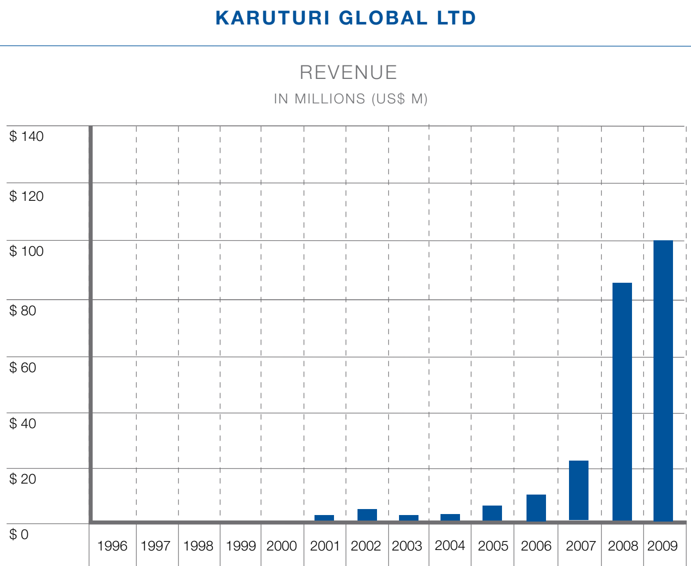
R. Karuturi: "We had major challenges all along the way. Some examples:

1. *Venturing in a foreign country.* The biggest challenge for us was the business start-up in Ethiopia. We had to work with government authorities to obtain the land, which includes understanding the country's rules, policies and regulations. Above all, gaining the confidence and acceptance of the localities proved to be cumbersome.
2. *Climate conditions.* Since floriculture and agriculture mostly depend on climate conditions, we are often faced with drastic change in the weather and its impact on our crops.
3. *Human resources.* This was a big challenge for the company. We faced this challenge by using the given resources effectively, even by moving them to different key locations. The promoter himself moved with his family to the main location of growth in Ethiopia. The voids were filled by hiring locals and expats from India. Experienced manpower was hired in Holland, India, Kenya and Ethiopia from varied fields. Since our company is a listed company, we used an employee stock option plan to provide the stickiness. In addition, we provide our expat employees with all possible benefits, such as furnished accommodations, transportation, health care benefits and

meals on site. We built houses for the supervisors and middle managers on farm sites, and we provide freshly cooked meals to all employees. In Kenya, our company owns and provides housing for all levels of employees,from a worker to the CEO. It runs a full-fledged hospital with state-of-the-art facilities. It also runs a school for 2,200 students and runs a football club, which is among the top teams in the premier Kenyan league. The company has many such initiatives, and we are replicating this structure in Ethiopia."

A. Karuturi:

1. "*Hiring and relocating people to Africa.* It was an immense task to convince good people to work in Africa. People had a typical perception about Africa in general and Ethiopia in particular. This continues to be a challenge, although it has improved because of our success there.

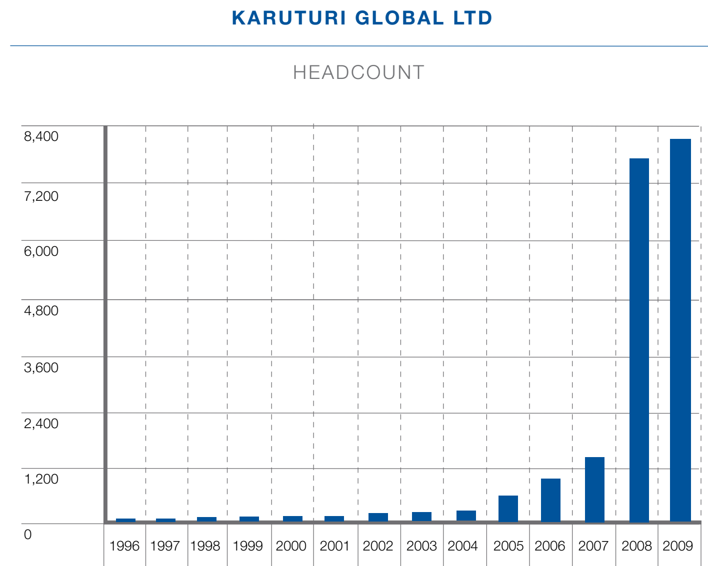


2. *Integration in Kenya.* After our acquisition of Sher Agencies, local Kenyan employees initially found it difficult to accept us due to the poor image of local Indian entrepreneurs, largely because of the local trading community. It was a difficult process, but our perseverance and our employee benefit initiatives helped us to gain the confidence of the people."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

R. Karuturi: "Black Swan Events have tested the tenacity of our business model time and again. The challenges thrown up by the recent financial meltdown strengthened the company's operations. Challenges with integration after the acquisition in 2007 of the Kenyan facility required changes in our style of management, where we shifted from a centrally controlled system to a decentralized, delegation system."

A. Karuturi: "One of the difficult periods was during the Kenyan riots when the whole country was on fire and we were still getting into the saddle. We had to take very bold initiatives because 70% of our employees live in our colony, which is part of the farm. We were able to get a helping hand from the other family members as they could not go for work. We made arrangements for meals onsite and dispatched flowers to the airport in the middle of the night under the protection of police and armed private security. We adapted ourselves and worked as a local company rather as an Indian company."



What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

R. Karuturi: "Some important lessons:

1. Act on principles
2. Be permanently agile
3. Create a culture of competitiveness, challenge and passion for the workplace so that your employees are satisfied and happy
4. Tolerate and learn from failure
5. Adapt key personnel to handle ambiguity and develop systematic flexibility, while constantly striving to lower the risk profile
6. Never give up; believe in the impossible" ■

Prepared by Martin Haemmig and George Foster, 17 November 2010

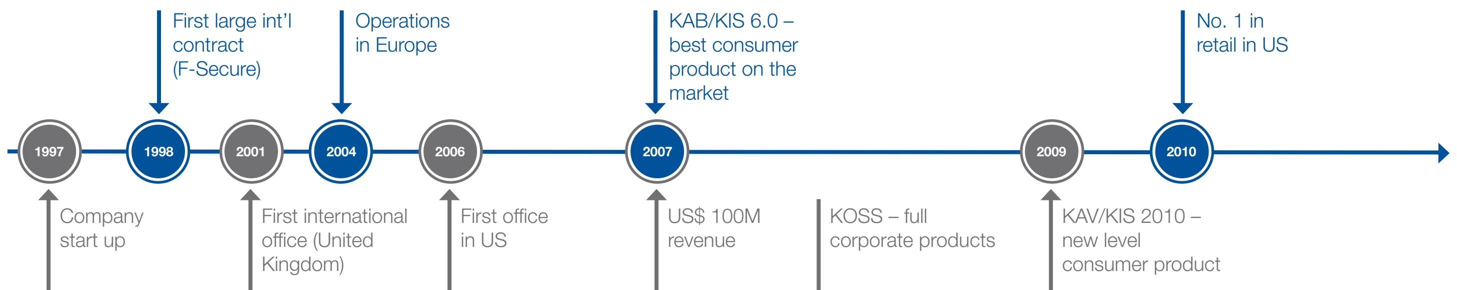
Kaspersky Lab | Russia

OVERVIEW:

Kaspersky Lab (KL), the world's largest privately held anti-malware company started as an R&D initiative in 1994. It commenced operations in July 1997, becoming the fourth biggest player in a global IT security market. KL holds a strong top position in the B2C sector, and is a security IT leader in Western Europe and EEMEA (Eastern Europe, Middle East and Africa). About 300 million users worldwide get system protection from KL's technologies and 150,000 new customers are added weekly. The technology is also incorporated in the products and services of approximately 100 of the industry's leading IT, networking, communications and applications solution vendors. In 2009, revenue was US$ 391 million, a 42% increase over 2008. The company employs 1,700 professionals in more than 100 countries around the globe. Since 2007, Kaspersky Lab has received multiple international awards for its security products.

KASPERSKY LAB

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Eugene Kaspersky is a founder, chief executive officer and main shareholder of KL who previously worked at the KAMI Information Technologies Centre, where he developed the AVP (antivirus project) with a group of associates. He graduated from the Institute of Cryptography, Telecommunications and Computer Science and was named CEO in 2007.

Natalya Kaspersky is the chairwoman and co-founder with previous background at the Central Scientific Design Office. She graduated from the Moscow Institute of Electronic Engineering in 1989 with a degree in applied mathematics, and was KL's CEO from 1997 until 2007.

What was the source of the initial idea and, how did that idea evolve into a viable high-growth business venture? How did it change over time?

N. Kaspersky: "It started in the early 1990s when Eugene Kaspersky, a young IT professional at that time, accidentally found a virus on his computer. After being able to detect and fix it, he realized that this could become a great opportunity with enormous market potential for the IT industry, when providing virus protection for both the corporate sector and individual users. KL's team was created with four soul mates and co-workers who initially worked in a small antivirus research department of KAMI (large system integration firm). Later on, the core team left KAMI and set up a new company in 1997.

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

N. Kaspersky: "Our initial vision was to develop exceptional antivirus products that could generate economic profit. We understood that the only chance in Russia to get the company financed at that time was through our own sales and profits; hence, the task to bring in new clients early on was our top priority. Our first client was an IT company from Finland. With the completion of this first contract, its profits and reputation enabled us to attract more projects. Later on, with more clients and services in hand, we reviewed KL's vision, mission and goals and set a new target to become 'global number one for endpoint security' and we keep this aspiration today."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

N. Kaspersky: "The company's strategy is based on several key areas such as:

1. Product and engineering excellence
2. Focus on core areas of competence
3. Brand development
4. Open and entrepreneurship-driven corporate culture with low bureaucracy and high level of trust
5. Global scope of operations with high autonomy of local business operations
6. Highly flexible business strategy adaptive to changing market realities"

What were the major growth accelerators for your company in its high-growth years?

N. Kaspersky: "Without ranking them by priorities, they were:

1. *HR strategy.* We believe people are the main asset in the IT business and that corporate culture is a vital element for business success. The main objective of our HR strategy was to create an open, friendly, and professional culture based on trust, creativity and collaboration. We were looking for professionals from larger companies who might be tired of bureaucracy and the lack of opportunities common in the large corporate world; hence, we offer an alternative. Our incentive strategy is reasonable and our compensation is above the market average, but we do not overcompensate. We believe that our team is inspired by opportunities and personal growth in a global firm, rather than just focusing on financial compensation. The absence of constant control and rigid regulations, as well as a friendly atmosphere, are important motivational factors as well. We value positive attitude and an optimistic approach and believe in trusting people instead of focusing on control. We are confident that a sound company mission shared by the majority of our team will inevitably lead to success.
2. *Success in consumer-targeted products.* Our big competitors generally underestimated the value of 'niche market' thinking as they perceived IT security as a low-profit market. As a result, Kaspersky products for private users are our main profit source.
3. *Exclusive agreements.* Development of a wide network of partners working exclusively with KL.
4. *Focus on the Western Europe market.* Market needs exceeded our expectations and fast growth provided exceptional opportunities despite the existence of competition."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

N. Kaspersky: "We have always been a 'boot-strap' company with no external financing. This naturally slowed down the company's growth trajectory in its early years, but also generated a profit-driven and healthy financial culture, with healthy scepticism toward mega-projects and useless investments. It forced us to focus on positive financial results and ongoing development to optimize business projects."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

N. Kaspersky: "The first challenge was finding the resources for initial development. We addressed this by expanding our markets internationally as well as locally. The larger client pool brought more profit and allowed us to develop additional services and products.
The second challenge was the lack of resources for brand development. We therefore based our communication strategy on low-cost yet efficient tools such as:

1. *News-based PR.* No general statements but rather focus on current issues and future needs.
2. *Extensive teamwork* with experts and evangelists in the security communities.
3. *Personal branding.* Eugene Kaspersky personalized the PR approach by talking directly to the customers via various PR tools. This led to the Kaspersky brand being very open toward end users and providing a human face of the company and its products. This approach differentiated KL from its IT competitors and created a stronger client bonding.

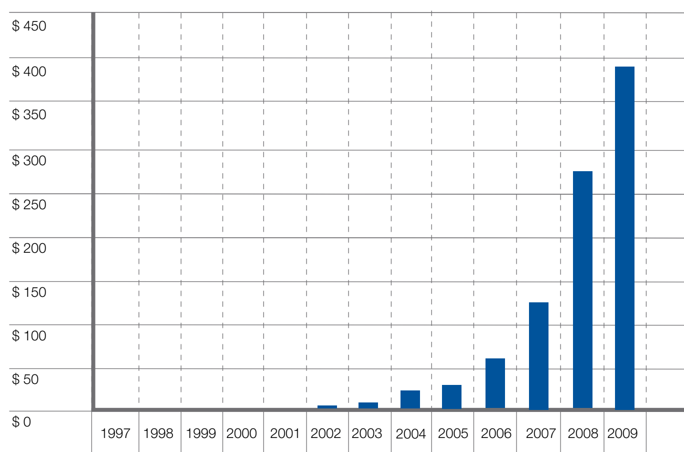
The third challenge was attracting professionals from abroad. With limited payroll budget, freedom of expression and outstanding professional growth opportunities were key aspects they were looking for. Later on, such policy inspired our corporate culture and led it to what KL is today."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

N. Kaspersky: "The early years were the real 'Dark Years' as we needed everything from an office to international business expertise. In addition to this, in 1998 Russia went through the major economic crisis. Most of our customers focused on covering their basic needs rather than spending on other goods. In such a scenario there was nearly no demand for our product and nearly no chance for a small IT company to survive. The contract with a famous IT firm from Finland was a lucky strike for us. It gave us cash to keep the team up and to look for new business opportunities. Those years were also the time where today's corporate culture – one of fundamentals of our business – was established.

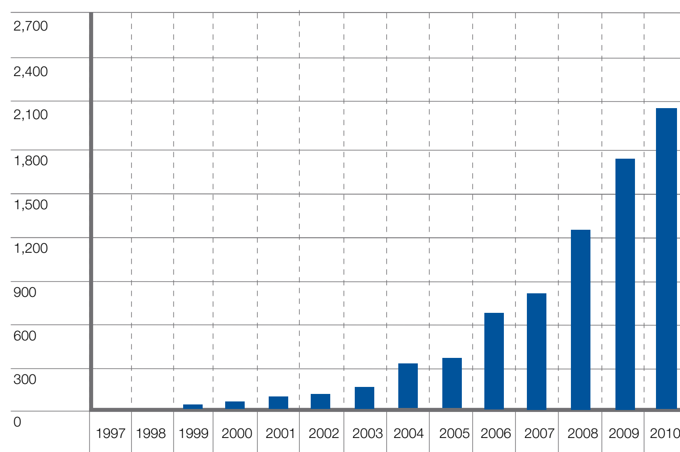
KASPERSKY LAB

REVENUE
IN MILLIONS (US$ M)



KASPERSKY LAB

HEADCOUNT



Retail Strategy Works. The years 2001-2003 were critical as we faced many challenges trying to establish solid positions internationally. Again, we were lucky to pick the right time to go globally with our 'box' product distributed via retail while most our International competitors decided to shift their sales online. KL products were in such demand that all our business processes were driven by the market, not by our strategy or by thorough analysis of market space, etc. We just didn't have the time and resources to properly manage all our strategic goals and daily business tasks. Our goal was to build an International company, to expand into new markets, to hire bright people, to establish new corporate culture, and at the same time ensure that our products are delivered to the growing number of our customers every day and at stable quality.

Strategic Partners. We quickly realized that our partner network, which proved to be an effective business model in Russia, was getting out of our control outside of the country. To make the business run more efficiently, we opened representative offices abroad. The first challenge we faced was recruiting people who had knowledge of local markets and an affinity with our corporate culture. In addition, the strategy correlated with the global dot-com and the telecom market crash. Sometimes it seemed the process would last for ages, and we were about to give up and sell the business to some strategic investor. However, our efforts paid off. We changed several partners and lost money but learned extensively and found several business areas that later became growth drivers for us."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

N. Kaspersky: "Without ranking them, they are:

1. Focus on future opportunities rather than on immediate profits, and looking for something that can change business dramatically without extensive investments.
2. Do not keep all the eggs in one basket. Work on several projects to achieve success.
3. People are a key asset. However, it is important to have the right people at the right place and not always the best people in any place.
4. An entrepreneurial culture and spirit that is nurtured and encouraged as much as possible. This is often the only available option to make a business successful.
5. Brand is very important, both for customer loyalty, and internal culture consistency." ■

Prepared by Martin Haemmig and George Foster, 18 November 2010
Supported by Russian Venture Company (I. Agamirzian, G. Bikkulowa, Kasperski Lab, (Alexander Erofeev)

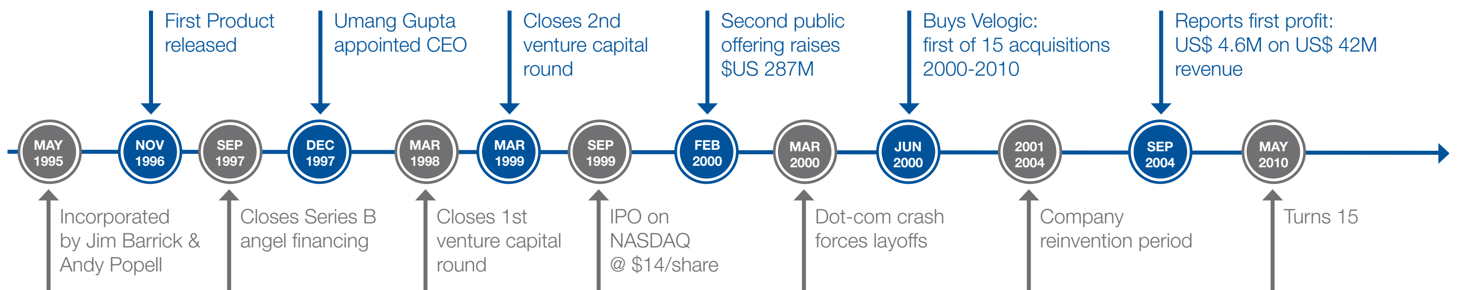
Keynote Systems, Inc. | US

OVERVIEW:

Keynote Systems (NASDAQ; KEYN) is a provider of on-demand test and measurement products for the Internet and mobile communications. Led by Umang Gupta, the company serves 2,600 customers through the world's largest real-time measurement and testing infrastructure. Incorporated in 1995, it was effectively a restart in 1997 when Gupta became chief executive officer and positioned the company as the Internet Performance Authority. Keynote rode the Internet boom in its first years. It was floated as a public company in 1999 on US$ 40 million in revenue from one subscription product and a telesales distribution model. The dot-com crash in 2000 forced a new era of consolidation and reinvention for the company. It expanded its product range into mobile communications and built an experienced direct sales force. In 2004, the growth strategy earned Keynote its first profit of US$ 4.6 million on US$ 42 million revenue. In 2010, Keynote is a leader in its market with more than US$ 80 million in revenue.

KEYNOTE SYSTEMS, INC.

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Umang Gupta, chairman and chief executive officer of Keynote Systems, is a well-known Silicon Valley entrepreneur and seasoned technology industry executive. Gupta was an early angel investor in Keynote and became its largest shareholder when he took the helm as CEO in 1997. Gupta started his career in 1973 with IBM. Less than 10 years later, he joined the fledgling Oracle Corporation and wrote the Oracle business plan with founder Larry Ellison. In 1984, he left Oracle to start Gupta Corporation, which he took public in 1993. Gupta Corp. was one of the first companies to define the era of enterprise client/server computing. Gupta's experience and vision was critical for reinventing Keynote first in 1997, then again in the 2000-2004 period after the dot-com crash.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Gupta: "The original two founders of the company were two young Harvard MBA students who had been engineers at Hewlett-Packard. As the Internet was getting going in 1995/1996, their basic idea was around the measurement of Internet speeds and technical problems that could be used for customer support and other benefits for people who were putting up websites. I got involved in mid-1997, first as a series B (angel) investor. That December I took over as the CEO and ended up becoming the largest shareholder. I figured at that stage, the idea of monitoring the health of the Internet was a great idea, but we needed to figure out how to monetize it a different way. So we hit upon the idea of positioning ourselves as the JD Power of the Internet. We would provide quality testing for the digital economy. So we positioned ourselves as the 'Internet Performance Authority'. We evolved our business into a software as a service (SaaS) business model. We were probably among the world's first SaaS companies and we started selling our services to pretty well anybody that was building a website – ranging from [then] small dot-coms like Amazon.com, to American Express, Fidelity and others."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Gupta: "The company hadn't really delivered anything until about the end of 1996. It wasn't until the middle of 1997 that its first product was ready for customer review. It was basically a restart when I took over as CEO. I'm a serial entrepreneur. My previous venture was a company called Gupta Technologies that I took public in 1993. Before that, I was involved with Oracle. I was employer number 17 at Oracle and had written its first formal business plan with Larry Ellison in 1981. So I was used to 100%-a-year growth rates. We had no qualms that what we wanted to build was another company that over the next few years could grow at 100% a year. As a start-up guy, you think in terms of 'how long will I keep growing at those rates?' because it's a land grab business and the whole idea is to basically be the first to get going and at some point you either sell out or take it public. So, our aspirations were really to take it public or sell. We went public in September 1999."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Gupta: *"1997 to 2000:* The era of hyper growth and the dot-com bubble was clearly the SaaS business model. But the product was relatively simple. It was one product, which did web measurements 24-hours a day, and you could see the results of your web measurement on a browser. We had a telesales distribution model in the context of a subscription-pricing model. And that model stood us in very good stead for the first era. By the end of 2000, we had 40 sales people on the phone smiling and dialling for dollars; there were no field sales people and not much technical support. But it wasn't like we had really anticipated that we would end up with the mother of all bubbles, which ended up happening.

2000 to 2005 Period: When the bubble burst in 2000 we all looked around and said; 'What do we do next?' We had a US$ 40 million company losing US$ 20 million a year. We had three choices: 1) to sell out; 2) literally shut off the lights and return the cash to the shareholders; or 3), we could revive and essentially reinvent the company. We felt that we could do a better job of rebuilding the business and we were all motivated to build a business that truly lasted. We concluded that since we were still the Internet Performance Authority, our goal should still be the same, which is to improve the quality of e-business worldwide. So within that context, we evolved our product line from a single product that simply did home-page measurements to a plethora of products that measure every aspect of quality and performance that you could think of on the Internet and for mobile services. But we had to build or buy technology very fast and we had to change our distribution model because the complexity of products we were selling dictated that we couldn't just sell over the web or telephone anymore. We bought a dozen little companies to be able to buy technologies at fairly cheap rates."

What were the major growth accelerators for your company in its high-growth years?

Gupta: "We like to think we are a company for all seasons because the first five years was clearly riding the (Internet) wave. I would say in the second five years, we were surviving the (post-bubble) tsunami."

Riding the Internet Wave

"The period from 1997-2000 was an amazing time when anybody could go off and get venture capital and start a new company. Every large company on the face of this planet was coming up with an Internet strategy, so the demand for what we had was just absolutely phenomenal because the Internet was still young, unreliable and uncertain. So

building a service that helps monitor and manage its reliability – as everyone said, 'You can't manage what you can't measure', it was such a no-brainer, basically.

Surviving the Tsunami

"We went from a US$ 40 million company losing US$ 20 million to a US$ 40 million company making US$ 2-3 million. So we didn't grow our revenue one bit from 2000 until 2005. But what we did do is change the composition of the revenues. So while some parts of our revenue were going down, including simple measurements of home pages, or when a dot-com company went down and that customer went away, we had to replace that revenue with other new, more complex products like mobile or streaming. We also had to find new customers to replace the old customers. So that process is what consumed all of us for those five years. It was like being in a leaky boat where all you were trying to do was just survive. You basically have a bunch of people constantly bailing water and making sure you were staying afloat."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Gupta: "Keynote raised a total of US$ 3.9 million through angel investors in 1996 and 1997. It raised another US$ 4.7 million from venture capital firm Bessemer Venture Partners in March 1998 and an additional round of US$ 17.2 million from Bessemer, GE Capital and Verisign in May 1999. It went public in September 1999, raising US$ 58 million on a valuation of US$ 290 million. Five months later, a secondary offering raised another US$ 287 million on a US$ 2.8 billion valuation.

"We were able to take the company public five months earlier because of the (dot-com) financial markets situation. But luckily enough we were also able to use that time to prepare for a secondary offering, and it was a huge secondary offering in February 2000. Luck is a wonderful thing because we literally did it before the market bubble burst and we were able to raise US$ 350 million cash at almost a US$ 3 billion valuation for this little company. It was the most critical transaction we did. I feel especially good about that. The dumb luck occurred because of the value we got. But the fact we did a secondary offering was absolutely planned. From the time we did the initial public offering we knew we were going to do it. In fact, I hired a new CFO just before the IPO and I put a bonus plan in front of him to make sure he really understood that the initial offering was just a starting point. The real goal was the secondary. And I had seen it done before. We had done a secondary offering at Oracle in the early days that really helped the company."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Gupta: "*Dealing with uncertainty:* The biggest challenge of all is simply the uncertainty of whether you have a viable business. When you are making a product and you don't have any customers, how do you know that there are going to be thousands of people wanting this? And yeah the theory says they will, but you really haven't figured it out yet at that stage. So the first thing was just handling the uncertainty and maintaining the vision. You build products either based on very good vision or very good hearing. For a start-up like ours in the early days, it is 90% vision and 10% hearing because you don't have customers to listen to. So you have to have your own internal compass driving you that says, 'I know this will work and I know people will buy it'. I had kind of done it before and I knew how to do it and I had people around me who knew how to do it and relished it.

Executing on the Vision:

You have all this hyper-growth, but you can screw it up. It's so easy to hire the wrong people, to upset a bunch of customers, to do things where your billing systems don't work or your product doesn't work. So what do you do when those things happen? You have to have the management ability to say, 'Whoa, hold it. We had better fix this now or we won't be in business a year from now'. And of course competition is coming up. So handling the competition, handling your customers and hiring people, those are all parts of the start-up management style and the challenge of execution."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Gupta: "For the first five years it is hard to recall any dark moments because we were all in a flush of enthusiasm making it work. By the end of 2000, when the dust settled, the entire market of people buying products like ours was about US$ 50 million dollars and we were a US$ 40 million company, so we literally had 80% of the total world market. However, the next five years we had a lot of dark moments. I mean, the big decision is do you sell the company, do you turn off the lights or do you just keep going? That was a very big decision-making process and it was very personal for me. I had to decide what I wanted to do. I had to talk to the management team and find out what they wanted to do. They were very introspective times. The dark moments really came when we started to execute on the restart plan and the execution included firing a lot of people. But there are two parts to that darkness. One is letting them go because that is always a hard thing. But the second part is there are people all around you who are just gloomy and

many feel it's like the end of the world. So how do you keep their spirits up during this period of letting go and seeing your business go down month-on-month from 17% month-on-month revenue growth to losing 9 to 10% of our customers in a quarter. So that was hard. We had to remind people 'from profitability comes stability'. That was our mantra. I think 2001-2002 were dark. But by 2003, we knew we could do it. And we also had a lot of cash so whatever terror we may have faced we were confident we wouldn't run out of cash."

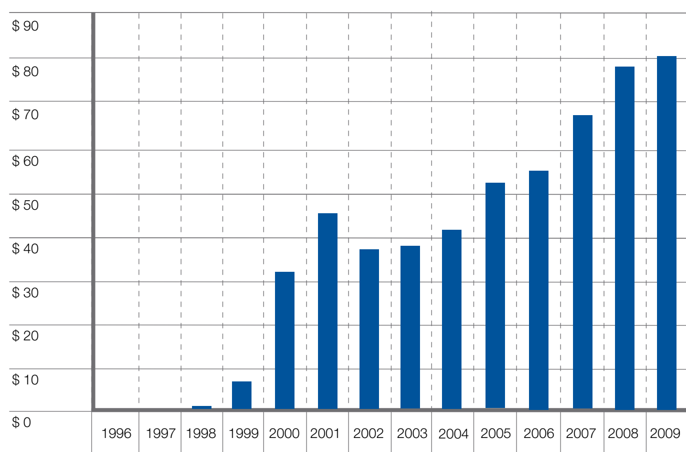
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Gupta: "Technology is the ticket to the game but not the game itself. You can build a good product and yes, the world may come to you as it did with Keynote during the Internet bubble, but your ability to beat the competition depends not just on your product development acumen, but also your marketing, sales, management and financing acumen – a lot of things. So the technology does get you a ticket to the game. It gets you a business plan, the ability to raise some funds or get some early customers. But your ability to survive the tsunami effect of a wave that is in your favour, or the tsunami of a big wave against you, it really does come down to everything else beyond technology.

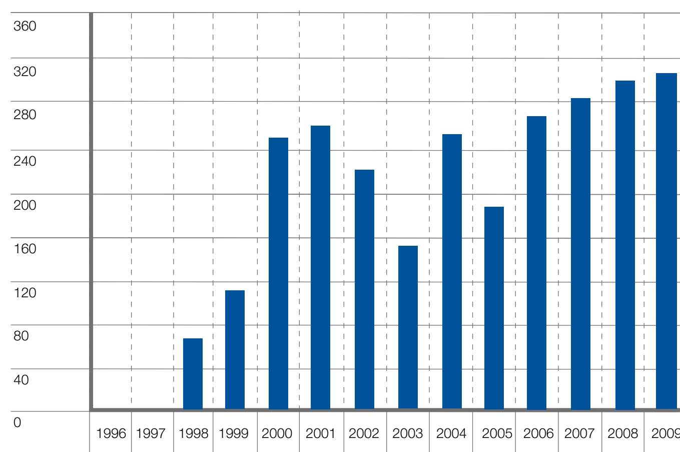
"As a business leader, you have to play with the hand you are dealt. You have to know when to hold 'em and fold 'em. There is no business in the modern world, in my opinion, that you can safely say you are going to pass it on to your kids or that it is going to last 100 years. Maybe it will. Maybe it won't. But whatever you do to build a business will last for the current business cycle – maybe two. So you have to be constantly re-evaluating your options. Not just as a company that does what it does, but also as a steward of other people's money. It may sound corny but it has got to the point where this is endemic in me." ■

Prepared by George Foster, Sandy Plunkett, and Mateen Syed, 15 November 2010

KEYNOTE SYSTEMS, INC.



KEYNOTE SYSTEMS, INC.



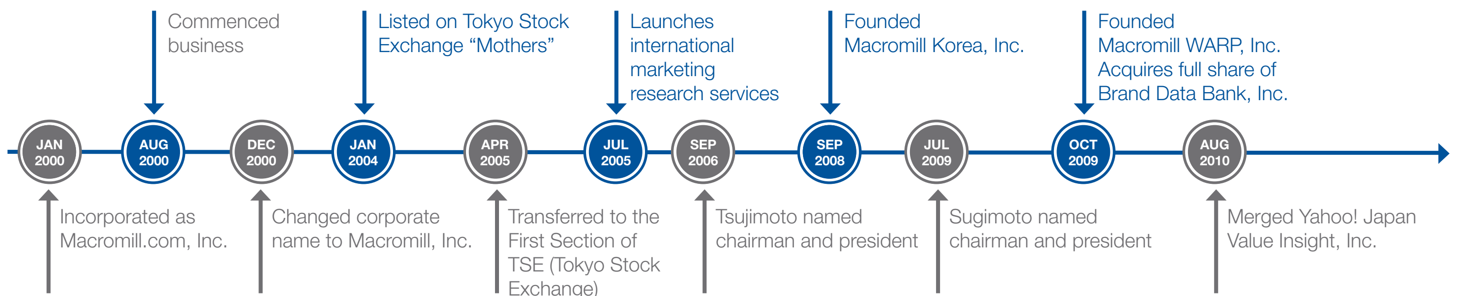
Macromill, Inc. | Japan

OVERVIEW:

Macromill Inc. is the leading B2B online marketing research company in Japan. Launched in Tokyo in January 2000, Macromill quickly differentiated itself from many traditional competitors by providing higher quality, faster speeds, and lower cost quantitative research, qualitative research, global research and database marketing services. The company ranked 43rd on the Deloitte Technology Fast 500 Asia Pacific list in 2004 and placed 5th in Japan. In August 2010, Macromill merged with the number two player in the market, Yahoo! Japan Value Insight, strengthening its current top position in Japan and boosting further domestic and global expansion.

MACROMILL, INC.

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Yasunori Fukuha, is Executive Vice-President of Macromill. Fukuha, along with the current chairman and president of Macromill, **Tetsuya Sugimoto** came from Recruit Ltd, a company in the fields of advertisement, publication and human resource placement. Fukuha obtained his MBA from Case Western Reserve University. Sugimoto has won multiple awards, including EOY JAPAN 2005 (Entrepreneur of the Year by Ernst & Young).

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Fukuha: "Before 2000, when Macromill was established, marketing research was conducted through inefficient ways, such as postal service and fax delivery. It normally took one to two months to complete a survey and clients had to pay more than US$ 20,000 per project. We saw big potential for an online business to solve this complex environment for marketing research. From our viewpoint, the marketing research industry looked like an old fashioned industry that had not evolved for a long time.

"By merging research with technology, we had the clear view that Macromill could provide more efficient research services at much lower prices and faster delivery. As soon as we set up the company, we started to develop our own research system named AIRs (Automatic Internet Research system). At the beginning of the Internet boom, there were more than 100 small online research firms. In 2003, a large new Internet service provider (ISP) entered the market, and by 2010 a massive consolidation happened, leaving only five key players. Therefore, we had to rethink and reposition ourselves."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Fukuha: "The objective when establishing Macromill was to make marketing research more efficient through the use of technology. It was challenging since many clients were familiar with old-fashioned research and did

not want to change their way of doing business. Especially many older people who engaged in decision-making were anti-computer and anti-Internet. As marketing research relies on human perception and skill, it was not easy to transform professional skill into the system. But we have been trying to make a research system where clients can make questionnaires easily on the web and collect the data automatically themselves. In addition, we built Quick Cross tools, which enable clients to make cross tabulation and graphs according to their needs. For a long time, we have built and kept improving research systems and finally succeeded to provide customized, high-quality research service at a very reasonable price. As the online research market grew, so did opportunities for firms like Macromill. The forecast for overall research market size was about US$ 1.5 billion with about 30-35% expected to be earned through online tools (US$ 500 million). It became clear that we had to grab at least 30% of the online revenue (US$ 150 million) in order to remain a significant and respected player in Japan. To grow further, we had to consider global expansion."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Fukuha: "There were many small online research players in Japan and none of them tried to establish an efficient research system like Macromill. Most traditional surveys would require more than one week for completion, but in Macromill's case, we could deliver the data within 24 hours. Needless to say, our speed, quality and low-cost strategy was highly valued by our clients. Macromill developed guiding principles:

1. Offering ultimate services and systems through continuous reform of existing clients and creation of new online research business.
2. Providing education for our staff (talented human resource recruitment and best education)
3. Establishing a long-term profitable business model set of management principles for a lasting company)."

Changes over Time: "We never intended to establish our own physical sales force; however, we had to do it, in order to raise the Macromill brand awareness and to obtain complex projects."

What were the major growth accelerators for your company in its high-growth years?

Fukuha: "Being a service company with high labour costs and rapidly changing markets, we focused on three areas:

1. *Automatic Research System*: Substantially differentiates us from other online research companies.
2. *Strong Sales Force*: Establish clear sales targets and align them with a financial compensation system. Historically, market research companies never marketed their services aggressively. Our younger staff was not only Internet savvy but also achieved the sales target.
3. *Effective PR Activity*: We used several media such as TV, newspapers, and magazines to show the results of our 'own designed' research, which focused on 'curious' findings in people's life. We could successfully leverage these media through articles to let consumers know the name of Macromill, which saved us lots of advertising costs. In addition, our surprising findings started to stick in people's mind."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Fukuha: "We have been recruiting highly self-motivated people who are full of energy and ambitious. The average age of an employee is around 27 to 28 years old and has not changed over time. At the early stage of the company, we did not prepare training curriculum; hence, we had to hire self-driven people who could train themselves. We also had a transparent personnel management system, which gave high-performance people a chance to get promoted early in their career. Regardless of how many years they work or how old they are, the promotion is decided solely on performance. We also set up an Employee Stock Option Program (ESOP), in which all our employees could participate and benefit in conjunction with the IPO."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Fukuha: "We overcame three major obstacles:

1. *Initial Financing Problem:* Just after establishing Macromill, nobody wanted to invest in our company as the IT bubbles collapsed at that time. We spent endless management time visiting potential investors until we found a corporate investor.
2. *Early Quality Problem:* Before 2003, as the Internet penetration was very low in Japan, few clients believed they could rely on online research. In addition, some respondents answered a survey without really reading the questionnaire, which impacted the reliability of our online research. As a result, we set up the strict survey management policies, including a function to find our dishonest participants.
3. *Post IPO Syndrome:* We all worked hard for our target, which was the IPO. Once the event was over, we realized that everybody was out of steam and out of future goals. In order to overcome this situation, we had to promote younger people and set the bar higher."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Fukuha: "Our darkest moment happened during the foundation of the company. The five co-founders financed the first 10 million yen (US$ 95,000) to start the company in January 2000. Our estimated capital requirement for systems development was in the range of 50 million yen (US$ 0.5 million). We looked for venture capitalists (VCs) and other investment firms to finance the balance. It went smooth since many people were investing in entrepreneurial IT ventures at that time. Actually, one firm offered us 200 million yen (US$ 1.9 million)."

Technically Dead

"Many of us thought that fundraising would be a piece of cake. Suddenly, in March 2000, the dot-com and IT bubble collapsed in Japan, which was equivalent to the 'kiss of death' for our company. Investors became reluctant to make any payments into Macromill since they first wanted to see a final product. Hence, they withdrew their initial offers and within two months of incorporating the company, we were technically dead."

The Entrepreneur Spirit

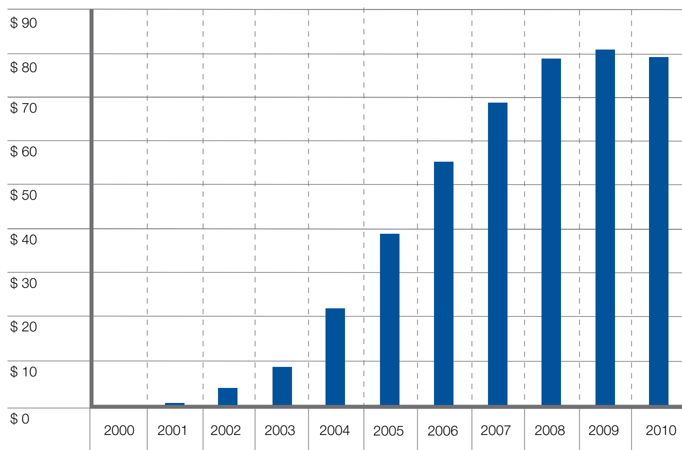
"However, entrepreneurs don't give up easily and as result, my ex-colleague who was a CEO in another firm and believed in our team and the company, made the necessary investment and let us pay him back with some interest over time. That investment enabled us to attract another financier who invested 200 million yen (US$ 1.9 million). As a result, four months later, in August 2000, 'AIRs' was completed and we started our service."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

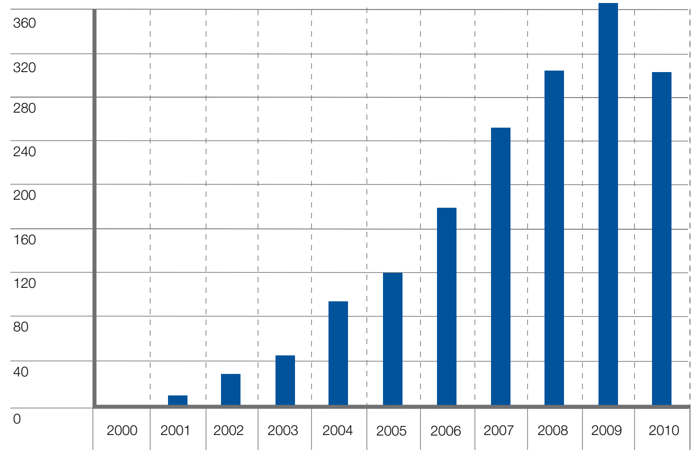
Fukuha: "Four key ingredients for success are:

1. *Corporate vision*: This is a very important factor to attract capable people and let them devote themselves to their work with full energy.
2. *Innovation*: Create new services that are new to this industry and satisfy many clients. This will stimulate employees to excel further. This leads to rapid growth, which in turn provides opportunities to plan and engage for the next steps to move the company forward.
3. *Build a company to last*: Create opportunities for employees and you will find continuous growth with your company.
4. *Investor relations*: The relationship between founders and investors is often frustrating as financiers are often short-term and profit-driven." ■

MACROMILL, INC.



MACROMILL, INC.



Prepared by Martin Haemmig and George Foster, 22 November 2010
Supported by BDTI/Board Director Training Institute of Japan, Nick Benes

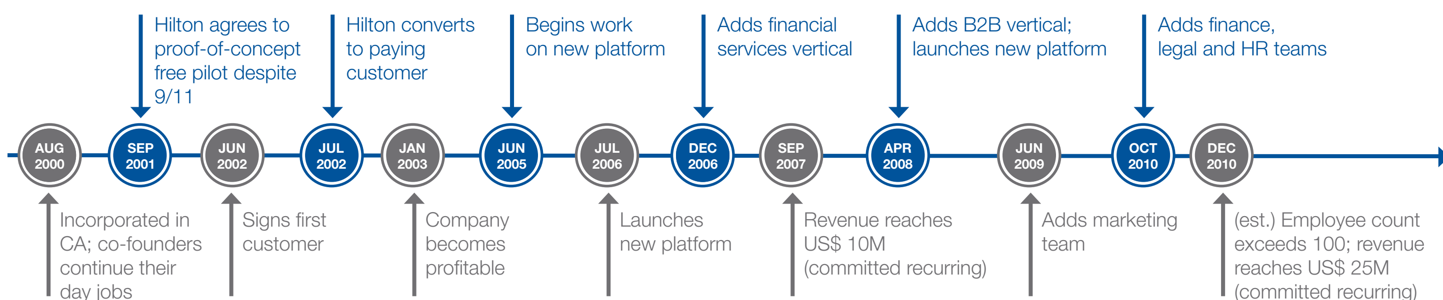
Medallia, Inc. | US

OVERVIEW:

Medallia is the global leader in software as a service (SaaS) customer experience and enterprise feedback management, providing solutions to Global 2000 companies. More than 50,000 businesses and business units around the world use the Medallia system to track customer satisfaction. Medallia's solutions enable companies to gather, monitor and act on feedback from customers, partners and employees. Customers include global financial services, retail, high-tech, business-to-business and hotel companies. The company is headquartered in Silicon Valley

MEDALLIA, INC.

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Borge Hald is the co-founder and chief executive officer of Medallia. He is a former project manager at Boston Consulting Group. He has worked at Morgan Stanley and Procter & Gamble and served as a Norwegian Air Force lieutenant. He has a BBA from the University of Michigan and a MBA from Stanford University.

Amy Pressman is the co-founder and president of Medallia. She developed the idea for Medallia as a consultant for the Boston Consulting Group while working on marketing strategy and competitive benchmarking projects. She has also worked as an independent consultant for technology-based companies in Silicon Valley and as a legislative aide on Capitol Hill in Washington. Pressman has an AB from Harvard College and an MBA from Stanford University.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Hald and Pressman: "The source of the initial idea was a convergence of several trends and one observation based on personal experience.

Trend I: TQM for manufacturing. "There was an important total quality management (TQM) movement in many parts of the globe in the mid-1990s. Unfortunately, the services industry was missing in action from this movement. Both of us (the co-founders), while working for the Boston Consulting Group and being frequent stayers at well-recognized hotels, frequently encountered ongoing bad service.

Trend II: the Internet. "Just coming into its own in the late 1990s and early 2000s, when we conceived of Medallia, the Internet promised tantalizing benefits that could transform customer satisfaction tracking from 'nice to have' research to 'must have' operational data. It was cheap: It could drive the cost of collecting information about specific service interactions from dollars per survey to near zero. It was accessible in real time: It could provide results of customer satisfaction surveys as soon as they were completed, so companies could act on the information in a timely manner.

The initial business idea. "We envisioned getting consumers to willingly provide feedback about service interactions, publishing the consolidated feedback online and thereby gaining a reputation among consumers as a trusted source of information. We planned to provide the consolidated

data free of charge, to strengthen our standing with consumers and encourage their wider participation in giving feedback in an ongoing virtuous cycle. We also planned to focus on one industry in the beginning: hospitality. In other words, initially we aimed to become another TripAdvisor. Our business model was to sell the more granular (non-consolidated) data directly to the hospitality businesses.

How the idea changed over time. "Two events changed our growth vision and aspiration almost as soon as we got started in 2001. The dot-com bubble burst, making the multiple rounds of funding we thought necessary to establish a consumer franchise a difficult, if not impossible, task; and 9/11 temporarily decimated the travel industry, making our hospitality focus unfundable, according to venture capitalists.

"Because we believed in our idea, we abandoned our plans to seek funding and tried, instead, to sell our product vision directly to prospective customers. As it happened, the aftershocks of 9/11 ultimately benefited us. It was so cataclysmic to the travel industry that hotels, in survival mode, willingly considered substituting our solution for their historical guest satisfaction tracking programmes because we represented a significant cost savings. Had times remained lush for hotels, we'd likely never even have gotten meetings, much less their business!"

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Hald & Pressman: "To be honest, when we first got started, we were drinking the bubble 'Kool-Aid' along with everyone else in Silicon Valley. I believe we estimated, in our first PowerPoint presentation, that we would need a US$ 750,000 seed round followed within one year by a Series A round of US$ 2 million, which we thought would be sufficient to capture the hospitality industry. Once we had proven the model in one industry, we envisioned multi-million dollar follow-on rounds (in the US$ 10 to US$ 20 million range) to capture additional verticals. We projected reaching a US$ 300 million in revenues and US$ 100 million in profits within five years. Though I am smiling – indeed laughing – at those projections now, those were the types of scenarios we thought we needed to present to get a hearing with investors. We believed, like most entrepreneurs at the time, that anything that did not offer a glint of eBay-in-the-making hope would not even be entertained (eBay was the Google of its day: the hit-it-out-of-the-ballpark success that everyone wanted in his/her portfolio).

"Though several venture capital firms (VCs) expressed interest in us, the bubble burst before we were funded. Overnight, our focus shifted from 'Can we be the eBay of our space?' to 'Will we be alive tomorrow?' We abandoned all efforts to get funding. Indeed, we cancelled our last scheduled meeting with VCs, a breakfast, the very morning it was to occur. That day was 9/11.

"Instead, we focused on proving our concept through a successful pilot with Hilton Hotels, selling our product and then funding growth from revenue. It was a decidedly traditional approach – and, ironically, one that was decidedly unorthodox in Silicon Valley.

"We tackled the bootstrapping by making a series of decisions that, in retrospect, may look like a strategy but at the time were really just one-off tactical moves. Rather than build out a small core team that covered the full range of skills needed to run our business – one marketer, one salesperson, one finance person, one product person, one engineer, one market researcher, etc. – we covered all the needs of the company, except engineering, with our rag-tag team of generalists, which consisted of three Stanford MBAs, including ourselves, the co-founders, one statistician, and one administrative person. We allocated the rest of our resources exclusively to hiring engineers. If our product was to be our funding vehicle through sales, we would focus like a laser on making it great.

"We stuck with our original plan of targeting the hospitality industry first, converting more than two-thirds of US hotel companies to us by 2006. That same year, we began targeting a second industry, financial services, followed by retail in 2007 and B2B in 2008. In the same way that we added functional teams in a step-wise manner, so, too, did we add target markets."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Hald & Pressman: "We focused on four interrelated strategies that really accelerated our growth. First, we initially focused on a single industry – hotels. The original reason for the exclusive focus was to facilitate the creation of industry benchmarks. We also wanted to build a product tailored to a specific industry rather than build a general-purpose tool configurable to the needs of all industries but tailored to none.

"Second, we targeted marquee brands. We interviewed hospitality industry gurus to find out which hotel companies were most highly regarded within the industry, and which were not. Then we targeted the thought leaders and not the laggards. We thought that assembling a list of 'A' customers, rather than just well-known customers, would enhance our credibility. It certainly did – but it also turned out to be a growth accelerator. To paraphrase a well-known commercial, when thought leaders talked, people listened. It was like rocket fuel.

"Third, we positioned ourselves as a technology provider first and foremost. Many of our competitors, though they viewed themselves as

technology companies, also touted their market research bona fides. "Although we lacked the resources to fund a full-fledged market research department, we had another advantage: a magician CTO. This was not part of the strategy. We just needed an engineer. Amy found one that checked out, and voila, we had a CTO. We did not know what we had, at least initially. But the CTO was able – single-handedly – to build prototypes that outperformed our competitors' full-fledged products. In working with him, we began to understand the exponential difference between the top 0.0001% engineers and average engineers, which is the thesis of a book that influenced us, The Mythical Man-Month.

"Fourth, unlike our VC-backed competitors, who pursued follow-on investment rounds from their backers, we saw only one near-term option for funding: satisfied customers who continued to buy from us. As a result, we focused on delivering to them with fanatical zeal, channelling our resources into hiring top engineering talent (mentioned above) and top client services talent. The resources that probably went to sales and marketing at our competitors – SaaS companies typically over-invest in sales and marketing – in our company went to product and client services. Our mantra, though unspoken, was 'It's the customer experience, stupid'."

What were the major growth accelerators for your company in its high-growth years?

Hald & Pressman: "Internally, the major growth accelerators were adding a sales team in 2007, adding a marketing team in 2009, and, as previously mentioned, adding new vertical focuses: financial services in 2006, retail in 2007, and B2B in 2008.

"Externally, several market trends also dramatically spurred growth. The rise of social media empowered customers to share information about companies' customer service in transparent online forums. That made companies that previously had only paid lip service to improving the customer experience take it seriously. Cloud computing increased the appeal of our SaaS offering.

"Finally, as mentioned earlier, we inadvertently tapped into external forums such as the Quality Council of the hospitality industry and the Net Promoter Forum because our customers were members. Those venues turned out to be positive word-of-mouth accelerators and, therefore, growth accelerators."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Hald & Pressman: "We are bootstrapped, while our main competitors are either large, well-heeled global market research firms or VC-backed technology firms. Our lack of funding likely slowed our initial growth, but not by much. We got started during the recession that followed the dot-com bubble burst and 9/11, when growth had generally stalled across the economy. Indeed, our funded competitors are not much larger (and many are smaller) than we are despite their initial funding advantage.

"As we hit our high growth phase, our lack of funds also may have somewhat limited our upside but, again, with some advantages. We have never grown so fast as to exceed our ability to deliver on our core promise to customers: a great product that meets their expectations and – usually – wows them. Many competitors, although they racked up greater initial volumes of customers, failed to deliver on their promises and lost their customers, including many to us.

"In contrast, our VC-backed competitors built out organizations with apparently higher cost bases. During tough times – post 9/11 in 2001, post Lehman Brothers collapse in 2008 – they had to start cutting. Because of our leaner approach, we never faced a demoralizing cycle of growth spurts and layoffs, which would have been corrosive to our culture.

"One key to the steady growth of our company has, indeed, been its steadiness. That is, we've been the proverbial tortoise to our competitors' hares."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Hald & Pressman: "All of our major challenges have involved resisting the urge to cut corners on our traditional formula for success, most notably in the hiring and firing practices that underpin our culture. We hire top talent individuals who also fit with our core values – they are non-arrogant people who bring out the best in their team-mates and with whom you wouldn't mind being stuck in an airport. We also fire top talent if new hires turn out to be arrogant, or individual contributors who don't bring out the best in others, or your worst nightmare when stuck in an airport.

"When we are growing rapidly, it's awfully hard not to hire a really talented recruit who, though not quite a cultural fit, might be 'brought around' with the right training. It's also hard to let go of employees who can perform the job functions well, even when they can be toxic to the team. You're tempted to hang on to them 'just until' the crush of new business subsides, which, of course, it never does. In a high-growth environment, sticking to your culture-preserving hiring and firing practices feels tantamount to turning away new business because you are, essentially, turning away the productive capacity needed to handle that new business. But to hire cultural misfits, or refuse to fire them, is an assault on your culture. Left unchecked, it always destroys the culture and, by extension, the company and the growth it generates.

"In the short term, these practices likely curbed our growth slightly by inhibiting maximum growth of our productive capacity. In the long term, they have proven essential to steady growth."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Hald & Pressman: "At the time, the dark moments were when bleak prospects for the company loomed. 9/11, which called into question the viability of our business plan targeting hospitality as its initial industry; or the defection of a large customer to a competitor because of our under-estimation of our competitor's assault on our technological advantage, and our failure to understand that customer's internal politics.

"What is interesting is that all of those 'dark moments' turned out to be key milestones in a good way. 9/11 so disrupted relationships between hotels and their vendors that we were able to dislodge incumbents years before it would have been possible in 'normal' times. Our first big customer loss jolted us out of our self-satisfied, we-have-a-better-product mentality and forced several changes. We realized that it didn't matter whether our product was better if prospects did not believe it was better – so we introduced a marketing team. We also got paranoid about our technological superiority and redoubled our efforts on engineering and product. We couldn't just be better on product – we had to lap competitors. And, as it turned out, our customer's internal politics that we'd failed to master were, potentially, unable to be mastered. The same politics not only derailed our effort to win the deal, they apparently also derailed our competitor's ability to implement the programme. A year after the defeat, our competitor had failed to deliver on its promises, and our customer was knocking on our door again. We'd lost the battle of the competitive bake-off, but our competitor had lost the war of product implementation.

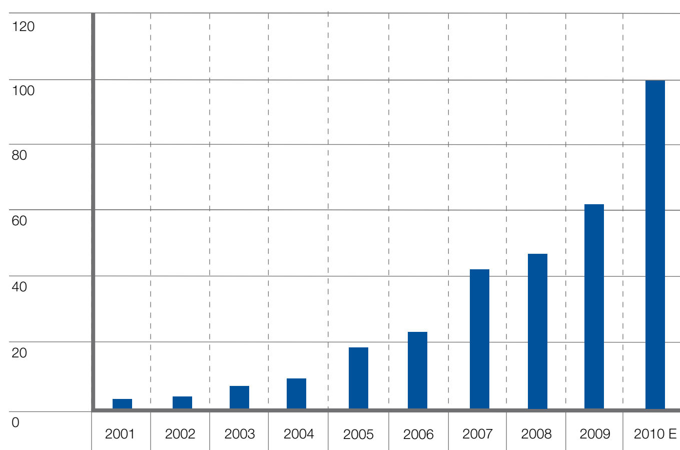
"In retrospect, some of our darker moments actually occurred when our prospects looked bright. Our growth was accelerating, but it was undermining our culture; we were entering new verticals, but the extra effort of 'coming up to speed' on the additional industries was burning out our people, and so on. My takeaway is that all is not what it seems. When things appear dark, look for opportunity. When all is rosy, channel your inner Andy Grove and get paranoid!"

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience ?

Hald & Pressman: "We have learned that culture is the dominant reason a company fails or succeeds and that disciplined growth is best. Unfortunately, great early start-up cultures are often devoured by growth. The path is so common that it's become a cliché. Original teams start companies with 100% motivation and little, if any, cash. Often there's a garage, in spirit, if not reality. The company grows and reaches key milestones: the first angel investment, a prototype, the first customer, the first VC round, becoming cash-flow positive, another VC round, another customer, etc. And though the company celebrates each milestone, each milestone seems to bring with it a reduction of the company's start-up essence.

"The early team is replaced by 'professionals', the newer employees who flood in are lured more by riches than by revolution, and the focus shifts from building products that will change the world to timing the IPO market right. The free and easy way people worked together in the early days gives way to politics, restriction of information flow, and a workplace where people no longer want to work, but often continue to work in order to vest. A quote from Yogi Berra captures the seeming inevitable demise of the start-up culture as the start-up gets more successful: 'Nobody goes there anymore. It's too crowded'.

MEDALLIA, INC.



"Fortunately, though it was not by deliberate design, we built a great culture even before we realized its paramount importance. Once we hit some growth accelerators that pushed the number of employees toward 100, we began to notice a slight deterioration in our culture. It was the prospect of this growth-induced loss that made us realize what we had: a culture that had enabled our unfunded – and therefore underdog – team to succeed against the odds, against bigger, better-resourced, better-known competitors. We were determined not to let the culture, which had gotten us where we were, fall prey to growth, and we embarked on key steps to proactively nurture our culture such as strengthening hiring practices for cultural fit and rewriting our employee handbook to articulate our culture." ■

Prepared by George Foster, 19 November 2010

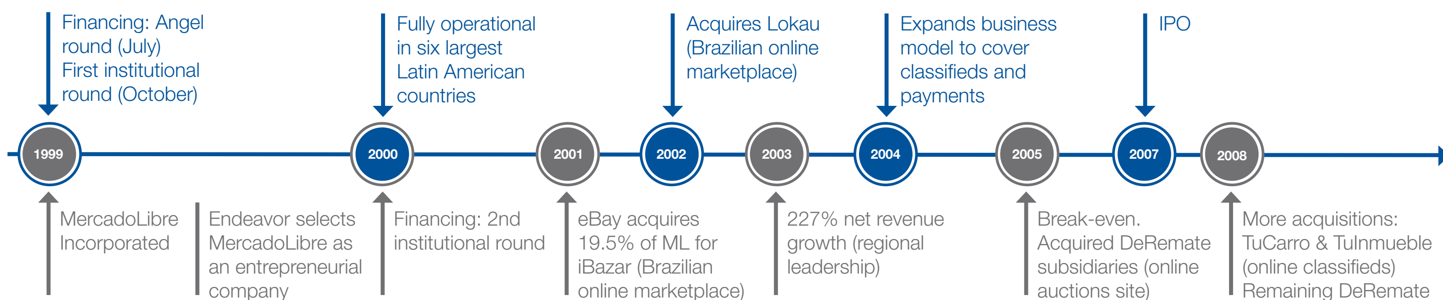
MercadoLibre, Inc. | Argentina

OVERVIEW:

MercadoLibre, Inc. (NASDAQ; MELI) is Latin America's leading e-commerce technology company. Through its primary platforms, MercadoLibre.com and MercadoPago.com, it provides online solutions to individuals and companies buying, selling, paying and advertising on the Internet. MercadoLibre.com serves millions of users and creates a market for a wide variety of goods and services in an easy, safe and efficient way. The site is among the top 50 in the world for number of page views and is the leading retail platform in unique visitors in each country where it operates, according to metrics provided by comScore Networks. MercadoLibre maintains market leadership in 12 Latin American countries and has recently launched operations in Portugal. The company, listed on NASDAQ following its initial public offering in 2007, was named one of the "30 World's Hottest Brands" by Ad Age magazine and one of 27 "Great Brands of Tomorrow" by the Credit Suisse Research Institute. MercadoLibre became an Endeavor company in 1999.

MERCADOLIBRE, INC.

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

MercadoLibre's management today is very similar to that of day one. Founder **Marcos Galperin** continues in the role of chief executive officer, while CFO **Hernán Kazah** and COO **Stelleo Tolda** lead a group of executives that also composed the original management team. Galperin has an MBA from Stanford University and an undergraduate degree from Wharton. While taking a Finance class at Stanford, Galperin asked one of the guest speakers (John Muse of the private equity firm Hicks Muse Tate & Furst) if he could drive him to the airport. After some "fast talking and slow driving," Muse expressed an interest to invest (and did invest) in what became MercadoLibre before boarding the plane. Galperin is the winner of multiple awards for entrepreneurship.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Galperin: "While I was studying at Stanford University, I researched several business models related to the Internet and I decided to build a company which could offer an Internet auctions platform to try to solve retail inefficiencies in Latin America. This is a continent where only large cities have good retail alternatives, while other regions remain isolated in this sense. When I returned to Argentina after receiving my MBA, I bought the necessary start-up technology and immediately launched MercadoLibre in all major Latin American countries. The company first offered an auctions marketplace, but quickly converted to an e-commerce platform as users showed their preference for a 'fixed-price' model. Through the years we developed new and complementary business units that allow the company to address a wide range of different user needs through an online payments platform, advertising solutions and a new website-building service geared towards our more developed sellers."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Galperin: "During the first years, we focused on building a successful company by offering an auctions service through our website. Our main goal was to create a long-term company operating with an innovative philosophy, and relying on technology to change the lives of millions of buyers and sellers in Latin America. However, growth took longer than expected to materialize. In 1999, the Internet only reached 2% of the general population in Latin America, and only 10% of those engaged in some form of e-commerce. With the region undergoing an economic crisis, secular Internet trends grew at a slower pace than originally forecast.

Tracking Trends: Over time, secular trends began to reflect the serious growth potential we had anticipated from the start. In the meantime, the business matured into a wide range of e-commerce services and ever-improving technologies for the use of our clients. The goal was to capture an increasingly larger share of all e-commerce activity occurring in the region. This meant improving MercadoLibre, our online marketplace, as well as the MercadoPago payments business unit, MercadoClics advertising group, and MercadoShops e-building solutions, respectively."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Galperin: "MercadoLibre Inc. is an e-commerce enabler whose mission is to build the necessary online and technology tools to allow practically anyone to efficiently trade almost anything in the Latin American market. The company operates in several reporting segments. The MercadoLibre online marketplace segments include Brazil, Argentina, Mexico, Venezuela and other countries (Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal and Uruguay). The MercadoPago regional online payments platform is available in Brazil, Argentina, Mexico and other countries (Chile, Colombia, and Venezuela). The company attracts buyers by offering choice, value, convenience and entertainment. Sellers are drawn by access to broad markets and efficient marketing and distribution costs that help increase sales and maximize profits.

Integrated IT Platform: The company pioneered regional online commerce by developing a web-based marketplace in which buyers and sellers are brought together to browse, buy and sell items such as computers, electronics, collectibles, automobiles, clothing and a host of practical and miscellaneous items. The trading platform is a fully automated, topically arranged, intuitive, and easy-to-use online service that is available 24 hours a day, seven days a week. The platform supports a fixed-price format where sellers and buyers trade items at a cost established by sellers, and an auction format in which sellers list items for sale and buyers bid on them. Providing more efficient and effective payment methods from buyers to sellers is essential to create a faster, easier and safer online commerce experience. Traditional payment methods such as bank deposits and cash-on-delivery present various obstacles to the online commerce experience, including lengthy processing time, inconvenience and high costs. The company addressed this problem through the introduction in 2004 of MercadoPago, an integrated online payments solution that has enjoyed consistent growth. MercadoPago was designed to facilitate transactions on the MercadoLibre marketplace site by providing an escrow mechanism that enables users to securely, easily and promptly send and receive online payments.

Payment Flexibility: An online classifieds service was also launched in 2004 for sale and purchase of motor vehicles, vessels and aircrafts. Buyers can search by make, model, year and price, and sellers can list their phone numbers and receive prospective buyers' e-mail addresses on a platform that allows instant and direct communication between sellers and potential buyers. During 2007, the company launched a new

and improved version of its MercadoPago payments platform in Chile and Colombia, and expanded it to Argentina during 2008. The new MercadoPago, in addition to improving the ease of use and efficiency of marketplace purchases, also allows for payments outside of a region. Users are able to transfer money to other MercadoPago accounts and to incorporate the technology in their independent commerce websites.

System Updates: MercadoPago 3.0 is designed to meet the growing demand for Internet-based payment systems in Latin America. In December 2009, the company started beta testing processing off-MercadoLibre transactions at selected sites in Brazil using its new direct payments product while maintaining the escrow product for on-MercadoLibre transactions. On 30 March 2010, the company started processing off-MercadoLibre transactions through its new direct payments product to any site in Brazil that wants to adopt it, and on 16 July 2010, MercadoPago 3.0 was launched in Brazil for all its marketplace transactions."

What were the major growth accelerators for your company in its high-growth years?

Galperin: "The culture and philosophy of the company that enables MercadoLibre to build and maintain a world class team over time results from these major factors:

1. Consistently solid execution of our business plan.
2. The acquisition of several e-commerce companies in Brazil during the first years of MercadoLibre.
3. The launch of MercadoPago that enabled payments through MercadoLibre and other channels.
4. Internet secular trends (broadband penetration, PCs per household and mobile penetration) growing at double-digit rates.
5. Constant focus on upgrading the online platform to improve user experience."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Galperin: "We received two rounds of financing in addition to our initial seed funding. The first round, carried out in November of 1999, raised US$ 7.6 million from investors that included J.P. Morgan Partners BHCA L.P., Flatiron Fund entities and Hicks Muse Tate & Furst. The second round of financing was in May of 2000 and raised US$ 46.7 million from, among others, Goldman Sachs entities (GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P. and Goldman Sachs & Co. Verwaltungs GmbH), Capital Riesgo Internet SCR S.A. (CRI Banco Santander Central Hispano) and GE Capital Equity Investments, Inc.

Strategic Alliances: In September of 2001, we entered into a strategic alliance with eBay, which became one of our stockholders and started working with us to better serve the Latin American online trading community. As part of this pact, we acquired eBay's Brazilian subsidiary at the time, iBazar, and eBay agreed not to compete with us in the region during the term of the agreement. This agreement also gave us access to certain know how and experience that accelerated aspects of our development. In August 2007, the company successfully completed its initial public offering, resulting in net proceeds of approximately US$ 49 million. With these proceeds, the company acquired TuCarro in January 2008 and the remainder of DeRemate in September 2008."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Galperin: "I would highlight the following steps for handling growth:

1. *Build a team and retain talent*: We've been able to do this by seeking out gifted people motivated by technology and by the enormous growth opportunity we offer. Their commitment is a key element driving our growth, which in turn translates to career advancement and opportunities going forward.
2. *Obtain financing*: Obviously, we've been greatly favoured by the depth and long-term vision of our investors as previously discussed.
3. *Develop the technology*: Constantly update and improve user-friendly IT tools for speed and capacity to retain customers and grow the company.
4. *Face competition*. A first mover advantage is obviously huge in this market and we continue to move first into new and subsidiary businesses deals by carefully observing changing trends and their impact on our product. We offer the best service available and then improve it constantly. This obviously implies monitoring competition and being critical of our marketplace by constantly testing the user experience.
5. *Launch new sources of income*.
6. *Improve the online products and user experience*."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Galperin: "The darkest moment we had to face was when the NASDAQ crashed while we were negotiating our second round of financing. They were moments of great concern and tension because we needed capital to continue operating and many investors wanted to close the company. Fortunately, we were able to convince them about the business potential of the region and this business model, and we could finally close a very successful second round."

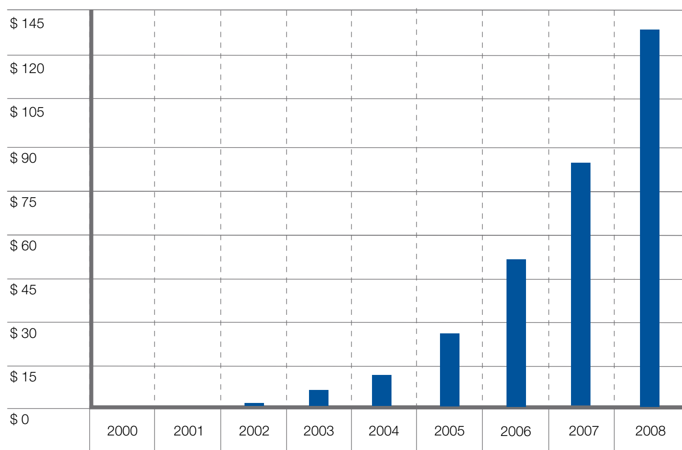
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Galperin: "The key takeaways from my entrepreneurial experience would be:

1. Stay focused on the long term and practice patience
2. Deliver the best possible experience and product to your customers
3. Include local managers in each country
4. Select thoughtful investors and business partners
5. Think big and execute" ■

Prepared by George Foster, Rana Mansoor, Pilar Parmigiani, Diego Escobar and Endeavor, 25 November 2010

MERCADOLIBRE, INC.



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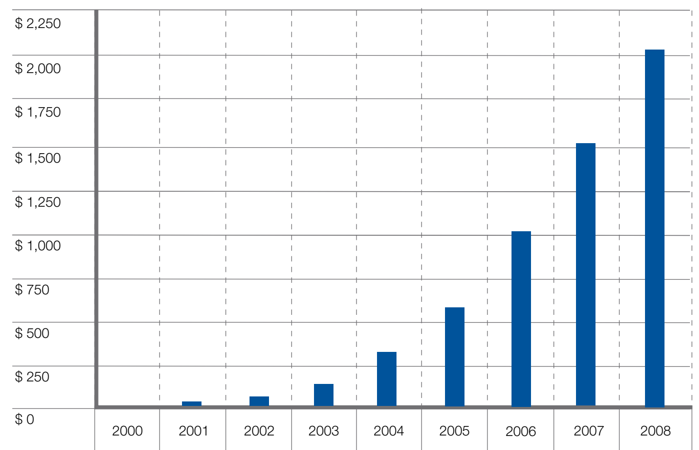


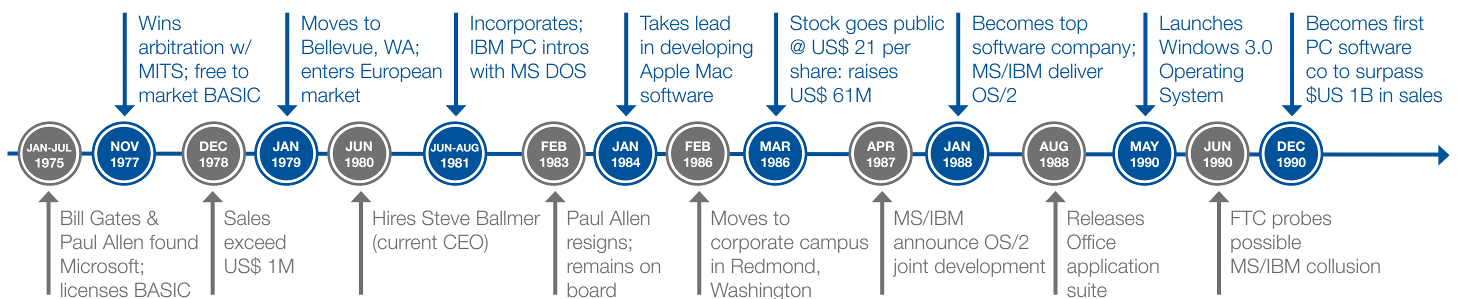
Microsoft Corporation | US

OVERVIEW:

Microsoft (NASDAQ: MSFT) is the world's largest software company. With annual revenues of more than US$ 62.5 billion in 2010, at least one of Microsoft's products is installed on most of the world's personal computers. Led by Bill Gates as chief executive until 2000, the company has set global industry standards for operating systems and business and consumer applications. Microsoft also develops Internet technologies and services. The company's chief executive is long-time Microsoft executive Steve Ballmer. Gates is chairman. Microsoft started in 1975 as a partnership between Gates and Paul Allen when they developed BASIC, a computer programming language for the MITS microcomputer. In 1981, the IBM personal computer (PC) debuted running Microsoft's DOS operating system. The company's fortunes skyrocketed as PCs penetrated the corporate business environment. Microsoft was self-funded by cash flow from 1975 to 1981, when Silicon Valley venture firm, Technology Venture Investors (TVI), became the company's first venture investor for US$ 1 million. Microsoft went public in March 1986, raising US$ 61 million.

MICROSOFT CORPORATION

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Bill Gates, a co-founder of Microsoft in 1975, was its chief executive officer until January 2000 and chief software architect until July 2008. He remains Chairman of Microsoft. Since 2008, he has dedicated most of his time to the Bill and Melinda Gates Foundation, the philanthropic organization he founded with his wife. Through the foundation, Gates has donated large amounts of energy and money to various charities and scientific research programmes.

Dave Marquardt is co-founder of the venture capital firm August Capital and a Microsoft investor and board member since 1981. He has served on more than 25 boards throughout his career including Sun Microsystems, Seagate and Linear Technology. Prior to August Capital, Marquardt was a co-founder of Technology Venture Investors (TVI) in 1980. TVI was the sole venture investor in Microsoft. He started his venture career at Institutional Venture Associates after graduating from Stanford Business School in 1979.

Pete Higgins joined Microsoft as a product manager after graduating from Stanford Business School in 1983 and held several senior executive positions throughout his 16 years with the company. Higgins was instrumental in building the Microsoft applications software business, and also led the success of the Office product family. Higgins is now a founding partner of Second Avenue Partners, a Seattle-based venture capital firm.

Mike Slade began his career at Microsoft in 1983 after graduating from Stanford Business School. He spent seven years there in product and marketing roles and was instrumental in building the company's Macintosh applications software business. After Microsoft, Slade was vice-president, marketing at Next Computer before joining Paul Allen's pioneering Internet venture, Starwave. He retired as chairman and CEO of Starwave in 1998 following its sale to Disney. From 1999-2004 he was a consultant for Apple CEO Steve Jobs and has also been a consultant for the NBA and Starbucks. Slade is currently a partner at Second Avenue Partners, a Seattle-based venture firm.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Gates: "The idea behind Microsoft goes back to the late 1960s when I was 13 and a bunch of us – me, Paul Allen, and a group of friends – started experimenting with computers and writing programmes. In some ways, we were just kids having a great time playing with very expensive toys. But at the same time, Paul and I were captivated by the power of what were able to do with information as we got better at programming. Then, a few years later, in the early 1970s when Intel introduced the very first microprocessor chip, we recognized that something very important was happening – microprocessors would become more and more powerful very rapidly, and that this trend would lead to a new kind of computer that was affordable, adaptable, and personal. We knew this meant that the ability to use the power of computing wasn't going to be limited to large organizations or people who had specialized knowledge of programming. Instead, computers would be everywhere and everyone would be able to use them. So we recognized that there was going to be a huge opportunity in writing really interesting software that lots of people could use at work and at home."

Marquardt: "The original business model was almost a contract programming business model, where Microsoft would get fixed fees from hardware manufacturers for selling their BASIC interpreter. I guess the big breakthrough business model came in 1981, with the IBM deal. IBM basically paid them a flat fee like they had been getting from everyone else. But they let them have the rights to MSDOS to sell to others. Microsoft sold to others on a per copy basis rather than a flat fee. So that was a major business model change right there and it wound up being just hugely lucrative for Microsoft."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Gates: "The scope and scale of our ambition was always quite big. We captured this pretty well in our founding vision to put a computer 'on every desk and in every home'. At the time, a lot of people thought this was a crazy idea. The most important change in our aspiration has come with the expansion of personal computing to include devices beyond the desktop. With the emergence of many different kinds of computing devices and the rise of cloud computing, Microsoft's vision has grown to embrace the idea of providing people with access to personal computing in many different forms, no matter where they are or what they are doing."

Marquardt: "After selling programming languages and operating systems, the next big change was getting into the applications business and that was really prompted by Windows. Windows 3.0 was the first mass volume graphics user interface (GUI) operating environment. When the world went to Windows it went to the graphical user interface and none of the old applications worked. So in the days of DOS before Windows, WordPerfect dominated the word processor market and VisiCalc and Lotus dominated the spreadsheet market. We used to think about how much money it was going to cost per point of market share to take share away from those competitors because they were so entrenched. When Windows came along it turned the whole market upside down because the incumbents didn't really have products for the new environment. That was the seismic shift that allowed Microsoft to really win in the applications business. If success is daunting in the current state-of-play, change the game!"

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Gates: "The fundamental business model that Microsoft pioneered was to transform computing from a low-volume, high-cost business to one that is essentially high-volume and low-cost. When we started, computing power was very expensive and most software programmes were one-off projects written for a specific piece of hardware to solve a specific problem. Our belief was that computing power would become inexpensive very rapidly and that if we could create software that people saw was really useful, we would be able to sell a lot of copies."

Slade: "The whole Office application family was tremendously important and Word and Excel were the big drivers for Office customers. In 1983, our applications business was very small. Lotus 123 was the strongest franchise in PC software. By the early 90s it was close to the Windows business in size and Microsoft was the leading applications vendor. In the very early years, we really got behind the Mac. It was a new platform and we were the dominant applications player for the Mac. The problem for us was that in 1983 and 1984 the Mac wasn't selling so well. The history of Office is interesting. We had done this thing before Excel shipped in 1985 called the Microsoft Business Pack, which was just throwing four separate products together in a shrink-wrapped box. But they didn't really work together and there wasn't a lot of consistency. But then the idea of Office was sort of obvious once we had a really good Word and Excel. And in 1987, we bought the company that made PowerPoint for US$ 14 million, so then we had three great products to bundle."

Higgins: "Obviously a big part of that was the growth in Windows and the graphical user interface – first with the Macintosh and then for Windows. Both changed the way applications could be built and it was the platform shift that allowed new guys to displace the established market leaders. Before Windows 3.0, Word was looking up to WordPerfect and Excel was looking up to Lotus 123. Our market share was around 6 to 7%. We launched Windows Excel for Windows 2.0 in November of 1987. Two and a half years later with the launch of Windows 3.0, we came out with a great new version of Excel and the world changed. We were able to beat Lotus and WordPerfect because the operating system world changed and they were late with the wrong strategy and product."

What were the major growth accelerators for your company in its high-growth years?

Gates: "Two things helped provide the foundation for our growth. The first was the virtuous cycle of progress and innovation that occurred as processors became faster and cheaper, and Microsoft developed software that was increasingly easy to use and more powerful. As computing became more affordable and more useful, it drove incredible growth in demand for our products. This growth enabled us to hire more smart people and deepen our investment in R&D and innovation. That gave us the opportunity to expand into different markets and create a global company that offers products that span the full range of information technology needs for consumers and businesses. The second was our focus on helping to build an entire industry around personal computing. By delivering a strong PC operating system, first with DOS and then Windows, Microsoft provided the platform that was essential to making software and PCs high-volume industries. We worked with a lot of software companies and PC companies to help them get off the ground and create a market for both software and PCs. Building this ecosystem was critical to our success."

Marquardt: "DOS, then Windows; then the applications which became Office; the last big growth spurt was the Internet. Gates himself was a growth accelerator. He is incredibly aggressive, very smart and a guy that is willing to roll the dice on new technology at every turn. But he is also an extremely conservative guy financially. It is an odd and incredibly good combination. In the early days, he could write down on a sheet of paper the revenues from all his customers and he could very accurately project the minimum revenue he would get in a year going forward. That would set the expense level he would impose on the organization."

Higgins: "Microsoft, from Bill down, was run by technical guys. Microsoft had a very clear technical vision that everyone understood and a very clear set of bets to make. I think a lot of companies don't have that same level of clarity Microsoft has. By contrast, Lotus was run by pure business guys who weren't very close to the product. They made major execution errors that our management would have seen coming. We knew stuff that they were doing was never going to work long before they seemed to."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Marquardt: "When we first looked at Microsoft in 1980 to 1981, they were doing about US$ 4 to 5 million in revenue, making about US$ 2.5 million and growing rapidly. The first question Gates asked was 'What do we need these guys for? We're profitable, we're growing; we don't need any cash'. Steve Ballmer's response at the time I think was, 'You know, having outside investors will be a good thing for us. It will give us some eyes and ears in the Valley; it would give us guidance on corporate governance structure; we should value having an outsider involved'. At the time, it was a partnership between Bill and Paul Allen. We helped formalize the company, including the equity plan for other key executives and for employees. Steve realized that there was great value in getting equity to the employees in the company. No one had any stock at the time except those two. When they went public in 1986, they went public basically because they were bumping-up on 100 potential shareholders (due to vested, exercise-able options) and the SEC was going to make them file anyway. But they never needed the capital, never used the capital and never spent a nickel of the US$ 1 million we invested."

Slade: "One of the things that people forget is our competition – Lotus, Ashton-Tate – those guys were already public and it has exposure advantages. The Wall Street Journal always covered them more than they covered Microsoft. It drove Bill crazy. He would say, 'Those guys got more ink than we did!' But while cash flow was never a problem, the business discipline at Microsoft was incredible. I remember I got into a huge fight with management because I wanted to buy FileMaker, they didn't want to pay US$ 8 million for it, and we were outbid. The reason was that Frank Gaudette, the chief financial officer at the time would not buy anything that you couldn't prove had an IRR over 40%. The hurdle rate was 40%!"

What were the major challenges your company had to handle in its high growth years, and how were they managed?

Gates: "One of our biggest challenges was simply to be able to hire enough really smart people to keep up with the incredible rate of growth of our businesses. We also faced a number of competitive challenges over the years as the information technology industry progressed through a series of generational shifts, such as the emergence of graphical user interface and the rise of the Internet. Each time, it took a period of really focused effort and innovation. But that is a big part of what made building Microsoft so interesting and exciting. Microsoft has always had strong competitors and the passion and commitment that employees across the company show whenever we need to respond to major competitive threats is always a great thing to be part of."

Higgins: "Well, Windows wasn't actually an overnight sensation. We bet big on Windows, but the first two versions weren't great. We viewed OS/2 as more strategic and our resource allocation reflected this. Once we learned that Windows could address more than 640K, though, all of sudden from an applications perspective Windows 3.0 looked to be a better alternative and our strategy changed."

Slade: "IBM was saying OS/2 was the future and we were supporting that view with our resource allocation trying to make OS/2 Presentation Manager successful. For most of the IBM relationship Steve Ballmer was just trying to put out fires. But when people saw that Windows 3.0 broke the 640K memory barrier, which meant that you could build better applications and do more with them, it was obvious that it was going to be very successful. When Windows shipped, our tune began to shift rapidly to Windows. We knew it was the right way to go. But at the same time we had to figure out how to not get divorced from IBM too quickly."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

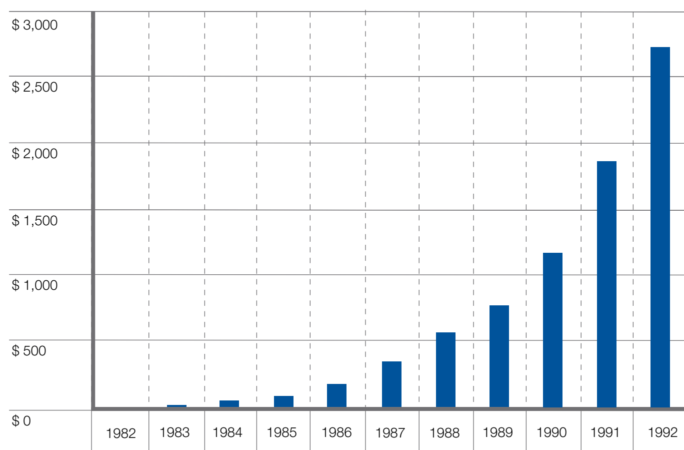
Gates: "I'm not sure I would say there was a particularly 'dark' period – though, there were certainly significant challenges we faced. There was one particular time in our history, and that was back in the very earliest days of the company when we were still based in New Mexico. One of our first customers was MITS, which was the first company to sell an inexpensive personal computer to the general public. In return for our software, they paid us a royalty and gave us office space. But after MITS was acquired by another company, they stopped paying us and we basically had no income for a year. We were just barely able to hang on, and after that I had a rule that we always had to have enough cash on hand to be able to operate for a full year, even if nobody paid us.

"Certainly some of the legal issues we faced over the years created some challenges. And while I wouldn't characterize those periods as being 'dark', they took up a lot of time and diverted some of our attention away from what we really wanted to be working on, which was creating great software and growing the business."

Marquardt: "The first decade it was IBM that almost killed us. I mean they were a great 'angel' in a way, but they also almost killed us a few times. We were in a situation long before Windows where we were

totally at the behest of IBM. And IBM could have crushed us on many occasions. They had huge demands on us and sucked our resources. We were basically a low cost, outsourced programming sweatshop for IBM. They paid us very little and the only thing we really got from them that turned out to be very lucrative was the right to sell the DOS operating system to other companies. IBM was a large company and we were a small company and every new code release would have to circulate around to all these different divisions, and it was very difficult to keep our technical people motivated to serve the beast, as it were. When we launched Windows, IBM had a competing project, which they were working on with us called OS/2. Previously, IBM had always set the standards. We would provide the technology and their brand recognition and clout in the industry were what really set the standards. When we launched Windows 3.0, that was the first time that we really went out and did it without IBM. We had made an internal decision before that,

MICROSOFT CORPORATION

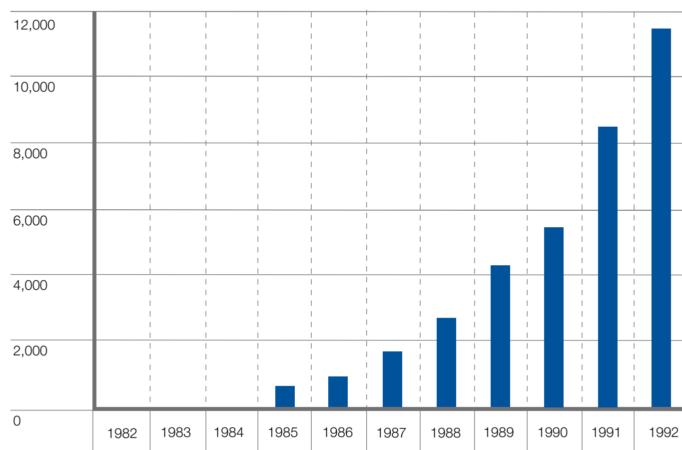


that whether IBM was with us or not, we were going to launch Windows 3.0. The day before the launch, IBM reluctantly decided to endorse Windows."

What are the key lessons about entrepreneurship and successful growth strategies you take from your company experience?

Gates: "One of the key things is that you have to be in the right place at the right time. This isn't a question of luck. It means that you have to recognize the opportunity early, and go after it with incredible focus and commitment before anyone else does. As the business grows, you have to be very careful not to let success prevent you from responding to new opportunities as the market changes. There were a lot of big, successful companies selling computers back in the mid-1970s, but they all failed to recognize the opportunity – or the threat – that the microprocessor created for their business. You also have to be willing to take risks and make mistakes. Nobody should have to worry about being penalized for trying something new and not having it work out. The key is to learn the right lessons from mistakes so you can continue to move forward."

MICROSOFT CORPORATION



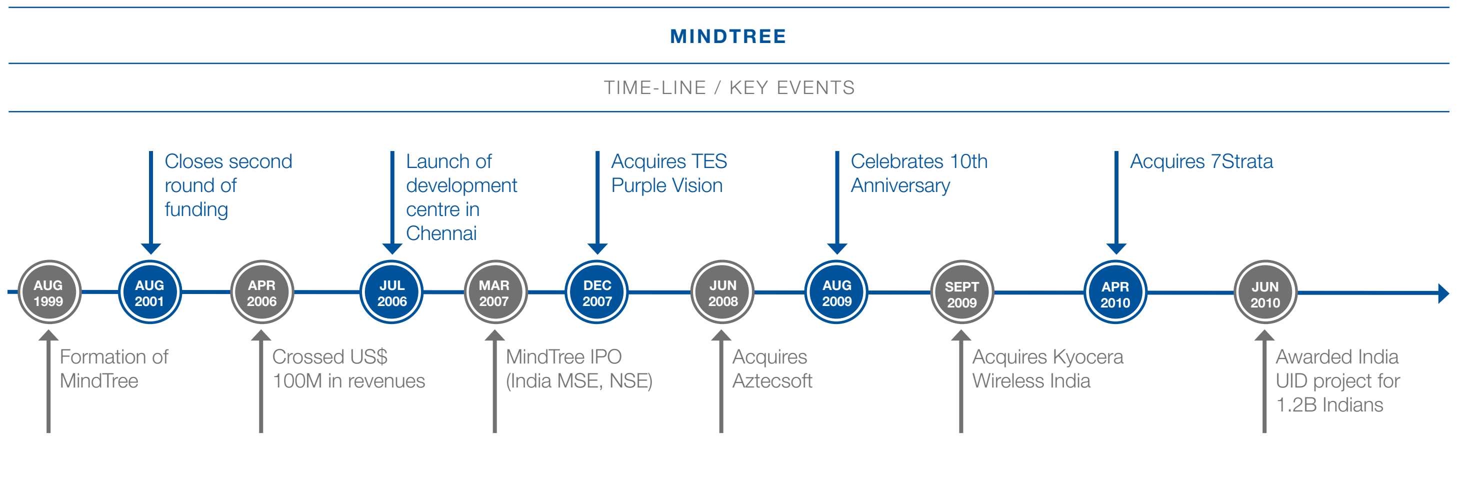
Marquardt: "Hire the best people you can. One of Microsoft's strengths was it innovated that way. It spent a lot of time at universities, before that was fashionable, to seek out talent. They hired for high IQs first, and then figured out a way to organize them and make them productive. Another key lesson is the better you do the ever higher the expectation, especially for a public company. Living up to those expectations becomes an ever increasing challenge." ■

Prepared by George Foster and Sandy Plunkett, 24 November 2010

MindTree | India & US

OVERVIEW:

MindTree is a mid-sized technology firm co-headquartered in Bangalore (India) and Warren NJ (USA) with four development centres in India and 15 offices across Asia, Europe and the United States. It was founded in 1999 by seven Indian-based IT executives and three US-based IT executives. Its growth journey and people practices make MindTree a standout in the IT solutions sector. MindTree is one of the world's fastest growing IT organizations, ranking 19th among the Top 100 Global Outsourcing Companies in 2010, according to the International Association of Outsourcing Professionals. The company went public in India in 2006, raising US$ 54 million. MindTree posts 2009 sales revenues of US$ 275 million (over 90% internationally), has a market-cap of about US$ 500 million and employs 9,000 people.



QUOTATIONS FROM:

Subroto Bagchi, the current vice-chairman, co-founded MindTree in 1999, serving as its COO. His current title is "Gardener" at Mindtree. He has authored three business books: *The High Performance Entrepreneur, Go Kiss the World*, and *The Professional*. He writes a column titled "Zen Garden" in Forbes India. He is on the Board of Governors of the Indian Institute of Management, Bangalore.

MindTree co-founder **Rostow Ravanan** is the CFO. He previously had management roles at Lucent Technologies and Bell Laboratories and worked at KPMG Corporate Finance. He holds a bachelor of commerce degree from Bangalore University.

What was the source of the initial idea and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Bagchi: "We saw our venture from an 'opportunity backwards' point of view. We felt that the new century would be about the services industry compared to the manufacturing industry that dominated the last one. We believed that the emergence of the services industry would mean that every sector would need IT as the differentiator (whether a hotel, a hospital or an airline or educational institution). Additionally, we felt that we would live in a world in which every gadget around us would need software. To address these two areas, we created a value proposition based on a consulting-led company with IT (software) and R&D (embedded) services. Subsequently, every big change acted as an evolution cycle in a way. Some such changes included:

First change – Before 1999, Indian IT players were seeking legitimacy in global markets while MNC were more focused on consulting and high-priced software development and maintenance. The telecom burst in 1999, followed by 'dot-com burst' in 2000 and '9/11 attacks', changed IT services competitive landscape. The boundaries were broken among consulting, software services and the idea of what work could be done where. MindTree too, had to change its positioning to offer wider range of services instead of just Internet technologies, R&D and consulting-led services. We were too focused on development of solutions; post 9/11 it was all about maintenance; about keeping the lights-on applications alive.

Second change – After surviving the 'dot-com bust', MindTree expanded the next two years its services offering to address bigger deals, by focusing on a few high-brand multinationals with large projects (for revenue and reputation). Both technology and financial channels were used to address this deals' qualification process. Diverse approaches such as equity partnership and IP licensing to OEMs were used to gain entry to customers. Overall, MindTree became a horizontal technology services company.

Third change – In 2006, MindTree changed its structure towards industry verticalization to address customers' requirement with domain capabilities. The highly successful IPO (106 times oversubscribed) brought in about US$ 56 million to enter new markets, build the Chennai campus and develop the domain expertise through hires, acquisitions and trainings."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Bagchi: "The founding team wanted to build an aspirational company. The team mixed technology, financial and social parameters in a way that benefited all stakeholders. Key among these were:

1. MindTree assigned 16.67% of equity for employees. The founders were not allowed to increase their stake. After one year, while the employees got their options at Rs 2 (2 Indian rupee), the VC funding was done at Rs 41.
2. We clearly articulated that MindTree would go public when it attained the US$ 100 million revenue mark. Thus, the exit criterion was visible to all stakeholders.
3. From day one, MindTree's social responsibility was defined. MindTree's logo was designed by a child from Spastics Society of Karnataka (an NGO dedicated to the welfare of persons with neuro-muscular and developmental disabilities). No MindTree event is complete without the participation of the children and their beautiful paintings that adorn the walls of MindTree buildings. MindTree in turn donates a share of its profitability to building assistive technologies and works with institutions like the Spastics' Society.
4. Genetically designed to be known for its culture, values and knowledge, MindTree has a well-defined mission, vision and values statement. Different business units had their own positioning with R&D services focused on IP-led services while IT services focused on reusable components, process and domain orientation."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Bagchi: "MindTree is among the fastest growing IT and R&D services companies. Our growth is powered by our consultative approach, our deep understanding of business and technology, our passion for innovation, and above all, our integrity. Consistent performance is the hallmark of our success. Our focus on innovation ensures that we are constantly raising the bar for ourselves and for the industry as a whole. We take a 'customer-backwards' view to every one of our engagements, focusing on value delivered as the benchmark for our achievements. MindTree is proud to be one of the few Indian companies to have maintained a consistently high customer satisfaction rating over the years (85-93%). Besides financial benchmarks, this is one of the key measures surveyed annually."

What were the major growth accelerators for your company in its high-growth years?

Bagchi: "Given that we are very customer and market driven, you will see growth driven by many factors. These include:

1. *Success of e-business (as a market):* When a new company is started, the biggest challenge is the claim to legitimacy, and the capacity to answer such questions as: 'What you do?' and 'How are you different?' When MindTree started, we claimed expertise in the e-business domain. Our capacity to quickly learn was unsurpassed. The bigger companies, owing to sheer size, were not able to do it as fast.

2. *Sharp focus on the geography and the way MindTree was configured.* Incidentally, three of 10 MindTree founders were from the United States. Our complete focus was on the US. The R&D focus was in Silicon Valley region businesses, and the e-biz focus was in the mid-Atlantic region. It helped us get early customers.
3. *Very sharp focus on the key accounts.* Few of MindTree's initial big accounts ensured MindTree's sustenance, especially after the dot-com and telecom crash and 9/11. One of the reasons MindTree was able to successfully manage big accounts was the rich experience of its top 50 people. They came with adept knowledge and experience in managing structure, engaging at the executive officer level and the ability to sell the services. They were able to sell from what existed in MindTree at that point in time. One such testimony was given by the CIO of Volvo, who praised MindTree by saying: 'I am signing up for this contract not because of what MindTree has done in the past, but what it will be able to do in the future'. This proved our efforts and execution.
4. *Human resources strategy.* We built a 'People Function Roadmap' for the first five years (MindTree's version of a human resources department). This roadmap was a sequential calendar comprised of discrete items: What would be our priorities? At what stage would we focus on digitization and how much effort on content? How would we ensure top level leadership development. We pretended to be big and built our practices around scalability in order to attract the best of the talent. Hence, we created an image of MindTree by claiming to be a 'post-modern' company."

Consulting Emphasis: "Since we wanted to be a consulting-led company, we hired a non-HR person from one of the 'Big Four' to head our HR efforts. This ensured our HR policies were in line with the requirements of a consulting-led company. We built our 360-degree feedback system around CLASS (Caring, Learning, Achieving, Sharing and Social Responsibility – the value system at MindTree). So, apart from basic inputs such as what a person should start/stop/continue doing, MindTree minds also get rated on how they fared on the CLASS values. We had a long-term view on HR. Thus, we followed PCMM (People Capability Maturity Model) and got certified on the model from the Software Engineering Institute (SEI) of Carnegie Mellon. The entire top management at MindTree, aside from their professional competence, are good people managers. They make managing and leading people a priority."

Describe briefly the financing of your company and how this financing impacted the growth of your company.

Ravanan: "We had two rounds of pre-IPO funding. At the time we formed the company in 1999, we raised approximately US$ 10 million at a valuation of US$ 24 million from a large California-based VC fund and an India-based VC fund. The founders also put in money at the same valuation as the VC funds. We raised a second round of US$ 14 million at a valuation of US$ 75 million in 2001. We also had lines of credit from our banks, which we used to fund some of our CAPEX and working capital requirements. By 2009, we had repaid all our loans and we were debt free. We also raised US$ 54 million via an IPO in India in February 2007. We were adequately capitalized and never really faced a situation where growth was constrained due to capital inadequacy. Our business is not CAPEX-intensive and growth largely only needs additional working capital. The initial rounds of funding plus our banking arrangements provided sufficient cover. We also structured our growth appropriately. For example, in the initial years we operated out of leased premises instead of owned premises, which saved cash."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Bagchi: "There were plenty of issues, however, the top three are as follows:

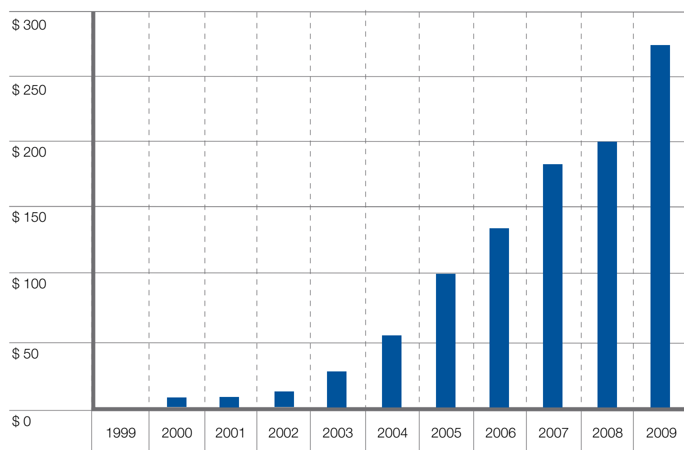
1. *Cross cultural integration* – as we 10 co-founders came from consulting and IT industry. In addition, our origins were from nine different nationalities. To be able to get a team to play together took a lot of top management bandwidth in its early days. Other than the top management, it was a challenge to make the consultants and members who came from the software industry to see value in each other.
2. *The market collapse* – hanging on to the faith. Despite the dot-com collapse, telecom and 9/11 really shook people. Questions were asked on the faith and about the viability of the businesses and India/Indians.
3. *Internal challenge* – managing the expectation of the second round investor. First round investors are still with MindTree. The second round investor paid the money in August 2001 and then 9/11 happened. They wanted to get a re-evaluation and by June of 2009, they parted with their money. To manage those people was a full time job."

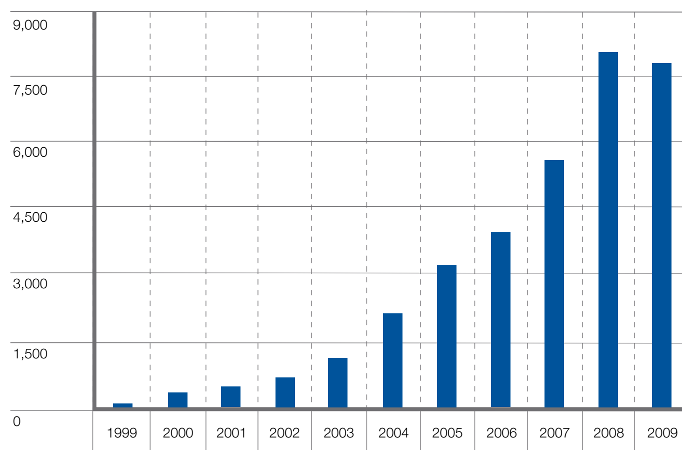
Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Ravanan: "A negative moment for the company was in 2003. We were in the final shortlist in the race to get empanelled as an IT vendor for a Fortune 10 company. The race was long and hard and we were a very small company of about 2,000 people competing against some of the largest players in the industry. We didn't have any long-term contracts from large customers, which was critical for the survival of the company at that stage. This was also the period when the world was recovering from the economic downturn that followed the dot-com bubble and 9/11. Therefore, this was a 'make-or-break' deal for MindTree. One

carrot we offered the Fortune 10 customer was an equity stake in MindTree, which allowed them to reap a financial upside from the business they give us beyond the value they received from off-shoring their software development and maintenance. This seemed to swing the deal in our favour.

Bottleneck Broken: "One bottleneck occurred when one of our investors, a large global PE fund, played spoilsport. The investor didn't want to dilute its stake in MindTree via an offer to the Fortune 10 customer at a much lower valuation than what the PE fund company had when joining MindTree. The earlier participant was upset because MindTree had underachieved against their expectations on revenue and profitability in 2001-2002 due to the economic slowdown. They wanted their stake to be reset. Our view was that both Mindtree and the entire IT industry were impacted. Even in the slowdown years, MindTree grew at high-double digit growth rates, which was much higher than the rest of the industry. We believed that the PE investors came in with an equity stake, and so should bear the ups and downs of business. However, under the funding agreements, investor consent from the PE was required to go ahead with the equity offer to the Fortune 10 customer. To resolve this, the founders accepted a down-round where the PE fund's stake got reset at a lower valuation. Luckily, we won the bid. It was a bittersweet victory. However, things worked out as time went by, because winning this bid gave a big morale boost to the entire organization by showing we could compete against the industry leaders. Winning this bid also gave confidence to other companies to give us business."





What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Bagchi: "The key lessons are:

1. *Choose the right initial team!* MindTree's success came from the fact that, the initial team wasn't composed of beer buddies, but launched with highly competent people. The bond was not of familiarity, was of competence. All 10 founders who had never met and are still with MindTree, shared a vision, took the same view of high integrity and had complimentary leadership skills.
2. *Choose the right kind of money*! Our choice of first investor was right, the second investor was not appropriate. We would not have survived without the initial investor's engagement with us.
3. *Build a long view of time!* If you build a high performance company to span 50 years, one economic slow-down doesn't matter so much. In addition, a long-term view foregoes instant gratification that may lead to greed., Leadership should be willing to pay a short-term price for sticking to the core values. Finally, risk-taking is part of every success story, and making mistakes, even by top management, isn't always that bad if a lesson is learned." ■

Prepared by Martin Haemmig and George Foster, 22 November 2010
Supported by JM FINANCIAL (A. Kampani, R. Narasimhan)

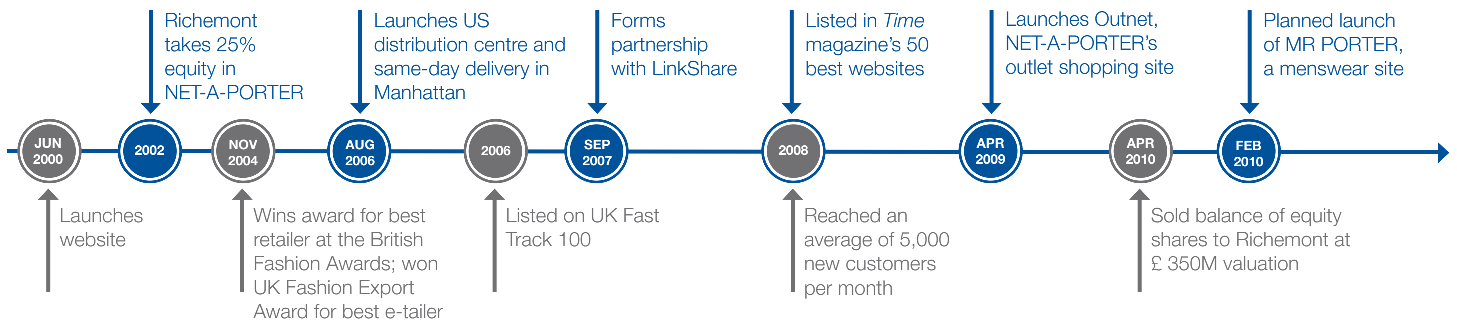
Net-a-porter.com | United Kingdom

OVERVIEW:

NET-A-PORTER had its genesis in Natalie Massenet's 1998 to 1999 vision to "merge the store with the magazine" for online consumers. Launched in June 2000, the company targeted time-strapped women as its customers. Massenet differentiated NET-A-PORTER in multiple ways from the then current online competitors, such as the availability of high-end, current-season, hot fashion items, distinctive packaging, customer service and same-day delivery in London. Massenet had been fashion editor at Tatler magazine and had worked at W magazine. The initial investors were friends and family, including Carmen Busquets from Venezuela, who operated a boutique in Caracas. Massenet's fashion industry background facilitated her convincing high-end brands (such as Jimmy Choo, Michael Kors and Chloe) to allow their products to be sold online. From day one, NET-A-PORTER has delivered to global customers and has a proven expertise in international shipments that must take account of taxes, duties, etc., which can differ from country to country. In 2002, Richemont, the Swiss luxury goods maker, took a 25% equity in NET-A-PORTER, and in 2010 it moved to an ownership of slightly less than 100%.

NET-A-PORTER.COM

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Natalie Massenet is the founder and current executive chairperson of NET-A-PORTER. Massenet studied at UCLA and worked as a film director and stylist afterwards. She also worked for WWD.com and as Isabella Blow's assistant at Tatler magazine prior to founding NET-A-PORTER.

Mark Sebba has served as chief executive officer of NET-A-PORTER since 2003 and was appointed the non-executive director in 2010. Prior to joining NET-A-PORTER, Sebba was finance director at Video Networks Limited and at Golden Rose Communications Plc. Mark has also worked in investment banking and is a qualified chartered accountant.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Massenet: "I logged onto the Internet one day back in 1998, and it was like a mind explosion. I saw the potential to start up a business selling fashion online to a global market, but I then spent my time convincing other people that they should do it. When I realized that they were not seeing the same opportunity and had no interest in doing it, then I naively said I'd do it. Once I had established the name NET-A-PORTER.com (which came to me while I was looking through a fashion dictionary and thought of the online play on words with prêt-à-porter). I realized that you couldn't have a name like NET-A-PORTER without thinking big. NET-A-PORTER had to be slick and chic and ambitious. From the start I wanted hot brands: the clothes that magazines were writing about but that were hard to get hold of. We would sell them with luxury service and style."

Sebba: "Natalie was a fashion journalist and understood that women would read fashion magazines to identify the latest trends and to help them decide what they wanted to buy. In the late 1990s, she saw the huge potential that the Internet would offer as a selling medium. She wanted a woman to open a copy of a magazine, see something that she wanted, press a button and buy. So NET-A-PORTER became one of the first proponents of the then much talked-about 'convergence' that digital technology would permit – a convergence between media and commerce. Another fundamental principle was that NET-A-PORTER would become the global marketing partner for fashion brands and would help them develop their individual on-line strategies. Ten years on, the company bears a remarkable resemblance to the original business plan. Natalie never had any doubt that – provided (1) our customer could easily return anything she didn't like and (2) we excelled in all aspects of service to the customer – there would be a huge and recurring worldwide demand for NET-A-PORTER products and services."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Massenet: "Because of my fashion magazine background, the website format had to be editorial. My statement of intent for NET-A-PORTER hasn't changed. I wasn't trying to transform the store. I was trying to transform the magazine because the magazine was still a great way for women to find out what to buy. They would read fashion magazines and then go to the store to try to find it. Magazines showed what was new and what was inspiring, with photographs of the most beautiful things. But store buyers only bought what sold well, so there was a disconnect. So I thought, 'Wouldn't it be amazing if you could tell them what to buy and also give it to them, with one click, without their having to move'? So for me it was definitely about merging the store with the magazine. The Internet meant that you could do so efficiently, and the information could reach people everywhere instantly. The vision that I had before starting the business in 1999 is the same one that I have today: I want to create the destination for fashion."

Sebba: "Natalie's vision was, and continues to be, that NET-A-PORTER should be the ultimate destination for all things fashion. She always knew that the business had huge potential. Because the Internet is a global medium, the company has never accepted constraints from brands on its geographical distribution, with the result that it delivers today to 170 countries. As the business has grown from zero sales to over £ 200 million, the required management talents have also been refined, so the constitution of the management team has mostly changed over the years. I joined in 2003, and while the fashion and creative sides of the business were then well developed, I focused on financial controls, reporting disciplines, technology, process and operations. After eight years, the business launched a second brand, an off-price fashion outlet, www.theoutnet.com, and in 2011 will launch a men's brand, www.MRPORTER.com. The factors guiding me were to put profit before volume and to watch the cash with hawk eyes."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Sebba: "There is no question that the company has benefited from being an early player in the e-commerce arena, given the general migration of shoppers to online.

"Regarding point-of-view content, the model was to present our customer with a fashion magazine that pointed to a curated fashion collection; items would be selected from a designer's collection and always styled with other designers' products. The website rapidly developed an independent, authoritative, editorial voice where fashion-conscious women would browse, share ideas and buy. As the business has developed and technology has advanced, we have refined the magazine by introducing video content and, most recently, presenting a fashion magazine on an iPad from which the customer can also buy. We have consistently sought to bring fashion to the customer, whether at home, at the office, on a mobile phone, or now, on a tablet device.

"From point of view of revenues, as a retailer we could not sell what we had not bought. In the early days of the business, the fashion seasons were more clearly delineated, although in recent years the business has become less peaky. But the principle remains: our buyers see the products

and order them, with virtually no subsequent opportunity to reorder, several months before we take delivery. With visitors evidencing double- or triple-digit growth rates, it was and continues to be necessary to plan the buy in anticipation of a rapidly growing customer base. Buy too little, and you miss sales; buy too much, and cash and margin crises ensue. We have focused much effort on building the tools and skills to reconcile anticipated growth in customer demand with growth in the supply of product."

What were the major growth accelerators for your company in its high-growth years?

Sebba: "We are still in high-growth years. Migration to the Internet for shopping is clearly a major factor, as is the increase in the population who has grown up in a digital world. For kids who studied online and for whom the Internet is the primary source for information, buying online becomes second nature. So every day there is a fresh stream of net-savvy people out of college with disposable income.

"We have always focused on making it easy for the customer: easy to navigate the site, easy to choose. We also give fashion advice with humour as a way to ensure that the site is 'sticky'. And the visitors return, month after month, year after year, with individuals often becoming a customer long after they have first visited the site."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Sebba: "The company was initially funded by friends and family, one of whom continued to support the company until it was cash positive and eventually owned some 30%. In 2002, the international luxury goods company, Richemont, invested on a VC basis for 25% of the business. By the end of 2004, the company had raised about £ 9 million, and from then on it was cash generative. The two principal shareholders and the founder placed a strong emphasis on self-sufficiency and the avoidance of raising more equity. Therefore, the growth strategy centred on chasing margins and cash, rather than a 'land grab'. It is possible, therefore, that with more cash we might have grown the top line faster, but I doubt that we would have been able to sustain the margins. In addition, managing the requisite growth in infrastructure would have placed the company under significantly greater stress than we anyway faced."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Massenet: "There were the challenges you would expect for any business starting out in 2000, just when the Internet bubble was bursting. However, we made sure that we started out small at a time when the market was small, and we didn't overspend or overestimate the market – we built NET-A-PORTER for the long run. We had some initial objections from brands that were nervous about selling their products online. However, we had a lot of meetings and went to great lengths to show them what we were going to do with their brand and the growth that we were expecting. We also showed them that we were willing to wait and do things properly, not rush them. I think many of their objections came from fear of the unknown and an initial resistance to the Internet. Some brands associated the Internet with mass market and discounting. The first thing we told them was that we wanted to 'celebrate' their brands; we took the risk away from them, which meant we could venture into this industry together."

Sebba: "As stated above, the high growth years are not over, nor have the challenges abated. In the early years, we faced constant skepticism about whether people would buy expensive clothes without trying them on. We also encountered opposition from some of the major fashion brands, which felt that the Internet was the preserve of discounters. Building for growth in order volumes while retaining rigorous service level standards has been a constant challenge, as has determining the amount of space required in London and New York for our distribution centres. In 2003, when I joined, dispatching 60 orders a day was a struggle; today, across our two distribution centres, we can easily manage 6,000, and by next year, as a result of the major infrastructure investment we are currently undertaking, this number will have doubled."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Sebba: "I believe the darkest moments that the company faced were in the first two years before I joined, when there was a constant lack of cash. When I joined, we embarked on a cash-raising exercise, and thereafter, for the most part, we experienced very few cash crises."

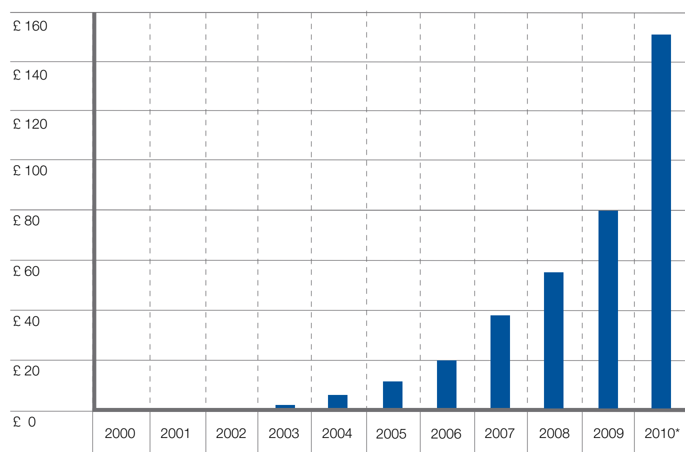
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Sebba: "People are key. Value them, cherish them, empower them, incentivize them, give them an attractive physical working environment, help them develop and if they don't shape up, move them out.

NET-A-PORTER.COM

REVENUE

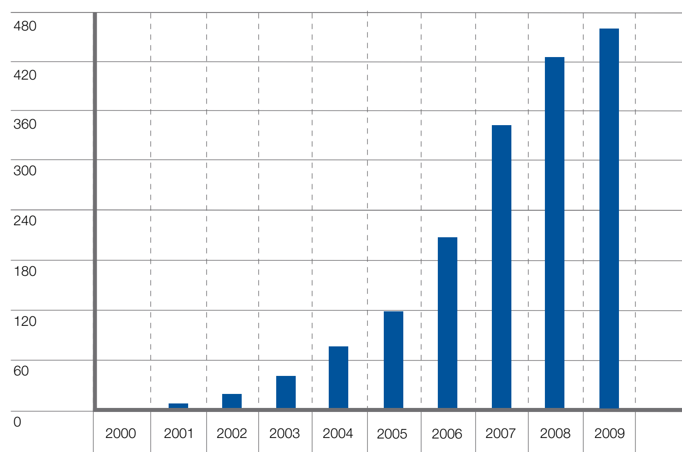
IN THOUSANDS (£ K)



*2010 Results for 14 months to March 2010 due to change in fiscal year end.

NET-A-PORTER.COM

HEADCOUNT



The business needs different skills at different stages and in assessing the capabilities of individuals, it is critical to ensure that they are up to managing a growing business. Some people are much less comfortable in a larger environment, and there is no reason not to allow these people who may have contributed at an earlier stage in the growth of the business, to profit after they have left.

"Lead by example.

"Manage the cash. Understand the relationship between sales, investment and cash. An expanding business running out of cash has very little leverage with new and existing shareholders.

"Find supportive, like-minded shareholders. Many hours will be spent in their company around the Board table. You better get on.

"Attract one or two non-executive directors who can contribute skills or knowledge not provided by management or shareholders." ■

Prepared by George Foster, Ning Jia, and Hamish Stevenson/Fast Track, 15 November 2010

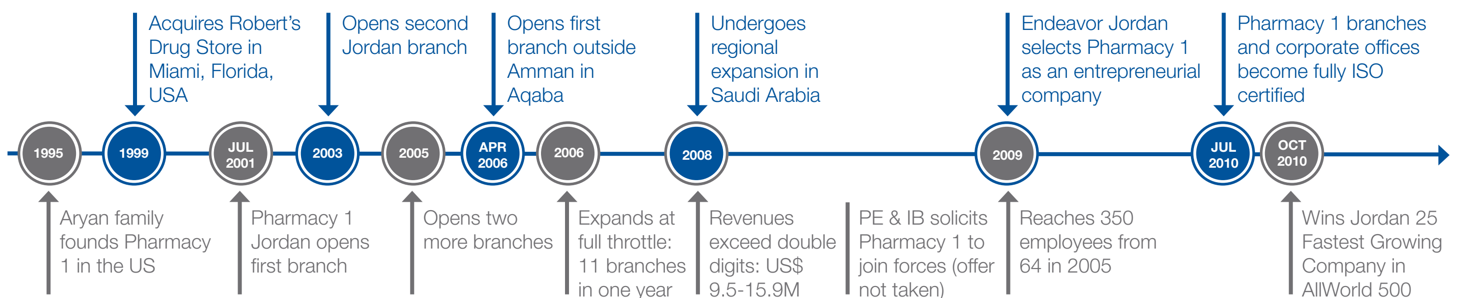
Pharmacy 1 | Jordan

OVERVIEW:

Pharmacy 1 is the largest chain of pharmacies in Jordan. The founder, Amjad Aryan, emigrated from the Palestinian Territories to the US at age 18. In 1995, the Aryan family founded Pharmacy 1 in the US. Two years later, they acquired Miami's oldest pharmacy, Robert's Drug Store. In 1999, they changed the company name to Pharmacy 1 and added other stores in Miami. Amjad Aryan opened the first Pharmacy 1 in Amman, Jordan, in 2001. After fully relocating to Jordan in 2004, he led a rapid expansion of the company. There are now 47 stores in Jordan and four stores in the Kingdom of Saudi Arabia, with further aggressive expansion planned. Having equipped each pharmacy with a modern logistics network, Pharmacy 1 applies state-of-the-art pharmaceutical store management in a sector of the Jordan economy where this standard did not exist prior to 2001. The AllWorld Arabia 500 selected Pharmacy 1 as the number one fastest-growing company in the Jordan 25.

PHARMACY 1

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

The son of a pharmacist, **Amjad Aryan** has spent his entire life in the pharmacy industry. He graduated in 1995 from the Massachusetts College of Pharmacy and Health Sciences with a specialty in Retail Pharmacy Management. While attending college in Boston, Aryan worked at CVS, a large US pharmacy chain, where he continued until 1997. In 1999, he and his family acquired and then further expanded a small pharmacy chain in Miami. They renamed the chain from Robert's Drug Store to Pharmacy 1. Returning to the Middle East in 2001, Aryan set up the first Pharmacy 1 store in Jordan. He is a board member at Jordan University of Science and Technology's College of Pharmacy and is a member of the Young Presidents' Organization Jordan chapter. He is board-certified from both Massachusetts and Florida.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Aryan: "Born to a pharmacist father in Palestine, I spent my entire life in the pharmacy business. At 18, I emigrated from Palestine to Boston, USA. I was admitted to the Massachusetts College of Pharmacy and Health Sciences, where I earned a degree in Pharmacy with a specialty in Retail Pharmacy Management in 1995. During my education and following graduation, I worked my way up from an intern to a manager at CVS in Boston. After leaving CVS in 1997, my siblings and I acquired a small chain of pharmacies in Miami. However, after observing the successful business model of CVS and other chains in the US, I easily recognized a market gap in my home region.

"At that time, the retail pharmacy sector in Jordan was characterized by poor quality of service, low-level technology and inconsistent management among pharmacies. Seeing opportunity despite these challenges, I opened the first Pharmacy 1 in 2001 in Amman. I went back and forth to the US until fully relocating to Jordan with my family in 2004. With emphases on customer service and easily accessible products, Pharmacy 1 was an immediate success, and the business began to expand rapidly."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Aryan: "Jordan as well as the entire region is changing very rapidly. Jordan of 2001 was totally different from Jordan of 2010. Consumer behaviour, spending habits, quality of service and size all changed and influenced our initial growth and vision.

"The original plan was to open 10 pharmacies in Jordan. Today, we have 47 outlets and plan to open 13 new branches by the end of 2011. In Saudi Arabia, we were initially aiming for a gradual growth: open one outlet, then add one more, and so on. Our plans now are to roll out five new outlets by the end of this year and 50 outlets in 2011."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Aryan: "I started with a single pharmacy in 2001. Since then, the business has grown to become Jordan's first retail pharmacy chain, with 47 branches employing more than 400 people. With a modern logistical network, customer-friendly stores and a wide range of products dealing in all manners of customer health, Pharmacy 1 strives to become the largest pharmacy chain of the Middle East and North Africa.

"All of Pharmacy 1 branches are designed in keeping with modern pharmacy standards. Each store is divided into a prescription area and a retail area. Pharmacy 1 outlets are located in both residential and commercial areas, and they range from 80 to 650 square metres in size. The smallest branch employs only two pharmacists, while the largest branch employs approximately 15.

"To ensure quality of service and ease of shopping, Pharmacy 1 offers valet service at branches located in areas with limited parking. It operates several of its facilities as 24/7 pharmacies as well as offering 24/7 free delivery anywhere in Jordan.

"Pharmacy 1 is raising the bar for pharmaceutical healthcare in the region through the following practices:

1. *Being experts in the field of pharmaceutical care*. Once pharmacists join Pharmacy 1, they go through extensive induction training. This training includes several important topics needed to execute their jobs with the highest degrees of professionalism and excellence, such as:
   - Pharmacology
   - Customer care
   - Effective counselling
   - Communication skills

   Our pharmacists are continuously updated with the latest scientific knowledge through the continuous education programme. Pharmacists are required to pass a specific number of credit hours of training each year.
2. *State-of-the-art prescription processing using PH1 system*. Pharmacy 1 is equipped with software that stores patient pharmaceutical history and permits easy and fast retrieval of patient information in any branch of Pharmacy 1.This software runs 14 checks and performs the following actions:
   - Lists important precautions, such as duplication of therapy, food warning and patient drug allergies
   - Identifies potential drug-drug and drug-disease interactions
   - Prints a patient leaflet explaining how to use the medication, proper storage conditions, most common side effects and contraindications; this leaflet can be printed in both English and Arabic
   - Provides separate yellow warning stickers advising the patient to take the medication with food, on an empty stomach or any other compliance recommendations
   - Bills the patient's insurance company directly, saving the patient both time and money
   - Reminds patients to refill their monthly prescription
3. *Patient counselling service*. All of our pharmacists possess scientific knowledge and are professionally trained on patient counselling, a private service that is provided to our customers

at no cost. Patients may take advantage of our private counselling services by:

- Meeting with any of our well-trained pharmacists in the pharmacy
- Calling our toll-free phone number at 080022922
- E-mailing info@pharmacy-1.com
- Making an appointment with our drug experts

4. *Educational updates*. At Pharmacy 1, we offer special educational materials that provide both advice and consultations on several topics, such as proper use of medication, the importance of vitamins, first-aid tips, etc.
5. *Pharmacy 1 training and drug information centre*. Guided by our profound belief in corporate social responsibility and in accordance with our strong sense of purpose and ethical standards, Pharmacy 1 works to respond to the rising needs of society through its different healthcare initiatives. Pharmacy 1 operates a training and drug information centre, the first of its kind in the Middle East. The drug information centre (DIC) provides free, unbiased medical and pharmaceutical information to consumers and healthcare providers. The DIC offers consultation services to answer any query on disease state, medications used to treat these disease states and any necessary lifestyle modifications. Customers can benefit from our services either by visiting, calling (toll-free in Jordan), faxing or e-mailing the centre.
6. *Accessibility*. 47 branches covering Jordan that are open 24/7, and provide free delivery to anywhere in Jordan."

What were the major growth accelerators for your company in its high-growth years?

Aryan:

1. "Having the right team members who shared with me the same vision – the solid unwavering belief in what we can achieve. There was never a moment of doubt or a 'whether we can do it' mindset. It was 'when can we do it' and trying to prioritize what to do first. Our growth rate exceeded even our own very ambitious expectations. The culture of determination to succeed and entrepreneurial leadership that cascaded to each team member – making all of them feel like owners of the business and true stakeholders – played an essential role in growth. Simply put, it was their own baby, and solid growth was the only focus and obsession.
2. Market gap: retail pharmacy business in Jordan was an underserved area. Professionalism, availability of products, customer service and convenience were previously unheard of and became much sought-after.
3. Returning talents: whether individuals who have studied abroad and returned to their country or who are simply frequent travellers, they are all accustomed to the established concept of chain pharmacies. Jordan was terribly lacking in this domain, and, with Pharmacy 1, their needs were finally met as we created big business opportunities, a large customer base and loyal clients."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Aryan: "I started Pharmacy 1 with self-financing. In 2001, banks and investment companies did not view pharmacies as viable business opportunities. Pharmacies were viewed as mom-and-pop shops with very limited growth potential, which made it impossible to obtain financing. The lack of external financing was not a hindrance to the business growth. Other factors such as regulatory restrictions held us back and postponed the planned growth, resulting in pharmacies financing themselves. This situation continued until Pharmacy 1 became a known brand that financial institutions acknowledged and extended their services to. These facilities boosted the growth through year 2006 and beyond."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Aryan: "Starting out, my biggest challenges were:

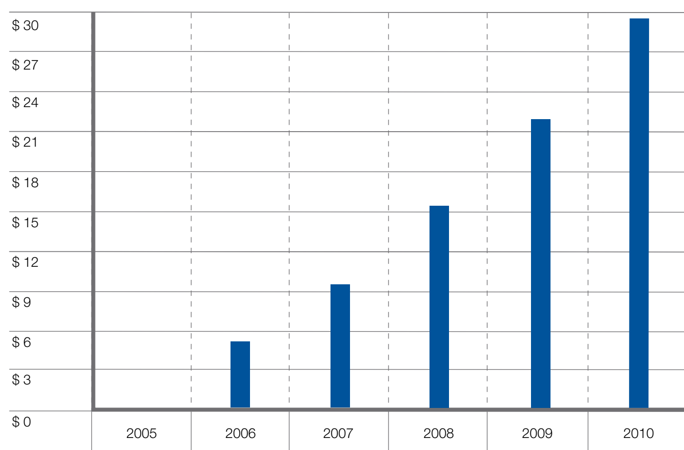
1. Laws and regulations: the law allowing for the existence of chain pharmacies was there. However, it lacked implementation. It was up to Pharmacy 1 to bring it to action and implementation. That, as we all know, is always a big challenge.
2. The human element: in a country swamped by huge talents, the lack of appreciation and understanding of the role of a retail pharmacist makes it very challenging to attract these talents. That, coupled with the relatively high employee turnover, represents a big challenge. Because Pharmacy 1 invests in a lengthy training for all employees, finding employee replacements is a time-consuming affair. To overcome that, we built several simulation pharmacies in the local schools of pharmacies, including: Jordan University of Science and Technology, Isra University, and Zitouna University. This has helped with reaching developing talents and has acted as a recruitment centre for these talents.
3. Besides the above, maintaining our success and keeping up with people's expectations are ongoing challenges that need to be addressed continuously. Our business is dynamic, and we need to stay abreast of what happens around us and always look for ways to better serve our customers."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Aryan: "The first three years were very hard. Naysayers were all over the place, and negative remarks were an everyday occurrence.

"The law of chain retail pharmacy was there but not activated nor implemented. That burden fell on Pharmacy 1 to activate that law and set the precedent. Going against the flow and facing set-in-stone mindsets caused probably some of the darkest times. There were times when people around me did not only doubt the success of the business but fought it, wholeheartedly driven by the fear of change. Some of these people were influential in our business, such as suppliers. We had to purchase products from them and conduct business,

PHARMACY 1



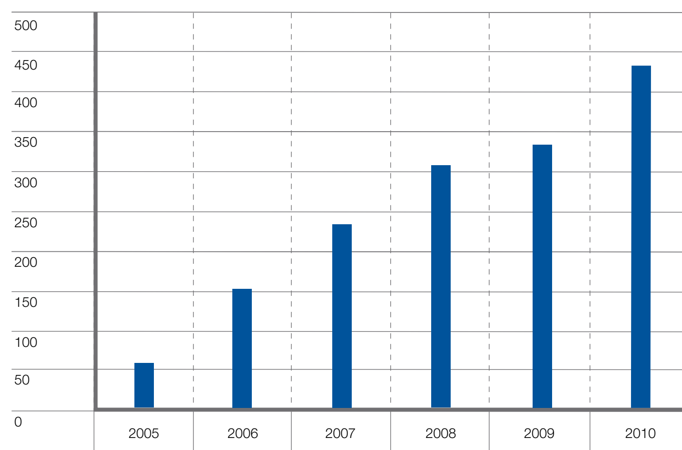
and we needed them to extend customary credit terms. Today, these same people now shop in our outlets regularly and swear by our business model."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Aryan: "I do not believe there is a custom-tailored formula for each industry out there. My belief is that whatever line of business you are in, what it takes is to just do it. Don't sit around waiting for somebody to give something. Take charge of your life and take full accountability of your future. Believe in yourself and always listen to your inner voice pushing you forward. The talents we have in Jordan are incredible and can achieve so much in a very professional way. Believe you can, and you will." ■

Prepared by George Foster, Ning Jia and Endeavor's Center for High Impact Entrepreneurship, 15 November 2010

PHARMACY 1



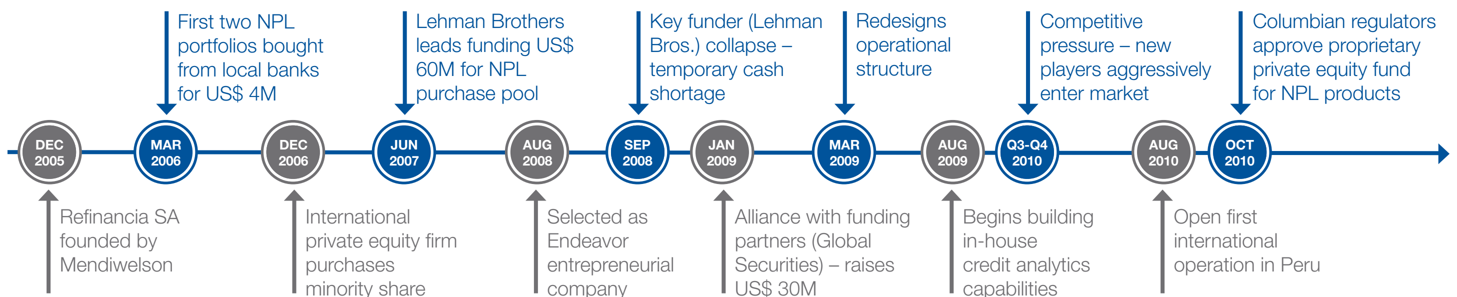
Refinancia | Colombia

OVERVIEW:

Launched in December 2005, Refinancia has its roots in a business plan concept developed by Kenneth Mendiwelson while he was a MBA student at Harvard Business School from 2000 to 2002. Refinancia purchases and services consumer and mortgage Non Performing Loans (NPLs). The company uses proprietary databases and modelling experience to assess loan quality, probability of recovery, costs and risks with portfolios of NPLs that it can purchase. Finance pools to invest in the NPLs are packaged by Refinancia and offered to sophisticated investors. Refinancia assumes and manages the relationship with each individual whose loan has been labelled NPL. A key differentiator is the humane way people with financial difficulties are engaged by Refinancia. The aim is to change the conversation from one about 'defaulted loans' to one which centres on 'specialized credit products for special clients'. Refinancia's initial focus was on NPLs in Colombia. In August 2010, it opened operations in Peru. In 2008, the founders were selected as Endeavor entrepreneurs by the Endeavor non-profit organization.

REFINANCIA

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Kenneth Mendiwelson is a specialist in the financial arena. After obtaining his BA in Business Administration and Financial Law at Los Andes University in Bogotá, he worked in corporate financial positions in Scotland, Colombia, and the US. He enrolled at Harvard Business School (HBS) in the fall of 2000, and went on to develop an ambitious business plan for his thesis that would later become the founding concept of Refinancia Post HBS, he first worked as a consultant for McKinsey & Company, focusing on the financial services sector in the Andean region of Latin America. He moved back to Colombia in 2004 and saw that he could have higher impact on the nascent NPL market in Colombia if he struck out on his own. Mendiwelson took the plunge and launched Refinancia in December 2005.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Mendiwelson: "While doing my MBA at Harvard Business School, I researched the idea of buying and managing Non-Performing Loans (NPLs) in Latin America and eventually wrote a business plan with a friend from school. The interest came from my original background as an executive in new product development in the financial industry. With our business plan, we understood that this industry had evolved in developed markets and had some relevant players. However, it was still nascent at emerging markets. Colombia, in particular, had lived through an important financial

crisis that generated a substantial inventory of NPLs. However, when I finished school I thought the banks were not ready to sell. Thus, I went to work at McKinsey & Co., especially focusing on financial services and risk engagements for regional banks in Latin America. A couple of years later it became evident that some banks were considering selling their NPL inventory in Colombia. That is when it became noticeable that this was a viable business venture and I decided to start Refinancia S.A. We became the local 'pioneers' as buyers of bad debt in Colombia, and banks in general started to follow a trend of selling NPL portfolios recurrently.

"As time passed we became very focused in developing very strong loan servicing company based on analytical capabilities that allowed for adequate predictions of credit behaviour and product development."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Mendiwelson: "Originally, we were seeking to be the leader in the Andean region – especially Colombia and Peru – in the business of offering financial solutions to individuals with bad credit history. This is still the key focus, but we have understood that our business is also about offering alternative investment products to institutional and private wealth investors seeking attractive returns – it is through this funding that we are able to buy and originate assets (debt portfolios) for us to manage and service. Therefore, an important change in our focus has been in developing the right channels to access the required funding. Additionally, we have understood that our business is replicable outside of the Andean region, expanding our potential to other geographic markets."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Mendiwelson: "We have focused on building world-class capabilities in four elements:

1. Access to top executives at banks with high level relationships
2. Top-notch analytical capabilities (statistics and portfolio analysis) for adequate pricing and product development
3. Reliable funding partners
4. Best-in-class sales force (collections group) that differentiate our servicing capabilities.

For each of these four elements, we have made important adjustments over time ensuring that all are at the adequate sophistication level. As growth has been achieved and cash flow allows it, we have made sure that we bring on-board the right management team members that add the right experience and reputation. We have been aggressive in pursuing sophistication in a market that is traditionally very basic. This has allowed us to redefine the playing field and achieve adequate differentiation from our competition."

What were the major growth accelerators for your company in its high-growth years?

Mendiwelson: "Our aspiration has always been to be recognized as a world-class business case. This simple idea has permitted us to make decisions that are somewhat advanced for the entrepreneurial stage we are at. Making these decisions slightly before they were required has been an important accelerator in the sophistication level that allows for our differentiation. In emerging markets, sophistication is something difficult to achieve and replicate. I believe that this sophistication is especially driven by the talent that is recruited and retained within our team, as well as by the deeply thought out processes that we are able to construct and execute on."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Mendiwelson: "Financing is core to our business and to our growth. We originally started our effort through friends and family finance, but quickly designed financing mechanisms that were scalable, such as building special purpose vehicles that allowed for sophisticated financiers to share upside of each of the projects and portfolios that we originated. As these initial projects were successful, additional finance from overseas and institutional investors started to come in, providing the basis for aggressive growth.

"Bank lending has also been critical to our growth as some of our portfolios were structured via project finance with local banking institutions.

"Currently, we are working on going directly to the capital markets to fund our growth, making sure that we are able to be held accountable to the way we are marketing our capabilities to investors.

"We have made sure that our payment behaviour goes unquestioned and is always reliable. Managing our reputation with our financial partners is critical and is what allows for them to be willing to accompany us in new portfolios and new avenues of growth."

What were the major challenges your company had to handle in its high- growth years, and how were they managed?

Mendiwelson:

1. "Talent: Recruiting and managing world-class talent and allowing it to flourish require an important effort by a founding CEO. There is a balance that needs to be in place to provide direction and execute through the team, while choosing the right initiatives to be involved in with a hands-on approach.
2. Cash commitments: Committing to important recurring cash out flows destined to build the right capabilities and creating new income models without having complete certainty of how future

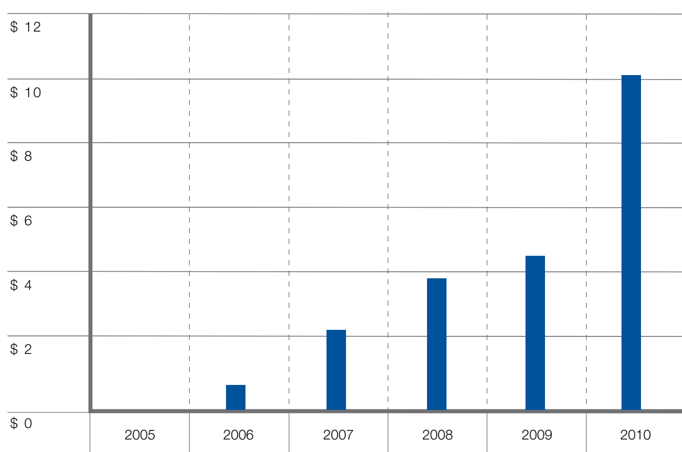
revenue stream will evolve is an important challenge. Management needs to be prepared to take important controlled risks and bets that assume that current expensive capabilities can build and sustain the expected income stream for the future.

3. Operational capabilities: As growth takes place, the operational structure is stretched to new levels. This creates stress in the organization and requires management to re-think and re-vamp many of the original operating procedures in order to take them to new standards. This involves new technology, new organizational structure, new procedures and new control mechanisms, among others. Implementing each one of these novelties is challenging, and in many cases, frustrating for the original team.
4. Reputation management: As the company becomes successful and grows, greater recognition in the business community is achieved. Managing our reputation needs to be thought out and a careful approach is a must, as our credibility is a critical element in the continuity of our business. Thus, living up to the required standard is more challenging as growth is achieved."

REFINANCIA

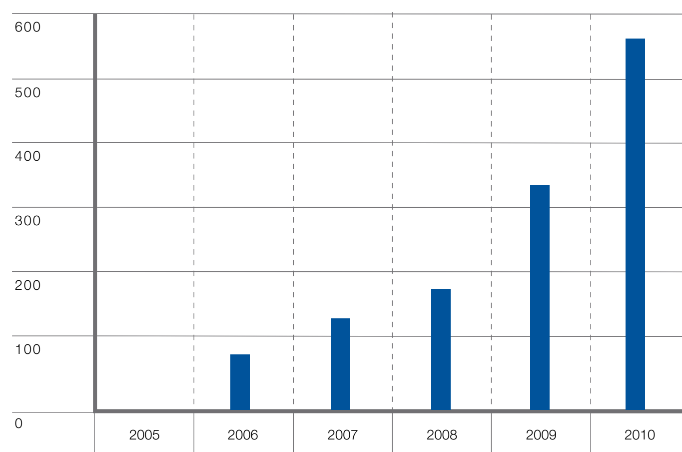
REVENUE

MILLIONS (US$ M)



REFINANCIA

HEADCOUNT



Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Mendiwelson: "Fortunately, it is hard to identify specific dark moments throughout this journey. Of course, there are constant challenges, but all contribute to the exhilarating feeling resulting from building something that is relevant and that has potential for high-impact. The most frustrating elements that can bring 'darkness' to the picture involve competitors and regulatory initiatives that affect our business. For example, on competition, we have found that as our business has been recognized, other players have come into the market. We believe that in some cases, the behaviour of competitors is irrational, in terms of the prices that they are willing to offer to the market. This can cause contagion that can, in turn affect the business model, as it has been conceived. This is frustrating because a business opportunity that has been difficult to build can be deteriorated by the short-term irrationality of competitors that will not survive at these price levels.

"In terms of regulatory initiatives, we have been exposed to changes in the laws that affect our business model. Access to credit has so much impact in the way people live, thus it is exposed to populist regulation. It is difficult to control the outcome of regulation, notwithstanding the efforts that we make as an industry. Having sudden changes is frustrating, as important adjustments need to be made to our business model, and sometimes this regulation does not benefit the market as a whole.

"Although we seek to be active in both of these fronts, having limited influence and control over how these elements evolve bring uncertainty and anxiety."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Mendiwelson:

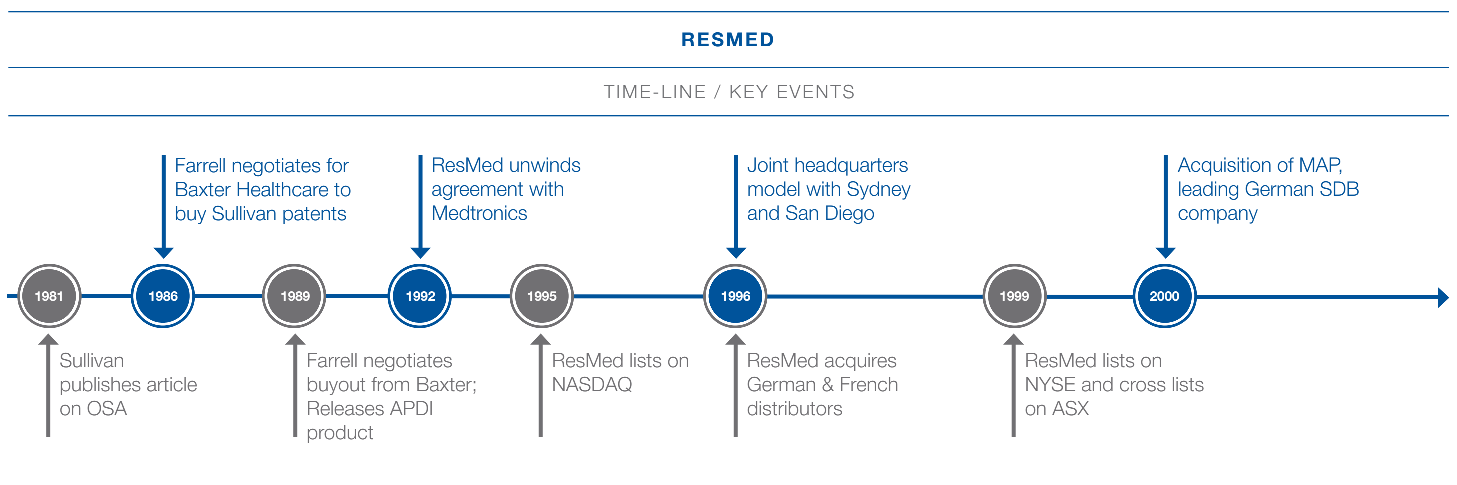
1. "Sophistication is expensive but pays back.
2. Having the aspiration to be world class breaks many barriers and allows us to think big.
3. Top talent adds exponentially, but make sure that they have their space to shine and that they come in at the right time.
4. Including reality checks in management routines is a must, especially related to cash availability. It is all about execution and control – the devil is in the details." ■

Prepared by George Foster, Antonio Davila, Endeavor Center for High Impact Entrepreneurship, 22 November 2010

ResMed | Australia & US

OVERVIEW:

ResMed is a medical devices company focused on the treatment of sleep disordered breathing and obstructive sleep apnea (SDB/OSA). It is currently co-headquartered in Sydney, Australia, and San Diego, California. ResMed's roots can be traced to research conducted by Colin Sullivan and his colleagues at the University of Sydney. This research led to Sullivan publishing the breakthrough invention of continuous positive airway pressure (CPAP) for the treatment of OSA in 1981. The paper reported the successful treatment of five patients with frequent sleep interruptions who experienced normal sleep behaviour by having continuous air pressure in their nostrils during sleep. Commercial products first appeared on the market in the mid-1980s. ResMed started as a standalone company in 1989, after a multinational (Baxter Healthcare) lost interest in this area only three years after Peter Farrell, the founder of ResMed had negotiated Baxter's purchase of key patents from Colin Sullivan.



QUOTATIONS FROM:

Peter Farrell, the founder and a key driving force in ResMed from its outset, is a respected businessman and academic. He holds engineering degrees from the University of Sydney, Massachusetts Institute of Technology, and the University of Washington. From July 1984 to June 1989, Farrell served as vice-president of Baxter International and managing director of Baxter Center for Medical Research at the University of New South Wales. During ResMed's first decade, he received multiple recognitions, including 1994 National Engineer of the Year from the Australian Institution of Engineers, and Ernst & Young San Diego Entrepreneur of the Year.

Chris Roberts joined ResMed as executive vice-president in 1992. In 2004, he was appointed chief executive officer and president of Cochlear Ltd, another successful medical devices company started in Australia that is now a leading global player.

Charles Barnes worked as ResMed's chief of information services from the outset and is the author of "ResMed Origins," a 64-page overview of ResMed's establishment and growth.

John Dyson was an early investor in ResMed and is a leading venture capital investor based in Melbourne, Australia. He is a co-founder of Starfish Ventures, where he is an investment principal. Previously, he was general manager of JAFCO Investment (Asia Pacific).

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Farrell: "The initial idea came from the inventor, Colin Sullivan, who had a Rube Golberg prototype that looked awful and sounded like a freight train. Colin showed me a video of a huge guy, a sort of Sumo wrestler-like fellow, who was asleep. He made a terrible snoring sound and then suddenly he stopped. His blood pressure dropped by 50%, his heart rate went down and his lips went blue. Then he started breathing again and his blood pressure doubled and heart rate doubled. This happened many, many times during the night. Next, a technician put a 'Darth Vader' looking mask that normalized his sleeping. The patient told me, 'Why do I put up with the incredible inconvenience with the mask? It saved my life, it saved my marriage and it saved my job'. Right away, I compared the 2% prevalence of SDB to the 0.2% prevalence of kidney disease – which was several hundreds of millions of dollars of revenue for Baxter. On behalf of Baxter, we made an investment immediately, including buying the patents outright from Colin."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Farrell: "We were early into a potentially big market and the market needs have only grown. Research over time has documented an even larger market need than we initially thought. Based on peer-reviewed publications, the clinical need to treat SDB has become clearer and clearer. SDB effects up to 30% of all adults and we have barely penetrated 10% of this market. And the good news is that treatment with nasal CPAP treats the hypertension associated with untreated SDB, but also positively impacts associated co-morbidities."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Farrell:

1. "Position the company in a large, addressable market. We were early into a big market and continued to be a major player by being both entrepreneurial and innovative. We kept ahead of the innovation curve by developing products that served the market's needs better than our competitors.
2. Be opportunistic. We seized opportunities, such as acquiring distribution rights from our German and French distributors."

Roberts: "Switch from a distributor model to a company-controlled model in key markets. This was primarily strategy driven. A distributor has immediate short-run revenue and profit needs. He wants to maximize margins now. That's a different animal from a manufacturer who needs to build awareness in major markets. ResMed relies on relationships with 'opinion makers', such as physicians and sleep lab clinicians. Since those relationships were fundamental to our success, we wanted to control that ourselves rather than be dependent on a distributor."

Dyson: "Adaptability and learning. Over time, ResMed understood the need to tweak the business model. This was especially evident with the development of the consumable mask business, which ResMed was able to dominate and, in turn, generate huge returns via its horizontal integration of this business. ResMed very much adopted a rapid readjustment 'fail fast' approach. This is well illustrated by its rapid unwinding of the failed strategy to enter the US market in 1990 and 1991 with Medtronics as its exclusive distributor."

What were the major growth accelerators for your company in its high-growth years?

Farrell:

1. "Innovative product development. We were great innovators in providing the right product offerings to address the unmet clinical needs associated with SDB. Major product features given high priority included ease-of-use, low noise, comfort, and efficacy.
2. Invest resources in building market awareness of the importance of SDB as a significant and manageable medical problem. We spent a lot of time educating the market to lift the veil of ignorance."

Roberts: "Use of the distributor model in the early years in some key markets. ResMed could never have become a global player so quickly without relying on the distributor model. Working with established and trusted distributors in multiple countries gave ResMed immediate access to new markets and tested the waters for the company without the need for deep financial and human resource investment."

Dyson:

1. "Peter Farrell as an entrepreneur and CEO. We were initially attracted to ResMed because of Peter Farrell's passion for the company, its underlying technology and most importantly, its market positioning. Peter is hugely competitive and his competitive instincts shone through from our first meeting where it was apparent to us that he would be willing to do whatever it took to make the company a winner. Farrell was also willing to try different things. If one strategy or marketing access plan did not work, he would try

something else until he got it right. I have seen many entrepreneurs continue to push a failing strategy, rather than accepting its deficiency and trying to find an alternative winning strategy.

2. Importance of attracting and retaining a high calibre senior management team, such as Chris Roberts, Walter Flicker, and Adrian Smith, ensured that there was a consistent vision and execution ability. The strength in the management team also allowed Farrell to focus on what he was great at – being an inspirational leader and 'promoter' of the company and sleep medicine – leaving the strategy execution to his team."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Farrell: "We had two angel investor rounds, about 18 months apart, and then we went public with a valuation in June 1995 of US$ 85 million. The first pre-money value was US$ 0.5 million, which went to US$ 5 million and then US$ 10 million before the IPO. Medtronic also invested US$ 1 million in 1990, when the valuation was US$ 5 million, and we bought them out when the valuation was US$10 million, 18 months later."

Barnes: "In 1989, Farrell was able to convince angel investors to become shareholders. In total, AU$ 1.2 million was raised. For an initial cash outlay of AU$ 558,000, ResMed acquired the assets relating to sleep apnea treatment held by Baxter Healthcare. In 1989, the federal government of Australia provided an R&D grant for AU$ 150,000, followed by an International Business Grant of AU$ 110,000. An Australian Government National Procurement Development Grant of AU$ 489,000 made it possible to retire a US$ 500,000 loan in 1991."

Dyson: "ResMed is one of the few companies that we have invested in who actually out-performed their initial business case in the short, medium and long term – a remarkable effort. Peter was able to assemble a group of investors, who, like himself, shared his vision for the company and were extremely loyal in providing ongoing support to the company. Peter was fantastic at managing the investor base and focused very much on establishing a partnership with the investors, rather than just a normal investor relationship."

What were the major challenges your company had to handle in its high-growth years and how were they managed?

Farrell:

1. "Building awareness. ResMed's biggest competitor is ignorance. There's a huge amount of under-diagnosis, through physical ignorance of SDB and its consequences. We now know that about 50% of hypertension patients and about 70% of stroke and CHF patients have SDB. By treating their SDB we can prevent massive morbidity and a bucket-load of early exits from life's freeway. It's truly time to wake up to untreated SDB as a major public health hazard. This is a marathon in building market awareness and we're just lacing our shoes. In the early years, the level of research on SDB and number of researchers was relatively small compared to today.
2. Managing explosive growth while both maintaining quality and continuing to build an entrepreneurial culture."

Dyson:

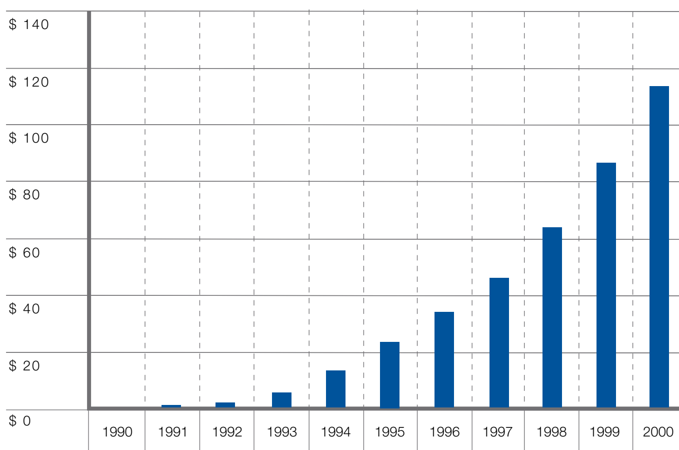
"Overcoming cynicism and lack of awareness about SDB. During the early years, ResMed had to counter a reasonable level of cynicism regarding sleep disorders and whether it was really a disease. There is no doubt in my mind that Peter's passion for sleep medicine and his ability to communicate the health consequences assisted not only ResMed but the development of sleep disorders being acknowledged worldwide as a medical disease. Peter, with the great support of Colin Sullivan, was able to attract an impressive medical advisory board, which gave the company huge credibility."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Farrell:

1. "Baxter's lack of commitment to the SDB/OSA market opportunity after its purchase of the Sullivan patents in 1996. I became increasingly disillusioned with Baxter placing such low priority on this opportunity. The good news was this provided the window to successfully negotiate the buyout that led to ResMed becoming an independent new company.
2. Medtronic's failure to deliver on its 1990 marketing proposals in the US market. In return for a US$ 1 million investment, they received exclusive distributor rights in the US. However, Medtronics was 'all talk, little deliverables'. In 1992, we negotiated to buy back the investment from Medtronics.

3. One dark moment occurred in April 2007, when we undertook a voluntary recall of 300,000 CPAP devices which cost us US $65 million. We did it because we didn't think the devices met our quality standards.
4. A serious negative period occurred when our major competitor suddenly slashed prices by up to 20% and our growth in revenues went from approximately 25% to approximately 10%. It took time to develop a counter strategy and recover growth.
5. The time and dollars spent on litigation with our major competitor over an entire decade (see Barnes's description below). I prefer to look at intellectual property (IP) as more of a defensive than an offensive weapon. As an offensive weapon, it may be effective but you need to understand who is on the receiving end. If they are likely to resist it can be a long expensive haul."

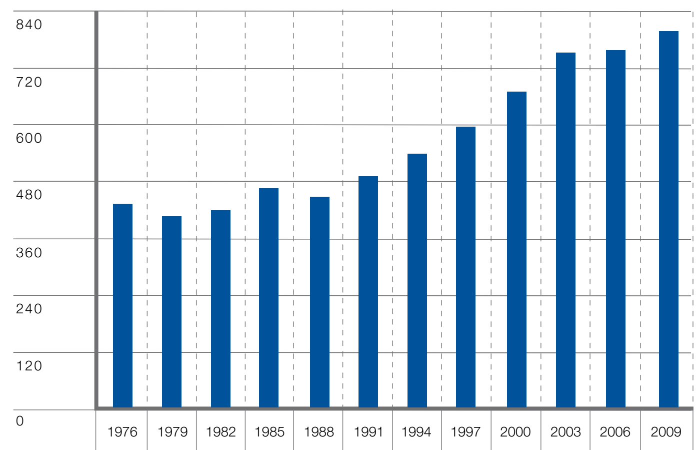


Barnes: "Continued litigation with Respironics from 1993 to 2003. Respironics and ResMed in 1993 explored a merger of the two companies. Continuously for nine months teams of six or more people from Respironics' finance and technical departments came and went, taking notes, copying documents, examining patent applications. In late 1994, a few hours before signing the proposed agreement for a merger, Respironics withdrew. There followed complex litigation in two countries. The legal actions between Respironics and ResMed continued indecisively until September 2003, when both parties settled all patent infringement lawsuits pending between them."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from the ResMed company experience?

Farrell:

1. "Entrepreneurship is much less about risk and more about seizing opportunities with a sense of urgency. Never, ever, ever be complacent. Always maintain a sense of urgency.
2. Successful growth strategies depend upon innovation and execution. And innovation only occurs when someone writes a check – only the marketplace determines if a company innovates. And without execution, there is no business, just ideas and concepts.
3. Have a high tolerance for bad news when building any business.
4. No one person is as good as all of us. ResMed has a fairly flat structure where we let the presidents of various regions run their business within the confines of an agreed-upon strategy.
5. The key to managing is communication, keeping everyone in the loop and having issues very visible so you can do something about them." ■



Prepared by George Foster, Antonio Davila, and Ning Jia, 22 November 2010

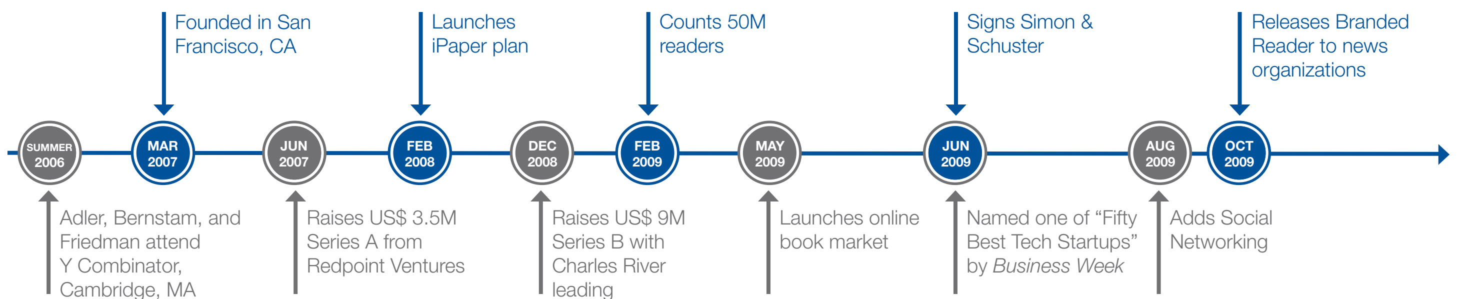
Scribd Group | US

OVERVIEW:

Scribd was founded by Trip Adler, Tikhon Bernstam, and Jared Friedman in March 2007. Adler, then an undergraduate at Harvard, attributed the initial idea to a conversation he had with his father (John Adler), a Stanford professor. During that conversation, his father described the difficulties of academic publishing. Trip teamed up with Bernstam and Friedman and in the summer of 2006 attended the "Y Combinator" in Cambridge, Massachusetts. Y Combinator is a seed stage fund that assists young entrepreneurs with ideas. Scribd enables individuals to instantly upload and transform files into a web document that search engines can find. Initially called the "YouTube of digital publishing," it has broadened its focus and describes itself as "the world's largest social reading and publishing company".

SCRIBD GROUP

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Trip Adler first started exploring the ideas underlying Scribd while he was a student in biophysics at Harvard University. Raised in Silicon Valley, he returned to the San Francisco Bay area to start Scribd in March 2007. In 2010, the World Economic Forum named him a Tech Pioneer.

Geoff Yang is a founding partner of Redpoint Ventures. He was previously a general partner at IVP. He is a graduate of Princeton University and Stanford Graduate School of Business. He emphasizes investments in consumer media and infrastructure.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Adler: "The initial idea came out of a conversation with my dad, who's a neurosurgeon at Stanford. He was telling me about how long it takes to get a medical paper published, and this inspired the idea to build a website that would allow any academic to publish their research online, and let the community decide which papers were of the highest quality. The idea then evolved into supporting publishing of any material, and then turning the material into web pages with HTML5, and encouraging sharing through the integration of social features.

"While our company's vision statement of 'liberating the written word' has always remained constant, what changes frequently is how we accomplish this vision. In fact, the most important part of the initial idea is that it leaves room to pivot. The Internet changes so fast; you need to be able to pivot constantly in order to stay on top."

Yang: "In June 2007, we invested US$ 3.5 million in a Series A in the vision of changing digital publishing. Digital had a huge impact on the music industry. We believed that digital could fundamentally change the publishing business as well. It could change the way people read content and democratize the notion of publishing. Scribd allows many people, whether professionals or semi-professionals, to publish often and without friction. It also changes the economics of the distribution networks. At the time, Scribd had some real momentum, so it looked like a good company in which to place a bet. The team had good vision and represented the new breed of entrepreneurs. Jared had good technical skills and vision. Trip had a firmly held marketing and user experience vision. Tikhon was the sort of guy who could make the trains run on time."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Adler: "We were just out of college, or in Jared's case, still in college, so it was exciting to launch a website that got such great traction out of the gate and that was able to attract venture capital. Frankly, all our friends thought we were crazy to want to start our own company and not just get 'normal' jobs like most Harvard grads – so we would have been happy with not embarrassing ourselves.

"But after getting a small taste of success, we realized that building a multi-billion dollar company was actually within reach. Since then, we've continually reset our aspirations, reaching toward larger and more ambitious goals. At this point, I've come to believe that building a Fortune 500 company is mostly dependent on your own ability to execute well and to creatively reinvent your company on a regular basis, and not much else."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Adler: "Scribd makes it easy for anyone to upload any kind of document – such as a PDF, Word Doc or PowerPoint – to the web. We display that content in a web-browser friendly format, which used to be Flash and today is HTML5. At the same time, we help provide distribution for this content and build an audience. This was, and still is, a free service and incredibly easy to do – a tremendous value when you think about traditional publishing, which is very labour and cost-intensive.

"The service became popular immediately. We attracted thousands of uploaders in the first few days after launch. Scribd documents would show up in search results, get embedded on blogs, and get shared on social sites like Facebook and Twitter. This viral loop – uploaders to readers to uploaders – helped us become one of the top 100 websites on the Internet in a little over three years."

What were the major growth accelerators for your company in its high-growth years?

Adler: "A few key things we did to accelerate our growth:

1. Build a great product. We always believed that if we built a great product for our users, the user base would grow, and revenue would follow the users.
2. Creatively reinvent our product. The Internet changes so fast that you need to be continually redesigning and reinventing your product to keep up with change. We always stayed on top of this curve, and were never afraid to boldly change our product in significant ways.
3. Hire great engineers. Building a great product and making changes quickly requires amazing engineers to make this happen. The difference between a good and great engineer is enormous, so we worked hard to attract the best talent and create an engineering-focused culture.
4. Make our product viral. In our case, this meant mostly designing Scribd so that it would organically grow through SEO, embeds, and social optimization. The distribution channels on the web are constantly changing, and if you understand these distribution channels and put in the work to stay on top of changes, it's amazing how much you can grow a website in a short amount of time."

Yang: "Scribd started out as the YouTube of documents. The initial growth was due to a combination of search engine optimization and users wanting to get their content exposed. A virtuous cycle effect started to operate early where people who wanted to get published saw this as a good outlet and people looking for content became increasingly confident they could find useful material. The service enabled people to publish and find online content easily. The combination of search engine optimization and people having a place to be discovered drove the initial growth. Suddenly, people started uploading millions of documents and readers started coming."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Adler: "Scribd has raised US$ 14 million in successive seed, angel and venture rounds. In retrospect, I would say that having this much money did not help us much, and we probably could have accomplished nearly as much with less capital. Our company has always been limited by engineering output, and engineering output is not something that is easily increased by having more cash. The best way to increase the output of the engineering team is to hire really great people who are dedicated to moving the company forward and finding a few of these people is usually not dependent on having a lot of cash in the bank."

Yang: "Necessity is frequently the mother of invention. With tight capital comes prioritization. It is often possible to accomplish more by having less funding. I thought it was fine in 2007 and 2008 to focus on growing users. But in 2009, it was important to start focusing on revenues. It forced Scribd to think more about a sustainable business model, monetization of existing and new services, and critical partnerships. We were now turning traffic into a business. In late 2009, there was the extra imperative once the cash balance started to get much lower. This really helped focus a lot of effort on more quickly building the revenue streams."

What were the major challenges your company had to handle in its high-growth years and how were they managed?

Adler: "Here are a few of the challenges we had to handle:

1. Figuring out what we wanted to be. The first iteration of Scribd was enough to get some traction and raise venture capital, but it wasn't the ultimate product we needed in order to build a multi-billion dollar company. We had the challenge of continually reinventing and iterating on the product to push it to the next level. Often we would do this in counter-intuitive ways or even in ways that hurt our short-term metrics, but we stayed focused on the longer term product vision.
2. Executing on a great product. Knowing what you want to build is one thing, and actually building it is another. We continually found that the best way to build a great product was to have the best engineers working on it, and in particular have engineers who have product and design sense and didn't need to be micromanaged. To keep our product execution standards high, we focused on hiring amazing and product-focused engineers.
3. Driving revenue. There wasn't a clear business model when we started Scribd; this is something we had to figure out after building a user base. At times it felt like there were no obvious ways to make money, but through taking baby steps and experimenting, we were able to start heading down new revenue paths that ultimately ended up very successful."

Give examples of dark moments negative periods that your company or you faced as part of your journey as an executive with this company.

Adler: "I think most of the dark moments are self-imposed or inside your head. If you take a longer term perspective on your company, and are honest with yourself at all times about what's working and what's not working, then things are always in a similar state. If you have this perspective, major problems are only growing pains. There are times you feel like everything is falling apart, even when things are going well, and there are times you believe you are going to be bigger than Google in three years, even when the trends aren't looking good.

"One example of a dark moment, when things weren't going well in an objective sense, was the time period before we even started working on the idea that turned into Scribd. Jared and I were dedicating a year of our lives to what seemed by most to be silly website ideas that Harvard kids were too talented to be wasting their time on. Probably the worst moment was when we were trying to launch 'Moobub', a site that would use social dynamics to encourage people to email their friends with ad recommendations. When I tried to convince all my friends to forward along Moobub emails and not a single person did it, I definitely had the feeling that this whole idea of starting a company was a big waste of time. However, it was this experience with Moobub that trained my instincts about virality on the web, which I used to grow Scribd into one of the top 100 websites on the Internet in just a couple years."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Adler: "To get a company to work, all the pieces need to line up just right. These pieces can broadly be grouped into two categories: ideas and execution. Too often, people think building a great company is just about having great ideas, or just about executing well. But the truth is that both need to work perfectly and in harmony. It's really hard to do both of these and make them line up at the same time, but it has to happen to build the next great company.

"On the 'ideas' side of things, it's all about being consistently creative and being able to reinvent your product and your company. Internet trends change more quickly every year, and you need to be able to reinvent your product to keep up with this change and the demands of users. More traditional business thinkers tend to think that pivoting your company is a bad sign, because it means that what you were doing wasn't working. In my opinion, the more you can pivot and the more rapidly you can pivot, the more it indicates that you're on top of the changes taking place in the world, which is more relevant in the 21st century than it has ever been. The hard part is that it's often easier to come up with a new vision for your company than it is to execute on that vision.

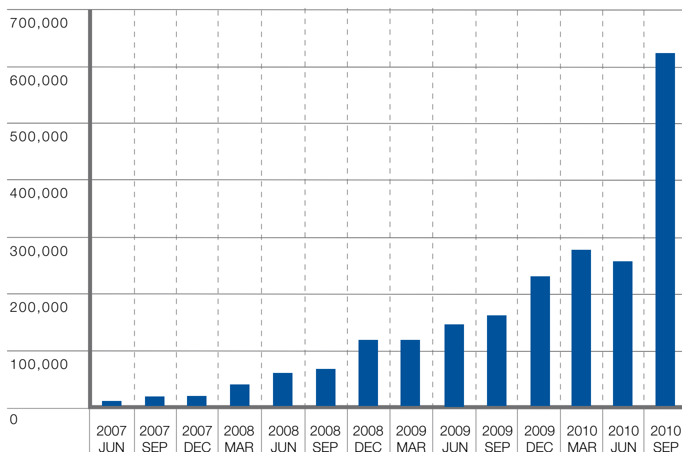
"On the 'execution' side of things, all the pieces need to line up. Engineering, product, marketing, business development, sales, monetization, fundraising, human resources, etc., need to happen in parallel, and in a way that they complement each other. From our experience, which is common among Internet companies, engineering tends to be the most difficult one to do right, and it tends to be the execution piece that holds you back the most. For this reason, we have always dedicated large amounts of resources to engineering, and making sure that piece gets done right."

Yang:

1. "Some of the best entrepreneurs in the online world get things up quickly and iterate after they see what works. Over time, Scribd has developed their ability to do this.
2. The Scribd twenty-something generation of entrepreneurs is very different from the last generation. The last one was more technical entrepreneurs – very internally focused with engineering back grounds. Many of the new generation are not deeply technical people. They are more outgoing. They genuinely like to hang out with each other. They talk about opportunities when they are drinking coffee. They like to communicate with people using social media tools. There is a lot of fun as well as energy and passion in this company. They have blended their work lives with their social lives in a way prior generations rarely did." ■

Prepared by George Foster and Ning Jia, 24 November 2010

SCRIBD GROUP



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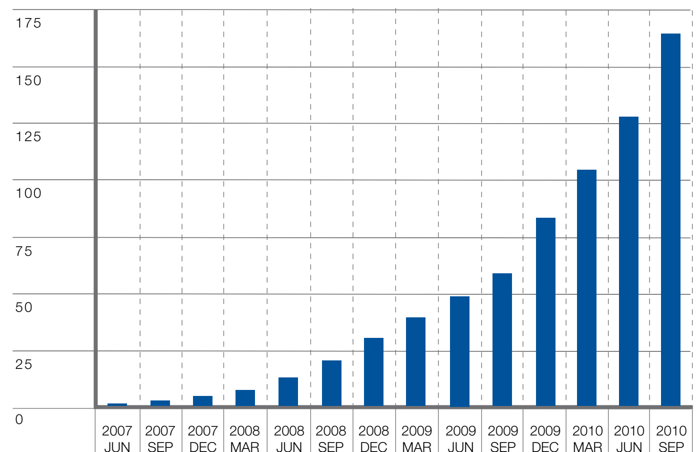
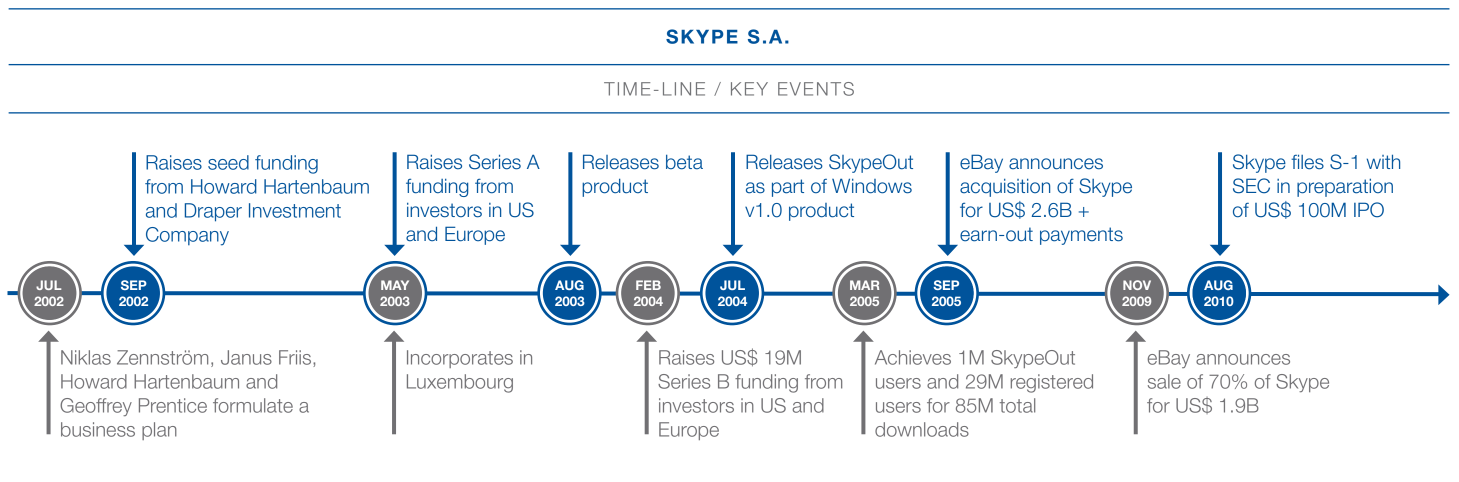


Skype S.A. | Luxembourg

OVERVIEW:

In 2003, Niklas Zennström and Janus Friis founded Skype, a voice-over Internet protocol (VoIP) software communications platform. This platform allows consumers and businesses to communicate globally through voice, video and text. The leading global provider for international communications, Skype accounted for approximately 12% of the world's international long-distance calling minutes in 2009. In September 2005, Skype was acquired by eBay for US$ 2.6 billion plus earnouts. eBay sold a 70% stake in Skype to a private investor group that included Silver Lake Management and Skype's original founders in November 2009.



QUOTATIONS FROM:

Niklas Zennström co-founded Skype in 2003. Previously, Zennström had co-founded and managed a series of other technology companies, including Kazaa, Joost and Joltid. Before becoming an entrepreneur, Zennström was chief executive officer of the European web portal everyday.com. He began his career at Tele2, a European telecommunications company. Zennström holds Masters degrees in Business and Engineering Physics/Computer Science from Uppsala University in Sweden. In 2007, he co-founded Zennström Philanthropies, an organization actively committed to combating climate change, improving the state of the Baltic Sea and encouraging social entrepreneurship. Currently, Zennström is CEO and Founding Partner of Atomico Ventures, a venture capital fund. He is also a Director Representative for Joltid, Ltd. and MFA Mulder Beheer BV on the Skype Board.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Zennström: "My co-founder and I have a drive to change the status quo. If you can do this with something basic, the potential is large and likely the fun in doing it will be great. One of the painful points all around the world is the size of the monthly telephone bill. Having people around the world communicate with each other in a clear way for free is a very basic idea. It is also a status-quo changing idea. Hundreds of millions of people around the globe would be interested in this idea. My belief was that if you could successfully address this basic idea, you probably could create a good business out of it. The peer-to-peer technology we were using meant it would be driven by free referrals/word of mouth. I was not surprised by the negative reactions of some to our idea. We were told multiple times, 'This will not work', 'What will the phone companies do if you achieve initial successes'? and 'Internet telephony has been tried before and did not work'. Entrepreneurs have to expect such negative comments. You need to be the one who believes in the idea if you want to change the status quo."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Zennström: "The initial vision was to build a global virtual carrier network based on software that could provide voice and also instant messaging services to people all around the world, essentially enabling them to have free phone calls or phone calls to land lines for the fee of a local call. We also wanted to make it available on mobile phones by using PDAs and Wi-Fi networks. So that was the original vision. Then we realized that the first part of it – providing voice-over IP on computers – was big enough to be a huge market. So the whole mobile thing, although it was part of the future strategy, was not critical for the initial big success of the company."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Zennström: "The business model from the early days is the same as it is today pretty much. The idea was that if you could combine software that people can use to make free phone calls, because this is peer-to-peer technology, the incremental cost for each new user downloading the software and making phone calls to other Skype users is zero for us as a provider. The more people using Skype for free, the better, because it would become more of a network effect. And then we're getting an installed base to which we can up sell the SkypeOut and SkypeIn service. We hoped to have a percentage of these users who would then pick up the service and make phone calls to and from the public telephone network. With these calls, we would have a small charge and build revenues. This we did. And then we also thought that eventually we could provide premium services and charge for them. This is the freemium business model. One thing that we thought initially was that to use it as a mobile, you may be charged a low subscription fee. And we also thought that it was essential to have a critical mass provide Yellow Pages kind of services as well. That was the vision before the launch, and then the launch of SkypeOut one year – or nine months – after the launch of the free service really took off quite well."

What were the major growth accelerators for your company in its high-growth years?

Zennström: "One thing was that it was very easy to use. You did not need to be an engineer to get the required technology to work – you could just download the software and start making high quality phone calls. The audio quality was actually better than telephone lines. If you had a good network connection, the quality was much more like hi-fi quality. That gave people much more intimacy, combined with the benefit that they actually didn't have to pay for the call. This brought a whole new dimension, and people are much more attached to the service in that way. And it was very, very easy to use. People just downloaded it to make a call to their friend – they got this 'aha' experience. And then after that, they would say, 'Oh, this is great', and did two things – 'I need to tell my friends and my family to get Skype as well, and I can call them, and I can speak to them for free, and if there's a benefit for them, there's a benefit for me'. And that's really how it was. Obviously, people have a need to communicate, and they were being taxed to make calls to each other – the longer the time they speak to each other, the longer the distance between them, the more they pay, and that's been inhibiting people around the world from speaking to each other. That was probably the most important effect for people who have friends and family overseas."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Zennström: "It was a big challenge. We decided to start the company in the summer of 2002. We started to speak to some VCs in Stockholm. We also had one in the US – Bill Draper – who said, 'I would be interested to invest, but I'm in Silicon Valley and you guys are in Stockholm, so you guys need to find a local European investor, and then I can match the money'. We thought it would be easy, but it turned out to be very difficult. It turned out to be one year later. We didn't close the first financing until we had actually launched the service in October of 2003.

"One of the challenges we had was that we had a model that the European VCs had not seen before. We also had big ambitions. We wanted to go out and change the telecommunications industry and provide a global company. And they said, 'Well, this has been tried before, and it didn't really work, so why would it work this time? And why do you want to use this peer-to-peer technology? That's not the way it's been done before'. And so we had a lot of resistance to that."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Zennström: "I think one of the key challenges was hiring. And that's one of the disadvantages we had operating in Europe – which I think is changing seven to eight years later now. It was quite difficult to find people who wanted to join a technology start-up because, I think, it's risky to join something that is yet unproven. That was one of the big challenges we had. So I think that hiring was probably the biggest challenge we had.

"One thing we thought would be a challenge that actually turned out not to be a big challenge was to get deals done with telecommunications

carriers for the SkypeOut service. We felt we were obviously competing with them. We needed to have deals to terminate the traffic and provide telephone numbers. Actually, because of the competitive situation and because we were dealing with wholesale providers, it turned out to be quite easy.

"The regulators actually encouraged us. We met with the European regulators, and they encouraged us to push forward with our service. The regulators on the European level wanted to see more competition. So initially, we didn't have a lot of regulatory pushback. Skype was always in dialogue with the regulators. They would ask us, 'Should Skype be regulated as a phone company or as an electronic service provider'? During the talks, we had to be very mindful to manage that very well. We managed to be not regulated as a phone company. It's always been an issue. This problem has to be managed all the time."

"Another big challenge was in the spring of 2004. The SkypeOut service started to grow quite nicely. Then we got fraud problems. There were fraudsters who were using stolen credit card numbers and buying a lot of SkypeOut credits. They were selling them to call centres in Egypt and Russia and China and everywhere. That was a huge problem we had. The credit card companies could have shut us down. The whole company had to come together to solve that, which we managed to do."

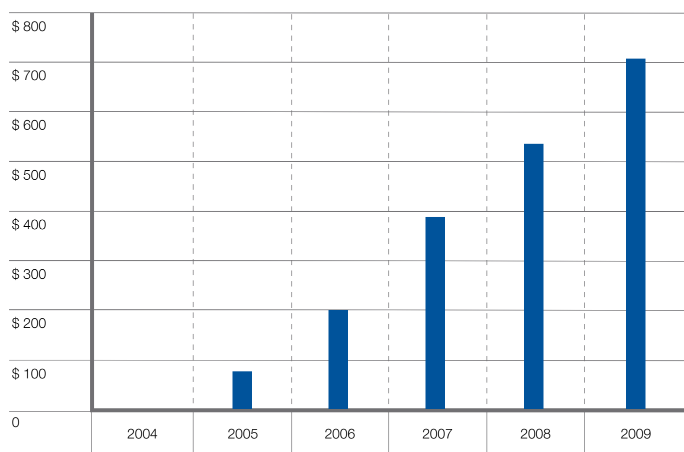
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Zennström:

1. "Think big and think global. Think differently. And even if people around you don't believe it, if you really think you have something, you need to believe in your gut feeling and go for it.

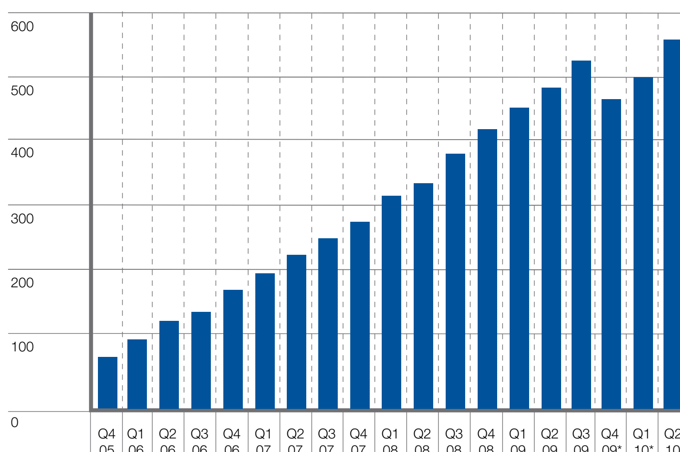
SKYPE S.A.

REVENUE
THOUSANDS (US$ K)



SKYPE S.A.

TOTAL REGISTERED USERS
MILLIONS (M)



* Based on Skype S-1 SEC filing using revised Skype methodology

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Zennström: "There were maybe two dark moments. Because it was difficult to get financing, we decided to bootstrap the company as much as we could with our own money and develop the service. That was a challenging period. That was in the spring and summer of 2003. As we started to incur costs in the software developers, we started to run out of money. Some people internal to this project maybe did not believe it would happen. That was one big challenge.

2. If you want to go anywhere in life, if you want to pursue your dreams, you have to take risks. Risks involve failures. You cannot be afraid of failure if you want to pursue your dreams.
3. Entrepreneurship is a lifestyle. It is about what defines you. It is about a passion to change and build things. When you look at it this way, it is also about having fun.
4. Once you get going, stay very focused on getting the right people." ■

Prepared by George Foster and William Croisettier, 16 November 2010

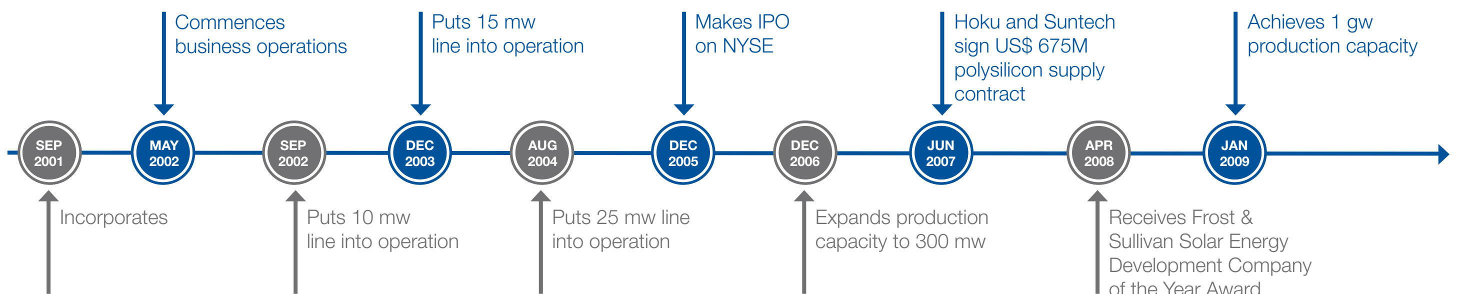
Suntech Power Holdings | China

OVERVIEW:

Suntech Power commenced business operations in Wuxi, China, in May 2002. It is a leading solar energy company and has a high percentage of sales outside of China (especially Germany and Spain). The photovoltaics (PV) industry is rapidly evolving and highly competitive. Due to the high production costs of the PV modules, the industry benefits from government subsidies that help promote the use of solar energy. According to Solarbuzz, the global PV market increased from 254 mw in 2000 to 5.95 gw in 2008 (as measured by annual PV system installations). This represents a CAGR of 48.3% while the PV industry revenues grew from approximately US$ 2 billion in 2000 to US$ 37.1 billion in 2008.

SUNTECH POWER HOLDINGS

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Zhengrong Shi is the founder, chairman of the board of directors and chief executive officer of Suntech. Prior to founding the company, he was a research director and executive director of an Australian PV company called Pacific Solar, Ltd. Shi has won numerous awards, including the 2009 World Technology Award for Energy.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Shi: "I started research in PV in 1989 at the University of New South Wales (UNSW) in Australia. After completing my PhD in crystalline silicon thin film on glass (second-generation PV technology) and filing numerous patents, I became research director at a UNSW spin-off company that aimed to commercialize this technology. After a few years of R&D, I proposed to the company management that they start true commercial production of the tried and tested screen-printed crystalline silicon PV technology. This would serve the purpose of generating cash flow to subsidize R&D of the thin film technology as well as developing expertise in large-scale manufacturing and distribution of goods to market. After management refused my third proposal, I decided it was time to set off on my own.

"By that time, I was already an internationally recognized solar scientist and had been invited on several occasions to deliver presentations in China. I realized there was a lack of knowledge and expertise on PV in China and saw the potential to develop low-cost manufacturing. So I wrote a 200-page business plan to develop a crystalline silicon PV production facility in China. At that time, it was very difficult to find capital as there were very few VCs in China, but finally, the Wuxi government accepted my proposal and helped to organize seed funding."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Shi: "The vision of the founding team was very simple. Start large-scale production of PV cells and modules to sell to established markets. Suntech started with 10 mw of production capacity with a target of achieving 30 mw of capacity within five years. However, we were astounded by the demand and quickly realized the potential to expand. After starting operations on the 10 mw line in 2002, Suntech was completely sold out and profitable by the end of the year. We made the decision to add a 20 mw line in 2003. With very limited funds, we had to use all of our resources to design the production line as inexpensively as possible. We sourced second-hand equipment and even helped a Japanese company design and build their first screen-printer on the proviso that they would give a substantial discount for the first piece of equipment. By the time Suntech listed on the NYSE in December 2005, the company had grown capacity to 150 mw and was well on its way to becoming the global leader in crystalline silicon PV. As Suntech grew, our aspirations for the company also evolved to a much grander vision. Having witnessed the changes in the environment in China, I knew it was essential that the world develop new, sustainable energy resources. We saw the need and the potential to harness nature's cleanest and most abundant energy resource: solar. Since then, Suntech has focused on building the scale required to make a difference, developing channels to markets all over the world to give people access to a sustainable energy solution."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Shi: "The key strategy behind Suntech's early high-growth of almost 100% per annum was to build high-quality, high-performance products at a reasonable cost and to focus on already accepted, market-oriented products. Once large-scale production had been established, the strategy shifted to investment in technology development to ensure that Suntech remained at the forefront of innovation in product quality, reliability, performance and manufacturing cost structure.

"Another strategic initiative that Suntech adopted proved critical to success. This was our decision to sell straight to the end markets in Europe rather than selling to trading companies. This direct interaction with the customers enabled Suntech to rapidly establish a recognized brand and market presence.

"There was also a measure of luck and good timing. Suntech was founded in 2001 and began operations in 2002. In 2000, Germany introduced a renewable energy law (EEG) to support the adoption of renewable energy technologies. The EEG was amended in 2004 to provide substantially greater incentives for PV installations, which led to massive growth in the solar industry. Suntech's establishment coincided with the growth of this important – and hitherto nonexistent – market opportunity. Germany continues to be our largest single country market."

What were the major growth accelerators for your company in its high-growth years?

Shi: "For a company that was doubling in size every year in its early years, managing human resources became critical to success. Suntech adopted a multifaceted HR strategy to ensure retention of the best people available. This included:

1. Clear communication of the company mission to solve the global energy problem. This helped employees recognize that they were contributing to a greater purpose than just generation of wealth.
2. A focus on establishing a clear corporate culture based on the tenets of integrity, perseverance and cooperation. This helped

emphasize the importance of teamwork, collaboration and solution-oriented thinking.

3. Competitive compensation, including basic salary, quarterly and annual bonuses, stock options for select management, intensive training and career development programmes.
4. Localization of international subsidiaries. Through the course of nine years of development and international expansion, Suntech realized the importance of hiring local staff to manage regional operations."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Shi:

1. "Seed capital and support from the Wuxi government and other Wuxi companies provided the capital to start production at a time (2000-2002) when there were limited other capital-raising options in China. Now, of course, it is significantly different as there are many VCs in China.
2. Our deep understanding of the manufacturing technology and process equipment enabled Suntech to play a large role in the design and set-up of manufacturing lines and even to select pieces of production equipment. This led Suntech to expand and produce at a very low cost and quickly reach profitability in the first year of operations.
3. The revision of the German EEG increased solar incentives drove massive growth in the market from 2004 onwards.
4. Listing on the NYSE in December 2005 gave Suntech access to the capital required to accelerate growth and become the world's largest manufacturer of crystalline silicon PV solar panels."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Shi:

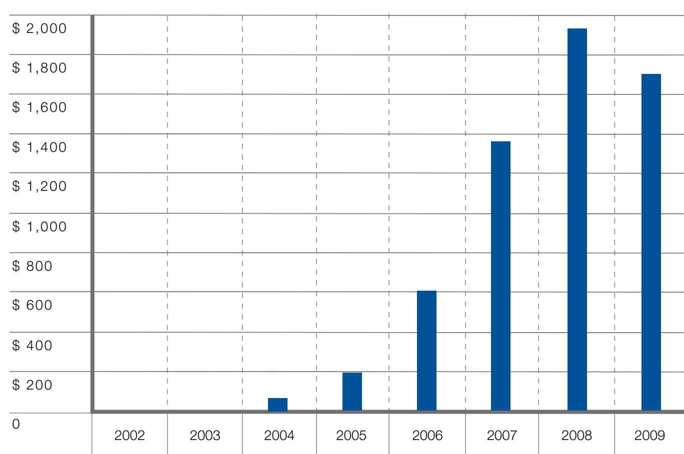
1. "Limited capital. By the second year of operations, Suntech had significant cash flow problems because of the need to constantly reinvest profits in capacity expansion. In 2003, there was a period when Suntech could not pay workers for two months. To solve the problem, Suntech cut expenses wherever possible, including my salary for two years. In addition, Suntech found the most capital-efficient ways to expand capacity. These included designing manufacturing lines in-house, buying second-hand equipment and collaborating with a new Japanese manufacturer to help them design new machines. This was possible because of my back ground as a solar scientist and engineer.
2. Shareholder relations. Pre-IPO, there was internal conflict amongst the members of the board, and they even considered replacing me as CEO of the company. This was solved through the injection of private equity in the 12 months prior to IPO in order to buy out the majority of early shareholders at a significant premium to their initial investment.
3. Supply chain management. Due to the rapid growth of the solar industry, the supply chain did not grow at the same speed as market demand. This created bottlenecks in the supply chain, particularly in the polysilicon refinement segment of the value chain. In order to overcome this bottleneck, Suntech signed long-term silicon supply contracts with large prepayments and invested in a number of polysilicon and wafer manufacturers that had a similar vision of producing low-cost solar energy solutions. This gave Suntech differentiated access to polysilicon during the high-growth period from 2006 to 2008.
4. Navigating through government incentive programmes as they come on and off for political reasons. This is a very typical situation for green tech companies. I always say we are swimming in the ocean and often encountering waves. Our main strategic response to such government incentive risk is trying to reduce manufacturing costs. This is achieved by the development of supply chain, improvement of manufacturing technology and achievement of scalability. With all these, we can reduce manufacturing costs significantly so that more people can afford solar energy. Since the financial crisis, the price of PV modules has already come down 100%, from approximately US$ 4/watt to US$ 1.8/watt. Even people of underdeveloped countries such as India and Africa are now able to use solar energy in place of diesel. Lower manufacturing costs will enable the market for solar energy to expand quickly. More governments are now willing to subsidize solar energy. All governments tend to agree on the notion of green economy, which is now a new sector of economic growth."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Shi:

1. "One dark moment was prior to IPO, from the end of 2003 to mid-2005. During this time period, company operation was fine, but the management was in crisis. An important member of the board of directors wanted to pursue an MBO – against all of the other directors' wishes – without even notifying me. I saw many things happening incorrectly and I could sense his motivation, but I couldn't do anything because I was just a manager. Later on, all of the other shareholders and directors realized what he was trying to do and removed him from the board.

SUNTECH POWER HOLDINGS



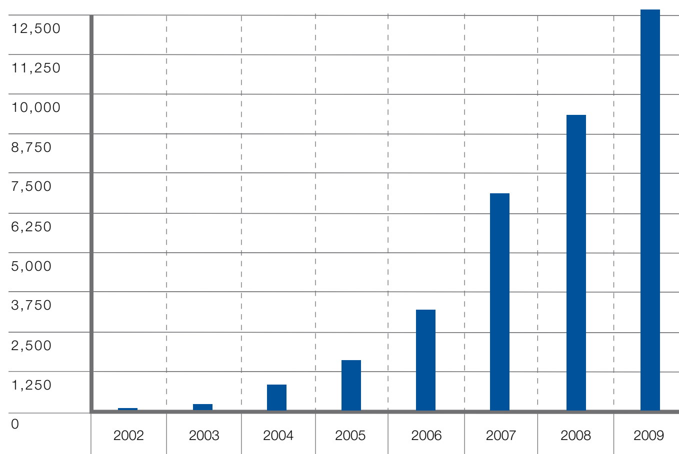
2. Another difficult period was also in relation to IPO. At that time, I only owned 30% of the company, and the rest belonged to the Wuxi local government. We decided to go IPO on NYSE, but with seven state-owned shareholders, we couldn't do it. So they had to exit. I offered them ten times their return. Most shareholders were happy, except for one investor. He had ambitions to take over Suntech, and we had a long negotiation. He promised to let me manage the company the way I wanted, while he remained a significant shareholder. I knew this wouldn't work with this person, so I refused and finally, we negotiated his exit.
3. The third dark moment was the financial crisis, especially from Q4, 2008 to Q2, 2009. All of a sudden, markets went south. Value of our raw material inventories dropped by half, and we had to write down our physical assets."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Shi:

1. "Focus on market-oriented or already-accepted technology or products. This will enable you to generate profit as early as possible.
2. Survival first. Focus on minimizing expenses, selling products and generating cash flow as early as possible. This will provide the foundation for the growth of the company.
3. Teamwork. Find good people who can complement your weaknesses.
4. Vision and strategy. Have a clear vision and strategy to achieve it. That will focus the efforts of everyone at the company.
5. Care about your people. The more you invest in your people, the more they will be able to give the company in the long run.

SUNTECH POWER HOLDINGS



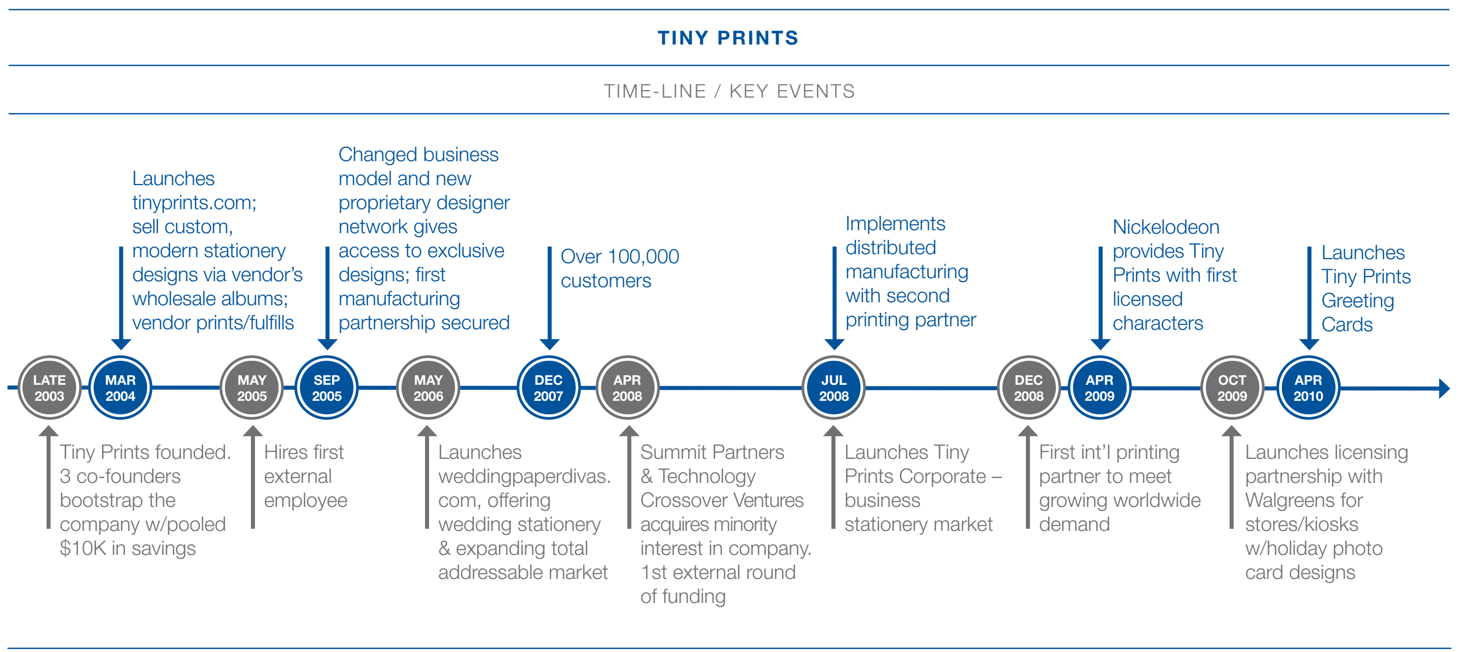
6. Identify true partners. Work with companies and partners that have a similar vision to your company to leverage cross value-chain synergies and accelerate growth." ■

Prepared by Martin Haemmig, Antonio Davila, George Foster, Xiaobin He and Ning Jia, 22 November 2010

Tiny Prints | US

OVERVIEW:

Tiny Prints' mission is to create a more thoughtful world. The company started when Kelly Berger, Laura Ching and Ed Han, after many debates seeking a viable new business, launched with a product offering stylish birth announcements, holiday cards, invitations and personal stationery. The company's aim was to blend the intimate experience of walking into a stationery shop with the ease and comfort of an online retailer – www.tinyprints.com. In September 2005, there was a change in the business model with a new proprietary designer network giving Tiny Prints access to exclusive designs. Over time, the company has broadened its product offering, such as weddings – www.weddingpaperdivas.com. Further broadening of its product line came with the launch of Tiny Prints Corporate. It has expanded its footprint via partnerships in multiple areas – design partners, brand partners, technology partners, and photo storage and photo sharing partners.



QUOTATIONS FROM:

Ed Han is co-founder and chief executive officer of Tiny Prints. After studying economics at the University of Chicago from 1990 to 1994, he ran his own landscaping business, moving business and tennis racquet stringing business. He attempted to start an e-commerce company, which failed, but the experience gave him the best business lesson he learned to date. After two years studying for an MBA at Stanford University, he worked at Beau-coup.com and Danger, Inc.

Laura Ching. After studying as an undergraduate in economics at Stanford University, Laura worked at Prophet Brand Strategy as a marketing consultant. After receiving her MBA from Stanford University, she served in various merchandising and marketing roles at Walmart.com.

Eric Chen was an early board of directors member at Tiny Prints. He is a Venture Partner at W.I. Harper, where he works closely with their portfolio companies with cross border China-US business development, operational, and strategic activities. Prior to that, he was Director of Asia Business Development for E2open. He holds both a BS in Industrial Engineering and an MBA from Stanford University.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Ching: "In 2003, we got hit by the entrepreneurial bug after spending over three years in corporate America post-business school. We were really drawn to the idea of starting a company together as friends and had big dreams about building something great, while doing it on our own terms and without outside investment. Having worked at typical overfunded Silicon Valley start-ups really motivated our desire to control the start-up phase. We wanted to create a special workplace where people were genuinely excited to work and contribute, where people treated each other like family, while still having a passion to win. For over six months, Ed, Kelly and I, along with a small group of friends would meet over Baja Fresh burritos every Wednesday night in search of a winning business idea. Around this time, Ed and his wife Polly were preparing to welcome their first baby into the world and had gone through the painful experience of finding a suitable birth announcement. The selection was poor and ordering process was extremely cumbersome. The three of us decided to team up in the hopes of preserving the dying art of letter writing in our increasingly digital world. We knew there were huge innovation opportunities in this space, and that the total addressable market was enormous. By offering stylish birth announcements, holiday cards, invitations and personal stationery, we wanted to share our passion for traditional social expression by building an online company that focused on the ultimate in trendsetting stationery design, fanatical customer service and superior product quality.

"At the outset, we knew that our customers wanted to blend the intimate experience of walking into a stationery shop with the ease and comfort of an online retailer. As a result, we focused on combining innovative technology with high quality paper, easily accessible samples, a unique personalization and preview suite, and customer service that surpassed even the friendliness and expertise of a local boutique."

Chen: "When we started the company in 2003, we were somewhat constrained by funding due to a poor venture environment and our dim prospects of raising capital as first-time entrepreneurs. In essence, we were forced to look for an idea that we could bootstrap on very little upfront investment and that could quickly reach a positive cash flow. We took a deliberate approach in evaluating different business ideas until we found one that we felt we could successfully execute. Selling custom printed stationery online was a good fit because the category yielded high enough margins, there was no dominant competitor and the initial demographic – busy new moms – was easy to target. Given our lack of meaningful funding, we grew the company off cash flow, which forced us to focus on cost efficient marketing – SEO, PR and WOM – and ways to increase margin, such as vertically integrating the printing function. Quite honestly, the market for custom birth announcements exceeded our expectations, and we were well-positioned to take advantage of the overall growth of ecommerce. Over time, and still under the leadership of Ed, Laura and Kelly, Tiny Prints has continued to focus on essentially the same custom stationery markets, but with a much larger selection of products."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Han: "Our mission has always been to create a more thoughtful world. We wanted to leverage technology to help people stay more connected in more meaningful ways. We always had big dreams of building an independent household brand that was synonymous with 'more thought', but it caught us by surprise in terms of how quickly we were able to grow and gain traction. The company was founded on a shoestring budget of US$ 10,000 worth of pooled savings and we were profitable from day one. After a few years of growth that exceeded our own expectations, we gained the confidence and desire to accelerate our growth and thus received our first round of external funding from Technology Crossover Ventures and Summit Partners, though we have not spent any of that investment to-date.

"We wanted to build a company with sound business fundamentals which an investor like Warren Buffet would appreciate – a company with solid growth and profitability in a large addressable market. The company was not built to flip or take public, but rather the original aspiration was to build a self-sustaining business that could become a leader by focusing on people, building a work family and culture."

Chen: "The vision of the company seemed to adapt incrementally as Tiny Prints grew into a significant company. For example, from an outside perspective, I could slowly see the company adopt a culture that reflected the values of the founders. Tiny Prints became a great place to work and the culture became more important as the company grew out of its garage stage. In addition, the focus on the customer was in place from day one. Since birth announcements, holiday cards, and wedding invitations are inherently viral (the URL is printed on the back of each card!), the Company's maniacal focus on customer satisfaction also became a much important rallying point as the company scaled. While the vision and mission remains largely the same, I've seen the shifting importance of different components of that vision."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Ching:

1. "In 2005, we eliminated a layer in the supply chain by directly licensing exclusive designs from artists and handling the printing and fulfilment. This allowed us to significantly reduce prices and establish ourselves as the leader in affordable, high quality custom stationery.

By owning the fulfilment process, we were also able to have much stricter quality control with our printing, as well as better visibility and control over each customer's order. This ultimately enabled us to truly offer best of class customer service.

2. When we took on printing and fulfilment, we did so in a way that was completely novel and innovative in the stationery industry. We used on-demand printing via high-quality digital printers, thereby eliminating set-up costs and driving prices down. We also made a decision early on to utilize a web-to-human-to-print process versus automated web-to-print process because we wanted an over-the-top customer service experience – each order is reviewed up to four times for etiquette, photo correction, typos, print quality, etc. before being shipped to the customer.
3. We focused on offering the biggest and best stationery selection on the industry. We knew that design was very important to our customers, and so we aggressively pursued the top designers and asked them to design exclusively for Tiny Prints. And as selection improved, our company's growth also accelerated.
4. Without deep pockets, we relied heavily on low cost marketing in terms of aggressive SEO, celebrity endorsements and the viral nature of our product, which resulted in a significant number of referrals.
5. We chose to invest heavily in home-grown technology with lots of IP, allowing us to pioneer many aspects of the user experience.
6. We focused on culture, people and a continuous healthy relationship between the three founders."

Chen: "It's difficult to pinpoint a specific strategy that drove growth, but Tiny Prints did a few things well early on that, at the core, delivered a superior customer experience. Integrating leading edge digital printers allowed us to alter the economics of custom printing and control for quality. Quadruple checking orders for errors and typos ensured customer satisfaction. Offering the widest and best selection by working with designers created buzz that Tiny Prints had the best designs. Early on, solid SEO execution was responsible for a substantial portion of traffic to the site. The team simply out-executed the competition in a growing segment of ecommerce."

What were the major growth accelerators for your company in its high-growth years?

Han: "Our growth has largely been tied to how we've evolved from being a baby stationery brand to a stationery brand with a much wider appeal. We bolted on new stationery businesses, including holiday, wedding, corporate, greeting cards, that were relevant for our target customer and synergistic with our core offering, thereby greatly expanding our addressable market almost every year. We also aggressively expanded our selection within key categories like holiday cards, birth announcements and wedding invitations by introducing new design styles and themes, which helped improve conversion. This focus on going deeper within existing occasions, coupled with introducing completely new occasions – moving announcements, graduation, new year's cards, and coordinating wedding stationery pieces – and innovative product formats and printing types – tri-folds, postcards, letterpress and thermography – have been a big contributor to growth. Lastly, in 2009, we launched a new value stationery line, Studio Basics, to further position Tiny Prints as a mass market brand with an option for every budget."

Chen: "The company has largely remained disciplined about focusing on stationery end markets. Growth has come from continual expansion into the core markets with better and more diversified products in each stationery 'occasion' but the laser focus on winning the stationery market continues to drive the company."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Han: "Tiny Prints was self-funded using US$ 10,000 of pooled savings between the three co-founders. In 2008, we received our first round of funding from Technology Crossover Ventures and Summit Partners, though we have not spent any of that investment. As the economy headed into a severe downturn, we also put together an inexpensive term debt with options to draw as necessary to provide further safety and a healthier balance sheet. But in general, financing has not impacted the growth of the business to date."

Chen: "Our financing 'strategy' was really a product of the reality that we couldn't initially raise outside capital. This forced us to scrape our way to being profitable early on. These lessons learned early on have served the company well. Even as capital has become accessible, the company has consistently operated profitably to this day. The decision to take outside funding from TCV and Summit does have the effect of changing the company from a 'family-owned' business to a venture-backed business with venture return expectations."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Ching: "There have been two major challenges that the company has faced. First, in order to keep up with our high growth rates, we went on major hiring phases and our company's size grew really quickly. Because our management team was no longer able to know and manage each person directly, we worked a lot on educating the workforce on our mission statement, cultural values and strategic direction. We focused on hiring top talent at the executive and managerial levels, starting with our first executive (COO) hire in May 2008, and we spent a lot of time making sure we had the right people to help us carry out our mission. A lot of work has also been done to ensure that with 250+ people, we have the best processes and people in place to think big, but act small and always with an entrepreneurial spirit.

"The second notable reality that we've had to manage through is an increasingly competitive landscape. For the first several years of our company's life, it was much easier to differentiate on outstanding design and a better quality product. We were the first to fill a need in the market for great products at a great price and we had this luxury until around 2009, when other players caught on and started to adopt a similar business model with a second-mover mentality. As such, we have focused on continuous innovation in all areas of our business, including technology, design, and user experience to ensure that we continue to stay ahead of our competition. In addition, we have invested a significant amount of time in ensuring that we offer fanatical customer service, so that our people and relationships with our customers continue to be a point of differentiation. Our net promoter score of 80+, an industry wide benchmark for customer satisfaction, continues to be one of the highest amongst all retail companies."

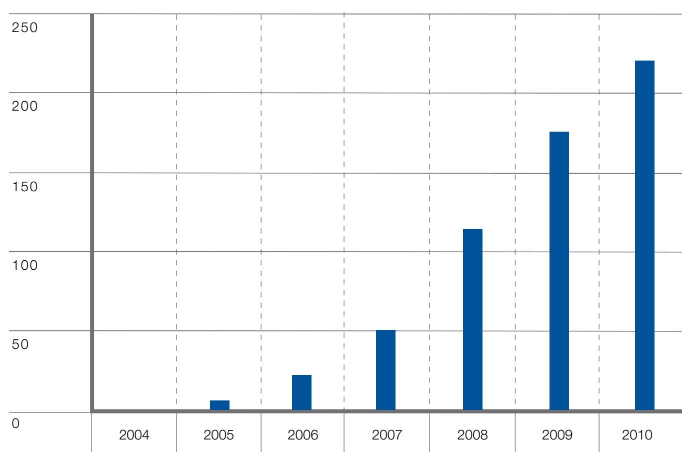
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Han:

1. "Your people are your biggest weapon. At every stage of the business, it's important to only hire and reward the best and brightest people who share your vision and passion for building a great company. Bet on raw ambition, a roll-up-your-sleeves attitude and strong work ethic over polish and years of experience, if you have to make the trade-off. Don't be tempted into hiring quickly just to get your headcount filled. Also, always value the role of culture in an organization. 'Culture' needs nurturing and vision, just like business strategy.
2. Never get complacent. Even in the best of times, capitalize on every opportunity and have humility and respect for the competition. Instill a great sense of urgency and intensity and don't let up even as the company grows.
3. Stay extremely focused and don't try to do everything – win at something, even if it's small before moving on.
4. Figure out what is 'good enough' for your category, based on customer expectations, competitors, etc., and build for 'good enough' to keep going fast.
5. Be profitable.
6. Celebrate along the way and keep people excited.
7. Find ways to use technology to exploit efficiencies, but don't assume technology can replace people in every situation."

TINY PRINTS

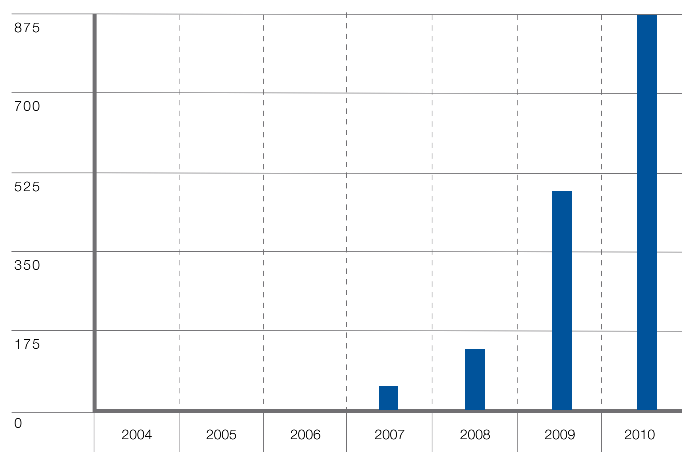
HEADCOUNT



TINY PRINTS

NUMBER OF CUSTOMERS

THOUSANDS



Chen: "Like any under-the-radar small company turning into an in-the-news big company, Tiny Prints has had to struggle with maintaining small company nimbleness and scrappiness with big company economies of scale that might require big company processes. The founding team has done an excellent job of transitioning into management roles as well as bringing in executives to augment their own skill sets."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Ching: "We have had constant challenges on a day-to-day operational level. Every business does, especially a start-up business. But to date, we have been blessed not to have encountered any dark moments."

Chen: "A start-up's real advantage is the ability to focus on one particular competency and perfecting that. Tiny Prints was fortunate in picking the right market segment to go after. The rest is all execution." ■

Prepared by George Foster, 24 November 2010

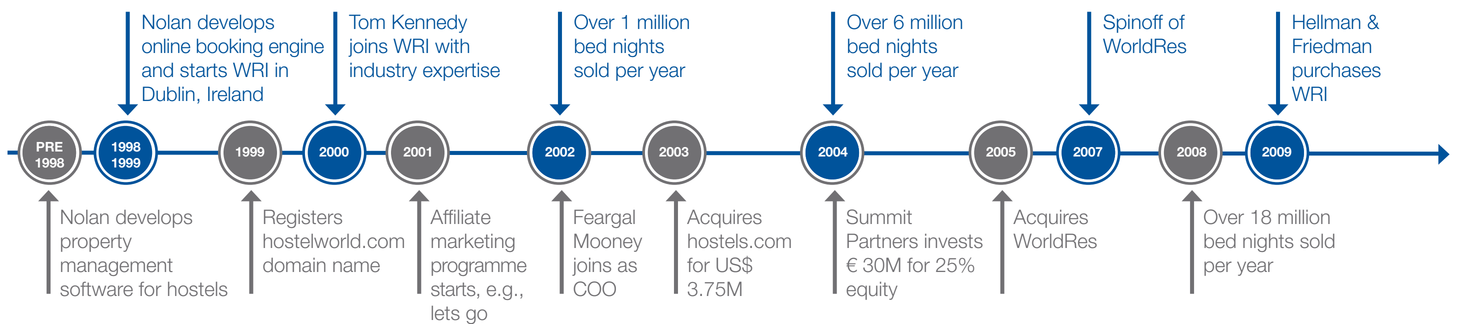
Web Reservations International | Ireland

OVERVIEW:

Web Reservations International (WRI) is a global market leader in online hostel and budget accommodations. Ray Nolan, an Ireland-based serial entrepreneur, was the founder. In a previous company he had developed a property management software programme (Backpack) that was sold to large hostels. Nolan saw that the Internet provided the opportunity to develop a web-based booking engine that would link up hostels (the supply side) with backpackers and other potential customers (the demand side). WRI aggressively built a collection of local and global web domain names that increased the volume of buyers. The resulting growth in hostels listed and in rooms booked by customers enabled WRI to rapidly reach major milestones in bed nights sold per year: over 90,000 in 2000, over 1.1 million in 2002, over 6.2 million in 2004 , over 10.8 million in 2006 and over 18 million in 2008. In 2009, WRI was sold to Hellman & Friedman in the largest Irish exit in the 2000-2009 decade.

WEB RESERVATIONS INTERNATIONAL

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Ray Nolan is a serial entrepreneur based in Dublin, Ireland. He sold his first programme (a computer game) at age 17 and set up his first company at age 21 (Raven Computing, which was sold to Sage in 2004). He is a self-taught programmer who studied at the Dublin Institute of Technology. Since leaving WRI in early 2008, he has founded worky.com and CloudSplit. He was a member of the Enterprise Ireland/Stanford University Learning for Growth Program in 2009/2010.

Feargal Mooney joined WRI as the company's COO in 2002 and became the CEO in February 2008. Previously, he worked at Baltimore Technologies and Pfizer. He studied at University College Galway (now NUI Galway) and Dublin City University. He was a member of the Enterprise Ireland/Stanford University Learning for Growth Program in 2009/2010.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Nolan: "WRI was in effect a spinout from one of my earlier companies, Raven Computing. Raven wrote and sold hostel software for property management and room reservations, which we sold for 5,000 euros to 10,000 euros per package. These were relatively complex programs because, unlike hotels, gender mattered because, when there was room sharing among strangers, hostels varied by all-female, all-male, and mixed combinations. When the Internet came along, we started to build a web offering, which was a modified version of the property management software. We started giving it away in exchange for a commitment that we could sell the hostel's inventory of rooms in return for a 10% technology charge up front. This was the genesis of Web Reservations International.

"In 1999, when the company was formed, the employees were a software techie and I. In mid-2000, Tom Kennedy, a hostel owner, joined the company and brought industry expertise. While we have certainly built out the online offering, the basic online booking mechanism still underlies what WRI does."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Nolan: "We had a global vision from the start. The 'I' in WRI stands for 'International' because we saw this as a very global business and a very global business opportunity. We initially used local domain names to attract customers. In the early days of web searches in the travel industry, URLs mattered more than they do now. So searching for hostels in London would arrive at our hostellondon.com. In January 2000, we went live with a New York site. I remember talking to hostel owners in New York about how our web engine was putting people into hostels, and they were shocked to see how our site could put people into their own New York hostels. We registered hostelcapetown.com in September 2000 and were able to acquire many domain names without paying more than the normal registration fees. Over time, we moved customers up to our master brand, hostelworld.com. This strategy enabled us to build a global brand over a few years, without having to spend big.

"In our early days Europe was, and still is, a major centre for hostels and backpacking due to its diverse culture and sheer number of hostels. The countries in which we able to establish important presences in our bookings, in approximate time order, were Ireland, the UK, the Netherlands, the US, Israel, and France."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Nolan: "There were two related prongs:

1. *Build a broad supply side.* Build as broad a portfolio of hostels as possible.
2. *Attract a broad demand side.* Attract as broad a set of potential guests as possible, who will then convert at a high rate into placing paid reservations. The business model we chose was to require the guest to pay us, at the time of booking, 10% of the planned stay charge. The hostels get paid when the guest actually checks into the hostel. We offer a no-lose proposition to the hostel. We only get paid the 10% up front from the guests if they make a paid reservation. If they don't make a paid reservation, we get nothing. We rejected the model of the hostel's paying us after the guests paid in full because we would lose the earlier timing of the cash payment, and in some cases hostels would find a way not to send us the 10% amount. The fine print was that we were paid for the use of our technology to facilitate the transactions.
3. *Take people out of the process*. Our mantra was 'never touch a booking'. We took people out of the process, and this was central to our being profitable at an early stage. We were only averaging US$ 10 to US$ 12 per booking. If we had added an in-person talking cost, then every time someone picked up the telephone we would lose money. We took no calls and had no call centres."

What were the major growth accelerators for your company in its high-growth years?

Nolan: "Growth accelerators included:

1. *Underlying technology.* Our software enabled guests to locate a broad set of hostel choices and have easy-to-use options to make reservations. We also had a customer relationship management system that routed queries and problems directly to either the hostel or us. It did not go into the 'e-mail box never to be seen again' that many online companies have. Hostels quickly gained confidence that we were adding both effectiveness and efficiency to the online hostel reservation process.
2. *Aggressive acquisition of domain names.* Over time we acquired well-known brands, such as hostels.com, hostelworld.com, and backpackonline.com. In 2003, we paid US$ 3.75 million for hostels.com, including a US$ 100,000 deposit we offered with the condition that we would lose the US$ 100,000 if the sale did not occur. There was a bidding war for this domain name, and our acquiring it delayed the progress of a serious competitor who was also bidding We did not have the money when we bid the US$ 3.75 million, so that was a major risk.
3. *Execution.* Our policy of taking no calls and having no call centre meant that we avoided a money sink. Companies that have a

low revenue per transaction cannot afford to add people to the transaction process, and we did not.

4. *High-profile indicators of our commitment.* When 9/11 occurred, many predicted a huge drop-off in travel. Right after 9/11 there was a World Youth Travel Conference in Mexico, and we were the only major online reservation group to be at the conference. Straight after 9/11 we jumped on planes and started signing up hostels, many of which were nervous about a collapse in their business.
5. *Online customer reviews.* Our online system for customers to rate their hostel accommodations was created in 2001/2002. We were one of the first in the hostel world to do this. Two days after we anticipated that a guest had departed, we sent them an email asking them to rate their stay. We initially chose five areas to be rated: character, security, location, form and friendliness. We later added cleanliness. This became the de facto system for evaluating hostels. Later we added annual awards based on the feedback to our rating system, with Oscar-like statues in the form of backpackers. We later published the negative as well as the positive comments of individual guests, which increased the credibility of our ratings.
6. *Affiliate marketing program*. In mid-2000, we started powering sites like letsgo.com, roughguides.com, hostels.com and lonely planet.com. By 2004, nearly half of our business was done by affiliates. Using affiliates meant that we could build booking volumes on a partner-share basis and thereby avoid marketing expenses. Co-branding the offering on their sites meant that we could build our brand without significant expense. By 2007, the combined effect of better brand execution on our part and the increased brand knowledge gained from partner co-branding meant we had built direct sales to over 70% of total sales. ”

Mooney: “Some extra thoughts on the above:

1. The affiliate program with our partners was very important both in (a) giving us credibility by creating partnerships with high-profile global brands and (b) helping us build our own brand.
2. The acquisition of hostels.com was huge. It meant that it did not go to a potential competitor. We took that site and quickly improved its appearance and functionality. That was a turning point. We made back the US$ 3.75 million in the first full year following the acquisition.
3. Opening the Shanghai office in about 2007.”

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Nolan: “I contributed about US$ 150,000 to the company at the outset, and periodically I and others loaned money to the company, which we then got back. We went to hostels in Dublin and explained how our booking model would work for them. About 10 of them gave us an advance of US$ 10,000 each, and we gave them US$ 20,000 in free bookings. The US$ 3.75 million we paid for hostels.com was to be from a bank loan. However, the bank insisted that shareholders put up more than US$ 1 million of the amount before they would loan us the rest. We also periodically sold stock to rich people in Dublin. In 2004 we sold 25% of the company to Summit Partners (a private equity company out of Boston) for about 30 million euros. We did some buybacks from shareholders several times to provide returns to them. About 2008 we were planning to do an IPO, which did not materialize. In 2009 we were acquired by the San Francisco firm of Hellman & Friedman, private equity investors.”

What were the major challenges your company had to handle in its high-growth years, and how they were managed?

Nolan:

1. “*Hiring. Classic early company challenge*. We worked hard at hiring people into our ‘no blame, work hard, play hard’ culture. Even if someone was brilliant, they did not last if they did not fit in with the others.
2. *Attracting hostels*. Building the portfolio of hostels was a destination-by-destination build in the early days. This was a challenge because there was not a great deal of reliable information about which hostels had high traffic and which did not. What we found, as we learned more over time, was that signing up the big guys meant that those around the corner then wanted to sign up with us.”

Mooney:

1. “*Balancing supply and demand.* We gave constant attention to keeping a balance between growth on the supply side of our business (the hostel accommodations) and growth on the demand side (the backpackers and other guests). We had periods where we would have a surge in supply but not the comparable surge in demand, and vice versa.
2. *Attracting skilled talent*. A second challenge was the lack of many large-scale e-commerce companies in Dublin. This means that there was not a large pool of available people trained in e-commerce. Attracting people from London and other cities proved to be difficult. Moreover, in the short run, the increase by eBay and Google of their Irish operations put even more demand on what was already not a large pool of available talent. We are now starting to see the benefits of an increase in the available pool of talent.”

Give examples of dark moments or negative periods that your company or you as an executive faced as part of your journey with this company.

Nolan: “The travel industry is one in which you have to live with major negative events occurring not infrequently, without letting them have a roller coaster effect on the management team or yourself. We lived through foot-and-mouth disease, 9/11, floods in central Europe, London

bombings, a tsunami and so forth. You have to get in front of the negatives and seek ways to help the hostels continue to have a flow of business. These moments are only dark if you allow them to be. Luckily, we were able to avoid the dark moments that individual hostels faced with fires, robberies, etc. We did remove hostels from our listings if they had a continuing run of very bad ratings."

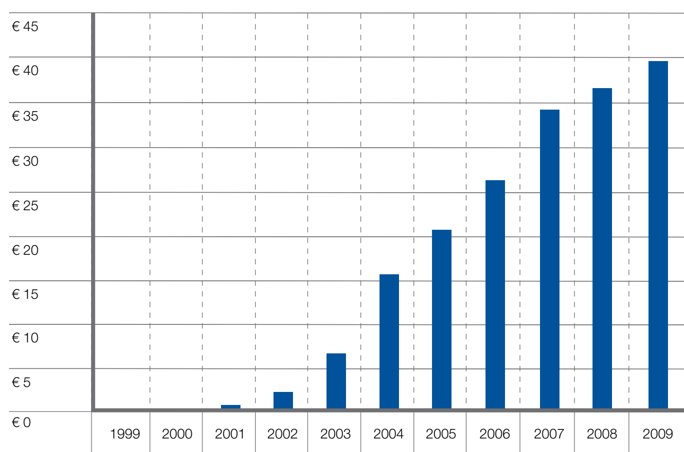
Mooney: "The early days of attempting to buy the hostels.com domain name were fairly stressful. We did not have in the bank the US$ 3.75 million we bid. It was important that the domain name not be bought by our competitor. But the banks would not loan us the full amount.

"In 2005 we acquired WorldRes, which was a struggling company in the hotel reservation area. This turned out to be much harder to turn around than we had thought. As we got into that business, it was very frustrating to try to sort it out. WorldRes had been struggling and had motivational problems. I spent a lot of time shuttling between San Mateo, California, and Dusseldorf, Germany, without much progress. That probably led to our not being as focused on our core business as we should have been, so we eventually spun it off."

WEB RESERVATIONS INTERNATIONAL

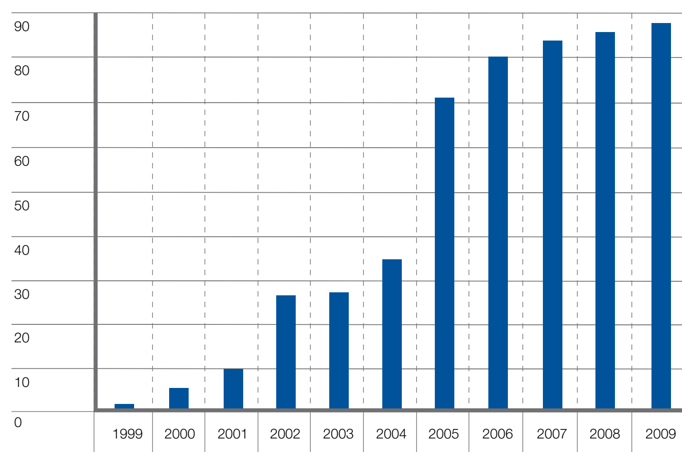
REVENUE

MILLIONS (€ M)



WEB RESERVATIONS INTERNATIONAL

HEADCOUNT



What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Nolan:

1. *"Maintain integrity.* There were many opportunities to take bribes from some hostels to 'restate their ratings' or exclude negative comments. We committed at the outset not to fall into that trap.
2. *Technology.* Use technology to continue to improve your business.
3. *Empower people.* I remember hiring a 23-year-old Irish girl who, after we acquired another company, identified five people with a combined payroll of 500,000 euros. She said she could do all their jobs, we let her try, and she did.
4. *Be frugal but not mean.* Originally, we were frugal both by design and by necessity. Over time, our business model meant that we were profitable, but we still kept a frugal mindset."

Mooney: "Many of my lessons relate to the transition that a high-growth company like WRI experienced after the early years:

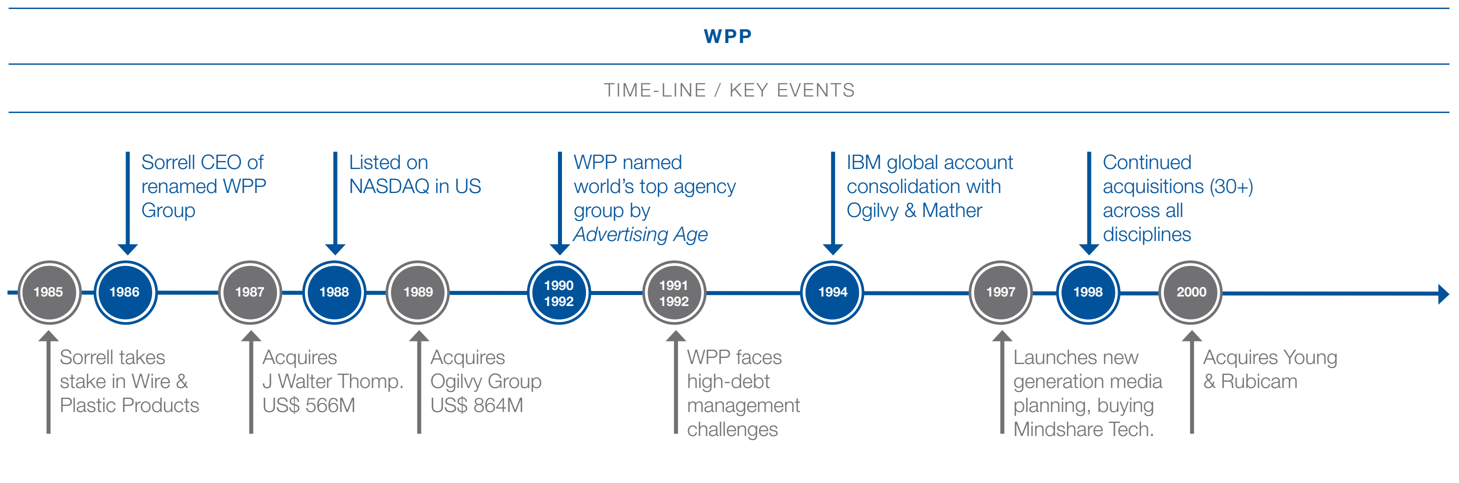
1. Pace management to the company's growth. In the early years of a business, expect a relatively fluid environment. Putting in a set of highly structured business processes at too early a stage can be counter-productive. As you get to be a bigger company, where evidence and data as well as gut feel play important roles, you have to put more effort into building management systems and making decisions.
2. *Build out the management team in a disciplined and planned way.* As the company grows, there is a premium on adding to the senior management team people who have had experience with other companies that have transitioned from early growth to being a more established player in the market.
3. *Adapt your business model to disparate geographic areas.* A large part of our growth, even to today, has been accomplished with a Dublin-based management team. There is an imperative for a company with a global footprint like ours to get closer to each of the major local markets. Business models that work well in Europe and North America may not work well in India and China." ■

Prepared by George Foster and Xiaobin He, 16 November 2010

WPP | United Kingdom

OVERVIEW:

Wire & Plastic Products Plc was founded in 1971. Until 1985, it operated purely as a manufacturer and distributor of wire and plastic products and was publicly traded on the London Stock Exchange. Martin Sorrell was part of a group that acquired the company to use as a public entity to build a worldwide marketing service company. He became chief executive officer in 1986 and renamed it WPP. By 1998 WPP was the largest marketing communications company globally. This position was achieved through a strategic combination of acquisitions and organic growth.



QUOTATIONS FROM:

Sir Martin Sorrell (born in London, United Kingdom) has led WPP as chief executive officer since its "restart" as a marketing communication company in 1986. Sorrell was Group Finance Director of Saatchi and Saatchi from 1977 to 1985 and was sometimes was referred to as the "third brother" of Charles and Maurice Saatchi. His prior business experience also included IMG, the sports marketing company led by Mark McCormack. Sorrell was knighted in the United Kingdom in 2000. Educated at Christ's College, Cambridge, and the Harvard Business School, Sorrell has been widely viewed as an early and ardent champion in the 2000 to 2010 decade (and earlier) of business activities in emerging economies.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Sorrell: "The source of the initial idea was starting my own business at the old age of 40 – what's called andropause, which is male menopause – that really was the start. We focused on multinational marketing services companies because of what I'd learnt at Saatchi & Saatchi. I was capitalizing on the experience and whatever the reputation of my nine years at Saatchis as CFO and hopefully not making the mistakes we made there – although we made plenty of mistakes afterwards.

"The concept was to build a major multinational marketing services company. This was signalled in the very first document we issued as Wire & Plastic Products in May 1985. I decided at the beginning to focus on what we thought were the unloved, fragmented areas of marketing services: areas of promotion, design services, what were crudely called 'below the line' services. These almost below-the-salt areas of activity were not fashionable. They were also fragmented and therefore had the potential to be consolidated quickly. Within 18 months we did 18 acquisitions, we had a P/E multiple of about 150 times earnings.

"The initial idea changed after a year or so. One of the criticisms made during our so-called hostile takeover for JWT in 1987 was that JWT included not only public relations (Hill & Knowlton), market research (BMRB) and other below-the-line activities, but also a big advertising agency (J Walter Thompson). People said, 'Isn't this countercultural for a company with an avowed focus on 'below the line' services?' We then made the basic change to include in our focus both above-the-line and below-the-line. Logically, that made sense because today the industry is a trillion dollar industry of which half is advertising and above the line and half (i.e. US$ 500 billion) is below the line, including market research."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Sorrell: "Originally I initiated the search for a shell company – what the French call a coquille – with a stockbroker called Preston Rabl, who co-invested with me at the beginning and then I topped up my shareholdings. We had between us about 29%. In those days, you triggered a bid – today you still do – if you're over 30%. If there was one mistake made, it's probably that we should have made a compulsory bid, gone over 30%, soaked up more shares at the beginning – there would then be dilution through acquisition. That was probably a practical mistake at the beginning. About the time of the JWT bid, Preston and I then went our different ways. Preston's view was that you shouldn't do things on scale. My view always was to start something, and run it, of scale. Running something small was not really of interest, particularly having been involved with Saatchis for nine years. I wanted to capitalize on my knowledge in the advertising and marketing services business, and whatever reputation I had at that time. I wanted to start something – in other words, be entrepreneurial – but I also wanted to manage something. Often people who can start something can't run it, and people who can run things can't start them. I think the role of entrepreneur is fundamentally different to the role of manager.

"I don't think the original vision or aspiration of WPP changed over time. However, the emphasis on building a global advertising and marketing services organization did change in the sense that we moved from where we were to a company that today focuses on new markets, new media and consumer insights. New markets account for almost 30% of our business, new media for almost 30% of our business and consumer insight for almost 30% of our business. So we changed our growth objectives. For instance, we identified China as being critically important as early as 1993. We held our first board meeting in Guangzhou in 1989, and acquired our first Chinese operations through JWT in 1987. We started to focus on new media in the mid and late-1990s, before Internet 1.0. So really I would say we have had the same growth vision and aspiration, but it changed in time in terms of emphasis."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Sorrell: "If you start as a wire basket manufacturer 25 years ago with two people in one room and your objective in your lifetime is to build a major advertising and marketing services company, you have to do it primarily by acquisition otherwise you'd be dead before you got very far! But the strategy and business model has remained the same. In the early stages, you focus on growth through acquisition and then organic growth becomes more and more important as you pick out the growth segments like new markets, new media and consumer insight.

"There have been several distinct phases at WPP: 1985 to 1990, 1990 to 1992, 1992 to 2000, and 2000 to 2010.

"The period from 1985 to 1990 was essentially a growth phase by acquisition, the largest of which were JWT in 1987 (13 times our size) and Ogilvy in 1989 (twice our size). Both were described as 'hostile', although there is no such thing as a hostile acquisition. It's only hostile to the CEO. It's not hostile to the clients, it's not hostile to the people inside the company and it's certainly not hostile to the shareowners.

"We then ran into severe trouble because I overleveraged the company in 1989.

"The restructuring phase in 1991 and 1992 had two parts. The first was the rescheduling of debt. The second was the debt-for-equity swap, which at its time was revolutionary. That was quite a ballsy thing to do as banks really hadn't focused on service businesses and debt-for-equity swaps in service businesses. We never missed an interest payment or a debt payment despite the challenges.

"The 1992 to 2000 period was an organic growth phase. Having come out of the tunnel of that terrible two years – it was a very tough two years – the basic fabric of the business remained very much intact and growing. The problem was within TopCo, whose name was not the same as the operating companies. This separation was an advantage. So you had WPP and then companies like JWT, Ogilvy, Hill & Knowlton and Millward Brown underneath it. Having come out of that, from 1992 to 2000, we did acquisitions but on smaller scales.

"Then in 2000, we effectively increased our size by 50% with the acquisition of Y&R, and through to 2010 we continued to build the business organically and by acquisition. Every two or three years, we've made significant sized acquisitions: 2001, a somewhat controversial CIA acquisition on which, after 9/11 we tried to invoke the material adverse change clause. Despite the fact that we were unable to do so (the takeover panel ruled against us), that has proven to be an extremely successful acquisition. Then in 2005, we acquired Grey. All these acquisitions were around 5, 10 or 15% of our size, and then in 2008, TNS. From 2000 to 2010 we have continued to build the company based on the mantra of new markets, new media and consumer insight – organically and by acquisition. It's fundamentally the same model. It's understandable that organic growth has become more important since 2002. If you start in 1985 with a £ 1 million market cap wire basket manufacturer (today we're £ 9 billion), obviously the emphasis (the law of big numbers) changes the mix by which you grow."

What were the major growth accelerators for your company in its high-growth years?

Sorrell: "A major reason why we've grown, (obviously acquisitions made a difference but even if you pro forma it, we've grown significantly) is that we've tried to focus on where the growth areas are. At the moment, if your business is located in Asia and the Pacific you're going to grow faster than if it's located in Western Europe. We try to identify growth trends in our industry and our continued growth rate will be dependent on that. It will also obviously be dependent on finding the best acquisition, but primarily it will be pushing on open doors. Warren Buffett's old saying holds in my view – if you put good management together with a bad business the bad business always wins. It doesn't matter how clever you are, if you're pushing on a closed door it's much more difficult.

"There have been two principle accelerators for us – geography and technology – that drive everything. All problems, in my view – and it's a simplistic thing to say – can be reduced to those two elements. If you think about classical economics, those supply and demand models had certain criteria and a couple of the criteria are very important because they've driven our business. One has been free trade and lack of protection, and that has basically driven our business because it's taken hundreds of millions of people out of poverty (in, for example, India or China) and moved them into the middle class. Also, in Brazil or Russia. And then there's the free flow of information. Google has created information for everybody. Information is no longer power: it's your ability to use it, certainly at zero marginal cost. So those two things that you learnt about in supply and demand models are very relevant, ironically, for the growth of our business. So I would say pick the markets and they have accelerated because of things like free trade and free flow of information."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Sorrell: "We've used judicious amounts of debt and equity, taking advantage of the fact that you can deduct debt interest. We've made mistakes. I overleveraged the company in 1989 and with the Ogilvy acquisition forgot that convertible preferred stock in a recession becomes preferred stock. The coupon was extremely expensive because you couldn't deduct preferred stock interest for tax, so I think the gross cost was about 10.5%. I always remember somebody from the Prudential saying to me when we did our convertible preferred rights issue, 'Anything you can do, Martin, with a convertible you should be doing with your equity'. And in the fullness of time, having gone through that restructuring period from 1990 to 1992, he was dead right. If we had just done it through straight equity, although there would have been further dilution, we probably wouldn't have had to go through such a severe restructuring.

"Essentially we now aim to use free cash flow first and also a mix of debt and equity. I would say we probably used too much equity in the past. I now own about only about 1.5% of the company, and absent having built a bigger stake at the beginning, which I should have done, the one way of having that stake greater would have been by buying back more stock in the market or by not having sprayed around so much equity in terms of acquisition. Essentially, small acquisitions we funded out of cash flow; medium and large acquisitions we funded with a mixture of debt and equity."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Sorrell: "You're putting this in the past tense and I'm somewhat hesitant to answer because I hope high growth has not deserted us and it's not the law of bigger numbers. I think the major challenge, particularly in our business, is that scale brings some perceived – and I underline perceived and I'll underline it again – disadvantage. Clients think the bigger an agency gets the worse it gets, the more impersonal it is. David Ogilvy always used to say once you get beyond about 350 people in one location it gets rather impersonal and I think that's true. But the nature of our business has changed in that respect, (certainly from the 'Mad Men' era, it's changed). As a creative business, we do strategic thinking, creative execution (the development of big, creative ideas), distribution, as well as the application of technology and the analysis of data. So there are five things we do now.

"The major challenge in an industry, which is basically creatively-led, is that there are diseconomies of scale. With the exception of media planning and buying – where we buy around US$ 65-US$ 70 billion of media around the world and have a market share of, say, 25-30% – the bigger our businesses get, the more difficult they are to manage. And it's exponential, so if a creative department doubles in size it's three or four times more difficult to manage.

"The other big challenge is to get everybody to play together in the sandpit. It's amazing how ingenious human beings are in finding ways not to co-operate. We had a co-ordination problem with two people in one room 25 years ago. Today you can imagine the issues dealing with 140,000 people where we don't even have control of some of the businesses (we own 20% to 49% of them) with 100,000 people that we actually control directly – it's very difficult."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Sorrell: "The period from 1990 to 1992 presented the biggest challenge when people would say we nearly went bankrupt, we were over-leveraged. The market always goes one way and another and in dark moments, it always goes too far one way or the other. But the darkest moment was then. On the other hand, intellectually, whilst it was a challenging time it was a very interesting time. The biggest test of companies, people, individuals, families and countries is in their darkest moments, in their toughest moments. It's not the easy times that are the true test, it's the difficult times. In those dark moments in 1991 and 1992 I never ever thought that we were going to go down. Not even for one second.

"Dealing with the bankers was difficult because they didn't have rules for service companies; they had rules for manufacturing companies. I remember at one meeting, a German banker said, 'Why don't we control capital expenditure?' So I said to the bank, 'If you want to control spending in our company I could blow a big hole through your capital budget constraint at the first remuneration committee meeting (we had little capital expenditure at that time – it was a small amount of around £ 350 million), and if you want to control it you should join me at the remuneration committee meeting'. If I was him I would have said, 'Yes I will', but he said no. So it was quite difficult at that time for banks to get their minds around dealing with service businesses. But I would say that was the darkest moment.

"I'm trying to think back now as to whether there were moments of challenge when we were trying to do things and we didn't. Anything we've set our minds to doing in terms of buying companies, certainly public companies, we've never been defeated and I don't think – bravely said! – we will be because I think we've always been pretty ingenious. I think we've always had the ability to turn on a sixpence, which I think is vital. The challenge to big companies is sclerotic structures that prevent them turning on a sixpence. The key for big companies is to be entrepreneurial, and for entrepreneurial companies to have the scale and resources of big companies."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Sorrell: "I think a fundamental lesson is that being entrepreneurial and being a big company is regarded by many people as being counter to one another, in conflict with one another. The key is to try and make sure that they are not. In other words, as companies grow and get bigger their biggest dangers are themselves. The biggest enemies are from within, not from outside. The key lesson is that as you grow you have to try and keep it small. This sounds completely illogical and nonsensical, but you know what I mean. The general view is that the bigger you get, the worse the problems that scale brings. If you said to me, 'What's the biggest enemy to Google?' I would say scale. The biggest danger is from within, not from without – not from Apple, not from Facebook, but within.

"Building and managing a multi-branded company which grows by acquisition is a very difficult growth model. If I was doing the Harvard

Business Review article on it, the simplest model would be uni-branded, which is organically grown. Of the service industries, there is no doubt that the best brands are McKinsey and Goldman Sachs. One reason is that they recruit relentlessly in the best schools and the best universities. We have to mimic the same. Both McKinsey and Goldman have very strong cultures, very strong constitutions.

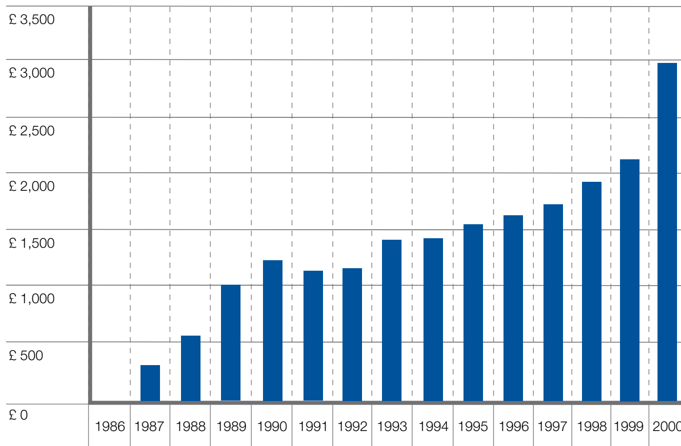
"Terms like culture and entrepreneurialism have, unfortunately, been used in ways that are clearly dysfunctional. Many now use the word culture to justify not doing what you want them to do. They say, 'It's not in their culture', when it means that they really don't want to do it. When people say they want to be entrepreneurial, they often want to be entrepreneurial with your money. Entrepreneurial means taking risks with your own money. Incentives are critically important, and getting people to put money on the table, not options. Warren Buffett is clearly right: you wouldn't give a financial institution an option over your stock for seven or 10 years at zero cost, so why should you do it with management? Management should put money into their company, act entrepreneurially, and take risk.

"When people talk about entrepreneurialism inside big companies, often what they actually mean is autonomy, which is, 'Leave me alone to get on with things and don't interfere'. I disagree with this because it comes back to networking. Even the companies that we compete against – who've made great virtues of saying, 'Come into our group, and we'll leave you alone' – know today that that doesn't work. What clients want is the best resources on their business. They don't care whether it comes from Ogilvy or JWT or Y&R or Grey or Millward Brown or Landor. They want the very best people working on their business. Building teams, as we are doing at WPP, such as Team Ford, Team Unilever, Team Procter, Team J&J, Team Nestlé, etc., and having Country Managers who co-ordinate our business horizontally on a country-by-country basis, is the way that we're going to get people to work together." ■

WPP

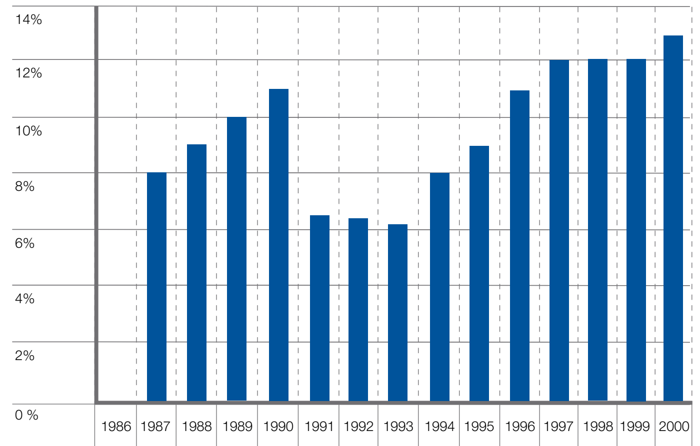
REVENUE

MILLIONS (£ M)



WPP

OPERATING INCOME/REVENUE

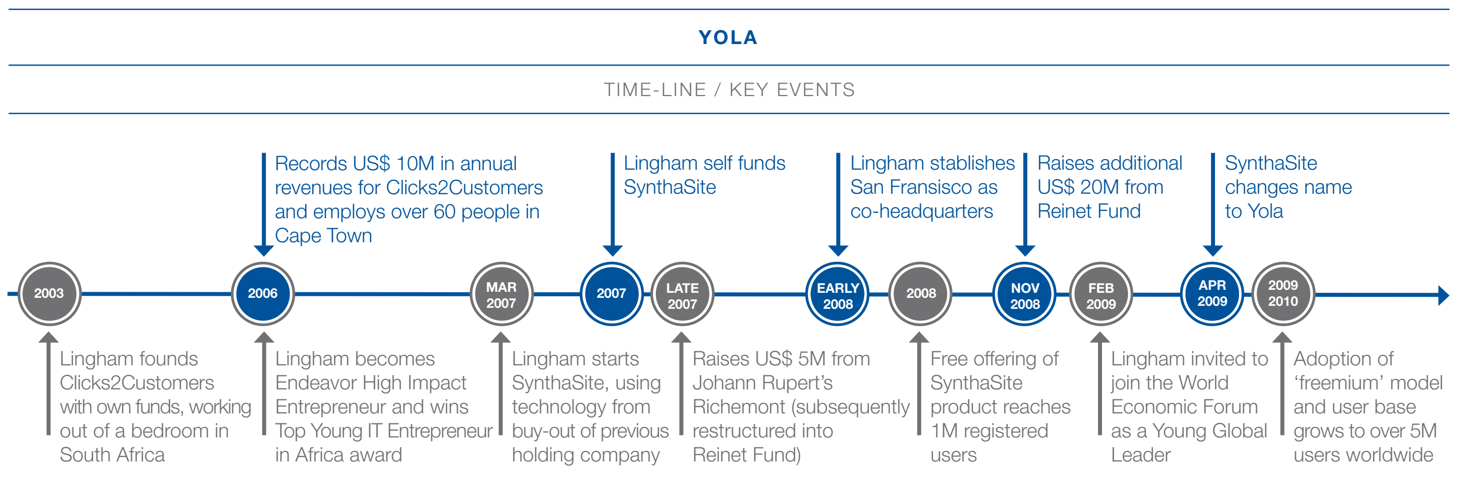


Prepared by George Foster, Max von Bismarck, and Benjamin de los Heros, 16 November 2010

Yola | South Africa and US

OVERVIEW:

Yola (initially SynthaSite) was formed in Cape Town, South Africa, in March 2007 to provide website creation tools. A key early market was the many small- to medium-sized companies that all needed to have company websites. Since its launch, Yola has grown to over five million users by 2010. Its goal is to be the pre-eminent place on the web where anyone can go to create their own websites.



QUOTATIONS FROM:

Vinny Lingham is a serial entrepreneur who grew up in a small town in South Africa. In 2003, he founded and was chief executive officer of incuBeta, an investment house that focused on the ownership and management of online marketing companies, and Clicks2Customers, a subsidiary of incuBeta, which provides performance-based search marketing solutions. In 2007, he founded Yola Inc., a South Africa- and San Francisco-based company. He is a co-founder of the Silicon Cape Initiative, which is a NGO that promotes the development of Cape Town as a technology hub. He studied information systems at the University of Cape Town, received an Endeavor High Impact Entrepreneur award in 2006, and became a World Economic Forum Young Global Leader in 2009.

What was the source of the initial idea, and how did that idea evolve into a viable high growth business venture? How did it change over time?

Lingham: "The initial source of the idea to build Yola was that it was clear that applications were moving to the web and that the transition from desktop applications to web applications represented a paradigm shift and an opportunity to disrupt. We looked at where we thought the big growth opportunities were as well as the existing products in those areas. The traditional Office suite of products – Word, Excel, PowerPoint, FrontPage – represented the largest chunk of small business software sales. Within this space, Google had just acquired Writely and were building out Google Spreadsheets. There were other players getting into the online presentation space. We felt the biggest opportunity was in the website creation space. A leading product (FrontPage) was not very functional. There was a true disconnect between the function FrontPage performed – creating websites and connecting to online services – and the reality of it being a desktop-based, isolated and siloed product. We believed that there was a better way to help people get a presence online. We also believed that many small- to medium-sized businesses often lacked the capital to pay an external company to create their own website. A company that provided them with a kit of tools to create their own website had a potentially large market opportunity. The increasing shift of software products to being on the web, as opposed to a CD, created a stimulus to us building our own product. In 2006, we started the development within incuBator, which I had co-founded earlier. I then bought the technology and intellectual capital from that company, and in March 2007 created a new company – initially called SynthaSite, and

later, in April 2009, it became Yola. I decided that incuBator was stable and it was time for me to pursue my dream of building a company that had both a South African and a Silicon Valley aspect. We would do the back-end operations and services in Cape Town and do the front-end user facing applications in Silicon Valley."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Lingham: "The initial vision for the founding team was to create a website building platform that would allow users to consume third-party web services without the constant need for hand coded integration. It should all be visual, drag and drop and in the browser. We believed that we could reach tens of millions of users and make their web creation experience seamless and powerful.

"The vision has not changed. We have however, focused on shorter-term metrics, such as making the core product more usable and functional before tackling the broader, big vision product requirements. While it's great building amazing technology, it doesn't help if your core product is very hard to use. We wanted to be mainstream rather than appeal to just the 5% to 10% of users that are technically savvy and smart. We wanted to solve the usability problem first and later add complexity, if that made sense from a market perspective.

"In short, we have had a very linear path, vis-à-vis our original business plan. The one thing that we shifted in our priorities was the greater emphasis on usability. We are also a little less grandiose in our aspirations. At one stage, we said we wanted to be the Home Depot of the web – a one-stop shop for website development. We are more modest than that now."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Lingham: "In less than three years since launching our beta version, we've grown to five million users worldwide. The marketing strategy has been to focus on search engine marketing. There are millions of people searching each month for our product category (web site creation tools). So far, this has been the low hanging fruit for us. By ensuring high visibility in the search engines through a process of both paid search marketing and natural search engine optimization, we have captured a large part of a fast-growing market.

"We have used the so-called 'freemium' business model – we offer a basic free product, but charge for upgrades and extras. A challenge with this model is the mix between free and charged products and services. Initially, I think we erred too much on the side of free. When you give your core functionality away free, the number of people who are willing to pay to upgrade is relatively small. You have to limit the core features you provide for free. The aim should be to introduce the product to the user for free, have them get comfortable using it for free, and then to start charging for it as they become active users. Giving away unlimited functionality means you do not get to capture the value you create for your users. Going forward, we will aim to charge for some core features. One help here is that there is a switching cost for users after they have gone down the learning curve with your product. We have some customers who have been using our products for three years and are only just upgrading to our premium products now. That is one reason our five million user base is such an asset, as they are all potential customers at some stage, who are down the learning curve with Yola. One benefit of our large user base is that we are minimally-affected by a small number of our users going out of business, which inevitably some do. Another benefit of the huge user base is that even those who don't purchase can become great advocates of the product and help increase the word-of-mouth marketing around our product."

What were the major growth accelerators for your company in its high-growth years?

Lingham: "Gaining important distribution deals via partnerships with one or more of the PC manufacturers certainly would be major growth accelerator and one we are committed to achieving. We believe Yola has much to offer in such a partnership over and above a very well received product. Yola can offer a large PC manufacturer or other large partners agility – we can customize our products for our larger partners in the shortest possible time. Yola can turn its whole organization around to make sure we deliver what the partner needs. The partner is core to our revenue stream. You have to walk a fine line here. You do not want to turn your business model upside down to satisfy a large potential customer.

"My past experience with start-ups and their early growth challenges meant I had a road map of some key likely challenges. That was very useful. Putting people in the right places is a key growth accelerator in start-ups. In my prior companies, I erred too much on the side of not giving people enough room to use their own judgment. In the early years of Yola, however, I probably over-compensated and gave people too much discretion. Now I am trying to strike the right balance between stepping back and still monitoring what is going on. The CEO has to be a key guardian of the vision, but you cannot be the only one working on its execution."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Lingham: "We had an initial challenge. The few South African venture capitalists did not buy into our business concept. The US venture capitalists were not interested in investing in a South Africa-based company. We initially had Angel funding of only US$ 500,000 – this resulted in a low burn, low staff count, and very focused product development. I planned

on it taking three to four months to raise significant financing. It took closer to nine months. Luckily, I had money and I also sold some shares in other companies to keep Yola afloat. Our main investor has been the Swiss-based Richemont Group run by Johann Rupert, a leading South African industrialist.

"We used Series A and Series B money to build growth. With the Series A (2007) funding of US$ 5 million – proof of concept delivered, scaling up customer acquisition and adoption and building a large core team. With the Series B (2009) funding of US$ 20 million – rapidly scaling up the platform to deal with increased customer acquisition forecasts. Focus on internationalization and creating core functional units within the company to deal with product, marketing, customer support and engineering.

"In 1996, I was privileged to become an Endeavor company and Endeavor entrepreneur. Endeavor helps early stage companies in multiple ways, one of which was linking us up with a Harvard Business School student (Brian Elliot) who helped write our business plan and helped with the post-funding business plan."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Lingham: "Major challenges faced were largely linked to building out offices in two countries – Cape Town, South Africa and San Francisco, US. Two issues dealt with time zone issues, and cross-functional reporting.

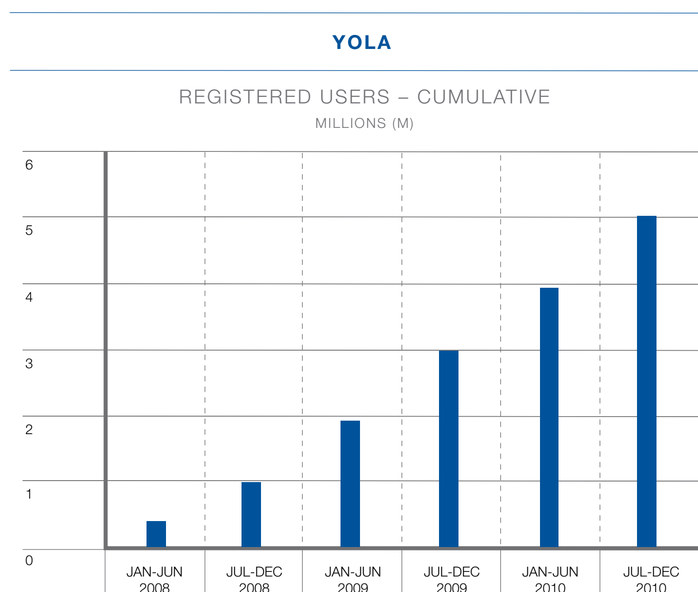
"We deal with the time zone issues by using online collaboration tools such as Jira, Skype and Google Docs. We also created application ownership areas, which were geographically located to ensure that there were minimal interdependencies between the two offices.

"Hiring the right people as we ramped up from 20 people to 70 people was a big issue for the company. We are hiring in both South Africa and Silicon Valley. We have a lot of our back office in Cape Town. Both our call centre and customer support are run there. One challenge there is the lack of depth in the South African labour market. In Silicon Valley, a high flyer can grow by hundreds of people every three months and still keep hiring quality people. In Cape Town, it is not yet possible to scale that quickly. A challenge in recent years in Silicon Valley is the tremendous number of quality companies hiring. We have been recruiting in a Twitter/Zynga/Facebook hiring festival. Notwithstanding that, we have kept to high standards. It's better not to hire than to hire the wrong person. We have also become far less tolerant with non-performers – opting to remove them sooner rather than later from the organization. This is essential in a start-up. Feeling sorry for people and giving them multiple chances does not cut it in this business."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Lingham: "From 2007 to 2008, we had just a free offering. Then in 2008, we switched to the 'freemium' model. My darkest moment was associated with this switch from a free product to a freemium product. We always knew that we had to start charging for upgrades. However, in our initial budgets we expected a much higher conversion and monetization rate. When we first started charging, our conversion rates were dismal and very disappointing for what we believed was a great product. However, we had to believe in our business model, and through that process we continued to iterate and evolve our product offering. Since that first day of launching, our conversion rates have increased over 500% and are much more in line with our expectations. Our beliefs in the business were not unfounded, but our expectations of the effort required to get it there were simply unrealistic, given the timeframes."

YOLA



What are the key lessons about entrepreneurship and successful growth strategies you take from your company experience?

Lingham: "Key lessons:

1. Trust your gut, as an entrepreneur – although sometimes you will be wrong.
2. Don't be afraid of taking risks – that's why you're not working in a corporation.
3. Follow the money – find where customers are looking for you and go to them.
4. Always raise more money than you think you need – you will need it.
5. Hire the right person fast – but fire them faster if they're not what you expected." ■

Prepared by George Foster and Endeavor Center for High Impact Entrepreneurship, 24 November 2010

Online

Additional Executive Case Studies

The following 30 executive case studies are found in the online version of the report only:

ARM Holdings PLC
Brocade Communication Systems
Budgetplaces.com
Dielectric Cable System (DKC)
Educomp
Evalueserve
Future Group
Genpact
Genpharm
Groupe Socota
IGN Entertainment
Innocent
IONA
jetBlue
NetLogic Microsystems
Norkom Technologies
Paladin Energy LTD
Petfor
Qumas
Russian Navigation Technologies
Silicon Spice
SKLZ
Splat Cosmetica
Suzlon
Symbio
Technisys
Verifone Systems, Inc.
Veritas Software
Vueling
WineInStyle

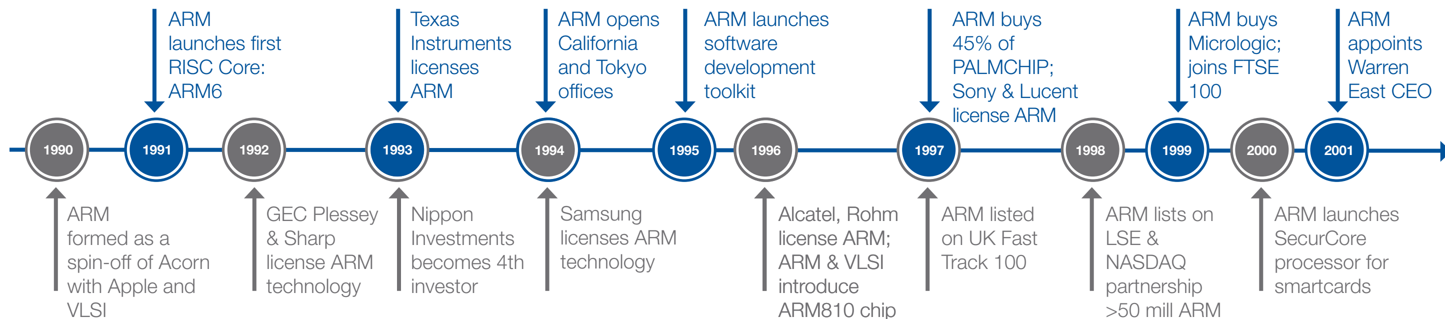
Arm Holdings PLC | United Kingdom

OVERVIEW:

ARM Holdings (LSE: ARM; NASDAQ: ARMH) is the global market leader in reduced instruction set computing (RISC) microprocessor technology, which it licenses to semiconductor companies and other technology partners worldwide. The company's architecture is widely used in the market for mobile phones and portable devices. The ARM product started within Acorn Computers as an in-house design for a low-cost, high-performance RISC chip. In November 1990, it was set up as a joint venture among Acorn, Apple and VLSI Technology, with 12 founding Acorn engineers and a seasoned industry executive, Sir Robin Saxby, as chief executive officer. The company is headquartered in Cambridge, England, and has offices and design centres around the world. ARM was an early mover in focusing on the licensing of RISC technology, rather than manufacturing its own microprocessors. The company went public on the London Stock Exchange (LSE) and on NASDAQ in April 1998.

ARM HOLDINGS PLC

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Sir Robin Saxby was the founding chief executive of ARM Holdings in 1990, its chairman until 2006 and its emeritus chairman from 2006 to 2007. Saxby was born in Derbyshire, England, and educated at Liverpool University. He worked at Motorola and European Silicon Structures (ES2) before joining ARM as CEO. He has a BS in engineering from Liverpool University and is a chartered engineer. Saxby holds honorary doctorates from several universities, including Liverpool where he is a visiting professor. He is an active fellow and a past president of the Institution of Engineering and Technology, headquartered in London. He is also a fellow of the Royal Academy of Engineering.

Warren East has been the chief executive officer of ARM Holdings since October 2001. He joined ARM in 1993 to set up the company's consulting business. He was vice-president of business operations from 1998 to 2000 and chief operating officer from 2000 to 2001. Before joining ARM, East worked for Texas Instruments. He holds an MA in engineering science from Oxford University and an MBA from Cranfield University. He is a chartered engineer, a fellow of the Institution of Engineering and Technology, a fellow of the Royal Academy of Engineering and a companion of the Chartered Management Institute.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Saxby: "It was a joint venture spin-off among Acorn Computers, Apple and VLSI Technology that was born out of the need for a high-performance, low-cost microprocessor to go into handheld devices like Apple's Newton. Acorn had designed the world's first low-cost RISC chip in the mid-1980s, and VLSI Technology built it for them. Apple, through its chief scientist at the time (Larry Tesler) was attracted to the technology, and VLSI was interested in developing it further. So, they were looking to create this joint venture company, which included seed investment from Apple and VLSI Technology. Acorn provided the intellectual property and the engineers. They needed a CEO to run it. I had known Herman Hauser, one of the founders of Acorn, for years and had worked in the semiconductor industry my entire life, with Motorola, ES2 and others. During my interview, discussion focused on what the business model should be. I was emphatic that we should not build the chip as we didn't have the money or resources. We should license the technology to other chip manufacturers and create a new industry standard for this new RISC microprocessor. The company was legally formed in November 1990, and I officially joined in February 1991. Basically the company was an outstanding bunch of 12 Acorn engineers and me with seed money from Apple and VLSI. Everyone deserves credit for the business model because it was really a bunch of people who knew each other and believed in this technology. The vision of ARM set back in 1990 is still very much the same today."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Saxby: "From the start, I was clear that we were going to be the global standard for this new type of RISC microprocessor. It was glaringly obvious to me, because I could see the opportunity for a standard embedded microprocessor for things like mobile phones and emerging consumer devices. The founding team of engineers sort of agreed with me, but I also think many of them thought we were going to be bankrupt in a year. But it didn't take long to bring people around. We started with this very clear vision to license, not build, the microprocessor and create a new global standard. It happened very quickly. We had our founding partners in Apple and VLSI, but momentum really started after getting that first purchase order, which was from GEC Plessey."

East: "My involvement started in 1993 with the Texas Instruments licensing agreement. I was very taken with the ARM technology and sought to work for the company from the Texas Instruments end, but I couldn't secure a sensible opportunity there. So I wrote to Robin for a job and went for an interview, thinking 'maybe, maybe not'. He was very, very persuasive, and his aspiration was clearly there. He talked about five billion people on the planet and one ARM chip for every person. At the time the only licenses ARM was shipping were a few to Acorn and a few for Apple's Newton devices."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Saxby: "The strategy was to license the ARM/RISC technology to the best companies in the world and make it available to everybody on equal terms to broaden the depth and breadth of the ARM architecture. So, we sought partners, but not just for money. Everyone had to bring more to the table. They had to help broaden the acceptance of the technology globally, and we had to have a common architecture that is policed and properly controlled around the planet for everybody. We made our money from some cash up front and license fees and royalties. The way we looked at the business was that everybody pays the same prices. A pound of apples is equal to a pound of pears. So you might have some companies paying a high license fee and a low royalty fee because the volume is low. But if the volume is higher, you might have a lower license fee."

East: "The focus on mobile devices was very important. It was clear that mobile phones were going to be a big opportunity and the ARM design, which features low power consumption, was the technical hook to market to these partners/customers. Between 1994 and 1998, when we went public, we pursued the strategy of focusing on the mobile phone space. The first Nokia phone with ARM technology shipped before the IPO in 1998. Probably at that time, people weren't thinking billions, they were thinking hundreds of millions, but it was a very big volume opportunity."

What were the major growth accelerators for your company in its high-growth years?

Saxby:

1. *Founding engineers.* "We had 12 founding engineers from Acorn, an outstanding bunch of designers. They had designed the ARM RISC microprocessor and had worked together for years. People like Mike Muller (our chief technology officer) and Jamie Urquhart. Also Tudor Brown, who is now president. We kind of did the impossible at high speed and in parallel.
2. *Partnerships.* "I knew we needed to partner in multiple dimensions. They were not loose partnerships. Every partnership was designed for the proliferation of the ARM RISC technology and broadening of customer segmentation, like getting into mobile or consumer electronics. So the basic idea was to find a leading semiconductor company with leading end-use customers. Examples would be Texas Instruments. It became a licensee, and they were targeting Nokia. So Nokia plus Texas Instruments really made the mobile market. Equally, Sharp in Japan with Nintendo made the Japanese market. Samsung Semiconductor in Korea with Samsung Electronics as their main customer.
3. *Legal framework.* "To deliver on the founding vision, we needed really well-defined licensing terms. So we contracted with an Acorn lawyer, David Mackay, to produce the legal and licensing framework. When we started the company, we had no patents for the ARM RISC technology, so we had to put a patent strategy in place and implement it. Behind the vision was a great deal of detailed legal work, and people were encouraged to file patents."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Saxby: "The seed investment on 28 November 1990, when the company was formed was: Apple invested £ 1.5 million for 40% of the company; VLSI Technology invested £ 250,000 for 7%; Acorn put in intellectual property valued at £ 1.5 million; and the 12 engineers received 40%. I was keen to reserve up to 20% of the company for employee options. So, over time, Apple and Acorn were diluted down, and in 1993, we brought in some Japanese venture capital from Nippon Investment and Finance."

East: "In 1998, there were two major catalysts for going public on the LSE and NASDAQ. One was to provide liquidity for the many ARM employees who had not been able to capture the monetary worth of their value-added work. A second was that Acorn wanted to take its money out of the company because the potential value of ARM was more than the value of Acorn. The decision was to list on the LSE, because we were based in the United Kingdom, and also to have an ADR programme on NASDAQ because around half of the licensees must have been US-based at the time and we needed that credibility."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Saxby: "To me, the biggest challenges weren't about managing growth. The money comes when it comes. It was about hiring people and trying to double the size of the company in one year. I remember going from 30 to 60 people in one year, at the time of very high growth in terms of revenue. The problem was that we had to deliver to all the customers and train all the people in parallel. That nearly killed us. It's about getting the best people, and it's about training them and at the same time delivering products. When you buy a company or do anything, the reality is that it takes a lot longer to bear fruit than the stock market wants to see."

East: "There were a lot more boom and bust times than we have now because we would get some business and spend all our resources servicing that business and then come to the end of that business and have to find more. So, I think the major challenges in the early years were the classic small-company challenges of lots of opportunities. The question was whether we could service those opportunities and hire people fast enough."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

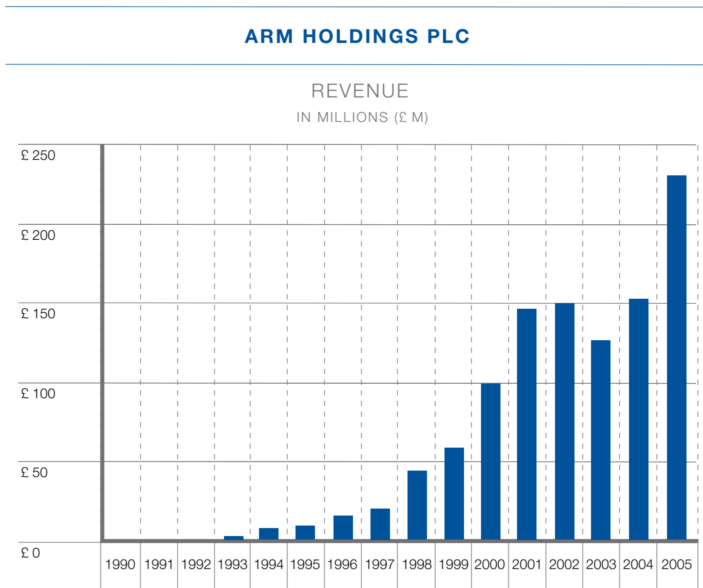
Saxby: "We had Apple and Acorn representatives on our board. In January 1997, it was approved we would prepare for an IPO, and we planned to go public that year. Everything was fine. We got as far as appointing bankers and preparing the road show, so we'd done a lot of work. Then Acorn came back and said they didn't support the IPO anymore and recommended that ARM do a reverse takeover of Acorn. I was on vacation and got a call from Jonathan Brooks, our finance director, who had a letter from Acorn to the ARM board threatening legal action. That was a dark moment. We went public a year later."

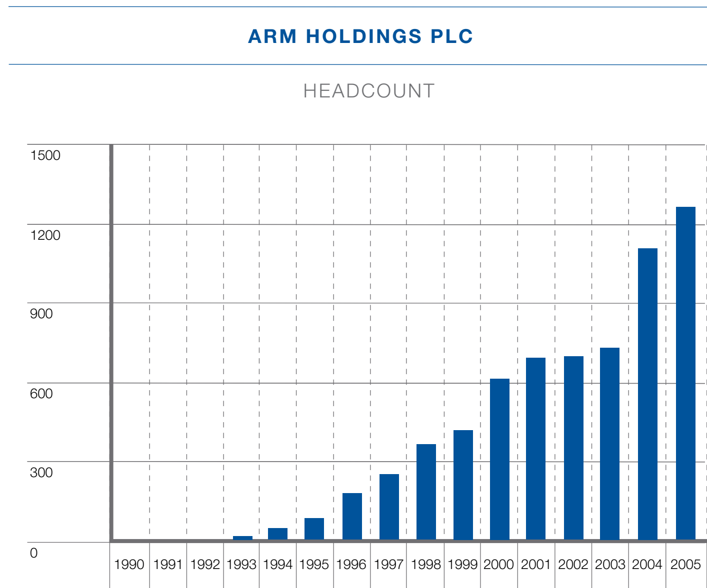
East: “About eight months after I started as CEO (2002), we were ticking along and had sold 27 licenses in the second quarter. About three days before the end of September that year, it started to look like we might only sell about eight licenses in the third quarter. We ended up doing a profit warning, and the share price moved from £ 1.40 to about £ 0.40 in one day. We subsequently had to lay off about 12% of our workforce. This was a first for us in 12 years as a business, and it was quite shocking for lots of people, including me.”

What are the key lessons about entrepreneurship and successful growth strategies you’ve taken from your company experience?

Saxby:

1. “Think beyond the possible and then back off to reality. Just sit down with a piece of paper and look at what you’ve got. I really believe in a very simple SWOT analysis. Then plan, plan, plan. And then adjust.
2. Hire the best people when you can afford it. A great idea can come from anyone in the company.
3. Be prepared to make mistakes and keep innovating.
4. Customer pull is a hundred times more important than a technology push, but nothing is more important than a great engineer.” ■





Prepared by George Foster, Sandy Plunkett and Hamish Stevenson/Fast Track, 15 November 2010

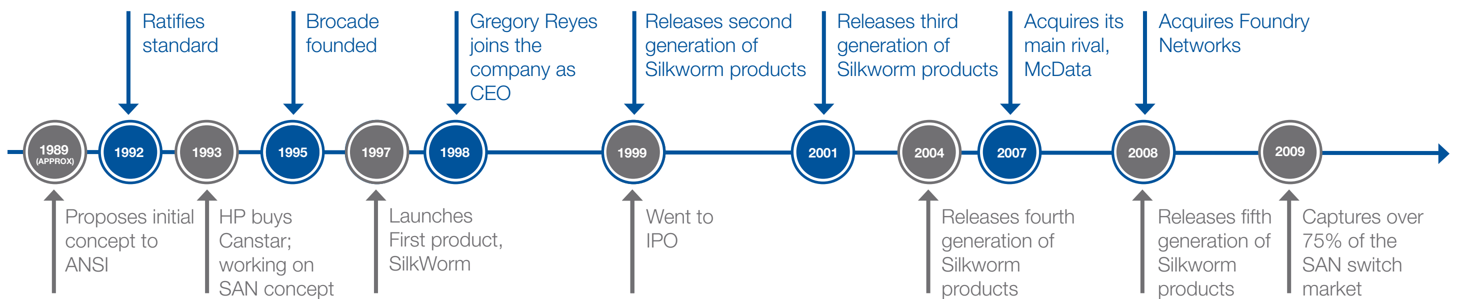
Brocade Communications Systems | US

OVERVIEW:

Brocade Communications Systems was founded to develop storage area network (SAN) equipment that would enable computers to access a network of storage devices. Sales of the first-generation SilkWorm switch product started in early 1997. In 1998, Brocade outsourced its manufacturing and the majority of its supply chain management and restructured its operations to reduce costs. Brocade sold its products through leading storage systems and server OEMs, including Compaq, Data General, McData and Sequent, with these four accounting for 70% of the company's revenue in fiscal year 1999. After a number of generations of development, these products quickly took a large amount of market share from competitors. By 2001, Brocade's revenue had grown to over US$ 500 million. In March 2009, Brocade held about 75% of the total SAN switch market.

BROCADE COMMUNICATIONS SYSTEMS

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Kumar Malavalli was a co-founder and former chief technical officer of Brocade. Prior to co-founding Brocade, he worked to develop the technology used at Brocade while at Canstar Communications and Hewlett-Packard (HP). In 1995, he co-founded Brocade, serving as the company's chief technology officer. In 2002, he co-founded InMage Systems, which makes data protection products. Malavalli is a serial entrepreneur and an investor and board member in several Silicon Valley start-ups.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Malavalli: "The idea was started in Canada, nearly six years before Brocade was founded. I used to work for a company called Canstar Communications, which is a subsidy of Alcatel of France. I came in contact with a few industry stalwarts during one of the standards committee meetings at the American National Standards Institute committee meetings. About 10 of us in the industry got together. We saw that the Internet was beginning to happen and also that the browser had been introduced. Information was going to explode. The way we were storing information at the time, and the way we were moving the information around, would not meet the demand that was coming – not only in terms of speed but also in terms of connectivity and sharing. Those were the issues. We came up with a technology called Fibre Channel, which was based on a new protocol to move the data between a large number of servers and storage devices fast over long distances, on a very high-speed network, and use many, many devices to store it. The technology became the cornerstone for future SANs.

"We took about three years to develop the standard. We did the functional prototype of the switch to move data based on Fibre Channel at Canstar. We were engaged in selling the product, based on the prototype, to HP, Sun and IBM. HP liked the product, but instead of buying the product, they bought the technology behind it and my group at Canstar. That was in 1993. One year passed and disappointment crept in, because like any other big company, there was a lot of bureaucracy. HP was no exception. We were not getting enough funding from HP headquarters to enhance the product to make it sellable within the industry. We were competing for the R&D dollars among many internal groups. The product was lagging behind as far as market acceptance was concerned, and I was afraid of losing the market window. In the meantime, within the industry association that was trying to promote Fibre Channel technology, I was associated with Paul Bonderson, who was the director of mass storage at Sun Microsystems. He was also thinking of starting a company. We decided to do a start-up together to achieve our goals by creating a Fibre Channel-based switching product to enable SANs. Paul's storage expertise and my switching expertise created the perfect synergy. We put the things together and raised seed funding for our new start-up, Brocade Communications, with help from Seth Neiman, a venture capitalist from Crosspoint Ventures of Silicon Valley. That was August 1995."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Malavalli: "That was real entrepreneurship at play. Our gut feel and all the market indicators were pointing toward an information explosion due to factors such as the Internet and many data-intensive applications. The market for a very high-speed data network was poised to be very large. We talked to many industry analysts, who confirmed our vision. We were positive that, if we had the product of our vision to move the data fast and store it, we could sell. One thing, when you create a technology that is disruptive, then you can also create a new market.

"So, coming back to your question, to make sure that we were not smoking something, before we started designing the actual product, Seth, Paul and I criss-crossed the country for three months and talked to potential customers. We talked to the experts at IBM, HP, Compaq and DEC. We presented to them our product architecture and the value associated with the product. We told them, 'This is what we want to do. These are the value propositions that we bring. What do you think?' They gave us very valuable feedback and gave several suggestions regarding product features. They said, 'You have a great thing, but if you make these changes, it will be even more valuable'. We took the customer feedback back to the engineers, who incorporated the changes in the product design and finalized it. We told the engineers to incorporate the feedback we got from the customers and freeze the design. We all like creeping elegance. We always like to do something better, but then we'll never complete it and we'll miss the market window. It is better to do 80% that gives a good enough product than to go for 100% and miss the market window."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Malavalli: "Our go-to-market strategy was really to go to OEMs at that time. We didn't have channel partners. That is very typical of the storage industry. Conventional networking companies such as Cisco, however, sell through channel partners and go to the end users directly. But storage, which has its own large market segment, is a very different community. Storage is mainly and notoriously served by OEMs. When I say 'storage market segment', it does not consist only of storage devices such as disk drives and tapes. The storage market segment also includes the servers that use data stored in the storage devices, the switches and hubs that give network connectivity, and management and application software. Brocade, with its SAN products, came under the storage market segment. We didn't want to go outside of the OEM play. The end users had no knowledge of the underlying Fibre Channel technology. We didn't have marketing resources to evangelize the

technology at the end-user level. But we make sure that our OEM partners understand the technology and its benefits to their businesses. We let our OEM partners integrate our product into their systems and sell the resulting solution to the end-users. So our go-to-market strategy was to stick to the OEM model, sell it to them, create demand and get as many OEM customers as possible."

What were the major growth accelerators for your company in its high-growth years?

Malavalli: "Three things happened. The first was the fact that Internet traffic was increasing exponentially. We were in the middle of a cyclical overhaul of data centres, and there was a lot of pressure on them to equip with new technologies to meet the demands of data traffic. Our sales were synchronized with the resulting new equipment buying cycle.

"Secondly, there was pent-up demand in the film and video sector. The post-production studios were early adopters of our SAN product to do cooperative editing. The high-speed data network and shared storage capability allowed multiple computer artists to sit together and edit different parts of a movie or video. They were able to access and move the data very fast between different devices, leading to a dramatic reduction in the time to produce a movie or a video.

"The third big influencer and adapter was the financial sector. Banks and other financial institutions needed a mechanism to move data very fast to meet the demands created by their increasing numbers of customers and transactions per customer. During my initial days at Brocade, I evangelized fibre channel technology and the associated concept of SAN within financial institutions in New York. In particular, I presented the concept to the heads of the data centres of Goldman Sachs, Morgan Stanley and Chase. Eventually, they all became users of our technology and bought our product though our OEM partners."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Malavalli: "We were given seed capital of US$ 1.4 million, which was not enough even to complete the prototype of the product. We had only a simulation version of the prototype. At that point in time, we started a serious funding exercise. We raised US$ 4 million and closed the first round of financing with Mohr Davidow Ventures and Crosspoint Ventures. This was enough for us to complete the prototype and build the product, which we launched in 1997 in Boston. The next round was about US$ 15 million, which we needed for product enhancement and to support sales and marketing activities. In 1998, we needed to raise only about US$ 20 million in the third round, but the investors pressured us to take more, which we did. That was the last round, which we used to meet increased sales demand and achieve market penetration. In May 1999, we did the IPO, which was supposedly the best in that year."

What were the major challenges your company had to handle in its high-growth years and how were they managed?

Malavalli: "Within the company, the challenge was to do the exact minimum that was required in the market place – not to get into doing 'cool' things. Some people fall into that trap. Thanks to Paul Bonderson, my co-founder and our incredible VP of engineering, who brought the discipline into product development and engineering.

"Another challenge was in the area of market acceptance. It was not easy to make the industry understand why our technology was needed. SAN was a new concept. People had never heard of it. It was disruptive. People were sceptical and weren't sure whether it was going to work. There was a 'show me' mentality within the industry. When our few initial customers implemented the solutions based on our technology and product, we established some credibility and started creating demand. "We also had some challenges in the area of sales. In the beginning we had deployed one account manager to take care of multiple OEM Partners. We learned pretty quickly that our OEM partners were not getting timely and sufficient sales support and product support. We changed the model and assigned a dedicated account manager for each OEM partner, with great results."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

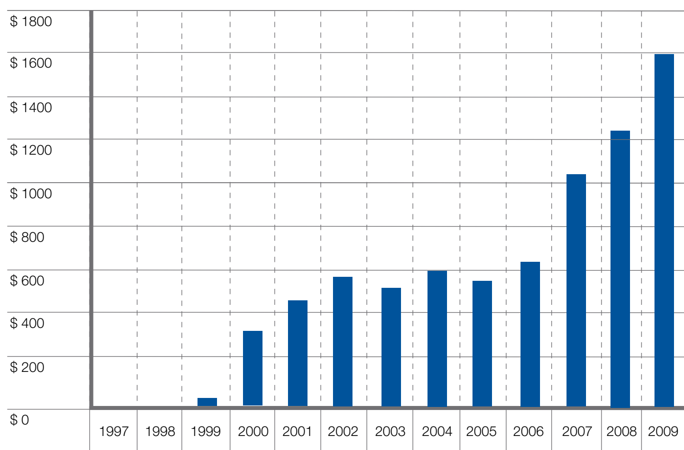
Malavalli: "I was there for seven years. There were two dark moments. The first dark moment was when we went to talk to all the prospective customers before we started designing the product. We came back and said, 'How can we do that? That's a big demand'. I knew we had the technology, but the question was whether we could come up with the product in two years. If we had not succeeded, we might not have made the market window.

"The second dark moment was when Dell came and asked us to repackage the switching product with the price of US$ 1,000 per connection, reducing from the initial price of US$ 3,000 per connection, with simplicity built in. If we had failed, at US$ 3,000 per connection our market share would have been very tiny. The repackaged product had to be simple to deploy and use and had to be affordable at the Dell target market level. At the high end, such as Goldman Sachs and Morgan Stanley, they care more about performance less about the price."

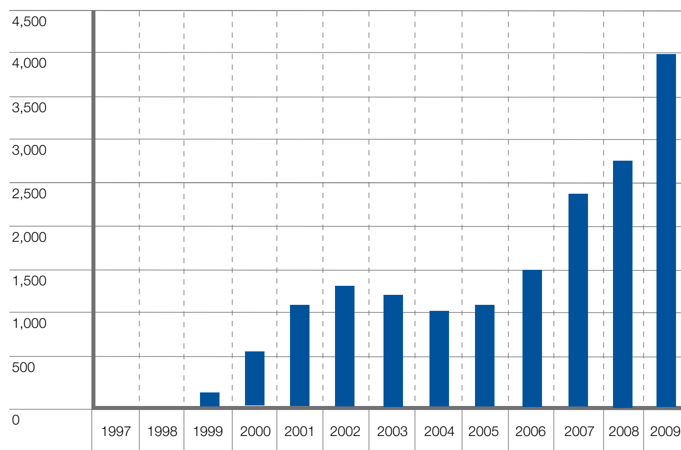
What are the key lessons about entrepreneurship and successful growth strategies you take from your company experience?

Malavalli: "The first lesson is, don't start a company just because you want to make money. You start a company because you believe in your idea and are passionate about it. Also, the idea has to be practical, be implementable and solve some real user problem. Then wealth creation will be a by-product. Second, you should get off the ego trip. Associate yourself with the right people to complement you. Don't think, just because you are an entrepreneur and the founder, you should be the CEO. You may or may not be CEO material. To succeed, use your strengths rather than assuming you're strong in every area. Another important lesson is that you've got to attract good people. You can do it if you have a convincing idea that is really attractive. If you don't have the right idea, or if you're not passionate enough about it, you can't

BROCADE COMMUNICATIONS SYSTEMS



BROCADE COMMUNICATIONS SYSTEMS



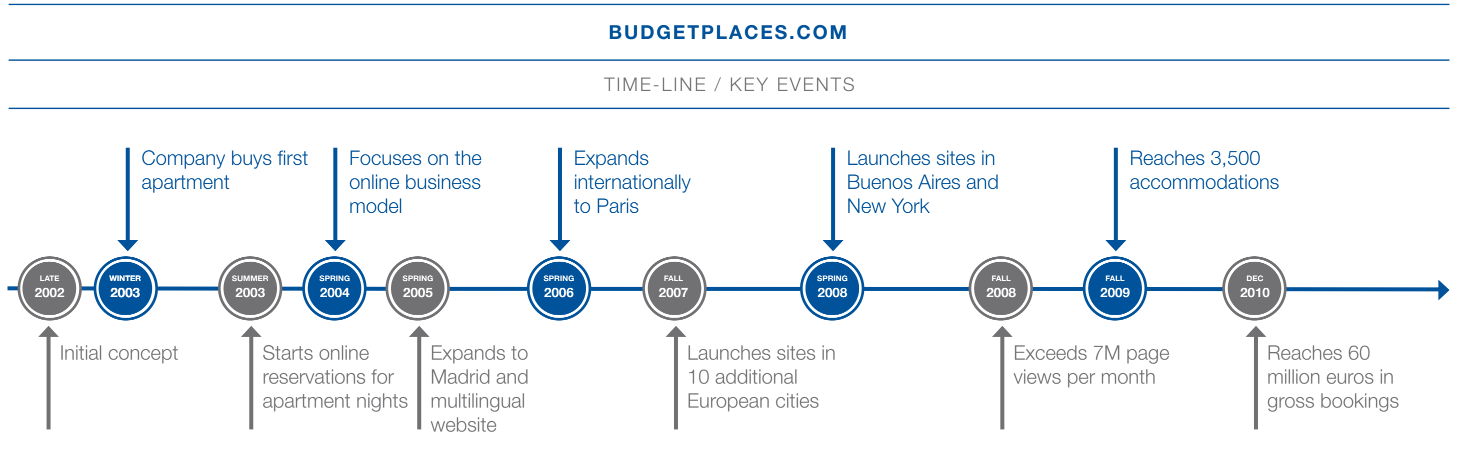
attract the right people. You can't do it alone. Not any one person will have all the expertise." ■

Prepared by George Foster, Xiaobin He, Dave Hoyt and Mateen Syed, 15 November 2010

Budgetplaces.com | Spain

OVERVIEW:

John Erceg moved from the US to Barcelona, Spain, in 1994 and founded Budgetplaces.com in 2003. The company distributes online, low-cost accommodations. The initial concept was "30 euros per night," with the idea of offering clean accommodations without charging for amenities that are not used. Budgetplaces distributes only unique, independent, well-located, budget accommodations. The company's growth is based on the market transition from offline to online travel bookings, the rise of low-cost airlines and changes in the leisure habits of people who are now taking just a few days vacation and spending the time in cities.



QUOTATIONS FROM:

John Erceg grew up in the San Francisco Bay area. After graduating from the University of Houston, he worked for two years in California for the banking industry in credit cards and home equity loans. In 1994 he moved to Barcelona, Spain, to obtain an MBA at the IESE Business School. From 1996-2000, he worked at Hewlett-Packard (HP) Spain within the plotter division, which had worldwide responsibility for large-format inkjet printing. In 2000, he left HP to become an entrepreneur. His first two projects, which were related to his experience in digital printing, failed. Through those experiences, he learned to fail cheaply and quickly. In 2003, he left behind the printing industry and started Budgetplaces.com. Erceg started the company on his own, bootstrapping its growth with modest savings.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Erceg: "At the time I started Budgetplaces.com I had no experience in the travel industry or software development and I had already experienced two entrepreneurial failures. I still wanted to be an entrepreneur, and I went through a lot of ideas. My initial concept for this business was to build a low-cost, 25-room, Wi-Fi hostel, simple and clean. The vision was that people stay every day in hotels and they pay for more than they really need. I could not, however, find the capital to finance the project, so I took my last savings and those of my wife and bought an apartment, which was all we could afford. I offered it for rent by tourists for two or three days. I thought it prudent to establish a website to book the apartment and then realized that I could also manage other people's apartments and list them on my website. I bought another apartment and managed a few places for other people, so I had a total of seven or eight apartments. Then I thought that instead of focusing only on apartments that I could address a market niche by offering clients the opportunity to sleep for less than 30 euros per person per night in a clean, simple place that could be an apartment, a hostel, or any other economical place. The transition happened slowly. The company's initial website was barcelona-30-per-night.com, a terrible URL that we changed to barcelona30.com. I still was not thinking globally, I was just thinking Barcelona. Finally, we settled on budgetplaces.com. In changing the company's URL, however, we took a terrible hit in search engine optimization because the company had been indexed based on the prior name. Budgetplaces.com was born out of the aspiration to own a hostel that did not materialize."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision/aspiration over time? If a change, please describe.

Erceg: "The initial vision was to make some money immediately to pay expenses. I was not thinking about scaling up or getting investors because I had tried to get investors in my previous venture but failed. Initially, I had the very modest goal of getting 5,000 - 6,000 euros per month in earnings. It was only later that I started to believe in the scalability of the model.

"The transition to having an accommodation distribution website came as a necessity because I wanted to fill the apartments that were mine and the apartments that I was managing. Then we transitioned to more types of accommodations, and I saw that there was some traction. We built little by little, hiring a programmer and meeting in a cafeteria because the company's office was in my apartment. At that time my MBA training kicked in and I thought we could scale up the concept. That was about 2005, and we started to grow.

"I am a pragmatic guy with a two-year maximum for business plans, which I might have to change. We will grow 50% this year and another 50% or more next year to get us to 100 million euros, which is the next goalpost. That is a real goalpost with a realistic plan and a solid management team, and we'll work hard to get there. We will do it.

"Even though we are a small player in a big world, the company's longer term ambition is to create a brand that is recognized as the best place to go for cheap, clean, centrally located places. We are not about romantic hotels or luxury boutique places to take your wife for some special occasion. But we are the best budget accommodation provider. So when you can go to Rome and save 130 euros over three nights, you have a great experience and then come back to us when you go to London. We offer a place to stay when you take a Ryanair, easyJet or Vueling airlines flight and spend the majority of the trip enjoying the city, not sitting in the room. Our aspiration is to serve this market niche, this type of traveller. And, we know there are great independent hotel operators out there whom we can assist in getting bookings."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Erceg: "The business model is a transactional business model; we do not have advertising. We focus on the niche of budget accommodations. Because of changes in the economic environment, low-cost airlines, different vacation patterns and the move to the Internet, we happened to be in a fast-growing market. We offer good accommodations at a much lower price than other options, so we give value to our customers. We also give our suppliers a distribution channel that they did not have before. We have expanded throughout Europe, and our technology has become good enough to start bringing in accommodations from other parts of the world. We have budgetplaces.com that groups together all of our destinations, but we also maintain a network of city-specific websites, like Barcelona30.com and London30.com, that offer low-cost accommodations for particular cities as well as information about events, bars and places to go in that particular city. These are focused websites about sleeping cheaply in London and where to go, where to eat and what events are on."

What were the major growth accelerators for your company in its high growth years?

Erceg: "Google played a big part in us being able to create the business. We would not have been able to build traffic had we not used Google AdWords and even today it is a big source of traffic.
"The idea of focusing on a niche that was really coming into play with the wave of low-cost tourism was also an accelerator. The growth of this segment helped us a lot. We still have a large number of hotels in Europe that are getting their reservations through old traditional ways, rather than the Internet. We see that as a huge growth opportunity ahead of us. The travel industry has gone through two crises recently, in 2008 and 2009, where leisure travel shrank, but the online travel market grew at double digits. There is a shift from people going down to the corner shop to going online. This has been in our favour. There have been some structural and industry trends favourable to us. There have also been technological changes where a start-up can start and get traffic through things like AdWords.

"What really helped our growth were the low-cost flights in Europe and the break-up of the traditional European vacation. It used to be that people would take two weeks or a month and lay down on the beach. Now, people, in terms of vacation patterns, are taking multiple short breaks going three days to London and then to Paris. This higher frequency of trips staying in cities for two or three nights and doing city tourism has been the wave that we have taken advantage of. It is not that I knew this or I had a grand vision, it just happened and we were there.

"And also, our team was an accelerator. I was very fortunate to get very good people early on. For instance, I am not a tech guy, although I have grown to be able to hire for it, but I could have made a lot of mistakes early on. I was fortunate that those mistakes were not made. We made a few of them, but for the most part our Web designer and our second or third senior engineers were great talents and avoided some of those mistakes. Mistakes, such as building for right now and not being ambitious, so you build thinking that you are not going to grow and you realize that to scale you have to start all over again from scratch (such as building flexibility into the technology to be able to go multilingual without any problems). So technology has to be built always thinking ahead, always making the architecture expandable and scalable. And it wasn't that I knew all that from the very beginning, but I was fortunate to get a great Web designer and engineers to think that way. That is hard to do at the very beginning when you do not have resources. You need good people."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Erceg: "I bootstrapped the company and I still own 100% of the equity. I did not find investors for my start-up so it has all been internally funded since its inception. It is painful at the beginning. My wife and I endured a few years of heavy financial risk, and having minimal personal cash flow. In early 2000, a lot of people had heard about dot-com options that had become worthless so employees were less keen on stock options and future promises at that time. We had a system with a lot of variable pay based on hitting our company targets and their personal targets. Paying cash and paying variable bonuses based on hitting goals is important.

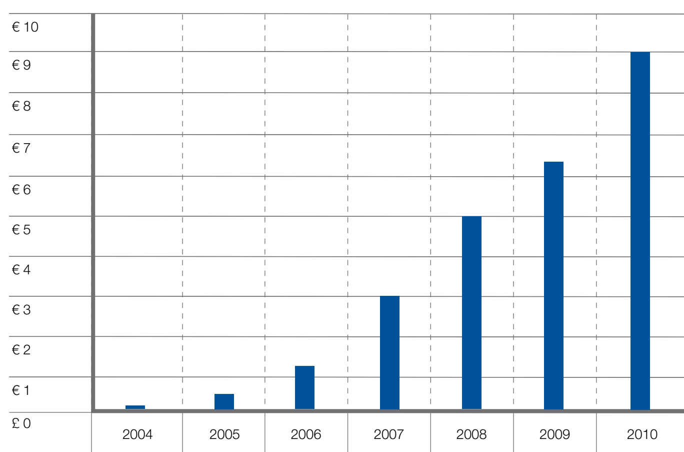
"I have 100% of the equity, which keeps things simple. One thing we did which has been instrumental to get where we are was to create an advisory board. We started the board five years ago and it initially was composed of reciprocal payment between two entrepreneurs, so two guys from my IESE year. One of them was the first guy in our year to build a great company from scratch. I sat on his board and he sat on mine. The second member was a similar thing. And we truly made the point of treating it as if it is a real board of directors. So we send the board a package 10 days in advance with the agenda and the information. The idea was that since I am an entrepreneur and the king of my little world and no employees are going to challenge me that much, I am the boss. This is the time for me to go in front of people who challenge me, give me direct criticism and ambitious thinking."

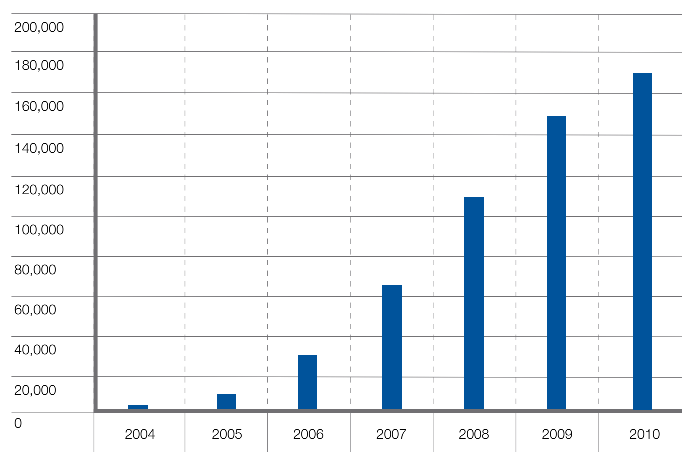
What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Erceg: "Major challenges have been what everybody would tell you in the online travel industry and that is getting traffic at an affordable price. We have a great offer but we need to build brand recognition and repeat customers to avoid having to pass through the Google toll booth on every booking. We are progressing on this front. The more we go this route, the more our earning potential will be multiples of what it is today. But you need to get known and have a brand. This is very expensive, so we need to do it intelligently, guerrilla marketing style. We are trying. We have to do better. There is a war for traffic out there. But we love what we do. We do two things: we help small accommodation operators to grow their occupancy, and we save people money on their short break trips. Our team feels united and proud about these two worthy objectives. The challenge is to get known and get direct traffic because we know we will convert."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Erceg: "There were a couple of times early on with employees as we started to show some success. They came into the office saying that they want shares of the company or said 'I am going to do it myself because I have investors and backers'. It was not that I had a hard line on allowing others equity participation, but I had decided pretty early on that to give up shares of the company, people have to bring one of two things, and preferably both: either capital or extreme knowledge and talent that can really help us accelerate. And, in both of these cases in which this happened to me, neither of those things existed. Both of them were part of the project, working very hard, but not harder than me, with less financial pressure than me – none risking their own savings or their wives' savings and living years with that pressure. But once we crossed over into profitability, they felt they were entitled because they had been part of the company. I would classify those as dark moments, and it happened to me twice. That hurt because for years in an effort to conserve cash I paid the guys more than I had taken out of the company. I had two simple rules for them during that time: first, their nominal retribution will never go down, and second, the percentage of their profit share will go down as we grow bigger. Inevitably, as you hit some success and people see it, this kind of stuff happens. It was tough to see somebody with whom I felt I had been very generous, with zero risk on their part, suddenly demand equity or else, without any offer on their part to put in capital and take real personal financial risk.





"We also had a couple of technical hiccups. We recovered from all of them with our backups but it was really stressful as it happened. I can remember two or three days when it really was rough and stressful: a database was erased, a key programmer just left . . . some sleepless nights."

What are the key lessons about entrepreneurship and successful growth strategies you have taken from your company experience?

Erceg: "These are some of the lessons learned:

1. My fortunes can reverse very quickly, at any time. Hubris is my enemy.
2. I am not that smart (but neither are the experts).
3. If I achieve success, it is not because I am so good (some luck is involved).
4. It takes 10,000 hours to be an 'expert'.
5. Read, read, read about my area – need new ideas in online travel, general management.
6. I can be a success by continuously making the business incrementally better.
7. Be careful applying MBA learning too literally, too soon (i.e. delegating).
8. Bootstrapping requires discipline – my friends will pass me at first, for years.
9. Entrepreneurship – my personal earnings will not grow linearly (hopefully hockey stick)." ■

Prepared by Antonio Davila and George Foster, 15 November 2010

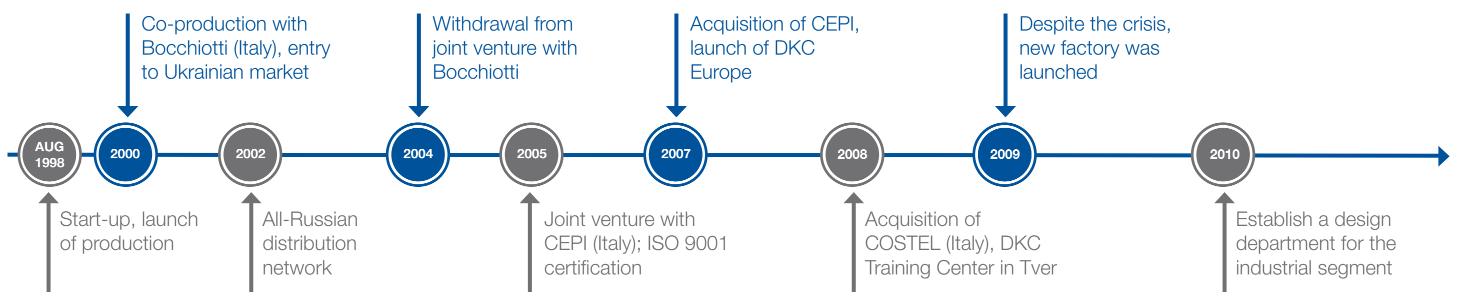
Dielectric Cable Systems (DKC) | Russia

OVERVIEW:

Dielectric Cable Systems (DKC) grew from a small start-up company in 1998 to one of the leading producers of cable management systems and enclosures in Russia and in markets throughout Europe. DKC is a group of three production and distribution network companies – DKC Russia, DKC Ukraine and DKC Europe. The company is a pioneer of in-tube wireless solutions in Russia with a mission to provide international customers hi-tech products for electrical installations. DKC re-invented the construction sector and offered new solutions for the electric cabling industry that propelled its growth to the international arena.

DIELECTRIC CABLE SYSTEMS

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Dmitry Kolpashnikov, chairman of the board of directors, is a serial entrepreneur in the electrical engineering industry.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Kolpashnikov: "Originally, DKC was established to support the pipe wiring overall distribution network in 1997. The initial task was to decrease the cost of the product by manufacturing it locally rather than importing from Europe. Simultaneously, due to the boom in the Russian construction industry, new concepts of pipe wiring were identified, which resulted in the complete elimination of in-wall pipe systems. Given the collapse of the Russian economy in 1998, we experienced a rapid cost increase on all imports; hence, locally produced systems became the leaders in the Russian market. This was a challenging moment for DKC, with rapidly growing local competition. However, due to the high quality standards and the large variety of products that European firms established in the Russian market, no local rivals could compete with DKC in terms of quality, logistics and complexity of services."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Kolpashnikov: "Initially, DKC's growth vision was a dynamic one, due to our past sales experience in the electrical products industry. We were ambitious, open to new changes and eager to get the most done in a short time. Financing was available through our own sources. While becoming a leader in this industry, there was a need to add more structure and processes and work towards a more complex market approach. At that point, we were able to use additional lease and short-term loan financing. Three years ago, we released DKC's new development strategy, based on one-year, three-year and five-year planning, which allows us to expand more rapidly with a set plan. We set ambitious goals, monitor the progress and are happy to report that developments on various fronts follow the investment plan."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Kolpashnikov: "Initially, we built a wide network of sales partners. We earned their trust due to reasonable profit- sharing policies, training and communication. Such partnerships grew in size and quality and became our ultimate success. The partnership network proved to become a powerful distribution channel, which is open for our new products. We pursue stringent requirements – high quality, integrated and innovative solutions, and competitive prices."

What were the major growth accelerators for your company in its high-growth years?

Kolpashnikov: "There were four growth factors:

1. *Technology:* Use of effective advanced technologies with focus on high quality, competition and R&D.
2. *Distribution:* Competitive distribution channels with a large number of partners all over Russia. All of them could provide logistics services, as well as support our marketing efforts.
3. *Location:* The two main locations were Moscow and St Petersburg with easy access to both of them. Luckily, the city administration support was of great value to us.
4. *Human resource strategy:* The company's HR objective was to establish a very professional team and provide an exciting environment that would lead to outstanding performance. While we were looking for young professionals, the most difficult task was to find those with relevant experience to our business. These professionals are our elite staff today, but when looking back, we were lucky that the economic crises in the late 90s provided us with these talents as many of them were temporarily unemployed.

Partnering for Talent

"When hiring actively in 2006-2008, we were surprised to be faced with a lack of qualified prospective employees. As a result, the current HR strategy includes partnerships with universities as well. The company retained the entire team during the 2008-2009 financial crises, transferring some resources to other departments, professionalizing and automating our internal systems, and providing training. All together, the effort resulted in more trust and loyal atmosphere, and enabled us to increase our sales volume later on. Finally, DKC not only provides excellent compensation and benefits, but also offers opportunities for professional development. In addition, a monitoring and reward system recognizes the results of teams and motivates them to excel further."

Describe briefly the financing of your company and how this financing impacted the growth of your company.

Kolpashnikov: "During its first three years, DKC did not rely on external capital to finance its development. The operating profits were sufficient to cover our investment needs. Following that, our considerable growth rate forced us to look for loans. Our sources of capital today include short-term and long-term bank loans, leasing and factoring."

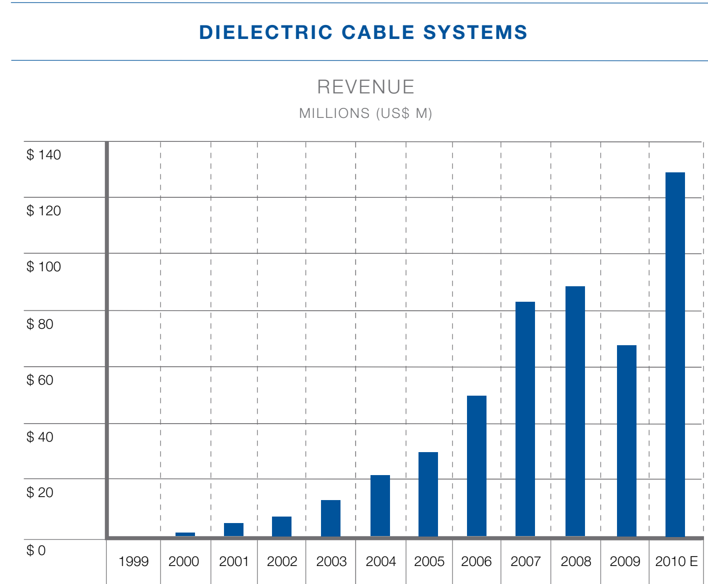
What were the major challenges your company had to handle in its high-growth years, and how were they managed?

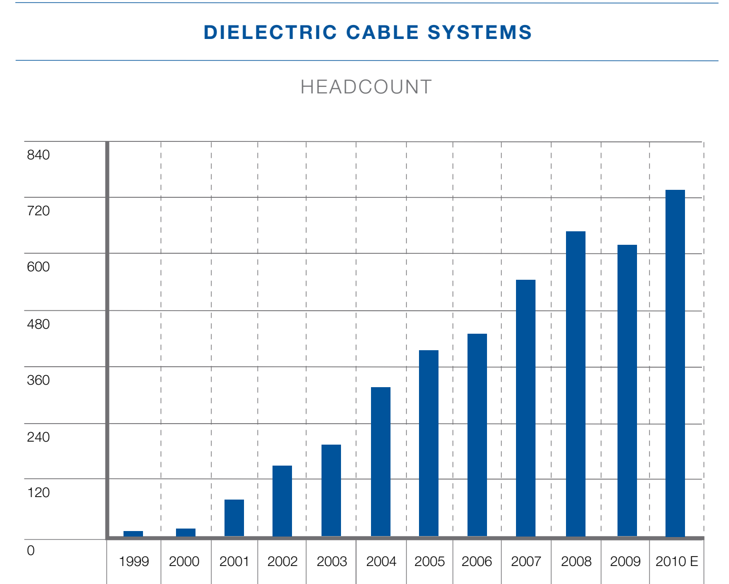
Kolpashnikov: "Our first success came with vast rise of competition, most of which simply copied our technologies. Instead of slashing our prices in this increasingly tougher environment, we targeted our development with a focus on high-end technologies and products. The company also:

1. Re-engineered the entire business system
2. Created a control management system
3. Invested in automation technologies"

Turnaround Strategy

"As a result, we ended up with a professional environment that helps boost our business development. The late 2008 crisis resulted in a rapid decline in sales. In 2009, we launched a turnaround programme that included cost-cutting, while keeping the team and its payroll. We supported our distributors and looked at new market opportunities, such as projects in the oil and gas industry, infrastructure and electric power generation. Ultimately, hard work paid off. Decline in sales between 2008 and 2009 was only 18%, compared to the overall industry contraction of 40%. The most recent results in Q1 2010 are staggering, with rapid sales growth beyond the pre-crisis level of 2008. We now are confident that our strategy seems to work and that our efforts pay off."





Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Kolpashnikov: "My darkest moment was the day when, in the middle of the 2008-2009 crisis, our board of directors decided to put on hold some industrial projects that we had been working on for the previous two years. This was the first, and so far the only, instance of this in our history. Yet, it might be worthwhile noting that every medal has two sides since it forced us to reconsider our strategy and to focus on new and more profitable projects."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

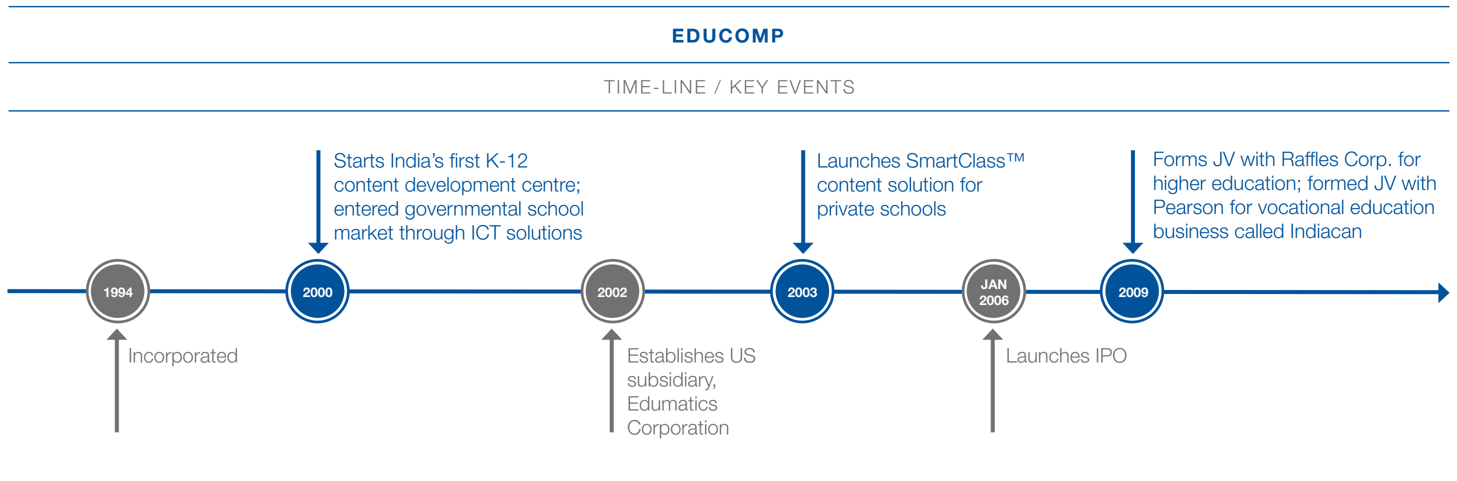
Kolpashnikov: "My key lesson centres on a single word – 'CREATION'. If you look around, you can see lots of very successful business strategies. Over a short period of time, Russia had accumulated a huge amount of capital, was nurturing outstanding business projects, and creating global corporations. However, most of them do not exist anymore due to their primary focus of making short-term profits. In contrast, if you focus on creating a business that constantly provides new products and services, you will inevitably create opportunities that lead to growth and profitability. Russia is still a land that has great potential and is waiting to be explored." ■

Prepared by Martin Haemmig and George Foster , 22 November 2010
Supported by Russian Venture Company (I. Agamirzian, G. Bikkulowa), Financial University under the Government of Russian Federation (Prof. Andrei Yudanov)

Educomp | India

OVERVIEW:

Educomp Solutions Limited, which was founded in 1994, is a globally diversified, educational solution provider and the largest educational company in India. By 2010, the Educomp Group had reached over 26,000 schools and 15 million learners and educators around the world through its products, services and solutions. The company's mission is to be among the top five educational companies worldwide by the year 2012. For many years, it has been at the forefront of pioneering initiatives in education. The company went public in India (the National Stock Exchange of India, NSE, and the Bombay Stock Exchange, BSE) on 13 January 2006. It was rated the best performing IPO of 2006 across all sectors in India. The market capitalization on 19 August 2010 was US$ 1.18 billion. Educomp has 27 offices worldwide: one in Canada, 20 in India, two in Singapore, one in Sri Lanka, and three in the US. By 2010, the company employed over 12,000 professionals. The company's market covers all educational sectors: preschool, K-12 schools, digital educational content, higher education, vocational education, online education and supplemental education.



QUOTATIONS FROM:

Shantanu Prakash, is the current chairperson of Educomp. An alumnus of the Indian Institute of Management, Ahmedabad, Prakash founded Educomp Solutions Limited in 1994. Prakash is also the founder and managing trustee of the Learning Leadership Foundation, an organization dedicated to bringing the best practices in education to under-resourced schools. Prakash is a charter member of The Indus Entrepreneurs, an organization that connects entrepreneurs, and is a frequent speaker at educational and business conferences worldwide. His vision and leadership have enabled Educomp to become India's largest technology-driven educational company. It owns India's largest K-12 digital content library and reaches 26,000 schools and 15 million learners and educators worldwide.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Prakash: "There was a clear need, and somebody had to do it.

- *Need for technology in education.* The initial idea was to leverage technology into education. I zeroed in on the educational sector because I felt the Indian education system was in a bad shape and required innovative ways to sustain it. Moreover, education is a sector with infinite innovational scope. Educomp was born.
- *Less capital and high scalability.* Education was a non-traditional business in India. Using technology to leverage it required a comparatively lower capital investment and posed very high scalability. The company started up by meeting with various schools

and evaluating the potential for IT education within each school. Educomp initially set up computer labs within schools, and the revenue model was that the schools would pay per use. From this model, the company has evolved into the largest owner of K-12 digital content, a principal professional development company, a pioneering eTutoring company and an R&D company.

- *Results.* Today, Educomp's content solutions reach out to over 3.4 million students in almost 4,000 private schools and over 8.1 million students in almost 15,500 government schools. Educomp also operates in over 700 preschools, over 40 brick-and-mortar K-12 schools, seven higher education colleges, over 250 vocational training centres and has over 2.5 million users of its online education portals."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Prakash: "My vision has been to transform the teaching-learning process through the use of technology and best practices. Initially, I wanted to go into the education sector to positively change the education world but was not clear how to do it. When looking around, I felt that everything had changed in our lives with the all-pervasive intervention of technology. However, classrooms had remained untouched by technology.

"As time passed, I understood that education was the best industry to be in as it was recession-proof and the government would have to improve the quality and spending on education unlike other sectors. I kept realigning the aspirations according to customer needs. Then we continued to focus on innovation and R&D to develop high-quality curriculum and content products. Today, Educomp's vision is to reach out to 20 million learners and to be among the top five educational companies by 2012."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Prakash: "In education, human resources are key, above anything else.

- "We have always focused on treating employees as business partners rather than as employees. Almost all senior employees have ESOPs in the company.
- "The company has always looked for and hired a set of very entrepreneurial people. Entrepreneurship is the core DNA that runs in the organization.
- "Unlike traditional companies, the leadership is distributed in Educomp. Decision-making is pushed down to the individual business heads. Each of them acts as a CEO of his/her business and takes charge of his/her own hiring, training and marketing needs. Thus, there is no chief operating officer or chief marketing officer in the company."

What were the major growth accelerators for your company in its high-growth years?

Prakash: "These are not listed by priority but by timeline sequence. These accelerators helped scale the company:

- *Educomp SmartClass.* Educomp came up with the product, which is designed to assist teachers in schools to meet daily challenges, enhance student participation and improve teacher productivity in the classroom through the simple, practical and meaningful use of technology. SmartClass consists of a library of 16,000 modules of digital, multimedia, educational content mapped to the entire K-12 curriculum. The content is used by teachers in classrooms with the help of digital projectors and interactive whiteboards. This product saw immense appreciation and acknowledgement among students and teachers in private schools. This revolutionary model turned out to be the turning point for the company's growth.
- *ICT solution.* The government has close to a million schools under its complete supervision and has adopted a public- and private-participation model to improve the quality of education in India. Educomp's ICT solution, which consists of setting up computer labs and providing computer-aided learning in government schools, successfully tapped into this huge market with its immense future potential to grow.
- *Listing Educomp.* With the IPO of the company, the growth potential increased exponentially, as the necessary funding was available. Through successive rounds of raising capital, Educomp was able to expand its presence into opportunities in preschools, K-12 schools, higher education and vocational education, thereby becoming an end-to-end supplier of educational products and services."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Prakash: "The company was initially financed through personal finances. The following series of financings helped fuel the growth of Educomp:

- In June 2000, Carlyle/US (PE-firm) invested US$ 2.1 million for a 15% stake in the company. In July 2005, Carlyle exited in exchange for the LMS stake from Educomp.
- In January 2006, IPO on India's NSE and BSE at a share price of Rs 125, trading peak at Rs 5,000 on 15 January 2008. The company had a stock split R1:5 in October 2009. Stock trading at Rs 588 on 19 August 2010.
- Educomp raised capital through FCCB (US$ 25 million in FY 2007).
- Educomp raised capital through FCCB (US$ 80 million in FY 2008).
- QIP (US$ 125 million fresh equity in FY 2010) to finance its growth strategies."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Prakash:

1. "The first challenge was in Human Resources. Hiring the best talent was a major challenge.
2. The second major challenge was to attract capital. We got the first round of private equity funding in the year 2000. Though this was a small amount, it helped in the initial years. Then, with the public listing of the company, this challenge was almost mitigated.
3. The final (and current) challenge remains on execution. Educomp has been able to create a large platform of educational businesses where it had a first-mover advantage. The challenge now is to build on this platform and grow the business. This involves an acute focus on flawless execution."

There were times when our employees weren't paid salaries in time, and I am genuinely grateful to the entire Educomp team who worked together like a family to pull the company out of those challenging days towards a bright future, which is only just beginning."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

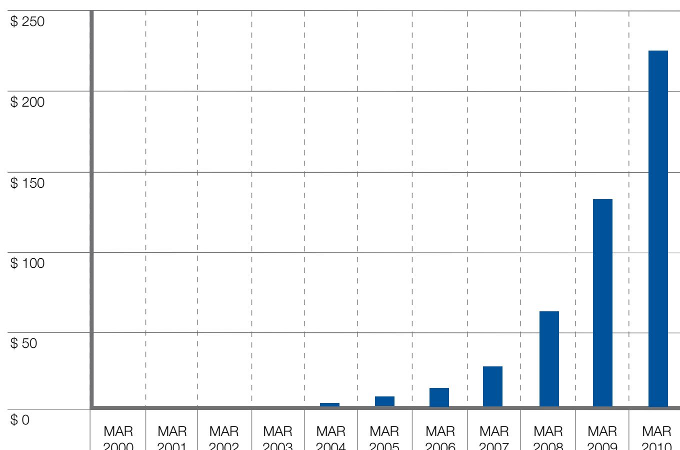
Prakash: "It is very straightforward:

1. It is important to have a good vision and to think big from the beginning.
2. The key driver behind any business is highly motivated, highly entrepreneurial management.
3. Innovation is key, and innovation has to be driven into all aspects of the business.

EDUCOMP

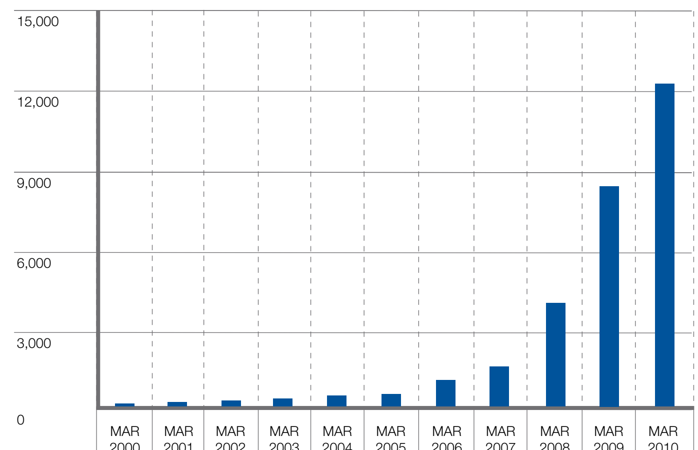
REVENUE

IN MILLIONS (US$ M)



EDUCOMP

HEADCOUNT



Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Prakash: "I wouldn't actually say it was a dark period, but we did have some very challenging times in the early years of the business. A number of our ideas were perhaps ahead of their time and didn't really evolve into structured businesses at all. We launched an online educational community called www.planetvidya.com, somewhat along the lines of online social communities today, which didn't grow at all. We were perhaps the first company to create an online, school, ERP product back in the 90s, but again, the product failed since it was probably much ahead of its time and there wasn't enough demand. We continued to invest and explore various innovative solutions to solve critical educational problems in everyday classroom teaching, but until our multimedia educational content business started to take off, we had severe cash flow challenges.

The results are visible: Over the years, Educomp and its affiliates have won recognition from many institutions. Educomp ranks first in education and training in the study 'India's Best Companies to Work For 2009'. This study was conducted by *The Economic Times* in collaboration with the Great Place to Work® Institute, a US-based institute that ranks best workplaces globally. In addition, Educomp Solutions was named in the '200 Best Under a Billion' for the Asia-Pacific region by *Forbes* magazine in the 29 September 2008 issue. This annual list shows the best of 24,155 listed firms in the Asia-Pacific region. Similarly, *BT 500* featured Educomp in its list of most valuable private companies in India in its November 2009 issue. Educomp is the first company in India to have been rated SME1 by CRISIL, in recognition of the company's outstanding credit worthiness." ■

Prepared by Martin Haemmig and George Foster, 17 November 2010
Supported by JM FINANCIAL (A. Kampani, R. Narasimhan)

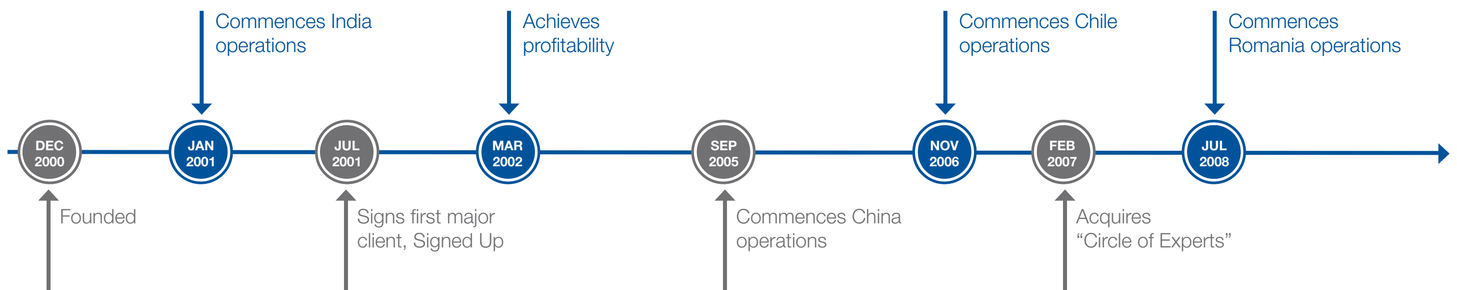
Evalueserve | India

OVERVIEW:

Evalueserve is a pioneer in providing Knowledge Process Outsourcing (KPO) services, which include customized financial and investment research, business research, market research, intellectual property, legal support services, supply chain support services and knowledge technology to various industries around the globe. The vision is "to be the number one global provider of high-quality value-added services." It was co-founded in December 2000 by Alok Aggarwal (previously at IBM Research Division in India) and Marc Vollenweider (previously at McKinsey, including Delhi office).

EVALUESERVE

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Alok Aggarwal is a co-founder of Evalueserve. Prior to this, Aggarwal was the director of emerging business opportunities for IBM Research Division Worldwide. In this capacity, he headed IBM's India Research Laboratory. He has a bachelor of technology degree in electrical engineering from the Indian Institute of Technology, Delhi, and a PhD in computer science from Johns Hopkins University in the US.

Marc Vollenweider is also a co-founder of Evalueserve. Prior to this, Marc was a principal with McKinsey & Co. He spent 20 months in the Delhi office and was in charge of the McKinsey Knowledge Centre, an internal research operation, providing services to McKinsey consultants worldwide. Marc has an MBA from INSEAD, France, and a master's in telecommunications from the Swiss Federal Institute of Technology, Zurich.

Ashish Gupta is COO and country head of Evalueserve. He previously was the founder and CEO of Ties2Family.com and, before that, an engagement manager at McKinsey & Co in Delhi. He has a bachelor of technology degree in mechanical engineering from the Indian Institute of Technology, Delhi, and an MBA from Carnegie Mellon University in the US.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Gupta:

- "The idea was to take the third party delivery model to niche segments of high-end research.
- Right from the initial years, the founders believed that the availability of low cost resources with a much greater analytical ability was a great opportunity to tap.
- With this in mind, the company was formed and the new ideas and requirements from the clients pushed Evalueserve to spread its capabilities to cover wider areas."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Gupta:

- "The initial belief of the founders was that there was some market available for this concept.
- With the markets expanding, the company stepped into offshore markets.
- Presently, Evalueserve has four research centres, located in Chile, China, India and Romania, covering multiple industries across every continent and in more than 50 languages."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Gupta:

- "Wall Street regulations changed, giving a boost to the company's business.
- The founders' willingness to test new projects opened up various new businesses across various countries.
- The fortune of having some of the big global corporations as clients in the initial phase drove the company to strive for greater results."

What were the major growth accelerators for your company in its high-growth years?

Gupta:

- "The Human resources strategy was to make the firm get a professional services outlook rather than a typical business process outsourcing unit. The management always believed that this positioning is the best way to attract quality talent and retain it.
- Human resources strategized the policies to bring forth the strong values of the firm. This ensured the best talent was retained due to the firm's strong value system.
- The firm provided challenging work assignments, rapid growth and good salary as a retention strategy.
- Initially, employee stock ownership plans (ESOPs) were also given to employees."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Vollenweider: "When we founded the company, Alok and I put up all the money required from our personal savings. This gave us a 100% share at the beginning, as we did not invite any angels. It also allowed us to create an employee stock option plan with a number of stock options that corresponded to 25% of outstanding equity at the time. In hindsight, this was a very good thing, as we could give significant amounts of ESOPs to our key employees. Due to the fact that we had a large number of ESOPs, we could grant them well into middle management and not just at the top. This certainly led to a very stable situation at the middle and senior management levels later on, a key ingredient of success for a young company. As we started growing rapidly (up to 100% per annum), of course our A/R started increasing. As in a services company, A/R represents about two-thirds of capital requirements, we needed some financing even though the company as such was cash flow positive. We invited four angel investors who took up 1% each. This gave us enough cash for about one year. Then we were very lucky. A billionaire became what one could regard as a 'super angel' for Evalueserve. Thanks to a very flexible arrangement we could raise small amounts of money in five consecutive rounds of financing, essentially a 'line of equity' analogous to a 'line of credit'. This had three major benefits for Evalueserve:

1. We did not have to spend a lot of time to find financing. It usually took a few days and a simple addendum to an umbrella contract before the money was in the bank. A dream situation compared to what other start-ups have to go through. We could therefore spend our time in the marketplace selling, which proved ultimately most critical, as we would not have been successful without the founders selling.
2. We could retain a maximum amount of equity share for the existing investors. Had we worked with a private equity (PE) firm, we would have had to give away a very significant share of our equity (30+%) in one go very early on. Additionally, the PE firm would have probably not allowed us to create such a generous ESOP due to the dilution effect.
3. The investor does not have the pressure to exit like a private equity (PE) firm would have. Therefore, we could focus on developing the business.

Overall, this model gave us the time and resources to build the company without having to worry about the financing part. Just enabling the founders to go out and sell was enough in our case to make the company successfully grow. We have not taken any money since 2005, as we are fully self-financing."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Gupta:

1. "There was a serious disbelief in the business model from the client side. The clients would not trust knowledge-based work to be outsourced to a different country.
2. The company started operations in April 2001 and in September the terrorist attack in the US happened.
3. The firm had their sales force based out in different global locations. This helped in winning a lot of businesses.
4. Attracting the best talent into a start-up was a serious issue (the above-mentioned HR strategies helped in retaining talent).

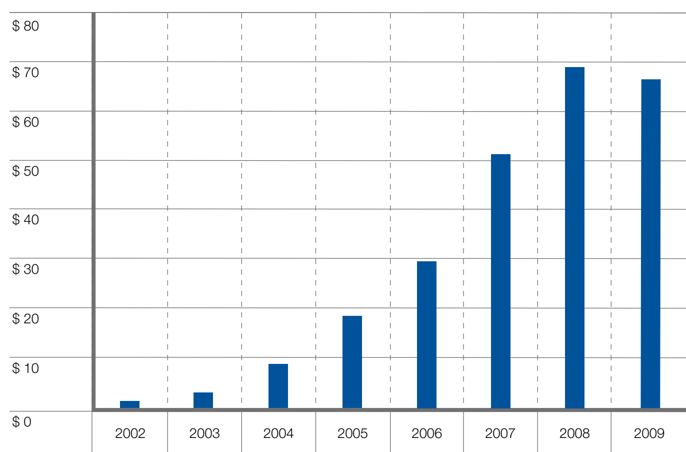
5. After some years, the company started visiting various institutes and handpicking the best talent and started to nurture them.
6. Since the company operated in customized research space, there were no setup standard procedures or standard quality policies.
7. As the company grew, these procedures and standard quality policies were set up in place."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

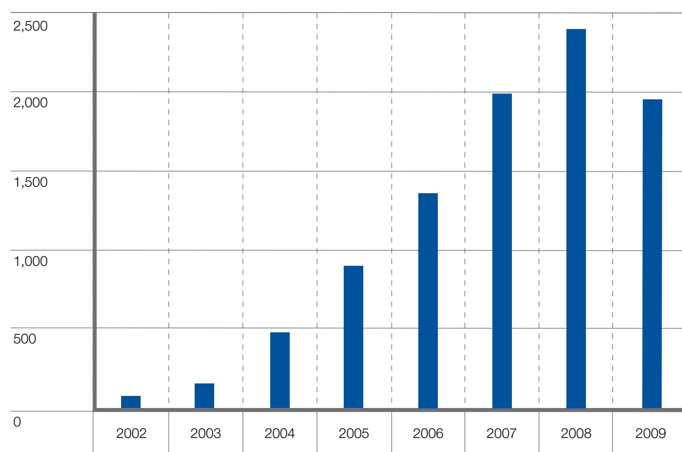
Vollenweider: "While, overall, the 'ride' has been very exciting and positive, we certainly had two difficult moments in the history of our company.

1. The period in Q2/3 2001 (three-to-six months after founding the company) where we were desperately trying to find paying clients for Evalueserve. Unfortunately, the economy turned sour at exactly that time and companies became very reluctant to outsource. Additionally, our credibility at the time was close to zero, as we did not have any reference examples of successful projects. We called this period the double chasm: 'You want us to outsource our strategic research and you want to do this from India on top of it?' This is the reply we usually got from prospects we had called for contracts. In 2001, the concept of KPO was completely unknown, as only McKinsey and very few other companies (GE, Amex) had embraced the concept of running high-knowledge processes from India, albeit in a captive fashion. Our burn rate was fortunately not high, as we had started very carefully, but by Q3/2001 cash became really scarce. Fortunately, at exactly that time we got our first paying customers (a European insurance company and a US research company). These and a few other engagements allowed us to become profitable by February 2002.
2. The 2008/2009 financial crisis. Fortunately, we were well-diversified both by industry and by geography, but there were a few quarters (Q4/08 and Q1/09) that were flat (while fortunately not negative). The positive side of the crisis was that we focused a lot on improving our internal processes and efficiency. So when the crisis was over, we had a much stronger position. Clearly, keeping people motivated during such difficult times is very challenging for senior and middle management."

EVALUESERVE



EVALUESERVE



What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Gupta:

- "Business is more about execution than strategy
- Business is all about having and managing the right people in the right job
- Getting more out of less
- Ability to work in a system that has resource constraints
- Small innovations put together add up to become a big one" ■

Prepared by Martin Haemmig and George Foster , 17 November 2010
Supported by JM FINANCIAL (A. Kampani, R. Narasimhan)

Future Group | India

OVERVIEW:

Future Group is one of India's leading business houses with multiple businesses spanning across the consumption space. While retail forms the core business activity of Future Group, group subsidiaries are present in consumer finance, capital, insurance, leisure and entertainment, brand development, retail real estate development, retail media and logistics.

QUOTATIONS FROM:

Kishore Biyani is a staunch believer in the group's corporate credo, "Rewrite rules, retain values" and considers "Indianness" as the core value driving the Group. He launched Pantaloons in 1997, followed by a number of popular retail formats including Big Bazaar, Central, Food Bazaar, Brand Factory and Home Town, which now cater to almost the entire consumption basket of a wide cross-section of Indian consumers. He has also led the Group's foray in capital, consumer finance, insurance, brand development, retail real estate development and logistics.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Biyani:

- "We started with supplying fabrics to the garment industry during the initial two to three years
- Learned the nuts-and-bolts of the garment industry and retailing in these years
- Built a garment manufacturing unit for manufacturing and then supplying the garments
- Set up various distribution centres to distribute the garments produced
- Understood that there are no ready-made trousers sold in the Indian market
- Studied the market to understand the rising income levels and huge market potential in India
- Capitalized this opportunity with the existing manufacturing and distribution set up
- Set up our own stores to sell the trousers manufactured
- Slowly ventured into large-format stores, which housed products ranging from clothing to groceries
- The Group now operates over 16 million square feet of retail space, has over 1,000 outlets in 73 cities and towns, and 65 rural locations across India
- The flagship company, Pantaloon Retail, employs around 30,000 people and is listed on the Indian stock exchange"

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Biyani:

- "My vision has been to capitalize on the immense market depth that the Indian consumption market provides.
- The core team firmly believes in developing strong insights on Indian consumers and building businesses based on Indian ideas, as espoused in the Group's core value of 'Indianness'. The Group's corporate credo is, 'Rewrite rules, retain values'.
- In the initial years, I was solely leading the company. With the growth of the company in five to seven years, the Group's key members were appointed and I ventured to new avenues with this core group.
- I firmly believe in my decisions and work to achieve targets by passing the responsibility down the hierarchy. Management consultants are used only to vet the decision, rather than seeking ideas.
- The management aspires to convince the governments that they should incentivize consumption. All these years, governments have been incentivizing savings."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Biyani:

- "Opening up of the Indian markets in the 1990s. This liberalization opened up new avenues for growth. With this came the rising income levels and a change in spending patterns.
- Execution became the key for growth.
- Branding. I firmly believed and still believe in branding as a growth accelerator and reaching the next level in business.
- Identifying opportunities."

What were the major growth accelerators for your company in its high-growth years?

Biyani:

- "I firmly believe that HR strategy is the key to growth.
- In the initial years (even now) the core values were written and the team worked to achieve them.
- The company recruited very ordinary people and groomed them to become leaders.
- Key retention strategy is LSD: Lakshmi, the Indian goddess of money; Saraswati, the Indian goddess of knowledge; and Devi, the Indian goddess of fearless growth.
- The core HR team worked to give a balanced mix of money, knowledge and growth to retain the employees.
- Another key is communication. There are frequent open-house meetings and weekly group communications."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Biyani: "We have always looked at various combinations of financing our company's fund requirements through a combination of equity, debt and internal generations. Despite running a growth-based balance sheet initially, we always tried maintaining the debt equity at 1:1. Going forward, with the focus towards profitable growth, the balance sheet should be well-capitalized for capturing the retail growth momentum and the internal operating efficiencies, largely through cash generations and a combination of debt and equity to finance the residual. We believe the trend towards a minimal incremental capital employed to revenues should continue. We have also increased the average maturity profile of our obligations to over four years."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

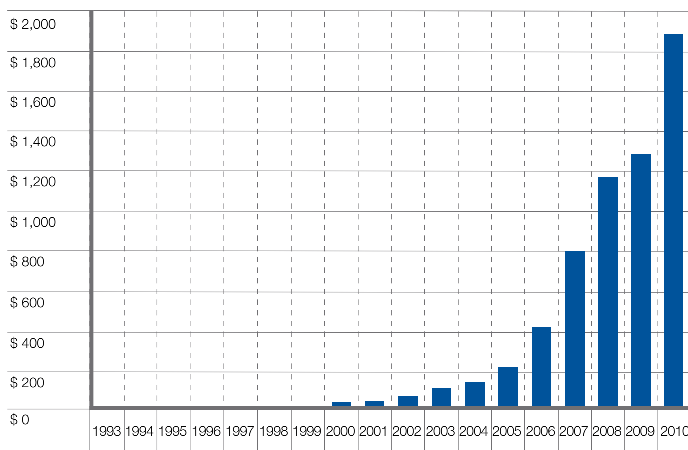
Biyani:

- “Belief: The most crucial challenge was to form a team, to convince them to join a lesser-known firm, which had high ambitions. I communicated and instilled the confidence that this journey was a long one and needed everyone’s equal participation to make it successful.
- Managing growth: Growth for the firm was rampant. Getting growth was not an issue, but managing it was.
- Solution: The firm is divided into logical and creative side. The creative side conceives and the logical side drafts execution model.”

FUTURE GROUP

REVENUE

MILLIONS (US$ M)



Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Biyani: “As a company, we have probably not had too many periods of concern. There may have been instances during our initial formative years when we were learning and understanding our consumers and their responses to categories, formats, prices, etc., which enabled us to work around creating a demand-led business and experimenting with various offerings to consumers. These were purely the building blocks towards creating our business. The more recent period of 2008 to 2009 was a learning experience for everyone and also made us aware of the recalibrated world order. As a group, we managed to weather the crisis quite well and still clocked impressive growth, while some of the other retailers either went bust or were forced to relook at their strategies. We too went back to the drawing board and internally realigned our businesses and strategies, focusing towards profitability, having achieved a significant scale. This has effectively helped us overcome the dark moments.”

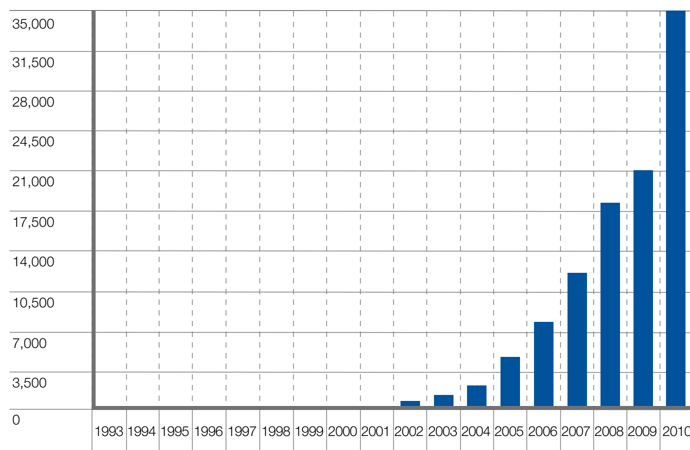
What are the key lessons about entrepreneurship and successful growth strategies you have taken from your company experience?

Biyani:

- “Simplicity pays
- Derive more out of minimum things
- Be decisive

FUTURE GROUP

HEADCOUNT



- Have firm belief in yourself and your decisions
- Look at the whole rather than parts
- Business is built on soft skills which never get accounted anywhere” ■

Prepared by Martin Haemmig and George Foster, 17 November 2010
Supported by JM FINANCIAL (A. Kampani, R. Narasimhan)

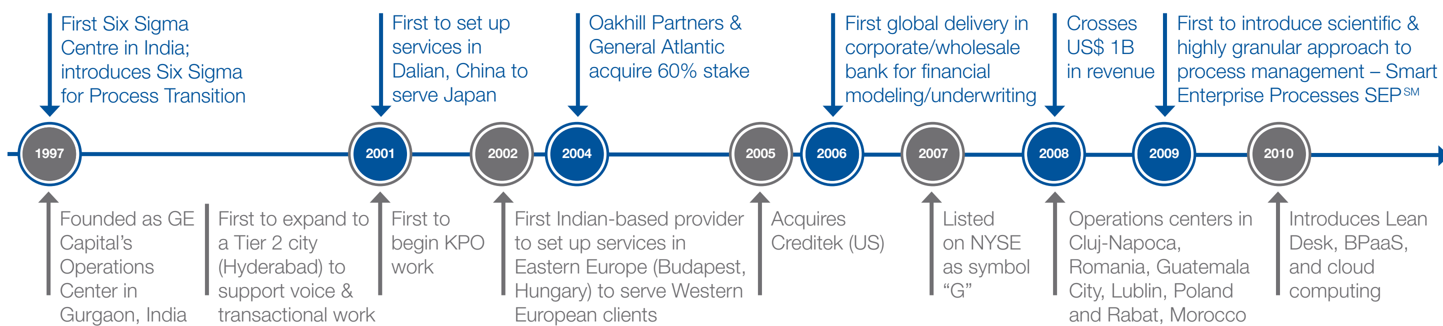
Genpact | India

OVERVIEW:

Genpact Ltd India manages business processes, offering enterprise- and industry-specific services. In 2010, it managed over 3,000 processes for more than 400 clients. Its genesis is with Pramod Bhasin, then a General Electric (GE) senior executive in India. Bhasin was leading the development in 1997 of an in-house global capacity in Gurgaon, India, to process basic financial transactions for other divisions of GE. This activity grew rapidly and became the General Electric Capital International Services (GECIS) unit of GE. A China-based operation in Dalian was set up in 2001 to better service East-Asian clients. In 2004, Bhasin negotiated Genpact becoming an independent company with General Atlantic and Oakhill Partners acquiring a 60% stake. In 2004, revenues were US$ 429 million with a headcount of over 16,000. Genpact listed on the NYSE in August 2007. It has greatly expanded both in size and in the geographic footprint of its operations since becoming independent. The 2009 revenues were US$ 1.120 billion with a head-count over 38,000. Its operating units outside India include Romania, Guatemala, Poland and Morocco.

GENPACT

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Pramod Bhasin is the president and CEO of Genpact. He headed GECIS operating unit from its genesis in 1997 and its subsequently becoming a separate company in 2004. His career up to 2004 included over 24 years with GE and RCA across Asia, North America and Europe. He holds a bachelor of commerce degree from Delhi University and has chartered accounting qualifications. He was chairman of India's National Association of Software & Services Companies for 2009-10. Bhasin is a founding member of the International Association of Outsourcing Professionals.

What was the source of the initial idea and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Bhasin: "Back in 1997, I was with General Electric in India and had a financial background. At that time, GE was already doing software development in India for their internal divisions. GE was the pioneer in this. Citibank, British Airways and AMEX were doing back office work in India, but they were small and never took it anywhere.

"The first thing we tried was a call centre – just very basic financial transaction processing. We knew that credibility was important, so we double-checked everything. We achieved 100% quality, and still had huge margins to spare. It was a complete experiment. I had gotten a few million dollars from my boss at GE when I sold my idea to him. My boss, although intrigued by the idea, was rightfully sceptical at first. I remember him observing that I didn't have a phone connection in India that always worked, but wanted to do work for GE divisions on phone lines. My phone kept hanging up when I was trying to sell him on the idea.

"Genpact actually exploded from that simple concept. I think we knew we were onto something fantastic, when we put out an ad to recruit 21 people and we got 8,000 applications, out of whom 5,000 were fully acceptable. The question of whether there is enough quality talent in India to do this was quickly answered.

"The economic proposition was just so compelling when you analysed it. You could save 30-40% on the basic work that you did. The software outsourcing industry had always existed in India. But this kind of work, which is live work being done with customers directly, had never really existed. The dynamics of it were different in terms of time, in terms of the training. So we suddenly had to train people in areas like mortgages in the US. The reason software is just a completely different industry is because it's not live. It's not reality TV, right? However, when we analysed it, we kept on concluding we had a compelling value proposition."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision/aspiration over time? If a change, please describe.

Bhasin: "The vision was very simple. We would do transaction-type work – we used to call it 'billings and services', initially. The name within GE was Capital International Services. We didn't have a clue about the potential of this, but I think that changed swiftly. The moment that we started to plan hiring, we looked at the great skills available in India that you can deploy. It was a tremendous opportunity. Finance and accounting became obvious. Insurance. Anything with a big back office was obvious. The entire call centre was obvious. But then, very quickly, we started talking about: 'Well, why can't I do risk management? Why can't I do legal work?' It was very exciting.

"Key individuals were very important catalysts – people at GE like Gary Went and Jack Welch. Went was the guy I worked with, and he kept pushing the button and saying 'go for it, go for it'. He was willing to try new things, which most companies wouldn't. GE was very entrepreneurial. That was the joy of being at GE: hugely entrepreneurial culture and key people saying 'go, go try it'. This was 1997.

"We have had different eras at Genpact and the vision has changed with each. First is 1997 to about 2002. This was the pioneering effort era in regards to our products, training our people, and building the supply chain of hiring. We were hiring thousands of people a year. Everyone helped in hiring. It was pretty chaotic at times. Hiring four PhDs, three mathematicians, four chartered accountants, four MBAs, five economics guys, eight graduates. I got training programmes going on at the same time as I have a supply chain coming – and I don't even know how to feed them when they show up in the morning, because my caterer hadn't shown up. It's hilarious stuff. Really wonderful stuff. Buses are trapped. Then the satellite disk is coming down and I don't know how the satellite works. I'm just a financial idiot.

"The next era is 2002 to 2005. This is really a period of consolidation and a focus on expertise. 2005 onwards was commercialization as a standalone separate company. In this commercialization phase, we have had a phenomenal track record. Our global client growth (non-GE growth) from 2005 to 2010 was 100%. Genpact grew like a rocket."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Bhasin: "The initial strategy was to figure out how much above the value chain you can get. Drive operating excellence, build some real expertise in operations, and expand across India to other places – so that you had a more diversified business continuity plan. So, that's how we went to Hyderabad. We didn't want to go to another big town like Delhi, where we started. At that time, Hyderabad was a tier-two city – less competition and great support from the government. The Hyderabad government came out and said, 'Here's the land, here are the people, we'll give you space – go'. And we said 'Ok, done'.
"The strategy has changed over time. Initially, our hands were constrained. One of the probably unfortunate things that GE did at that time was to say you can't serve third-party customers. We had every third party come to us, walk through our doors and say, 'Can you do this for us?' Had we done that, I think we would have had huge market share at an early date. But GE obviously had its reasons and said

strategically this is not a business we want to be in. Do it for the GE divisions. So the strategy was internally GE-driven. Despite the lost opportunity, I think it also helped us. I shouldn't get away from that. We had great support within GE. I was a GE veteran and that helped immensely. I knew all the people individually. The Gary Wents, the Jack Welches, the business heads. They couldn't have done more internally than they did to be our champions.

"Our strategy has also changed because of what we saw as a huge gap in business process management. It is misunderstood. Every company reinvents the wheel for itself. My aim around this is to build a real science and become real experts in managing business processes, and driving improvements in them. I think that's a massive gap in the world. Go to companies and ask, 'Are your business processes important to you?' They answer, 'Yes'. Are they vital? Yes. Will they drive products to profitability? Yes. Could they hinder/drive growth/margins, everything? Yes. How good or bad are they? I don't know. How much better should they be? Don't know. We've built something called Smart Enterprise ProcessingSM, where we are building a science for enterprise-level processes. So you know a bit like what ERP has done for IT, we're doing for business processes. So order to cash, procure to pay, hire to retire. Application to funding for a bank. Application to issuance of a claim policy. We've mapped it, we've spent two years, millions of dollars, a dedicated team, and we mapped down at a very detailed level in terms of being able to tell you. Companies that are really good are often five times better than the next guy. It's not incremental. It's not 10%. A bank will give a loan to one set of customers in five days, and another bank takes 15 from the same set of customers. The number of customers they lose as a result is so large. And yet, a bank doesn't even know that. Internally, they say, 'Look I was 20 days, now I'm 15, isn't it wonderful?' Well the real answer is you should be three."

What were the major growth accelerators for your company in its high-growth years?

Bhasin: "A key accelerator from the start was our value proposition. It was basically arbitrage – speed, cost and quality. The fact that we could get this done so quickly, at 30-40% of the domestic price, was very compelling. Along with that, we had an environment in the US where it was hard to get employees. And telecom costs from India were going down further. So access, connectivity, etc., was very good. After that, I think it really became operating excellence. So Six Sigma lean productivity drivers, all of those elements, became huge levers. And we were able to demonstrate that on a given business process, we could increase productivity by 30%, 40% or even 50%. Digitize it. Re-engineer it. Improve it thousands of ways! Our model is really focused on operating excellence. So unlike Accenture, which is focused on consulting and technology, we're operators. We execute. We understand the design and optimization of business processes inside out, backwards and forwards. We're not trying to sell you a technology basket. We're somewhat technology agnostic.

"Our global expansion has also been an important growth driver. After India, we set up operations in China. We started in Dalian in 2000. We were the first. We just had our 10th year anniversary. Similarly, with Romania and Hungary. We are in Mexico and Guatemala and are opening a centre in Colombia.

"We did five acquisitions on the way. Each acquisition came with a great customer base and often a product or a service, which we don't have, that fills a gap. Such as revenue cycle management in healthcare. It's not something we previously did. But we bought a small company with this expertise, which has proven to us to be very successful. It gets us entry into hospitals, which is one of the biggest markets in many countries.

"Our HR strategy was interesting. Our attrition is half the industry average and we pay average. And that's vital for customer satisfaction. Otherwise, I'm training somebody in the supply chain every nine months. We can't do it. We basically dealt with hiring, not as HR, but as operations. Core operations. It's our supply chain. So we dealt with it and built it with that kind of rigor. We have set up branch offices where we hire people. A financial services bank has branches for loans. Genpact has branches for hiring. We have 27 branch offices spread out across India. We built very robust training programmes. We also applied Six Sigma to ourselves. We applied it to our hiring engine, and our retention tools. Purging people happens early and happens fast at Genpact. One of the things we realized is that a lot of people may join us and then realize fairly quickly this is not for them. Figuring out how to weed them out early was a very vital part. So we didn't waste training time on them. We have turnover of 20%, 25% today. And in our industry it is 50%. We bring many people in before we hire them. We make them go through the rounds. We make them go through the transportation issues. We make them go through the evening shifts. They quickly get a feel for working at Genpact. And some leave in this 'is this for me phase' which is exactly what we want."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Bhasin: "This is a cash-rich business. You don't need that much financing. Typically, you are going to governments and saying give me land, and I'll bring employment and training to you. We went to Hyderabad and said you give us 25 acres. We went to Jaipur; they gave us 5-10 acres. We build very often or we just go to a landlord. In Delhi, we go to landlords; it's too expensive to buy. So we part lease – part buy.
"I led the spin-off of Genpact in 2004. I looked around, and by then at

least 10 new companies had started doing what we were doing. We weren't going to grow at the same pace that we had, just because how much can you grow as a captive? We were already US$ 300 million at GE. I went to GE and said look, there's some real value we've created here. We can, with a good contract, serve you very well. And in addition, with a spin-off, GE can get some real value out of this. It will also give the management team a good objective because, otherwise, you're going to lose them. Immelt, the CEO of GE, knew us very well by then. What was paramount to GE was that we would maintain customer service and satisfaction for their business units. We had to continue to serve, and we couldn't get distracted by being spun off and then being commercial. That was one of the biggest challenges we faced in 2005. How do you spin off? How do you go commercial? But how do you preserve the excellence of what you do for our then largest customer and for new customers?

"GE owned 100%, and in our 2004 spin-off they sold 60%. Genpact didn't need financing at all. Private equity paid GE for the 60% they sold – General Atlantic Partners, Oak Hill Capital Partners and Wachovia. We also raised some debt at that time and leveraged ourselves. We also created a 5-10% pool for management. Frankly, we did a lot with GE's support. The biggest point, and I don't want to lose this, is that GE taught us an enormous amount. Without GE, we wouldn't have learned 40% to 50% of the things. How do you learn about supply chains? How do you learn about treasury management, when you're not doing that kind of work in India? How do you teach your people? With GE, the joy was, you call up somebody in a business unit and say, 'Guys, we want to do this, we can do it, we have the raw material. Can you send the trainers over?' And yes, the trainers would come and train our people. It was a huge advantage for us when we went commercial because, suddenly, we were going out with skills that nobody expected us to have. Right? I remember several competitors in 2004 warning me, 'When you go commercial, you'll find out what real life is like'. And we walloped them, right from day one, out the gate. Why? Because we always ran it like a commercial entity within GE. We never ran it like a cost centre. We made profits. We had productivity targets. We had profit targets – within GE. I was not going to run this like a cost centre, because I knew I'd lose the calibre of people I could attract.

"We went public in August 2007 on the New York Stock Exchange. We raised US$ 35 million with market capitalization of US$ 2.8 billion."

What were the major challenges your company had to handle in its high-growth years and how were they managed?

Bhasin: "The early days were incredible both in terms of growth and the challenges we had to face. We were starting from scratch. For example, we were working at night. So how do you get people back and forth with no public transport? We also had Indian regulatory bodies questioning what we did. Telecom in India in those days was highly regulated. The concept of your dialling from India through a private line to customers in the US was an anathema to the regulators. They kept asking, 'Are you trying to set up an independent telecom company without paying for a license?' So getting through those hoops was interesting.

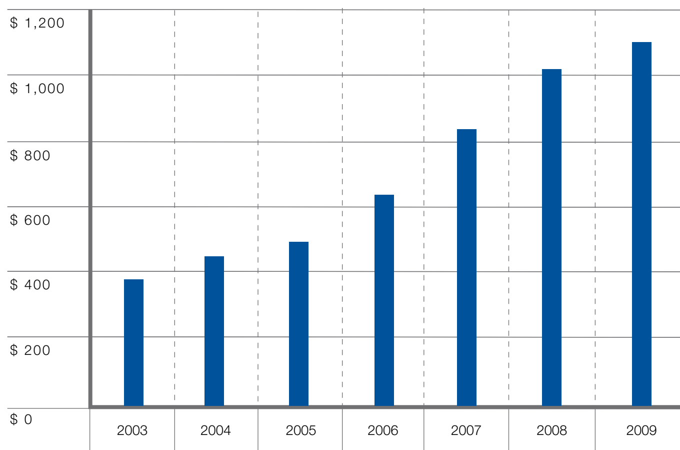
"Two really important challenges were: 1) hiring and training people, and 2) running operations. How do you train people in the wide range of type of work that we were doing? And in subject matters that they were completely unfamiliar with? We made big investments in Six Sigma and lean training. We put a lot of effort and money into that. I said right up front that 'credibility and quality will be key'. When you looked at the economics, the economics were so compelling. However, I cautioned that 'people will not care as much if I do 35% savings versus 30% savings'. What they will care about is if we screw up. No matter how small it is. You know, one of our customers said it well. A lot of issues in their own customers' premises would be a systems issue, or a technology issue, or a person issue. But if we have the same issue at Genpact out there in India, it's an Indian issue. That was a negative code word. We figured that out very early. Otherwise, we'd never see the light of day. Everything would be highlighted because you have a lot people watching this to say how Genpact's Indian-based venture was going to fail? So, I think we made some very good bets at that time. And the best bets we made were on training – Six Sigma became core. It's become part of our DNA."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Bhasin: "Lots of dark moments. The explosive growth in the early days certainly came with dark moments. The early explosive growth frankly was too hard. And too fast. We were just pumping things through as fast as we could. I remember clearing out desk space and floor space because other buildings were not ready. A desk for two now had five people working on it. It was sardine-land at times in our operations. However, you also want that energy in a pioneering effort. In the early days, nobody knew how big this was going to become, including us. We had a tiger by the tail. We were running after it every night, and then we said, 'Now what?' We literally had a tiger by the tail.

"One big dark moment was in 2000, when we hired a huge number of new people. We had operating problems everywhere. We just had to slow it down and say, 'We're going to get this right'. My China boss at the time even described the early days of my China operation as a 'One Sigma operation'. That hurt and we put a huge effort to quickly ratchet up the China operations, which we did.

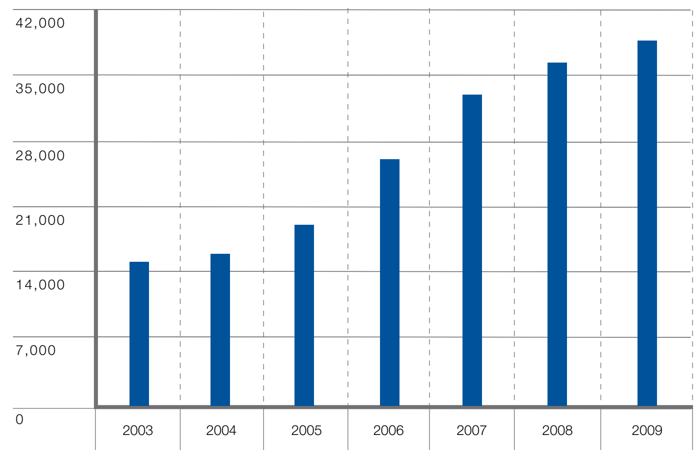
"Both 9/11 in 2001 and the 2008/2009 global financial crisis were very difficult moments – especially understanding the implications of each. Understanding what each potentially could do to global trade. Business continuity planning-type issues had to be put on the front burner.
"At an operational level, we had some dark moments with bandwidth. Running out of bandwidth. Getting bandwidth on time. In place. Getting it done."



What are the key lessons about entrepreneurship and successful growth strategies you take from your company experience?

Bhasin:

1. "If you have a compelling value proposition, go through with it. I asked many people about this idea before we first executed in 1997, and most said it won't work. Expect negatives. Expect cynicism. But if you have a compelling value proposition, you have to go through with it and prove it.
2. Get real problem-solvers into the organization at an early stage. You are going to hit unknown hurdles all the time. How do you cater? How do you get people to work? How do you get them back from work? How do you deal with laws that don't allow you to hire women that can work in the evening? How do you deal with telecom issues? So find problem-solvers who are flexible, innovative, adaptable and, most importantly, can just get things done.
3. Focus on quality right up front. I don't know of any start-up where this isn't a big issue. Build a culture around quality early, because it's much harder to change it later. Decide what your DNA is going to be, and build it. Because I think if I tried to change my DNA now, I'm dead. I don't have a chance.
4. Localize as fast as you can. Build a local management team every time. Every time we did it another way, we screwed up.
5. Companies in emerging economies should learn from other



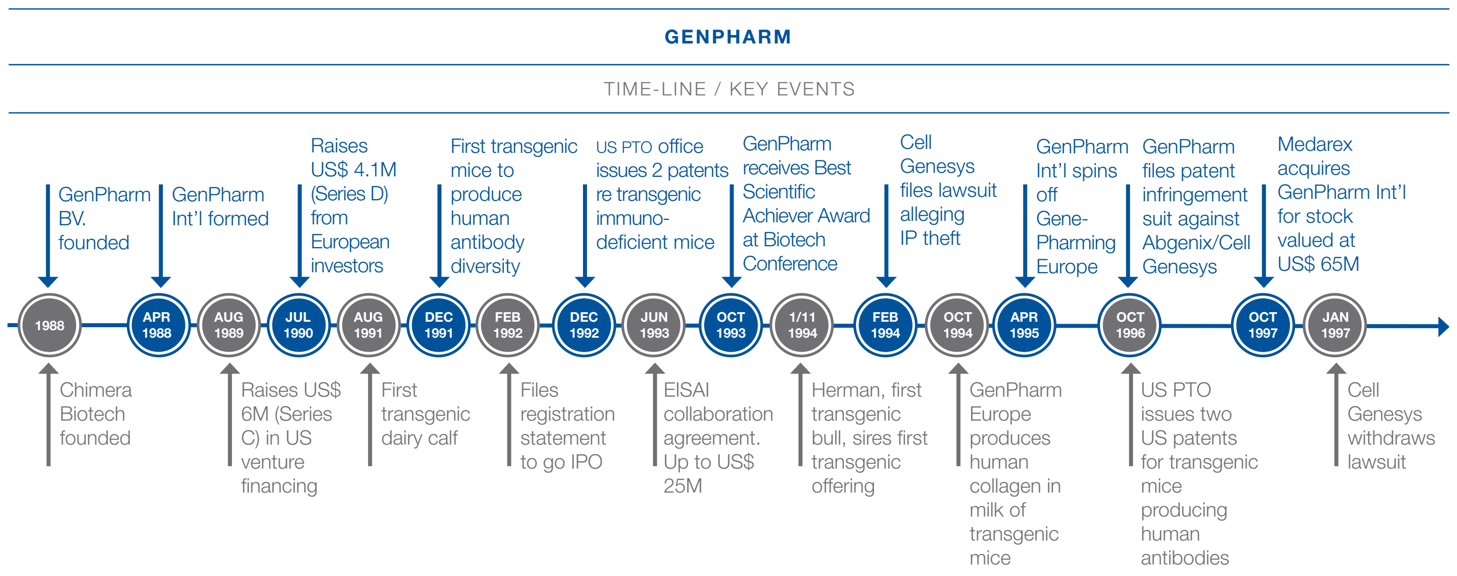
emerging economies. A new venture in healthcare in India has more to learn from healthcare in China than it does from observing the Mayo Clinic in the US." ■

Prepared by George Foster and Martin Haemmig, 19 November 2010

GenPharm | US & Netherlands

OVERVIEW:

GenPharm International Inc. (GenPharm) was founded in December 1988 and quickly became a leader in the research and development of transgenic animal technology for human healthcare products. GenPharm was formed as a result of the merging of two small biotechnology firms – Genfarm BV of the Netherlands and Chimera Biotech, Inc. of San Francisco. It was a venture in the life sciences area that showcased both the opportunities and challenges of an early stage bi-continent company. GenPharm attracted financing from a rich array of sources and built an impressive research portfolio of products. Given its early stage, minimal revenues and losses were the norm. GenPharm had a roller coaster ride and in 1997 was sold to Medarex. The GenPharm patents and products were a pivotal driver in Medarex's subsequent large billion-dollar increase in market capitalization.



QUOTATIONS FROM:

Jonathan MacQuitty was the CEO of GenPharm International between 1988 and 1997. Before this, he held business development positions at Genencor and Genentech. He is currently a partner at Abingworth, a private equity firm in the life sciences and healthcare. MacQuitty has served on multiple boards of directors. He has an MA from Oxford University, a PhD in chemistry from University of Sussex and an MBA from Stanford University.

Sam Colella, a managing director at Versant Ventures, is a leading venture capital investor in life sciences, with more than 30 years of experience. With MacQuitty in 1988, he put together the merger of Genfarm and Chimera Biotech to form GenPharm International. He was a Board member of GenPharm over its life until the sale to Medarex in 1997. He has played a key role at both the individual life sciences company level and in building two venture capital firms – Institutional Venture Partners (IVP) and Versant Ventures. He previously was president of Spectra-Physics. Colella has a BS in business and engineering from the University of Pittsburgh and a MBA from Stanford University.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

MacQuitty: "The initial idea was based on a project at Genencor where I worked in 1988 as Vice-President of Commercial Development. Genencor was focused on genetically engineering microorganisms to produce proteins. The next frontier was to try to produce transgenic milk using genetically engineered cows. Herb Heyneker, the head of R&D at Genencor, and me as head of business development, helped an ex-Genentech colleague of ours, Herman de Boer, to start this project at the University of Leiden in the Netherlands with backing from Genencor."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

MacQuitty: "GenPharm International arose out of a merger of Genfarm BV (Netherlands) and Chimera (California). In the middle of 1988, I met with Sam Colella of IVP. We had just started Genfarm BV and Sam and two other venture capitalists had started Chimera, which at that stage was a small shell company with no management team and no detailed project ideas. Our project had a management team and ideas but no money. I suggested to Sam we combine both entities to form one well-financed company with both management and projects. We merged on a one-to-one basis. It's always better in a merger if both sides feel they have equal power. Sam was insistent that one condition of the merger was that I would have to leave Genencor and become president and CEO of the new company. In April 1989, the combined company was established. GenPharm International was the holding company, based in the United States. The two operating subsidiaries were GenPharm Europe BV and GenPharm US."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Colella: "On the US side, GenPharm would focus on developing transgenic mice that could generate human monoclonal antibodies for therapeutic and diagnostic purposes, as well as developing transgenic mice and rats that could be used as research models for the discovery and testing of new drugs. In the US, we were looking for the 'killer app' that was the human monoclonal antibody. Prior to this time, there was great hope for antibodies but they had not taken off. This was because people had humanized mouse antibodies, but humans still had immune reactions to these antibodies. The ultimate goal was to create a fully human monoclonal antibody so that people wouldn't have an allergic reaction."

MacQuitty: "In Europe, GenPharm would pursue the production of pharmaceutical or nutritional proteins in the milk of dairy cattle. It made sense to focus on cattle in Holland because cows were a huge part of the Dutch economy. Since milk was a commodity, the Dutch government wanted to think of value-added products to make using the cows. When we went to them and said, 'Why don't we develop cows that make pharmaceutical products?' They thought it was a brilliant idea so the Ministry of Agriculture sponsored our work on one of its farms."

What were the major growth accelerators for your company in its high growth years?

MacQuitty: "Collaboration agreements were a major growth accelerator. They enabled us to work with corporate partners to develop new products that could be specific drugs or sets of drugs for particular indications. These agreements could be structured in many different ways, but they generally consisted of three parts.

1. They specified what research would be performed. Typically, the corporate partner would pay GenPharm support fees in exchange for the initial research and development.
2. The agreements would specify milestones throughout the research and clinical phases. Generally, GenPharm would receive additional payments if these milestones were reached.
3. Finally, the agreements would specify which party would have the rights to market the final product(s) and how the proceeds would be allocated. Whatever way the marketing rights were divided up, GenPharm would usually get a royalty payment."

Biotech Strategy

"Every biotech company out there was doing this type of collaborative agreement. The trick is to start collaborations as soon as possible because they serve as a source of non-dilutive dollars for small companies. As a young company, there are also a number of variables you want to get. You want to get some of the money up-front, and to make sure the royalties are large. And finally, be certain that you retain some rights to market the product in order to eventually build up a sales and marketing infrastructure."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

MacQuitty: "GenPharm International had multiple sources of finance, including:

1. *Venture capital:* Series A and B were for Chimera. Series C in August 1989 for GenPharm was for US$ 6 million (blue ribbon set of investors including IVP, Delphi, KPCB, and Merrill Pickaard). Series D, in July 1990, was for US$ 4.1 million with a group of European investors including Abingworth (United Kingdom), Atlas (Netherlands), Charterhouse (United Kingdom), and Euroventures (Netherlands). We did the Series D less than a year after we had received our Series C round of financing in July 1989. I went to the board and told them that we were going to raise another round.

We didn't need the money, but we did need local advisers who understood the culture. I wanted these advisers to also be investors so their interests would be aligned with those who already had equity in the company. In December 1991, we did a US$ 12 million Mezzanine round with five new investors (including NEA and Glynn Ventures).

2. *Small Business research grants:* Awarded in May 1991 (US$ 100,000) and August 1992 (US$ 500,000).
3. *Collaboration agreements with pharmaceutical companies and other corporations:* Eli Lilly in September 1992, and Collagen in May 1993. In June 1993, Eisai agreed to make research and milestone payments up to US$ 25 million. In March 1997, Centocor agreed to make research and benchmark payments up to US$ 57 million.
4. *Government loans:* The Netherlands Ministry of Economic Affairs provided an $US 11.5 million loan under the Technical Development Credit Scheme. These were soft loans. There was no collateral associated with them and you did not have to pay them back until you earned revenue on the products developed with the loan. Therefore, from a biotech company's perspective, that kind of money was like a grant. It had the same financial impact a grant does, and it was not on your balance sheet so it was very, very attractive.
5. *IPO Efforts:* We had two failed efforts. In February 1992, the IPO window seemed to be open to young biotech firms, so we decided to file for an initial public offering. The company planned to use the net proceeds from the offering for research and development expenditures, for expenses related to plant and equipment (principally for research laboratory and pilot production facilities), and for general corporate purposes. While interest was high in GenPharm's IPO, on 16 April 1992 the company announced that it decided to postpone the offering. Centocor, a major biotechnology company, had recently suffered a clinical setback with an antibody product. As a result, Centocor's stock price had dropped and dragged down the biotech sector with it. Essentially, the window closed overnight for biotech firms. We had to postpone the IPO indefinitely."

Lawsuit Sinks IPO

"In early 1994, we planned to file for another IPO. One of GenPharm's rivals, Cell Genesys, Inc. had successfully completed its IPO in January 1993, securing US $44 million in funding and a secondary offering in November 1993, raising another US$ 38 million. GenPharm felt that a public stock offering would give it the financial wherewithal to launch clinical trials of monoclonal antibody drugs and to set up the manufacturing facilities needed to supply antibodies to pharmaceutical company partners. On 1 February 1994, a few days before we were to have filed for our IPO, Cell Genesys filed a lawsuit in state court against GenPharm, charging the company with having stolen a trade secret for inactivating a mouse gene. The day after the suit was filed, we issued a press release that included the following: 'We deny categorically every accusation of wrongdoing made against us. The allegations of the complaint are speculative and the speculations are wrong. We believe that Cell Genesys, having lost the race to be first in generating human antibodies using transgenic mice, now seeks to regain the lead by trying to cry foul. At best, this is poor sportsmanship; at worst, an attempt to use legal process for extra-legal means. We are considering appropriate legal responses.' With a lawsuit hanging over our head, the board decided to pull the IPO. This failure to be able to do an IPO was a major contributor to some pretty subsequent dark moments at GenPharm."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

MacQuitty: "There were the major challenges that a normal biotech company has to handle. There was extra complexity because we were operating on two continents. I remember one of the original investors, prior to the merger, told me that if we were to combine the two entities, he thought I was going to find it hard to manage them. I thought, 'Well, I am responsible at Genencor for managing our European operations, so I think I know how difficult it will be.' He smiled and said, 'Yes, but it will still be difficult, Mr. MacQuitty.' He was right. In Europe, they definitely have different objectives and different processes for getting work done."

Salary Debate

"At the time GenPharm International was formed, scientists in Europe were paid approximately 20 to 25% less than scientists in the US, so we had to decide whether the company should pay researchers in both locations the same salary. We also needed to decide if they should receive the same stock options. We debated these issues for a long time. Eventually, we decided to pay different salaries but grant identical stock options. At first, this caused some discussion in the organization because we were paying people at the same level different salaries. We countered this by saying that that the costs of living were different and that we were paying prevailing market rates in each location. We also countered pay differences by granting stock options equitably across the company at each level. Even though GenPharm decided to grant stock options equitably, the company still had to customize the stock option program in each location."

Holland Research Debate

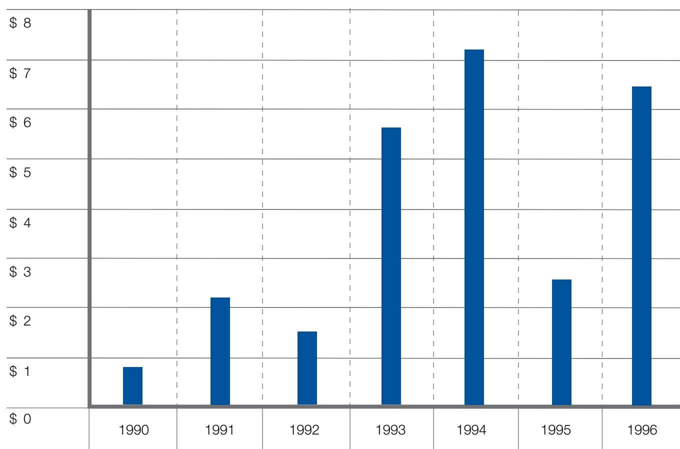
"In Holland, you got taxed on a stock option when it was granted, but there was no capital gain if you bought a stock and subsequently sold it. Therefore, in Holland, we did reverse vesting stock programmes. In the US, on the other hand, there was no tax on the option, but there was a capital gain if you purchased and sold the stock. Therefore, in the US we had to issue the stock options in exactly the opposite way than we did in Holland. Even though GenPharm decided to grant stock options equitably, the company still had to customize the stock option program in each location. There were also protests we had to deal with in the Netherlands. We were engineering cattle in Holland, the country probably most sensitive to genetic engineering, other than Germany, in all of Europe. The animal rights groups put posters on all of the bus stops that showed a cow with women's breasts on it that read, 'Can we

allow GenPharm to do this?’ We caused so much controversy that we were debated in the Dutch Parliament on several occasions, and a Royal Commission investigated the company. We brought in different groups to study and debate the issues surrounding our research. We had ethical experts debate the topic, but our best advocates were actually the patients we were trying to help. As several explained in public debates and on national television, their lives might depend on the products that GenPharm was hoping to make. Eventually, the Royal Commission voted in favour of allowing GenPharm to proceed with its work in the Netherlands. We were worried that the Ministry of Agriculture might just lose heart at some point in time. We continued to bring in behavioural experts to observe the cattle and we made sure we treated them like royalty. In the back of our minds, however, we knew there was always a chance that things could change.”

GENPHARM

REVENUE

MILLIONS (US$ M)



Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

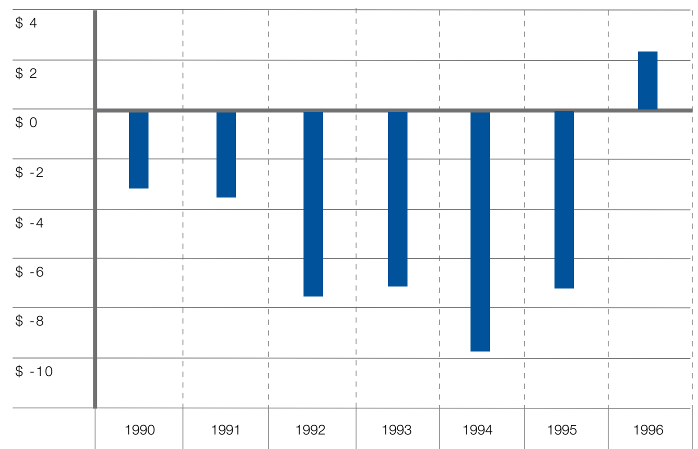
MacQuitty: “As a result of the 1994 lawsuit from Cell Genesys, we found it increasingly difficult to raise money or sign additional R&D collaborations. This necessitated selling off parts of the business, renegotiating existing collaborations, relocating facilities and finally laying off 80 to 90% of the workforce. I remember the pain of writing and sending a memo to all employees saying, ‘It is difficult to predict what will happen over the next two weeks. Events keep changing from day to day. However, I think employees should understand that there is a significant probability that a decision will be made to cease operating early next month.’”

Colella: “What was left in the US in 1995 was a really shrunk-down organization. At one point, we had about 70 people in the US, but we had to scale down to just nine people. And God bless those nine people. They were committed believers in what we were doing. They said, ‘We are going to continue to pursue the science, make progress, and keep this thing alive.’ Jonathan, for example, worked for part of the time without a salary. We basically had to run things on a shoestring because we had to put all of our capital into defending the lawsuit. The lawsuit dramatically changed the direction of the company. Instead of executing an IPO, the company had to abandon its fundamental strategy and reorganize for survival. The result was the company spun off its European operation into a company that we named Pharming BV and reduced its US staff down to a handful of scientists. The CEO and the Board were then consumed by depositions and defending their legal position. The tragedy is that in the end there was no evidence of wrongdoing and a company that had been on an accelerated growth path ended up being sold with the subsequent acquirer growing the business into its final multibillion dollar realization.”

GENPHARM

INCOME (LOSS) FROM CONTINUING OPERATIONS

MILLIONS (US$ M)



What are the key lessons about entrepreneurship and successful growth strategies you’ve taken from your company experience?

MacQuitty: “The key lessons I take away in terms of entrepreneurship and successful growth strategies are:

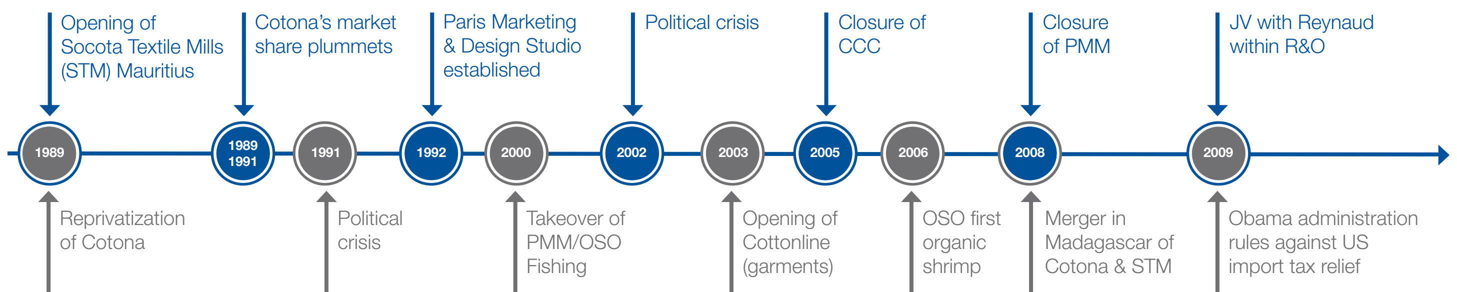
1. Have a clear initial vision of where you want to go and realistically how to get there.
2. Be flexible and opportunistic about ways in which item one can be improved or modified.
3. Recognize that there will major bumps along the way and be ready to deal with them both intellectually and emotionally.
4. Be persistent in executing your strategy. In this way GenPharm, which was worth essentially nothing in 1995, five years later was worth over US$ 2 billion. It’s a roller coaster!” ■

Prepared by George Foster, 18 November 2010

Groupe Socota | Madagascar

OVERVIEW:

Groupe Socota is a revitalized and refocused company that is now positioned with major revenues outside Madagascar. The Groupe has a rich heritage (starting in 1930) as a sizable employer in Madagascar. It experienced several roller coasters that are related to political and regulatory shifts. This has led to multiple re-starts that had sizeable aspects of an entrepreneurial enterprise. Starting in 1989, the textile subsidiary Cotona emerged as a re-privatized company. Groupe Socota currently has two vertically-integrated focal areas: (1) seafood operations including importing into Europe from Madagascar and many other areas, and (2) textiles and clothing, including manufacturing in Madagascar and a design studio in Paris with a global customer footprint. In 2009, there was a significant shift to seafood operations with a joint venture agreement with R&O, a French-based seafood distributor.



QUOTATIONS FROM:

Salim Ismail has led this family-controlled group since 1967. The Ismail family immigrated to Madagascar from the Province of Gujrat in India. He was educated in France with an undergraduate degree in engineering (ENSIT) and MBA degree from Sorbonne Graduate Business School, Paris. Groupe Socota is a Global Growth Company of the World Economic Forum.

(The emphasis in the quotations below is on the revamped recent eras of Groupe Socota, where many issues of an early stage entrepreneurial company have occurred).

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Ismail re post 1991 era: "The market liberalization which occurred in the late 1980s had dramatic consequences on the local market which shrank drastically because of illegal imports. As such, Cotona had no other choice than to take the following steps:

1. Redeploy its activities toward export market catering for higher demanding customers.
2. Internationalize its regional set-up in order to minimize exposure to political turmoil often occurring in African countries.
3. Diversify towards new businesses such as food industry and real estate."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Ismail re post 1991 era: "Cotona was the first company to be re-privatized in 1989. My dream to recover the control of our company became reality. However, the government liberalization process opened the local market to fraudulent imports of used garments. As a result, Cotona lost two-thirds of its market share in less than two years, leaving us with a vital dilemma: either redeploy our activities towards exports or disappear as most of our competitors did. The creation of an export-processing scheme by the Madagascar government encouraged us to undertake a redeployment project in 1993. With the support of the European Bank of Investment (EIB), and the International Finance Corporation (IFC), US$ 20 million was invested to re-convert Cotona from an African market-focused company to a western consumer-focused company. Major decisions taken at that time dramatically changed our evolution:

1. Implementation of a diversification strategy with the launching in 2006 in the north of Madagascar of the first worldwide organic shrimp farm operating according to the standards of the French Ministry of Agriculture (Agriculture Biologique 'AB' label).
2. Establishment of a clothing manufacturing plant in Madagascar in 2003.
3. Merger in 2009 of our farming operations (named OSO) with Reynaud, a leading distribution company of the French market specialist in seafood and fresh water products.
4. Merger in 2009 of Cotona and Socoto Textile Mills LTD, a weaving and finishing mill that we founded in Mauritius in 1989."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Ismail: "Our business model has significantly evolved in the past five to 10 years. Regarding our textile operations, Cotona has become a dedicated fabric mill to our garment plant and both plants are driven by a design and marketing studio located in Paris at the heart of our markets. We are now a more vertically integrated company.

We are positioning ourselves as a specialist of casual wear (not just a fabric supplier) and we target fashion market segments with a differentiation strategy based on four key elements:

1. Full vertical set up – from cotton fields to finished fabrics allowing a trouble-free sourcing for our customers. This has been the cornerstone of our development. This strategy in the past five years includes securing upstream production as well as building downstream integration.
2. Innovative design of garment styles and fabric patterns with continuous product development carried out through an ongoing dialogue with our customers.
3. Consistency of the quality of our products, short lead times and reliability of our delivery dates.
4. Fast response and flexibility to market changes and to fashion trends. As such, we act as a designer of fashion solutions and 'turnkey' products. We laser-beam our focus on making our customer's life easy.

Seafood Brands

Our seafood business has two major brands – OSO (organic shrimp) and 'REYNAUD', which includes distribution of a wide range of highest-quality products covering 500 different species of fish and shellfish sourced in various countries of the world, such as Canada, Ireland, Australia and Greece. These products are processed in three plants located in France. They are packed in flexible packaging for ready-to-eat and easy-to-prepare instant meals and sold to demanding customers whether they are chefs or consumers through a network of fishmongers."

What were the major growth accelerators for your company in its high-growth years?

Ismail: "The growth accelerators could be summarized as follows:

1. Long-term competitive advantages of Madagascar
2. High quality differentiated products sold with a reliable service adapted to customer needs
3. Downstream integration allowing a direct access to the market with 'turnkey' products
4. Highly motivated people inspired by a strong corporate culture
5. Careful and demanding selection of machinery and equipment suppliers
6. Careful and demanding selection of raw material suppliers
7. In terms of image, integration of our operation in their social and natural environment through various sustainable development programs, including:
   - Appropriate working conditions for employees
   - Healthcare for themselves and their families
   - Systematic utilization of raw material and production processes with low carbon footprints
   - Used water treatment and recycling
   - Biomass fired boilers
   - Waste collection and incineration systems and used water treatment plants
8. Passion of the top management team."

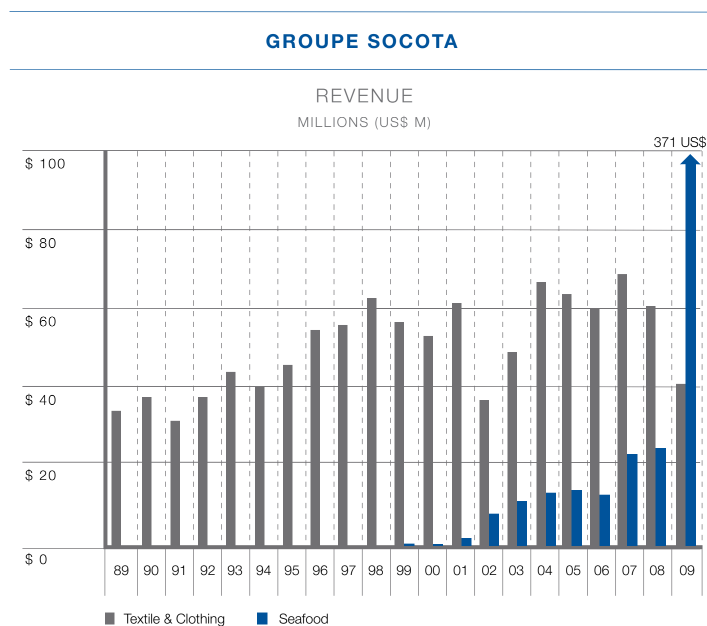
Briefly describe the financing of your company and how this financing impacted the growth of your company.

Ismail: "By experience, we manage our financing with a clear objective to limit our indebtedness and the impact of excessive interest charges on our cost structure. Our activities are highly seasonal so we need to keep enough flexibility in terms of cash to cope with market downturns.

We received financial support from the European Bank of Investment (EIB), the International Finance Corporation (IFC), and the French Development Bank AFD when shifting Cotona's consumer focus to western markets in the 1990s. Our investment in OSO's organic shrimp farms was financed by long-term loans provided by the German Development Bank (DEG)."

What were the major challenges your company had to handle in its high growth years and how were they managed?

Ismail: "Our market position relied primarily on our creativity and competitiveness. The mindset and behaviours of our people were a strong key in this process. Our first challenge was to spread and keep alive a corporate culture centred on customer satisfaction, performance and ongoing progress. The second challenge was to master the know-how in the new areas of business where we had invested – clothing manufacturing, shrimp farming, seafood distribution. We did this by opening equity to first-rank international joint-venture partners."



Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

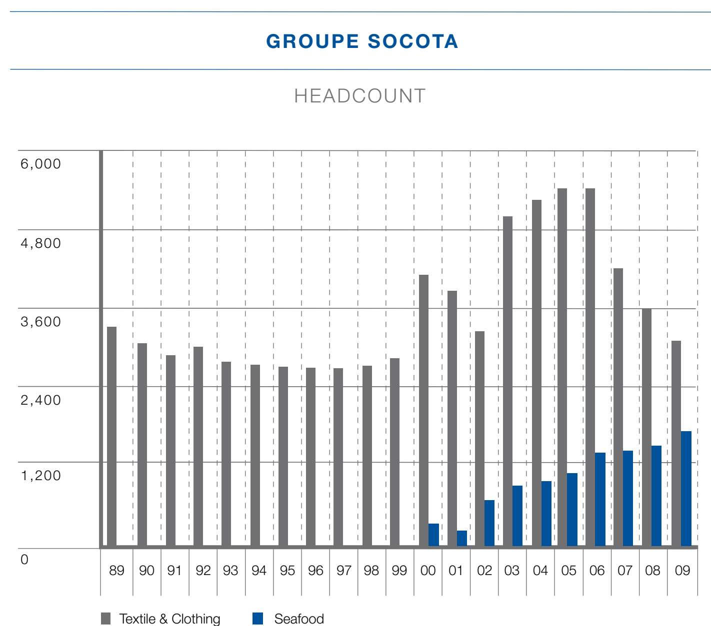
Ismail: "A classic dark moment occurred at the end of the 1960-1975 era. This is permanently engraved in my memory. In June 1976, we heard that our family business was being nationalized. This was a very dark moment.

"Some dark moments from more recent times include when we learned about the loss of the AGOA benefits that had allowed Groupe Socota's garments duty-free access to the US market. This decision was taken by President Obama following the constitutional crisis that occurred in Madagascar in 2009. This meant that we had to replace more than 30% of our market over three months. Groupe Socota has encountered multiple downturns due to political uncertainties in this difficult part of the world. These two examples illustrate our sad daily news. However, our fighting spirit is still there, and we have a vision of what we want. This keeps us alive and ensures that we keep moving forward."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Ismail: "Examples of my learning include:

1. Be open to new ideas and new ways of thinking, and translate these into action.



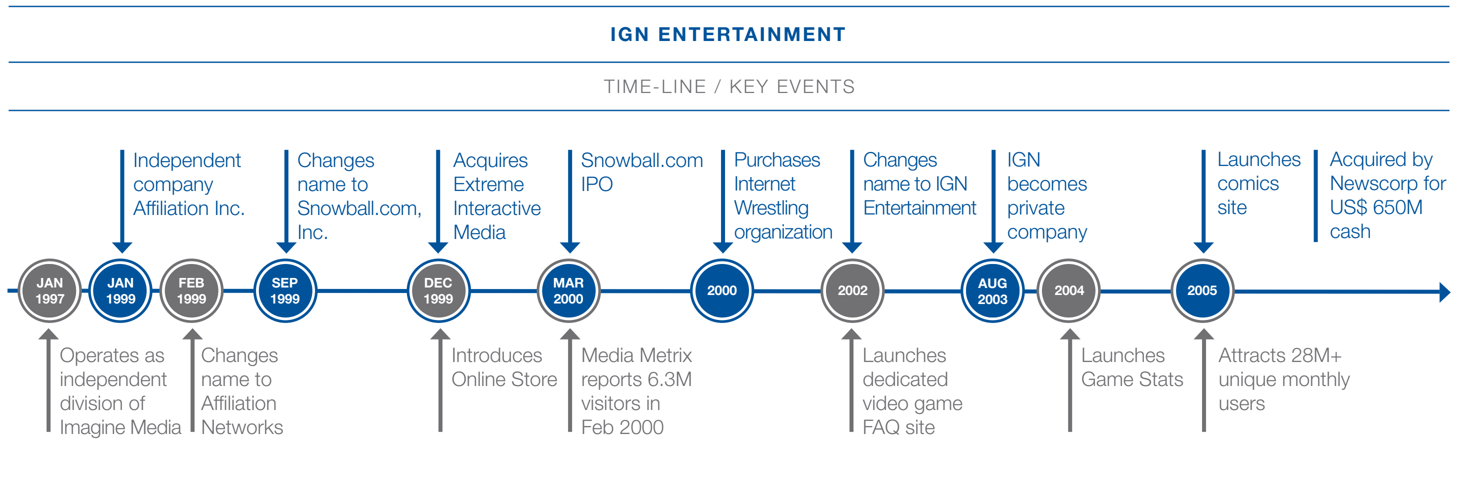
2. Develop innovation capacity and be ready to re-engineer the existing business model.
3. Develop a long-term vision and keep a fighting spirit. Every crisis offers salutary opportunities.
4. Unite people around a strong corporate culture that empowers them.
5. Integrate business within its social and natural environment. Make decisions that are compatible with the general interest of the society. For example, we have a responsibility in Madagascar of being a major employer. Some of our employees had their fathers or mothers working at Groupe Socota.
6. Do well by doing good!" ■

Prepared by George Foster, Martin Haemmig, and Ning Jia, 24 November 2010

IGN Entertainment | US

OVERVIEW:

IGN Entertainment is a News Corporation property included in Fox Interactive Media. It focuses on video game and entertainment enthusiast markets. This executive case covers IGN from its early days as an independent division of Imagine Media, to its acquisition by News Corporation in October 2005 for US$ 650 million. This period was a roller coaster ride for management and its investors. It operated as an independent private company, Affiliation Networks, and moved to a publicly traded company – first as Snowball.com Inc. and then IGN Entertainment – to a privately-held company again prior to News Corporation. The underlying strength of IGN was the development of online media assets that had gripping content and an expanding user base in the period covered. At the time of the News Corporation's acquisition, it had more than 28 million unique monthly users. The company's network of video game-related properties in 2005 included IGN.com, GameSpy, FilePlanet, TeamXbox, and Direct2Drive. In 2005, it was the Internet's number one video game information destination and attracted a large audience of young males. IGN also owned and operated the popular movie-related website, Rotten Tomatoes, and one of the leading male lifestyle websites, AskMen.com.



QUOTATIONS FROM:

Mark A. Jung was co-founder, president and CEO of Affiliation Networks; co-founder and CEO of Snowball.com; and CEO and president of IGN Entertainment. After the News Corporation acquisition in 2005, Jung became chief operating officer of Fox Interactive Media (FIM), where he was responsible for all its Internet properties. Prior to joining IGN, Jung was co-founder and CEO of Worldtalk Corporation, an Internet security company that he took public in 1996. Since leaving FIM in 2006, he has served as chairman of Clearspring Technologies and CEO of Vudu in 2007 and 2008. He has a BS in electrical engineering from Princeton University and an MBA from Stanford University.

What was the source of the initial idea and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Jung: "Snowball.com was founded in 1999 as a spin-out of the online properties of Imagine Media, a specialty print company. Chris Anderson,CEO of Imagine and chairman of Snowball, and I saw the opportunity to build a stand-alone, web-based company targeting teens and young adults through a variety of online vertical communities. We felt that this 'hard-to-reach' market was being underserved by the leading portals at that time – Yahoo!, AOL, and MSN – specifically because they were collectively failing to capitalize on the role that user-generated content was beginning to play in serving the youth audience. Chris and I contributed the initial seed capital for the venture in February of 1999. In the first few months, I hired the founding executive team – Tim Armstrong, Ken Keller, etc. – picked an initial name for the company (Affiliation Networks), created and refined the business plan, and 'spun-out' by setting up shop in a new facility."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Jung: "In order to execute our initial vision, we needed to be free of the encumbrances of a joint offline/online, print/web infrastructure. We needed capital to scale the online properties, and the free cash flow from the profitable print ventures was insufficient to fund the required investment in technology, sales, and marketing – hence, the spin-out. In May 1999, we raised our first institutional venture capital – US$ 25 million at US$ 95 million pre-money valuation – based on a plan to become the leading web portal for youth, whom we coined the 'I-generation'. The 'I-generation' referred to a young demographic that was growing up online, contributing and producing as much content as they consumed. By December 1999, we had scaled the company to several hundred employees, changed our name to Snowball.com, and raised US$ 35 million – US$ 325 million pre-money valuation – in a mezzanine round. Caught up in the Internet boom, we went public in April of 2000 in a Goldman Sachs-led IPO, just 14 months after we founded the company. We later changed the name of our company to IGN Entertainment."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Jung: "We strongly believed that any successful media property targeting the younger audience had to have the right balance between 'first-party published' and 'third-party, user-generated' content. First-party premium editorial content was critical to getting the high-CPM advertising dollars necessary to gain operating leverage, and third-party content was critical in building large audience reach at a very low customer acquisition cost. We noticed that the early user-generated portals – Angelfire, Tripod, About.com, Geocities – were able to generate massive reach but with relatively 'low-value' advertising inventory given the quality of their content. We set out to build a blended content-affiliate model, targeting youth verticals, such as teen girls and video gamers, via networked hubs populated with first-party premium content, and surrounded by a vast network of user-generated affiliate sites that were endemic or relevant to community interest. IGN.com was staffed with 'authoritative' editorial talent, such as video game reviewers, and surrounded by dozens of user-generated properties, including cheats, codes, guides, message boards, and fan sites. As a result, we were able to scale IGN quite rapidly from both a revenue and audience reach perspective."

What were the major growth accelerators for your company in its high-growth years?

Jung: "We identified, recruited, and signed on several hundred key third-party websites (affiliates) to join our content networks. When necessary – and where possible – we purchased select affiliates and invested in integrating their content and audience into our hubs in order to maintain the appropriate first-party and third-party content mix. We focused our employee recruiting efforts on individuals who were passionate about the content communities that we were building, such as video gaming, and we invested heavily in maintaining a creative culture and environment in order to keep our employees passionate, motivated and happy. IGN became the leading portal for video gamers worldwide with more than 30 million gamers visiting our sites monthly to discover, collaborate, share, and meet other gamers. As an interactive vertical portal, we became a haven for community knowledge sharing. Because we were able to capture the largest share of voice in a growing and attractive endemic audience – male video-gamers – our monetization rates, including advertising, e-commerce, and subscriptions, and hence our operating margins, were extremely high."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Jung: "We benefited from a low cost of capital during the Internet boom years, raising US$ 60 million of private capital and another US$ 60 million+ of public capital (IPO) with relatively little dilution to the common shareholders. When the public markets collapsed, we went private in 2003 via a management buyout led by Great Hill Partners, a Boston-based private equity firm. Post-buyout, due to our positive cash flow, we were able to raise more than US$ 60 million in incremental senior debt, subordinated debt, and non-convertible preferred debt to fund a series of acquisitions. Because none of this capital was convertible to common, the incremental cash came at little or no dilution, although there were warrants associated with some of the debt. To put this in context, we went private in 2003 at a valuation of US$ 29 million, leveraged our capital structure in order to finance several acquisitions, and sold to News Corp. two years later in 2005 at a cash valuation of greater than US$ 650 million."

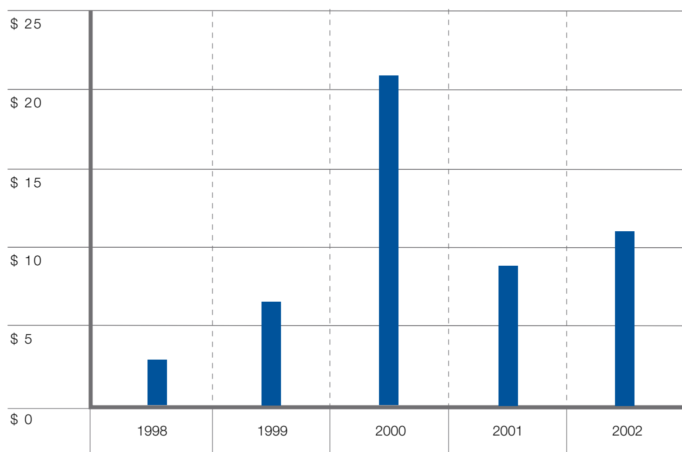
What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Jung: "Snowball.com was the last major internet IPO of 2000, marking the end of the 'bubble'. Our market capitalization peaked at over US$ 1 billion on our first day of trading, and within two years, our market capitalization had fallen more than two orders of magnitude to less than US$ 10 million (trading at a discount to our cash balance). Despite two reverse-splits of our public common stock (1:18 in combination), our stock traded below US$ 1.00 on NASDAQ long enough that we were called to testify at a NASDAQ de-listing hearing in Washington, DC. We were able to stay listed but on the small-cap charts. Between the day we went public and the day we went private, we implemented five separate layoffs taking company headcount down from 450+ to less than 50. In that process, we lost every senior executive of the IPO management team with the exception of our VP of engineering and me. We survived out of sheer will and perseverance, racing against the clock to raise revenue and reduce costs before the cash ran out. We were constantly revisiting our business model, questioning all core assumptions,and we tried a variety of new initiatives until, luckily, one would stick – subscription services for premium content and file downloads. We never lost pride in what we had created, and never took for granted the appreciation our audience showed for the properties that we had built. At one point, we even asked our audience for cash donations to keep the properties alive. Most of all, we never gave up faith that we would right the ship, stabilize and survive. When the markets finally 'turned', we were so used to running with a lean and efficient organization that we were able to scale revenue much faster than expenses, thus generating significant earnings growth."

IGN ENTERTAINMENT

REVENUE

MILLIONS (US$ M)



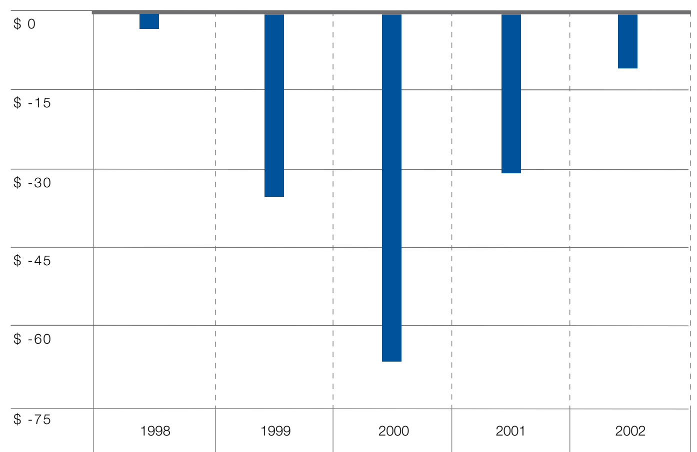
Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Jung: "Laying off the majority of employees, especially those that were personally recruited, is not a task that I would wish on anyone. I will never forget the words of an employee who said to me, upon notification of being laid off: 'This is what I get for all of my dedication and hard work? I have been here from the beginning. I've stuck with you through thick and thin, have always been a believer, and in return, you shred me and toss me into the street? Is this how you repay loyalty?' Dealing with failure is the hardest of all tasks for a CEO, especially when it's staring you in the face. When the ramifications of failure are clear and measurable, it's hard not to internalize the lion's share of fault. The real issue is not internalizing blame, but rather what happens next. Perseverance is a critical trait for successful entrepreneurs. In order to learn from one's mistakes, one has to be around long enough to see the tides turn."

IGN ENTERTAINMENT

NET INCOME (LOSS)

MILLIONS (US$ M)



What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Jung: "Keys to entrepreneurial success? My advice:

1. Every venture goes through cycles – have the perseverance, courage, patience and conviction to see them through.
2. Celebrate little wins. Never discount the value of moving the ball forward even if it seems that you're losing the game.
3. Stay focused, have a clear strategy and vision, and communicate, communicate, communicate.
4. Engage your customers and encourage audience participation – leverage their enthusiasm and brand loyalty.
5. Make sure your employees are happy – don't guess, ask!
6. Never, ever give up. It's often darkest before the dawn." ■

Prepared by George Foster, Martin Haemmig and Antonio Davila, 24 November 2010

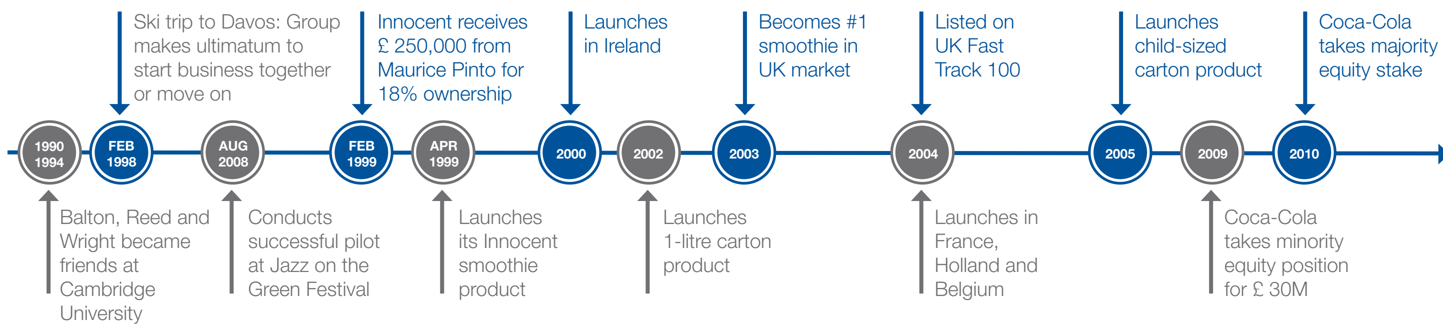
Innocent | United Kingdom

OVERVIEW:

Innocent is the leading smoothie product in the United Kingdom. Initially called Fresh Trading Ltd, the company was created after three friends from Cambridge University decided to go into business together 'to make life easier and better for people'. After rejecting several ideas, they focused on fresh fruit-based smoothies. The existing alternatives were concentrate-based. Trials of the fresh fruit-based smoothie had resounding success in 1998. Innocent has outsourced manufacturing and distribution, while keeping the intellectual property associated with their combinations of different fruits and other ingredients (such as yogurt) in-house. The company struggled to get financing in the late 1990s, but in February 1999, an investor provided £ 250,000 for 18% ownership. Over time, Innocent expanded its packaging options from the initial 250 ml bottle to also include cartons and child-sized lunch packs. By 2003, the company had grown to become the top-selling smoothie product in the United Kingdom. In 2009, Coca-Cola took an equity position in the company. As of 2010, Coca-Cola took a majority equity position but left operating and board control with the three founders.

INNOCENT

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Richard Reed is a co-founder and has been co-CEO of Innocent from the outset. He attended St. John's College, University of Cambridge (along with co-founders Adam Balon and Jonathon Wright). After Cambridge, Reed spent four years at BMP DDB Needham, a global advertising agency. With Balon, he promoted the Jazz on the Green Music Festival. He and his two co-founders have won multiple business awards including E&Y Young Entrepreneur of the Year Award.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Reed: "The three founders – Adam Balon, Jonathon Wright and I – had talked many times over the prior seven years, including our years at Cambridge University, about going into business with each other. At a skiing weekend in 1998, the three of us agreed to either make a final serious attempt to see if this was possible, or to stop talking about that dream. We looked at three specific ideas after rejecting a marketing consulting company. One factor we agreed on to guide any choice was that we wanted a venture that 'makes life easier and better for people'. Our first idea was the amazing electronic bath that fills itself to a pre-designated level and temperature. It was a terrible idea – mixing water and electricity was going to make lives shorter rather than better. Our second idea was to rid the world of door keys and replace them with automatic cards. Our third idea was the fresh-fruit smoothie concept. As three 26 year-olds living in London, we were all too aware of the downside of urban living – where it's so easy to eat too much pizza, drink too much beer and not take care of yourself. Innocent was born out of our desire to assist people to live a healthy life. The next weekend, we mapped out some key details to explore and decided on areas where each would have domain responsibility – Jonathon was to be operationally-focused, Adam was to be retailer-focused, and I was to be consumer-focused. These choices played to our strengths."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Reed: "There were already smoothie drinks in the UK market, although they were not consistently stocked in retail outlets. Moreover, they invariably used concentrates as opposed to our fresh-fruit smoothie concept. Our early steps before leaving our day jobs involved some basic market tests. A very memorable one was at the August, 1998 Jazz on the Green festival held in London. We sold smoothies that day based on fresh fruit that we squeezed. The feedback was great and that encouraged us to go further. We continued to receive positive market feedback, which increased our ability to build momentum and our confidence. We had a classic chicken-and-egg problem with our decision that Innocent had to have a direct relationship with the distributor. The norm was that the distributor required a customer to sign up and that the retail customer wanted to see a signed distributor contract before committing shelf space to a product. In our early days we had plenty of products due to small contracted sales and long minimum production lots. We left three cartons of Innocent with 50 potential customers free of charge for them to sell with no obligation – 45 out of the 50 gave us an order the next week, and we had orders we could take to distributors."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Reed: "Our strategy has a straightforward description – 'Look after our customers better than our competitors in a way that is profitable to us.' We made several key decisions that were key to us still being in business:

1. Our key product differentiator was the use of fresh fruit that was crushed, as opposed to the use of concentrates – the Innocent product and its brand were to be about being healthy, natural and unadulterated.
2. Outsource the heavy lifting areas of manufacturing and distribution. We sweated for some time about our manufacturing decision. Looking back, it was very important as we had little comparative expertise in this area, and it was highly capital-intensive. Moreover, outsourcing gave us a lot of flexibility in making decisions to add new packaging channels (such as cartons and a lunch-pack size with a straw) for our smoothie products. Had we been manufacturing ourselves we would have had to find resources for new packaging lines that would have slowed us down even if the money had been available. The distribution was also capital-intensive, as you needed a chilled warehouse and delivery vans with chilled facilities, given our product.
3. Innocent – rather than the distributor – was to have a direct relationship with the retailer but leave day-to-day fulfilment to the distributor.
4. Keep in-house the intellectual property associated with our smoothies, including the various combinations of fruit and the purchasing of the ingredients.
5. We would not do private labels. We turned down a sound-out from Pret A Manger, which wanted to market our smoothies under their own label and not that of Innocent."

What were the major growth accelerators for your company in its high-growth years?

Reed: "Some key accelerators were:

1. The market opportunity for a fresh fruit-based smoothie. The retail food market in the United Kingdom was well-developed with a large number of retail outlets and many distributors with the capacity to deliver chilled products. We called this the 'white space' opportunity, which referred to the large number of fridges available to showcase our new product. While smoothies had been sold before Innocent, their distribution was uneven, and they were based on concentrates. Our product was new and relevant. In the United Kingdom there had been a transformation in eating and drinking habits in the previous decade that had created a market opportunity for Innocent.
2. Widening the consumer base by adding new packaging offerings. The first product packaging was the small 250 ml bottle smoothie, which was appealing to many of the younger generation. It was often an impulse buy. We then added a second packaging

offering – in one litre tetra pack take-home sizes, which sold very well in supermarkets like Tesco. This appealed to families, who might drink it at the breakfast table. We also added a small carton with a straw packaging extension that was ideal for a child's lunch box. This approach was the equivalent of keeping the software and changing the hardware. Each of these packaging offerings has a sizeable revenue stream.

3. Widening the geographical footprint of where we sell. At present we only manufacture in the United Kingdom. However, there are many countries within a 24-hour drive that have chilled distribution available. We first moved into the Republic of Ireland, then France, and later Sweden, Norway, Finland and Denmark.
4. The marketing of the company had several phases. In the early days, we put a lot of effort (but not huge money) into brand development, including comments placed on our bottles that attracted a lot of attention. After we reached national distribution, we invested in nationwide advertising. This enabled us to reach a new pool of customers beyond our early adopters. We have always placed a premium on being very accessible to the media. That enabled us to gain a lot of free publicity. We are a genuine 'feel good story' about the three of us trying to do good.
5. Alignment/congruency between what we say, what we do, what we make, and the way we present ourselves. This gives the brand an authenticity and trust that resonates in the world of food. There is an emotional connection between many Innocent consumers and the product. This emotional connection is very strong for food products as compared with other products, such as pens and petrol.
6. Management team dynamics. The three founders had known each other for seven years before we started. We knew each other's strengths and weaknesses. We have a management approach where we present and analyse evidence on decisions being made and keep analysing for some time to see if we can reach agreement. The caveat is that the person with domain authority will always make the call if there is not agreement. This caveat is rarely required. Maurice Pinto, our initial major investor, said our approach was certainly not something he had seen before or one he expected to be effective in many companies."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Reed: "After we developed our business plan in 1998, we tried for months to obtain funding without success. It was extremely difficult. Many investors were putting money into dot-com ventures. We decided to send a 'spam e-mail' titled, 'Does Anyone Know Anyone Rich'. It actually led to our first investor, who was for many years our only major investor – Maurice Pinto, an American living in London, who invested £ 250,000 for 18% of the company. In 2008, we decided we needed growth capital. We had achieved national distribution in the UK and wanted to explore European growth opportunities beyond the United Kingdom. Coca-Cola bought 20% of the equity for £ 30 million. They have subsequently increased that to 60% (including buying out Maurice Pinto). The Coca-Cola investment is unusual in that the founders are minority equity holders but have 75% of the voting rights."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Reed: "Major challenges included:

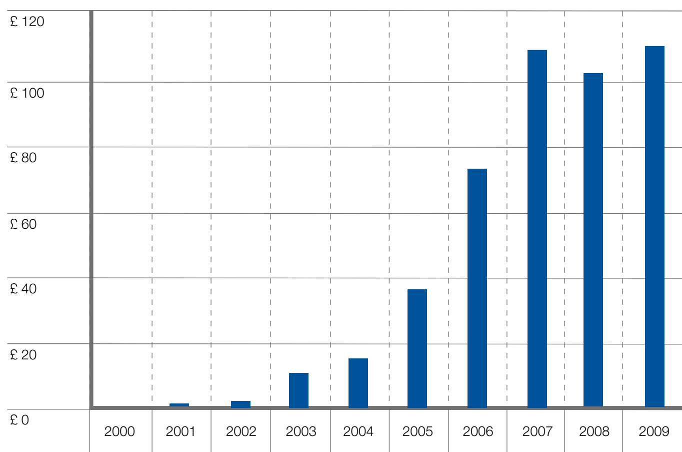
1. Hiring people with similar values and the required skills. In one year we went from 100 to 200 employees, and it was incredibly challenging to keep adding the people we wanted at the speed our growth was requiring.
2. Keeping the culture and values as we grew. This was something we put a high priority on, and it turned out that our disciplined hiring standards meant it was less of a challenge than it could have been.
3. Handling the shift in stature from a small company to becoming a nationally distributed and highly recognized brand and company. Part of our attraction to some customers was that we were neither a mega-brand nor a multinational. However, questions like, 'Has Innocent lost its innocence?' were asked as we grew rapidly in revenues and stature. Having Coca-Cola take an equity position in Innocent and then increase that to over 50% added to these comments.
4. The sheer logistics of keeping the fresh-fruit supply lines full to meet the rapidly growing demand. This was accentuated at times when we could not even obtain supplies of certain fruit due to crop failures."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Reed: "Two come to mind:

1. Supplier leaves Innocent stranded. In our second year, our sole source bottle supplier rang us up and said, 'Really sorry guys, but we cannot supply you any bottles for six weeks. We have just landed a mega new customer and he wants all our bottle capacity.' We responded, 'But we are your existing customer and have been for the last 18 months. You are our sole supplier.' They responded, 'Sorry guys, but the new customer will be bigger for us than you are.' We scrambled hard and had some difficult compromises before we found a new long term supplier and then added a second. We committed after that to have multiple suppliers for each key area where possible.
2. Surviving a perfect storm. In 2008, multiple negatives hit us all at the same time. With the global financial crisis and the United Kingdom's economy problems, many customers stopped buying or bought less of Innocent. Tropicana (a PepsiCo company) launched in a very aggressive way that hurt our margins. The world price of food also reached record highs. We lost money in 2008 and had layoffs. It was a fundamental shift that none of us saw coming or had experienced before. However, we made ourselves leaner and are in a better position to grow more profitably should further negatives occur."

INNOCENT

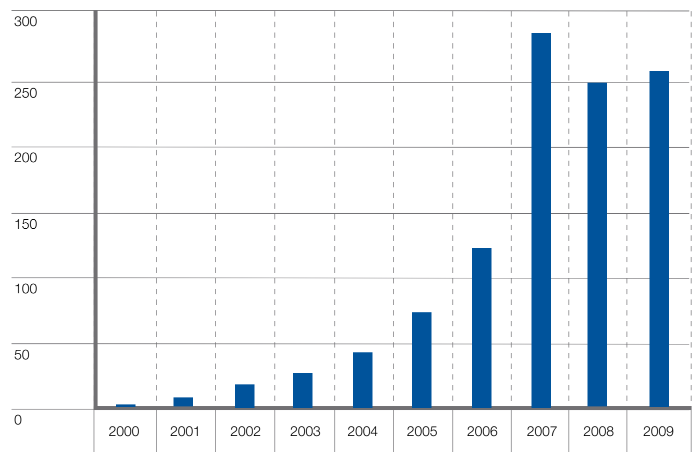


What are the key lessons about entrepreneurship and successful growth strategies you take from your company experience?

Reed:

1. "Having a clearly articulated purpose for the business is very powerful. We say our ultimate purpose is to promote people becomingmore healthy. It motivates and engages us and makes decision-making easier.
2. It is absolutely all about the people at all levels. The three founders had a shared set of values and complementary skills. When recruiting, you are building a community and should do everything you can to get people with the right values and skills into the community.
3. Know the economics of your industry, including what industry norms are key for financial variables, delivery times, etc. You should have a good understanding of why you deviate from these industry norms. We certainly took a while to appreciate the value of this." ■

INNOCENT

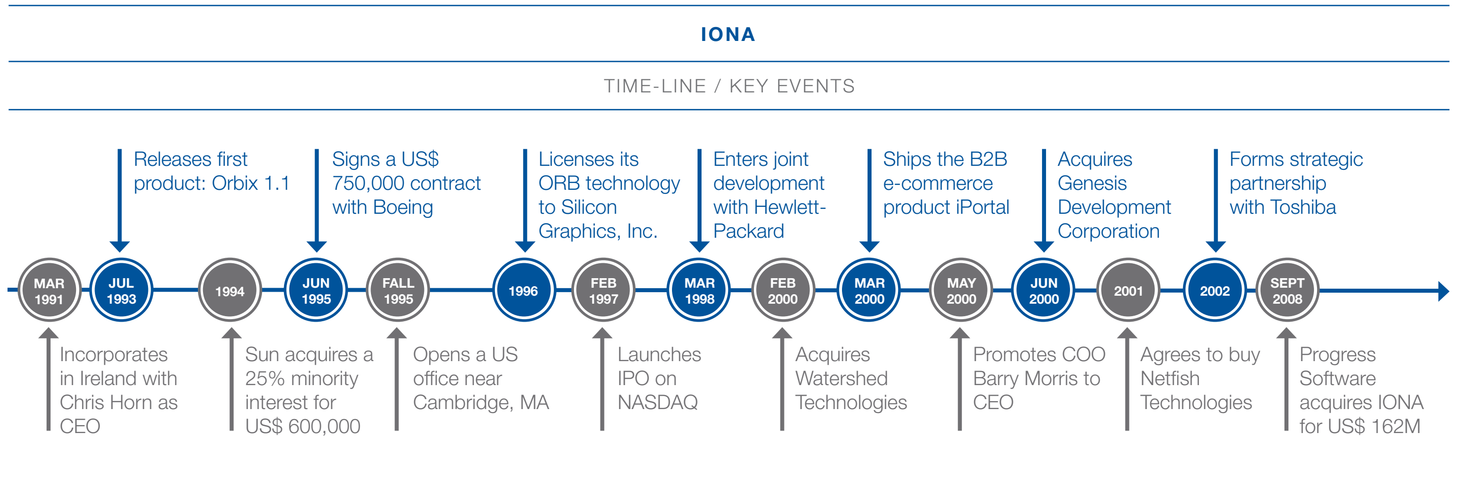


Prepared by George Foster, Xiaobin He, and Hamish Stevenson / Fast Track, 22 November 2010

IONA | Ireland

OVERVIEW:

IONA was founded in 1991 by two faculty members (Chris Horn and Seán Baker) and a research assistant (Annrai O'Toole) at Trinity College's Department of Computer Science in Dublin, Ireland. It went public on NASDAQ in 1997. IONA was a leading provider of software solutions and consulting services for developing, integrating and managing network-based applications for communications among different computing platforms. It served a variety of customers in industries such as telecommunications, financial services, manufacturing, government and information technology. IONA was sold to Progress Software for US$ 160+ million in September 2008.



QUOTATIONS FROM:

Chris Horn was IONA's CEO, president and chairman from 1991 to 2000. He served as chairman from May 2000 to May 2003, when he reassumed the CEO position until becoming vice-chairman in April 2005. Prior to establishing IONA, Horn was teaching computer science and conducting research projects on distributive computing at Trinity College. He also worked in Brussels for the European Commission and was involved in a programme designed to improve the technology industry in Europe. Horn holds a PhD in computer science and an Honorary Doctorate of Science from Trinity College, Dublin. He is an influential contributor to many Irish governmental and industry bodies. Horn is non-executive chairman of Sli Siar, a Beijing-based consulting firm that advises on and promotes ways for Western and Chinese companies to productively work together.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Horn: "Seán Baker, Annrai ('On-ree') O'Toole and I co-founded IONA in February 1991. Seán and I were faculty members at the Department of Computer Science, Trinity College, Dublin (Ireland), and Annrai was a research assistant. On founding, I became CEO and chair; Seán VP of Professional Services; and Annrai CTO. Subsequently, in April 1992, Colin Newman – a friend of Annrai's who was returning from US – joined us as VP of marketing.

"The initial idea was to build software products that would implement a highly significant new industry standard to directly interconnect software applications. Over time, IONA developed further interconnection products that implemented further evolving standards, particularly as web-based interconnection of software applications became popular from about 1997 onwards.

"The industry term for these interconnection technologies is 'middleware' – software that intercedes between the lower operating system (e.g., Windows, Linux, Mac OS, etc.) and the software applications themselves. IONA's focus was application-to-application middleware (as opposed to, for example, application-to-database middleware).

"Starting in approximately 1995, web-based computing came to the fore to connect human beings via an Internet browser to a huge range of applications across the Internet. IONA's web middleware has a slightly different focus: how to use web-based computing to directly connect one application to another application across the Internet without human intervention. A browser was not involved in this interaction.

"What are examples of application-to-application interconnection? Well, there are very, very many. In some cases, the applications involved are all within a specific organization (although perhaps over different operating locations) – for example, a banking system in which the foreign exchange subsystem interacts with the private client subsystem, which interacts also with the trading subsystem, which interacts also with the risk assessment subsystem. In other cases, interaction is also between organizations: supply-chain management being a classic example.

"The idea IONA had in the early 1990s developed into a viable high-growth venture for a number of reasons: application-to-application interaction is a horizontal problem across all computing sectors – finance, telecommunications, manufacturing, government, transport and logistics and so on. It is also a global problem. The market opportunity was truly vast. Further, IONA consciously chose to implement and subsequently influence industry standards. Had it instead developed a proprietary solution, it would have been far less likely to gain widespread adoption.

"The first major standard (family) that IONA implemented and then influenced was the Object Management Group's (www.omg.org) Common Object Request Broker Architecture (CORBA). Subsequently, IONA also implemented and influenced Sun Microsystems' Java 2 Enterprise Edition (J2EE) family of standards from 1997 to 2000 and the World Wide Web consortium's (www.w3c.org) web services family of standards from 2000 to 2007."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Horn: "The very initial vision was a consulting services company offering advice on the CORBA standards. We saw that (a) as a way of building credibility, (b) building financial reserves and (c) a fallback position if our main aspiration of building a products business ultimately failed.

"We wanted to build a products business from the first day of operations but had extreme difficulty raising any investment finance. The consultancy services business was thus used to bootstrap the company.

"We always saw a global opportunity and categorized our domestic opportunity in Ireland as tiny. We were therefore always focused on the global markets. Our first products sales were US and Hong Kong. Our sales to Ireland were never more than about 0.25% of global revenues in any single year.

"I recall discussing the future size of the company on a number of occasions. On one occasion, Annrai, Seán and I met with a civil servant from the national enterprise support agency the Irish Development Authority (IDA; and if you are aware of Enterprise Ireland, it did not exist until about 1994). We were asked if we ever saw our company growing to US$ 20 million in revenue. We responded with a very assertive, 'Yes', but we weren't believed. On another occasion, a customer said he couldn't imagine the company growing beyond 100 people in size, but it grew to more than 1,200."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Horn: "We had no choice but to be operationally profitable since we were very weakly capitalized. We therefore aimed to be profitable on a month-by-month basis. We took the company public on NASDAQ in February 1997, and up to that point, every quarter since our founding in 1991 had been profitable. Subsequently, we remained profitable on a quarter-by-quarter basis until the March quarter of 1999, which was the first quarter ever when we lost money. The company was ultimately sold in September 2008 to Progress Software of Bedford, Massachusetts, and had remained profitable for almost every quarter throughout its history.

"Our financial performance gave us credibility with enterprise sales where some of our competitors (other smaller companies) struggled. Our balance sheet was strengthened not only by cash from operations but also by equity injections from Sun Microsystems (which had invested US$ 600,000 in 1993), by the IPO in 1997 and by a secondary (post-IPO) offering in 2000.

"Software products are a high-margin business. During our high rates of growth, we had a business mix typically of about 70% product sales and 30% software services, including maintenance, support and consultancy. Our gross margin was as a consequence typically about 80%. Our net margin before tax was typically in the range of 15-20%.

"Our general strategy of focusing on industry standards was our chief engine for growth. But because these standards were frequently evolving and we were amongst the earliest implementers of them, we were able

to take field and customer experience back to the standards meetings, thus influencing and strengthening the standards. Furthermore, large enterprise customers who had bought our products rallied behind us and supported our suggestions in the standards meetings. In turn, this meant that other vendors were chasing a moving target – the standards were evolving. I present a more extended discussion of this tactic in my article 'Using standards as a business development strategy'."

What were the major growth accelerators for your company in its high-growth years?

Horn: "In 1993, Sun Microsystems of Mountain View, California, invested US$ 600,000 for 25% of the company. They first approached us to offer a technology licensing deal. Aware of the likely credibility Sun would bring us, we instead suggested a deeper partnership.

"At the time Sun was in discussions with us, we had been approached by Motorola, which wanted to use our products as a core underpinning of the ground telemetry systems for the Iridium (global low earth orbit telecommunications system) project, a US$ 4-billion initiative. Although our technology was in their view exactly what they sought and our internal (e.g. engineering) processes were audited by them to be of high quality, they were reluctant to buy such a major programme from us because of our very weak balance sheet at the time. When we were able (under NDA) to disclose the likely Sun investment, and they confirmed the investment directly with the Sun CEO, then the situation changed overnight, and Motorola purchased. Motorola then also mandated the use of our products by many contractors to Iridium, not least HP. In turn, this gave us high visibility in the telecommunications sector.

"In 1996, Boeing invited us to respond to a request for proposals on a large-scale interconnect for their entire manufacturing systems – from the 737 to the 777 across 17 different plants – as a part of their move towards lean manufacturing. We won the project, in part because Motorola was able to give Boeing an excellent reference for us. The Boeing win raised some eyebrows amongst the major systems integrators and OEMs (again including HP) and brought us excellent credibility.

"The credibility gained by the Sun investment, followed by very major industry wins at Motorola and Boeing, gave us substantial momentum in the Fortune 1000 community, leading us to be listed as one of the top 10 pure software (i.e. not also selling hardware) companies by revenue in 2000."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Horn: "The three founders, myself included, invested an initial IE£ 1,000 (about US$ 1,500) in February 1991. We then spent about a year trying to raise private equity, seed stage capital or bank debt. We failed. We were three academics with little prior business experience. We were aiming to build a high-technology company from Dublin, Ireland, focused on the US market. We were perceived at the time as being on the wrong side of the Atlantic Ocean. Finally, we were going to target a technology market (OMG CORBA) for which most of the majors (HP, Oracle, Digital Equipment Corporation, IBM and others) had announced they would produce products by the middle of the decade (1995 or so) and which Microsoft had asserted was a broken technology standards play that would never succeed.

"Instead, we bootstrapped the company by consultancy services, reinvesting the operating profit in the growth of the business. In 1992, we did receive grant aid of IE£ 6,000 from the Irish government agency concerned as a once-off payment for each of six new jobs created.

"We operated the company on a cash flow basis, generating cash every month. In December 1993, Sun Microsystems invested and placed two of their executives on our board. We continued to grow the company profitably every quarter, but now, of course, we had a much stronger balance sheet. We floated the company on NASDAQ in February 1997 in what at the time was the fifth-largest IPO in the history of NASDAQ. Sun sold their entire 25% holding at the IPO, raising $US 60 million and adding 11c per share to their EPS for the quarter.

"In retrospect, had we been able to obtain seed stage funding, we might have been able to bring our first product to market a year earlier than we actually did (in the summer of 1993). But we weren't seen as a credible story."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Horn: "Attracting experienced management talent was a challenge since we were an Irish company headquartered in Ireland with a relatively small pool of potential high-tech management hires to dip into. Ultimately, we split our headquarters between Dublin and Boston. Our engineering and innovation functions were largely based in Dublin, while business development and sales were based out of Boston. We also hired a US national as our CFO and based him in Boston to manage our NASDAQ investor community.

"Maintaining company culture and standards was also an issue as we rapidly grew. We became a global organization with many nationalities, religions, affinities and cultures very quickly. At our peak, we were about 1,200 people across approximately 30 offices worldwide.

"Extensive travel was also an issue. As CEO, I was in the US at least once and usually twice a month, in Asia Pacific once a quarter and across mainland Europe and the United Kingdom the rest of the time. I tried to be in Dublin for the weekends. The travel schedule became

particularly intense in the years after the IPO as I met investors – as well as of course customers, prospects and partners. Ultimately, about five years after the IPO, I voluntarily stepped aside as CEO because of the intense travel."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Horn: "The worst was missing a quarter as a publicly quoted company and the feeling of letting down investors. It also weighed heavily on our staff, and we had to rebuild enthusiasm and motivation. It did create time for reflection as we reassessed our processes and repaired them.

"As one of the very few indigenous high-tech companies in Ireland, we were a focus of the domestic Irish media and press – in the spotlight all of the time. Managing this became an issue at times, particularly when the extended families of our staff would quiz them over the dinner table or at social events based on what they were reading in the media.

"Perhaps the most difficult time for me personally was when I was asked by the board in 2003 whether I would return as CEO: at the time, the company had lost its way and become unprofitable. On my return, having assessed the company, I decided to cut once, deep and hard. I reduced the global headcount within about a month from 700 down to 350, closing some offices and product lines. Some of the staff I had to let go were excellent, but the particular functions they were in were no longer justifiable."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

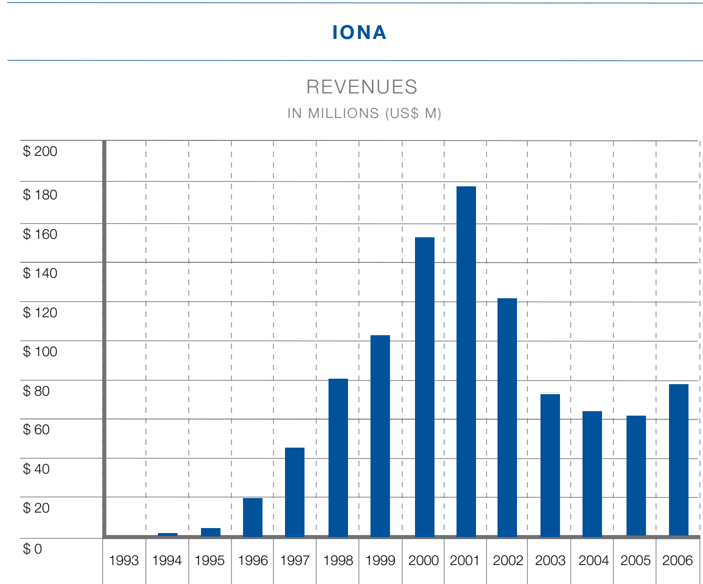
Horn: "Because of the extensive travel involved, it is difficult to build a global multinational company that is publicly quoted in the US and that also has a large, highly diversified customer and partner network based out of Ireland.

"Personally, I would recommend that any founder and entrepreneur not initiate a venture on one's own. In my view, the fact that we had a founding team of three – and later four – meant that we could share the psychological load and stress that a fast-growing company brings. While good friends, we largely had independent social lives so we could 'switch off' the company from time to time.

"We always thought we could present an image and an aspiration of a company larger than we were in practice. In our early customer presentations in California, we literally put up a map of Europe and had to show where Ireland was ('on the west coast of Europe'). We gained a reputation for being more responsive to phone enquiries and email than some of our competitors who were US-based, even though we were 'on the wrong side of the Atlantic Ocean'. Some of the tactics we used are discussed in my piece, 'Boxing above your weight'." ■

Prepared by George Foster and Xiaobin He, 15 November 2010

IONA



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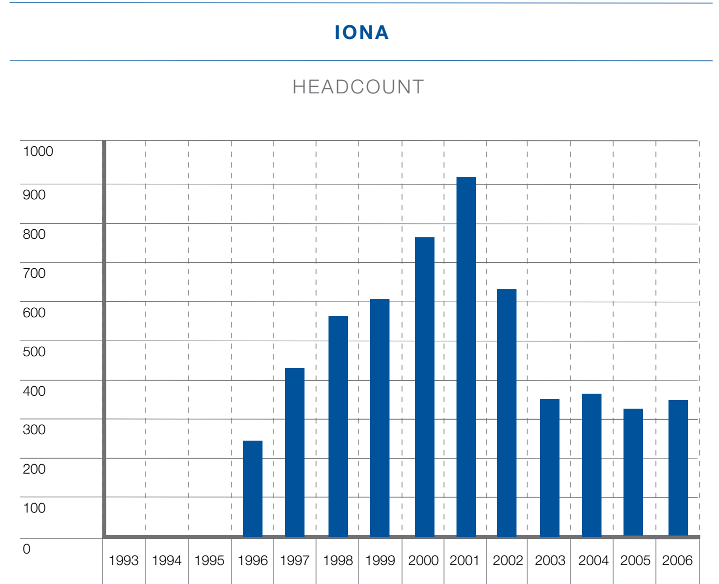


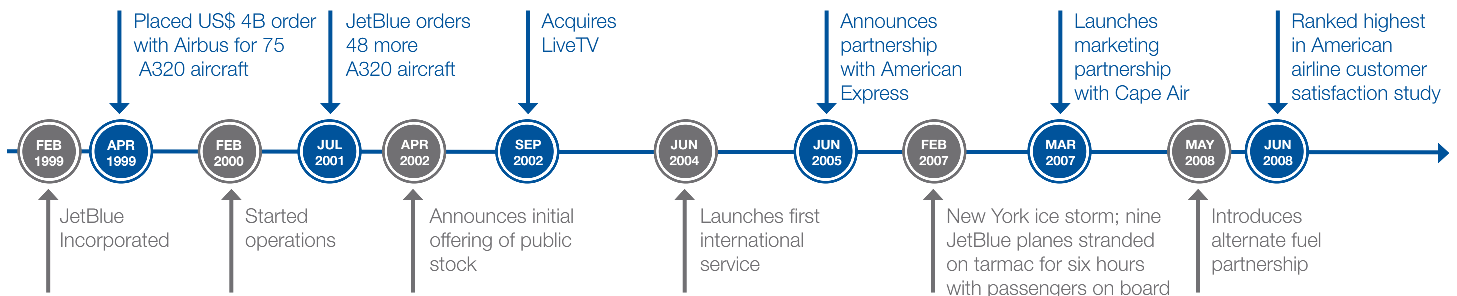
JetBlue | US

OVERVIEW:

United States airline start-up JetBlue was incorporated in August 1998 and commenced operations in February 2000. It was a key player in pioneering the 'Value Airlines' category that combined the low-cost of Southwest Airlines (US)/ Ryan Air (Ireland) with a higher quality airline experience. The company went public (IPO) on 11 April 2002, with a market capitalization of US$ 1.84 billion. David Neeleman put together key building blocks of JetBlue in the 1998-2000 period, including: (1) a management team with deep expertise in the airline industry, (2) a fleet of new Airbus A320 planes (later expanded to include new Embraer 190 planes), (3) 75 takeoff/landing slots at J. F. Kennedy (JFK) International Airport in New York, (4) superior customer service and (5) US$ 130 million in financing from investors with deep pockets.

JETBLUE

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

David Neeleman is a serial entrepreneur in the airline industry. A co-founder of Morris Air in 1984, he was president from 1988-1993 when it was sold to Southwest Airlines. Neeleman worked at Southwest in 1993 and then was CEO of Open Skies until 1998 when it was sold to Hewlett-Packard. When Neeleman's non-compete with Southwest expired in 1998, he started JetBlue. In 2007-2008, Neeleman stepped down as CEO (2007) and chairman (2008).

Joel Peterson is the chairman of the board of JetBlue Airways and a long-time investor and board member. A graduate of Brigham Young University and Harvard Business School, he was CFO and then CEO of Tramwell Crow. He is the founder of Peterson Partners, a private equity group with over US$ 1.2 billion under management. Since 1992, he has taught at The Graduate School of Business, Stanford University.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Neeleman: "In the 1980s, I was in love with the low-cost, high-reliability Southwest Airlines concept in the US airline industry. In 1984, with June Morris, I co-founded Morris Air. Basically, we replicated the Southwest concept in the charter airline area. In 1988, I became president and led the company until we sold it to Southwest in 1993. I then went to work at Southwest. It turned out not to be exactly how I thought it was going to be. It was much more bureaucratic and less open to innovative ideas than I had expected. After five months at Southwest, we parted ways. I was actually asked to leave. I left in 1994 thinking, 'We can do this in a lot better way', but I had signed a five-year non-compete with Southwest. I stayed in the airline industry and became CEO of Open Skies (an online reservations company sold to Hewlett-Packard in 1998). As soon as the non-compete finished, I was ready to get back in the game and build a better version of Southwest. In the late 1990s, there was still a large part of the US where Southwest had not gone – the eastern US – especially the northeast hub. Western Presidio had been an investor in Morris Airlines. They made a very good return and were very happy with the way I had grown Morris and how I had involved them in the Southwest Airlines sale negotiations. They were the first investor I approached for JetBlue. Only this time, it was a US$ 135 million initial round and not a US$ 5 million round. They immediately responded, saying 'We will absolutely invest with you leading the venture.' In 1999, we were up and running with JetBlue as a company and in February 2000 we started flying JetBlue as an airline."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe?

Neeleman: "The vision from the outset was to both provide our passengers with a great experience, and our crewmembers with a great place to work. I wanted every passenger to say, 'That was the best experience I have ever had on a flight', and every crewmember to say, 'This is the best job I have ever had.' The passenger reaction to our early flights was extraordinarily positive. Word of mouth was tremendous for us. In the early years, there were many signs that reinforced our belief in this vision. The rapid growth in our passenger rate was certainly a great sign. We also started to quickly receive recognition with many awards from magazines and travel bodies. Awards from such recognized groups as Condé Nast Traveler and the Zagat Airline Survey added to the incredible buzz that surrounded our early years. It was a magical time. Our vision then broadened to encompass longer hauls as well as the obvious increased frequencies on the existing routes. We added longer hauls to both the Caribbean as well as cross-continental US flights."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Neeleman: "Our strategy was to provide our passengers with a great experience, our crewmembers with a belief that this was the best job they had ever had, and to achieve both while offering a quality product at a lower than average industry price. I totally believed JetBlue could be efficient as well as effective in delivering a great passenger product. Certainly, the revenue and net profit numbers in our early years reinforced this belief. We chose a geographic region to start the airline (JFK in New York) where our closest large-scale competitor – Southwest – did not have any presence. Our aim was not to be just another Southwest; we wanted to be a better, but not necessarily in our early day's bigger, version. We committed ourselves to providing a better passenger experience through working on many areas. We had new planes, pre-flight seat booking, leather seats, more leg-room, personalized television sets for each seat, and a happy crew both flying the plane and serving our passengers. Our single-class cabin enabled us to be seen as treating every passenger the same way."

What were the major growth accelerators for your company in it high-growth years?

Neeleman: "Key accelerators to our sustained growth included:

1. *Unrelenting commitment to our passengers.* We viewed ourselves as passenger advocates. High-quality passenger service at affordable prices was something we believed in and delivered. The upshot was both incredible repeat business and great word of mouth to their circle of friends, family, and work companions.
2. *Being well capitalized.* We started with US$ 130 million, which gave us a good initial cushion to get going and convince our many partners that we were for real.
3. *Use of technology to build operational efficiency.* We were very state-of-the-art in using technology to both improve reliability and reduce costs. Having a paperless e-ticket system was an industry-leading position.
4. *Human resources policy.* I strongly believe being able to attract great people and keep them happy was really important to our sustained growth. If you have highly motivated and happy people who respect their managers, great things will happen, and obviously they did. People felt like it was their company and that JetBlue truly cared about them, and we really did. We offered benefits such as profit-sharing and stock options. Unlike many of our competitors, these benefits were real as we were actually making profits!
   Ann Rhoades who had worked at Southwest, was our executive president for people. Ann led the building of our 'Five Core Values' programme – safety, caring, integrity, fun and passion. These are words that had a lot of meaning and were easy to understand.

They allowed our people to clearly talk about their importance and be able to communicate them to our new hires. Developing and maintaining these core values helped create and sustain the JetBlue culture in the early years of tremendously fast growth. The senior management team we recruited at JetBlue in the early days had many years of experience in the airline industry. We had Tom Kelley from Morris Air and Open Skies, Dave Barger from New York Air and Continental, and John Owens and Ann Rhoades from Southwest. This was not a fly-by-night start-up, but a group coming together with a deep sense of purpose to build a new type of airline company. If someone had an attitude problem, they could go work for some other company – just not us."

Peterson: "I agree with David's assessment of the accelerators of growth at JetBlue. I would add that being positioned at JFK with a six million passenger catchment area and being able to build a new terminal there were key. Not only was the technology of the paperless ticket a boon, but the in-seat live TV was a game changer. And, the idea of hiring stay-at-home moms as reservation agents was a brilliant use of people and systems that allowed JetBlue an advantage in serving customers."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Peterson: "JetBlue's initial capital raise was at US$ 130 million, the largest ever for a start-up airline. It was led by Weston Presidio and Soros Private Equity and joined by a number of others. This was enough to order planes, to open terminal six at JFK and to begin flying to several cities. The only other equity raise was a small one with the original investors simply to give us a cushion in case there were price wars to discourage our expansion. Within a couple of years, we were ready for an IPO (scheduled for 9/11/01, but moved off to February 2002, of course)."

What were the major challenges your company had to handle in its first five years, and how were they managed?

Neeleman: "We had major challenges all along the way. Some examples are:

1. *Gaining take-off and landing slots at JFK in New York.* This was essential to being able to put planes in the air. We worked with both local and state politicians to get this approval. We gave the state governor and legislators a proposition they found attractive and could champion. At the time, existing airlines from New York to cities like Buffalo, Rochester and Syracuse were charging sky-high prices for low-quality service. Our proposed quality service at an affordable price offering gave them a proposition they could sell to the constituencies important to them.
2. *Hiring good people.* This is always potentially a challenge when you have fast growth. However, the buzz about JetBlue in its early days, especially from our crewmembers, other employees and our passengers meant we had a continual flow of very good applicants even as we kept continually building the number of JetBlue employees. It was less of a challenge than many companies face with the growth that we were experiencing. The ongoing challenge, even with hiring good people, is to recognize the 'Peter Principle' and to promote and train people to the limit of their abilities but not go beyond that in promotion and responsibilities. This is not easy to consistently do, especially when you have high head-count growth rates.
3. *Ensuring continued operation of key partners.* Each individual seat on a JetBlue plane has its own TV. This was frequently mentioned as a key positive aspect of the JetBlue experience by its passengers. The technology provider of the TV (LiveTV) faced financial difficulties in 2002. JetBlue decided to purchase LiveTV for US$ 60 million as a way of ensuring its ability to maintain this aspect of its in-flight service. This was a gutsy move.
4. *Passenger experience with extreme bad weather.* The week of 14 February 2007 was the worst operational week in JetBlue's seven-year history up to that time. Bad weather and some systems problems resulted in many flight cancellations and some planes were stranded with passengers on the tarmac at JFK. We were hit hard by the media. We struggled but came out of the bad week with a more publicly-disciplined set of guidelines. We quickly developed and released on 21 February 2007 the 'JetBlue Customer Bill of Rights' that guides us on how all passengers in difficult situations will be treated by JetBlue."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Peterson: "We had pretty smooth sailing – at least for a start-up airline in an industry where start-ups almost always fail – for our first several years. We had a cost structure that gave us an advantage – new planes, new technology and a great culture. We were the darling of the industry, but the pace of our growth became a problem. We outran our supply lines. Our leverage was high. Our culture started to feel strains. We also began to grow beyond the capacity of our team and systems. The most obvious crisis came in February 2007 when we stranded passengers on the Tarmac at JFK for nine hours. However, we'd been concerned over our IT system, our processes for dealing with irregular operations and our ability to continue to grow at a breakneck pace. This became a wake-up call."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience"?

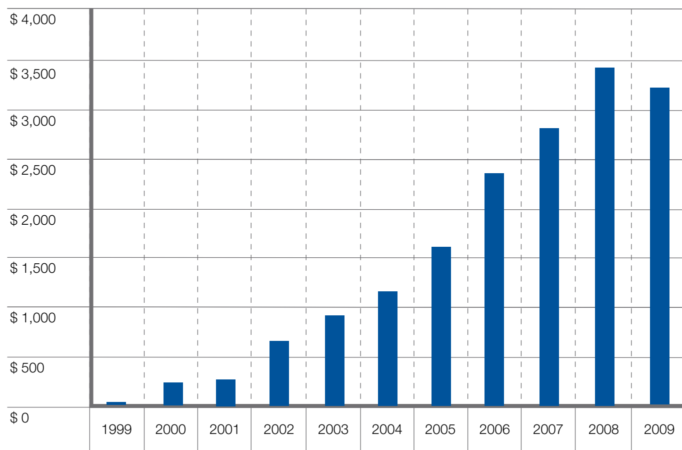
Neeleman: "Some important lessons are:

1. *Create a great work culture.* Your crew members and other employees should want to come to work every day and believe it is the best job they could ever have and be committed to giving your passengers the best experience they ever had.
2. *Ensure passengers consistently have a great experience.* Their word-of-mouth advertising is priceless, especially in an industry like airlines.
3. *Start with adequate capital.* Understand there will be inevitable delays in cash flow and when you need to spend more than initially expected.
4. *Negotiate hard on key deals.* My initial preference was to follow

JETBLUE

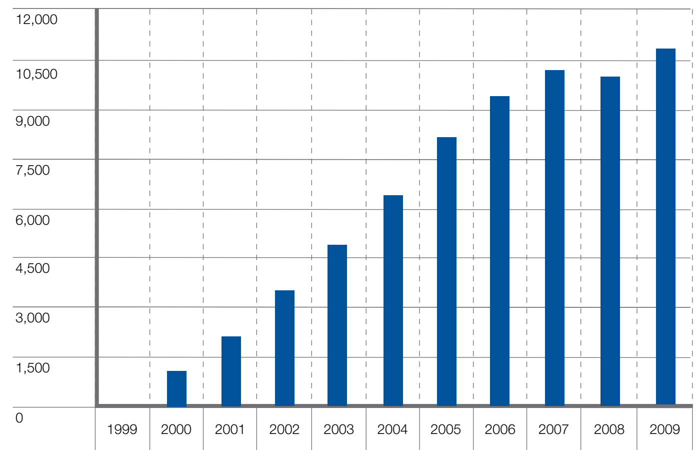
OPERATING REVENUE

IN MILLIONS (US$ M)



JETBLUE

HEADCOUNT



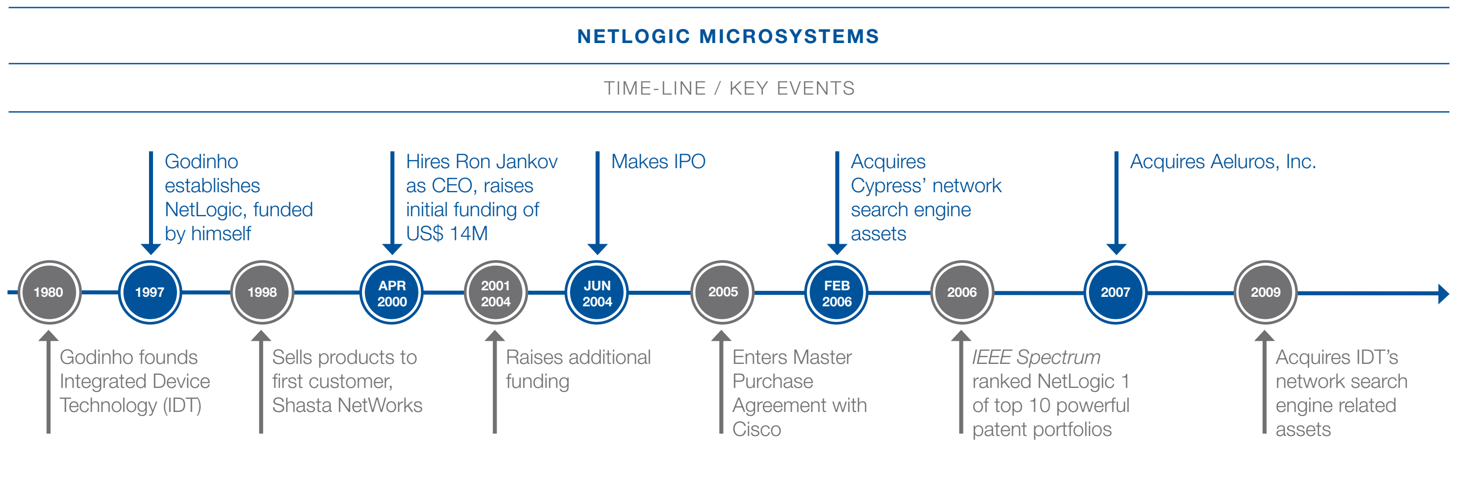
Southwest in having a fleet of Boeing planes. We gave Boeing a number we were prepared to pay per plane and they turned us down. We then went to Airbus and negotiated a deal that was very good, both in terms of the planes to fly (A320s) and cost. Boeing subsequently came back with an offer below what we had first asked, but the Airbus deal still dominated the revised lower-priced Boeing offer." ■

Prepared by George Foster, Xiaobin He, and Rana Mansoor, 22 November 2010

NetLogic Microsystems | US

OVERVIEW:

A leading semiconductor company, NetLogic Microsystems focuses on designing and developing knowledge-based processors and high-speed integrated circuits that enhance the speed and efficiency of 3G/4G mobile wireless infrastructure, data centre, enterprise, metro ethernet, edge and core infrastructure networks. Norman Godinho, a serial entrepreneur in the semiconductor industry, founded the company in 1997. Ron Jankov became the chief executive officer of NetLogic in 2000 and repositioned the company in the high-end networking market. NetLogic made its IPO in June 2004. Deloitte's Technology Fast 500 programme ranked NetLogic the third fastest-growing semiconductor company in North America in 2007.



QUOTATIONS FROM:

Ron Jankov has been president and chief executive officer of NetLogic since April 2000. Prior to serving at NetLogic, Jankov was senior vice-president at NeoMagic Corporation and vice-president of Cyrix Corporation. He founded Accell Corporation, a semiconductor engineering and technical sales firm that Cyrix bought in 1994. Jankov began his career with various engineering and management positions at Texas Instruments and LSI Logic Corporation. He holds a Bachelor of Science degree in physics from Arizona State University.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Jankov: "The original idea was to design a new type of processor that would process information more like a human brain than a computer. The human brain deals with lots of information simultaneously, whereas a computer deals with just a few things at a time but does so very fast. The founding team put a lot of original research into new circuits for simultaneous (or massively parallel) processing, and they built a solid technical foundation, including many semiconductor patents.

"The first big change for the company was to move beyond this great research to create products that solve real-world problems. For a start-up, it is critical to quickly come up with a product that can generate revenue and some cash flow to fund further research. The real-world application we identified was a chip that would use this massively parallel processing to help the burgeoning Internet to route data, video and phone calls faster and with better quality. The current management team was hired in 2000 to lead this transition, and the result was a demonstration chip that was shown to potential customers in late 2001.

"Optimized for networking and communications, this first chip was a breakthrough and offered five to ten times the performance of anything on the market at that time. Cisco Systems, the largest Internet equipment manufacturer, was so impressed that they funded the company to enhance the chip to work better in their systems. This success spawned the second change in the company. From that point forward, we no longer did research in a vacuum but rather through partnering with key customers. This co-development model allowed us to create new chips that were exactly tailored for each customer's unique requirements. When chips are done as a co-development with the most important customers, the chance for success is enormously improved. These chips now power the majority of switches and routers in the Internet backbone. They are used to support the rapidly increasing bandwidth and complexity of the Internet as more televisions, computers and smart phones use ever more complex applications."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Jankov: "As with most start-ups, the initial growth vision was grand: building the next great semiconductor company. Because of limited company resources, however, this grand vision was quickly focused towards delivering a route processing chip that could generate revenue and cash flow. With this focus, we made rapid progress between 2000 and 2004, bringing three major new products to market and securing business with Cisco, Alcatel-Lucent, Juniper, Huawei, Brocade and others. This provided the necessary revenue, growth and profits to go public on the NASDAQ stock exchange in mid-2004.

"With the financial strength and momentum derived from the IPO, the team aspirations changed, expanding to the broader goal of becoming the most important supplier of semiconductors for communications infrastructure and networking. This would include adding quality-of-service and security processing to the original goal of fast route processing. To support this larger goal, we intensified internal R&D and acquired Aeluros, a leader in 10GB ethernet, and RMI, a leader in multi-core processing. With this new technology in place, we were able to partner with lead customers to develop truly game-changing semiconductors, dramatically increasing the speed and quality of communications.

"As smart phones and other Internet-connected devices begin using more video and other bandwidth-intensive applications, our company has been forced to broaden the growth vision once again. To achieve the next ten times in Internet performance, the company must now develop a more complete solution that involves software to further enhance the capability of the chips. To accomplish this, we are now hiring top software engineers around the world, including Europe, the US, China and India.

"With time, we are working our way back to the original grand vision of building the next great semiconductor company – now with the added vision of combining this with innovative software."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Jankov: "The strategy and business model that allowed us to achieve our high rate of growth can be articulated in four basic tenants: First, we wanted to be sure to attack the highest growth markets. In the early 2000s, it became clear that the era of the personal computer as the driver of semiconductor growth was ending. The market was moving to cell phones as the new driver for consumers and business individual use and data centres, and cloud computing became the driver for computing. Bridging the mobile user and the centralized computing facilities was the rapidly expanding and evolving Internet and also a new generation of fibre, cable and advanced wireless communications infrastructure. By focusing on these rapidly growing areas of Internet and communications, we assured that the company would be engaged in the fastest growing markets.

"Second, we bet everything on designing the most innovative and highest performance products for these markets, rather than taking the safer fast-follower strategy. This was very risky, as it required designing

with the most advanced and expensive process technologies and using radically innovative design techniques that were completely unproven. We made this risky bet because with the rapidly expanding processing requirements of communications, only the most forward-looking designs would be competitive. This bet continues to pay off for the company and has resulted in 450 issued US patents, making us one of the most prolific inventor companies on a per-employee basis in US history.

"Third, we focused on partnering with the top five potential customers for our technology. It was through these tight customer partnerships where we were guided to build exactly those solutions that our customers needed in the time-frame they needed them.

"Fourth and most important, we concentrated on building the best team in the industry. Our investors agreed that we would carve out a larger slice of company equity than typical to guarantee we could attract the best people and get them committed to the company's success. We are also willing to take huge risks in innovation. A commitment to innovation is the only way to bring in the top scientists and engineers in Silicon Valley."

What were the major growth accelerators for your company in its high-growth years?

Jankov: "To date, the company has had four major growth accelerators:

1. The first accelerator was in 2003, when Cisco started ramping equipment containing our first route processor chips. Soon, we had expanded sales of these products to other customers, and by mid-2004, this first accelerator was large enough to bring us through IPO.
2. The second accelerator kicked in about 2005 as we introduced products to go after new markets for cable and fibre deployments in communications infrastructure. With these new products, we expanded our customer base to include Alcatel-Lucent, ARRIS, Motorola, Juniper and Huawei. Both of these accelerators are still generating significant growth.
3. The third accelerator is just getting started and is driven by the explosion of smart phones, which are increasingly using video bandwidth and Internet-based applications. This third accelerator is likely to be the largest and longest lasting, and it is expanding our customer base to all of the top 20 communications infrastructure suppliers and to hundreds of wireless service providers, crossing every corner of the globe in Europe, the Americas, Asia, Africa and the Middle East.
4. The fourth accelerator is our growing product portfolio. We have always ploughed a big portion of our profits back into R&D, which as 30% of sales is one of the highest in Silicon Valley. To further extend the breadth of our products, we also made four acquisitions, all of which have contributed numerous new products. With these new products, we are increasing market share and grabbing a bigger slice of the total dollar content of Internet processing."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Jankov: "Surviving the early 2000s in the semiconductor industry required financing that was as creative as our products. In Series B, management and the founders had to help lead the round with our own money to show our belief and commitment. To keep things going, the company had to sell some technology for US$ 5 million, and management had to contribute again for Series C and D. The biggest chunk came from an aborted acquisition attempt by our biggest competitor, resulting in US$ 30 million of investment from a negotiated walk-away provision. Finally, as IPO approached and manufacturing yields were not yet stable, management and investors stepped forward for a US$ 10 million bridge loan.

"Throughout the process, one of our company's strengths was the vision and guts of the leading investors. There was never a question about whether or not to take the big risks necessary to bring leading-edge products to market, even though this strategy required more investment and exposed the company to a greater chance of financial failure.

"At the IPO in July 2004, we raised about US$ 40 million. Since the IPO, the company has consistently generated strong cash flows to allow for increased investment in research and development as well as expansion in sales and marketing. More recently, in March 2010, we again tapped the public markets with a secondary stock offering to replenish the cash used to acquire RMI. This secondary offering raised over US$ 100 million, resulting in a current balance sheet of over US$ 200 million, which gives the company flexibility for additional investment or acquisitions."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Jankov: "One of the biggest challenges was keeping the star employees we had, continually attracting new talent and integrating so many new employees into our design methodology and corporate culture. Stock options and our sincere dedication to innovation allowed us to keep and attract the needed talent. Our very strong corporate culture, which emphasizes open communication and the aggressive sharing of new ideas, made the assimilation of new employees less difficult than feared.

"Another challenge was the sales, manufacturing, finance, legal and other logistics of growing from US$ 40 million in revenue in 2004 to nearly US$ 400 million in revenue by 2010. This was accomplished

through a combination of very strong leaders and a fast-track campaign to automate every aspect of our business. Shooting ahead of the target, we now have a system in place that can easily scale to US$ 1 billion and beyond in revenue.

"A third challenge has been the integration of four acquisitions in five years. There are the obvious issues of merging different design methodologies, sales channels, accounting systems, etc., but the hardest part was integrating so many new employees and ideas. This is especially true in leading-edge technology, where the star players have strong opinions and their views must be accommodated in any integration. We have accomplished this by having a strong tolerance for competing ideas and methods of design – an approach that is different than the classic approach of total integration. To date, this approach has allowed us to keep all of the key employees in all four acquisitions and has led to the delivery of many new advanced products post-acquisition, which is the only true measure of the success of an acquisition integration.

"The most difficult challenge was designing numerous new products, entering three new markets, absorbing four acquisitions and growing from US$ 40 million to nearly US$ 400 million while maintaining our business model of 65% gross margin and 20-25% operating margin. This challenge is constant and must be managed from every angle, but it can be summarized by three major areas of focus. First, we have to define, invent, design, sell and deliver products that are truly differentiated and of high value to our customers and to deliver these products before the competition. Second, we are constantly refining our worldwide manufacturing system to create the highest-quality products at the lowest possible price. Third, we have to accomplish this with a reasonable operating budget through high-efficiency operations and utilization of the international talent pool."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Jankov: "The first dark moment occurred in the summer of 2002. We were running out of money, struggling with a new product and having difficulty penetrating any major customer. We were about to be saved from our misery through an acquisition by our largest competitor, but then they walked away from a definitive acquisition agreement after two months of diligence, during which they had learned all of our secrets and dirty laundry. We could easily have let this situation destroy us, but instead, we took it as a slap-in-the-face and redoubled our efforts and commitment to success. Our founders took this slap personally, and within a year, they had delivered a breakthrough product that was much better than our competitors' products and allowed us to penetrate Cisco and other key customers.

"The second and single darkest moment was in late 2003 and early 2004. Our breakthrough chip was ramping production with the industry's largest customer, Cisco. The only problem was that we had severe difficulties manufacturing this leading-edge chip, to the point where it was costing us twice as much to manufacture the chip relative to the sales price. We had a big decision to make – either we would walk away from the business until our manufacturing issues could be resolved or we would immediately have to raise another US$ 10 million in cash. If we had walked, it would have crippled our relationship with Cisco. However, raising US$ 10 million in a couple of weeks was nearly impossible. In the end, we were able to convince our investors to step up quickly. We raised the money, supported Cisco and solved the manufacturing issue in six months, paving the way for an IPO in July 2004.

"A more recent dark moment was the fourth quarter of 2008. As the financial crisis hit, our revenue bookings dropped to near zero, and we were flooded with order cancellations. This was not unique to us and was widespread in all areas of the economy, especially in technology. Our competitors and most technology companies immediately cut costs by reducing staff and delaying or cancelling some new product development. We decided to try and bull our way through the downturn and actually took advantage of the tech-labour turmoil to add some key engineers, which allowed us to accelerate new product development. This decision was nerve-wracking for six months as we rapidly dropped from record profitability in Q3 2008 to near break-even results in Q1 2009. We made it through, however, and the result is a slate of new products in 2010 that is well ahead of the competition and providing us with the best growth in our history – a doubling of revenue and profits in 2010 relative to 2009."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Jankov: "If you want to have a successful growth strategy, it is vital to be in a growing market. This is especially true if you are a start-up and need to penetrate customers who have existing suppliers. First, a growing market provides the obvious benefit of an expanded total available market. For start-ups, it is even more important that growing markets are more dynamic, with rapid change providing opportunities for aggressive new companies to enter the market. It is much more difficult to enter a stagnant market with entrenched existing suppliers.

"It is also necessary to aim ahead of the target in new product development. To make major market share gains, it is necessary to deliver products that are truly differentiated. Otherwise, why would customers switch from their historical suppliers to a new and untested supplier?

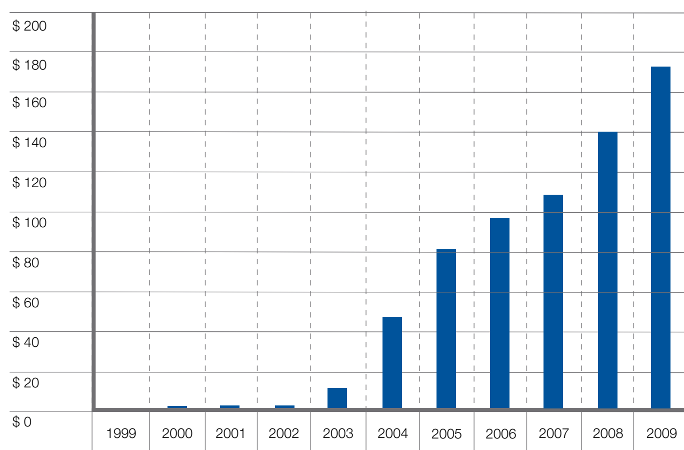
"The most important lesson is cliché. In technology, the intelligence, creativity, motivation and teamwork of the people ultimately determines the level of success. Providing an environment that attracts, keeps and motivates top employees is an absolute requirement.

"Finally, it is critical to create a global competitor from the outset. From a design standpoint, any company that does not take advantage of the innovation of Silicon Valley paired with the cost advantages of India and China cannot be competitive. It is the same situation in manufacturing, where critical suppliers are spread between the US, Japan, Korea, Taiwan, China and Southeast Asia, and the company has to have a global presence to have the best-in-class supply chain. The most important area to be global is in sales and marketing. With the cost of advanced development so high, it is impossible to create a profitable business model without supplying to all of the major customers spread among the US, Europe and Asia." ■

Prepared by George Foster, Antonio Davila, Xiaobin He and Ning Jia , 15 November 2010

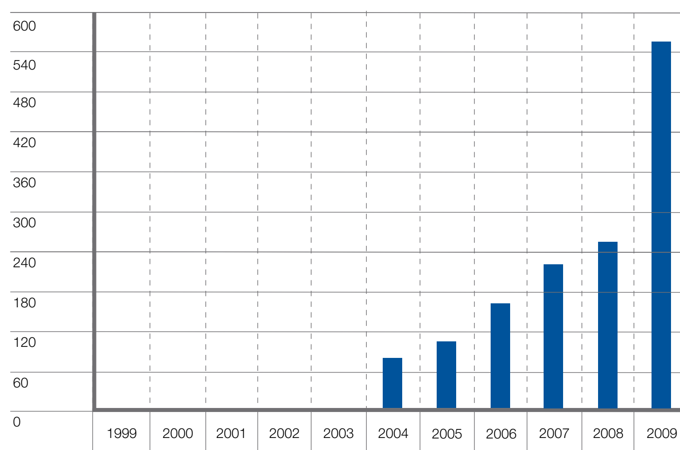
NETLOGIC MICROSYSTEMS

REVENUE
IN MILLIONS (US$ M)



NETLOGIC MICROSYSTEMS

HEADCOUNT



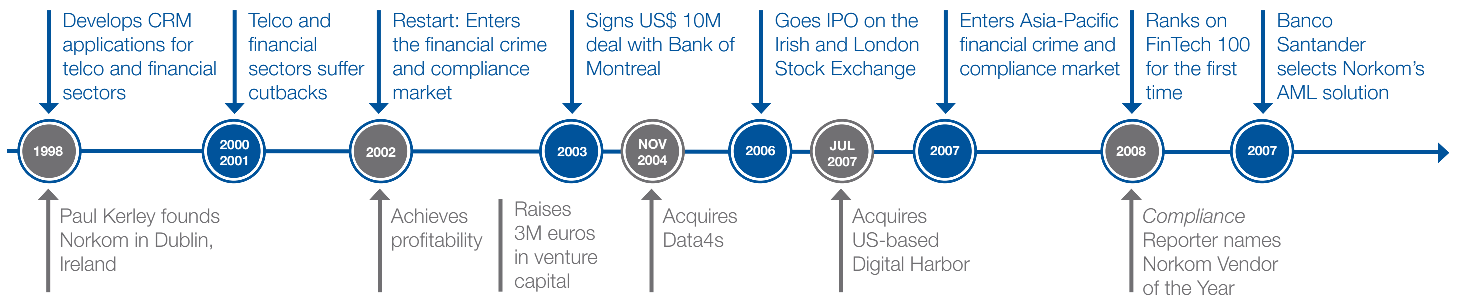
Norkom Technologies | Ireland

OVERVIEW:

Founded in Dublin, Ireland, in 1998, Norkom has had two distinct eras. During the first era – from approximately 1998 (and earlier in development) to 2001 – it developed applications for market automation and churn and credit decisions in the financial services and telecom markets. Both of these markets took large hits in late 2000 and 2001 and Norkom could no longer remain viable if it continued with that focus. The second era started in 2001-2002, when Norkom reinvented itself as a provider of financial crime and compliance software solutions to the global financial services industry. Norkom developed a variety of software solutions and strategies against money laundering, fraud detection, identity theft and other types of financial crime activities. Norkom's clients now spread across more than 100 countries and four continents, including a number of the world's top financial institutions, such as HSBC, Standard Chartered Bank, Banco Santander and Bank of Montreal. Norkom made its IPO on the Irish and London Stock Exchange in June 2006. The original co-founders were Paul Kerley, Colm Crossan, Ray O'Donnell, and Kilian Coleran.

NORKOM TECHNOLOGIES

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Paul Kerley is co-founder, chief executive officer and executive director of Norkom. Before founding Norkom in 1998, he spent five years as a senior manager at Capgemini, introducing and building out its consulting and projects capabilities in Ireland. Previously, Kerley held senior roles with Amdahl Corporation and System Industries. Kerley graduated from Dublin City University. He was named Emerging Entrepreneur of the Year by Ernst & Young in 2000 and Technology Person of the Year by the Irish Software Association (ISA) in 2009.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Kerley: "We developed the initial idea between 1994 and 1998. The idea centred on the concept of using technology to automate white-collar decision making. While working for US and European multinationals, I had become aware of the huge inefficiencies that existed in terms of how human capital was utilized. The idea was to use artificial intelligence and business intelligence technologies to build an industry-specific application that would accelerate decision making in certain key industries. Created in the early years, our first application was applied to the deregulation of the telecom and financial services industries while the dotcoms entered the market. Norkom developed applications for market automation, churn and credit risk decisioning, etc. When the dot-com and telecom markets collapsed between late 2000 and 2001, Norkom repositioned the business to address one sector and one business issue: financial services and financial crime/compliance."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Kerley: "During the dot-com era, the company adopted a high-growth, high-burn model, which ultimately failed when the dot-com market imploded in late 2000, early 2001. Growth rates were running at 200%+ for the first three years with a high-burn rate. The company was repositioned and remodelled in 2002. Between the years of 2002 and 2007, the company grew at an average of 39% CAGR and delivered a consistent 17-18% EBITDA. Since 2008, the company has been navigating through the financial crisis caused by the credit and sovereign crisis. Norkom has remained operationally profitable while investing in new products and markets to drive growth. The aspiration is to run a model in our market where the company can grow mid-20s on a CAGR basis and grow EBITDA over time from a run rate of 17-25% predominantly by growing the GP from the early 60s to early 70s."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Kerley: "So far, the strategy has been to predominantly sell directly to the market. Our market has traditionally been defined as the top 250 institutions worldwide. This has involved a solutions selling model that would see Norkom's opportunity grow to US$ 20 million per client over the lifetime of the relationship. The model is now evolving to include the top 750 institutions. Norkom is packing its solutions to fit the smaller institutions. Norkom's go-to market will move to accommodate a partner-enabled market for certain geographies. Our sales transaction per year will increase across most markets. Both models have already been proven in the last year or so."

What were the major growth accelerators for your company in its high-growth years?

Kerley: "In short, investing in the right innovations and go-to-market strategies. The drivers for growth come from the increased volume of sophisticated criminal attacks on the financial institutions together with the increased introduction and enforcement of regulatory legislation. Norkom was one of the few players to come to market and define the market for converged enterprise solutions that address this space (for example, technology applications that combat fraud and ensure compliance). Norkom has consistently invested in R&D (approximately 15% of annual revenues) and properly anticipated the market opportunity by bringing to market converged enterprise financial crime and compliance solutions. Company and product positioning – combined with the build-out of a global sales and services infrastructure – were critical to achieving the growth."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Kerley: "Norkom first raised external funding in June 1999 and, in line with the high-growth/high-burn model, raised further equity in December 1999, May 2000 and September 2000. All of these rounds were raised at increasing valuations and from the same investor base (except for September 2000, when a new investor came in as part of a pre-IPO funding). The dot-com collapse had started slowly, with the NASDAQ index peaking in March 2000, but the IPO markets did not close until November/December 2000, at which point Norkom had to cancel its planned IPO.

"The need to restructure the business, focus on a new sector and change the business model to one of lower growth with profits led to the refinancing of the company in summer 2002. This was a much smaller financing compared to the previous equity raised, but the company turned profitable and has been since. Indeed, Norkom's first acquisition in November 2004 was internally funded. Recognizing the need to grow both organically and by acquisition, the company completed an IPO in London and Dublin in June 2006 to help fund acquisitions. In August 2007, Norkom subsequently acquired a US company, which was largely funded by a public placing. Norkom remains a cash-rich company today with a strong balance sheet."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Kerley: "Norkom is a relatively small but global company. We serve top-tier financial institutions worldwide. Team mobility and effectiveness are key to growth. Anything that distracts the team from execution of either non-core activities or dislocating market activities can have a significant impact on growth.

"Internal challenges included managing growth, raising funds, building high-performance teams, transforming the business (moving from a multi-sector CRM loss-making model to a single-sector profitable model) and growing fast through organic growth while executing acquisition (two since 2004).

"External challenges included the dot-com meltdown in 2000, the pulled IPO in December 2000, 9/11, the telco meltdown in 2002, the SARS outbreak in 2002, the successful IPO in 2006 and the credit and sovereign debt crisis."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Kerley: *"Regrouping and rebuilding the team after the pulled IPO in 2000.*
"Post the IPO pulling, the founders had to decide what the appropriate response was. The business was geared up for a large cash infusion and a drive for growth. We now had a situation where the IPO didn't go ahead and the demand side of the market was collapsing because of the dot-com crash. Trying to evaluate the effects of both meant we had to make a call on what the baseline run rate level would be. Within three months, we had let go approximately 60% of the team (270 down to 120). Since the circumstances that required this had nothing to do with the quality of the people, it was an emotionally draining exercise – one that had to be executed in a way that was quick and looked after those who had to leave while giving hope and improving morale for those who were staying on. The objective was to get the company to break even on the current balance sheet strength and then look to rebuild from there. We broke even in the December quarter.

Downsizing the business and letting go good people because of market movement and management failures.

Rebuilding the capital structure in June 2002.
We had broken even in the preceding December quarter, and it was now Q1 calendar 2002. As much as 40% of our business was in the telco sector. We contracted business with teams on site-earning revenues. The markets stopped funding most 3G license build-outs, and 40% of our business evaporated within 12 weeks. Large contracts that were supposed to be signed in May were delayed. The confluence of both of these occurrences led to a collapse in confidence. During a key board meeting at the end of June, Norkom's fate was debated, and the management was given the weekend to come up with a plan that was backable and would stop the business from being liquidated or put into receivership. That was a long weekend requiring a lot of physical and emotional effort for a number of senior managers and key investors. It resulted in a rescue-funding package being put in place. Further head count was cut. With the total head count now at 55, the company essentially had to do a restart. The founding group saw their holdings in the company collapse by greater than 90% in the capital restructuring that followed. There was an opportunity to increase shareholding through performance-based incentives. While the capital restructuring and the redistribution of the founders' shares was the correct thing to do at the time, it marked a significant change in the psyche of the founders. They were now managers with options as opposed to owners. Management and investors pulled together to rebuild the business. Later, in October of that year, some of the larger contracts were signed, and Norkom went profitable and has been profitable since."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Kerley: "*Team:* Building high-performance teams is the key to success, and much work and focus needs to go into nurturing, coaching, changing and developing the team capacity to address the challenges of building a global business in the technology sector.

Funding strategy: Much time can go into business ideas or execution plans that are not fundable. Many good businesses fail because of poor funding strategies.

Go to market: For Norkom's particular model, it was not possible to outsource/partner our way to building our market. We had to define a market segment and influence key constituencies to establish the market before starting to reap the benefits.

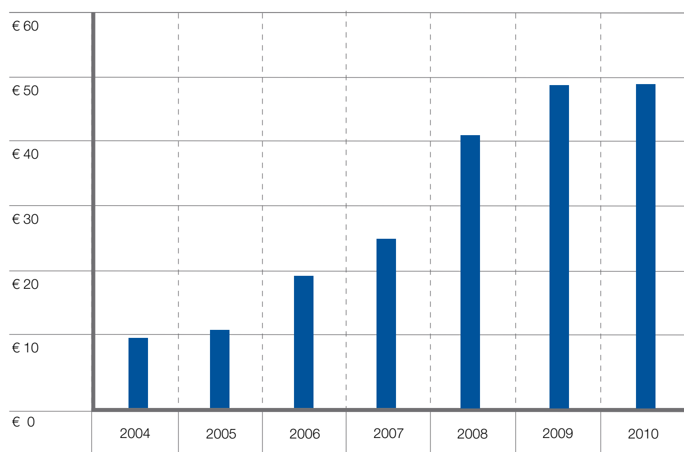
Choosing the right market: We had to choose a market that was sensitive to working with the right solutions as opposed to the right channels. Choosing financial crime and financial services allowed Norkom to become the best globally in one area and differentiate ourselves enough to compete against the larger players.

Competitive strategy: Norkom competed on solutions selling, innovating ahead of the market and delivering the people, technology and know-how to make our clients successful. Larger organizations found it too difficult to be that focused.

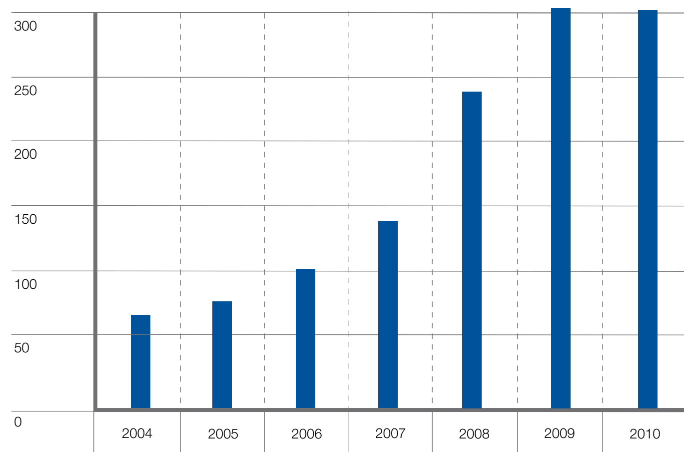
Management and shareholder alignment: There have been many difficult periods over the last 10 years that challenged all stakeholders in the business. Businesses can self-destruct if there is misalignment between investors, management and the market. Maintaining this alignment is a key objective of CEOs, who often can find themselves on both sides, depending on the situation.

Build a shock-proof business: When building a business, you must put much thought into building teams, technology, market share, etc. Many teams don't focus on market dislocations such as the dot-com, 9/11

NORKOM TECHNOLOGIES



NORKOM TECHNOLOGIES



and financial crises. Much work needs to be done to ensure that good business models are developed that expect and sustain a business through such events. Many good businesses have failed not because they were not good businesses but because they were not prepared to deal with a shock.

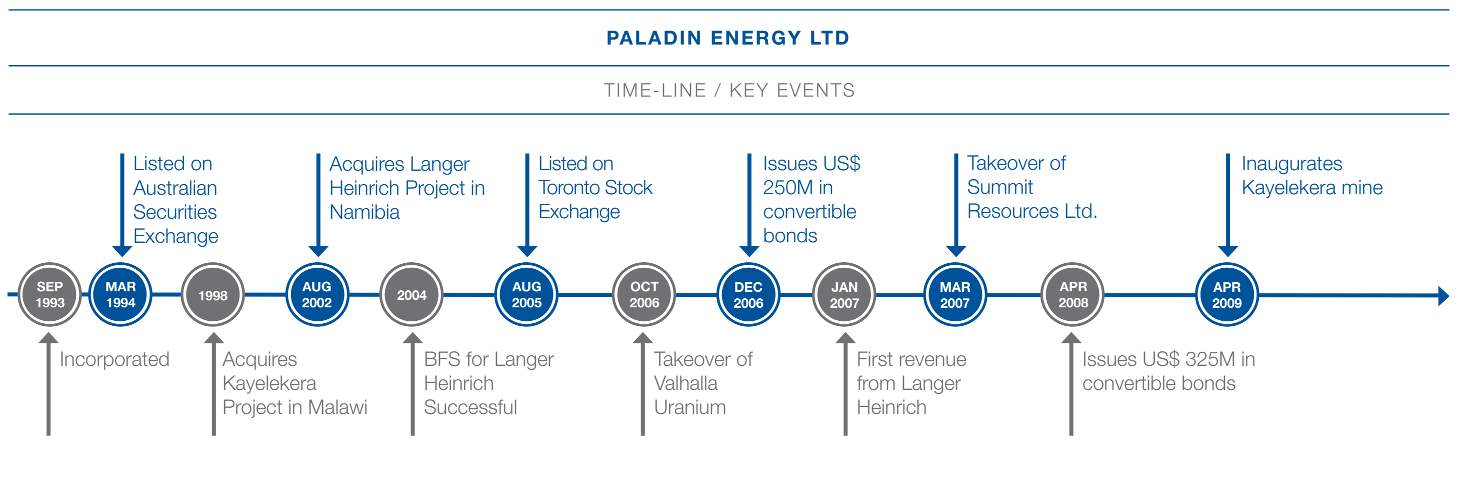
Tail wagging the dog (the markets): Very often, the public and private markets reward behaviour that is at odds with building long-term sustainable value. Fads appear and are rewarded. Being led by the capital markets can be rewarding at times; however, you become a speculator rather than a businessman building a sustainable business." ■

Prepared by George Foster and Xiaobin He, 15 November 2010

Paladin Energy LTD | Australia

OVERVIEW:

Paladin Energy is a uranium exploration and production company led by its founder, John Borshoff. Headquartered in Perth, Australia, Paladin is a multi-mine and multinational company with major activities in Africa and Australia. Paladin was incorporated in 1993 and listed on the Australian Stock Exchange in 1994. Between 1998 and 2002, Paladin effectively restarted as an operating uranium mining company. It recognized its first uranium revenues in 2006-2007 with US$ 3.4 million. In 2008-2009, revenues were US$ 114.8 million; in 2009-2010 US$ 204.3 million. In 2010, Paladin was the second largest pure play uranium mining company in Australia and in the top 10 international uranium producers.



QUOTATIONS FROM:

John Borshoff, founder, managing director and chief executive officer of Paladin Energy, is a seasoned uranium industry executive with 16 years of experience prior to founding Paladin. For decades, Borshoff maintained a deep belief that the uranium industry would be an important contributor in meeting global energy demands. When Borshoff set up Paladin in 1993, uranium was viewed as an obsolete and dying industry, and nuclear power as a failed experiment. From 1998 to 2002, he acquired important African projects at very low prices due to the negative outlook on the industry. Paladin's Langer Heinrich and Kayelekera projects are the world's first two conventional uranium-producing mines built in the last 20 years. Borshoff understood the value of prior efforts in mining exploration and successfully negotiated to acquire the Uranerz database of African uranium occurrences and prospects covering the 1970s and 1980s.

Mark Barnaba, Co-founder and executive chairman, Azure Capital, is an advisor to Paladin and multiple Australian and global natural resource companies. Previously, he was co-chairman of Poynton and Partners and GEM Consulting. He also has worked for Goldman Sachs and McKinsey and Company. Barnaba holds a BCom (Hons) from the University of Western Australia and a MBA from Harvard University and is an adjunct professor in investment banking and finance at the University of Western Australia.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Borshoff: "I worked for 16 years with Uranerzbergbau GmBH, a West German company specializing in uranium exploration and mining worldwide. I began as a project geologist in 1975 and in 1987 became head of Australasian operations. I was exposed to the full breadth of the uranium exploration, mining and marketing industry and became very interested in the growth of global electricity and the fuel mix that generated this fascinating resource. Uranerz was successful, but they withdrew from Australia in 1991 because of the country's restrictive uranium policy.

"Nuclear was perceived as a failed experiment, and oil companies pulled out of the uranium business along with the major resource companies and numerous specialized, international, government-sponsored uranium companies. My strong expertise in uranium and evolving belief in nuclear technology never wavered. When Uranerz departed Australia in 1991, showing no interest in uranium, I managed to negotiate the considerable uranium databases it had accumulated during its 22 years in Australia. This encompassed geological, metallurgical and environmental data, which gave the company enormous credibility and unique value when Paladin was listed on the Australian Stock Exchange in 1994."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Borshoff: "In 1996, the board agreed to support a uranium focus, even though they knew very little about the industry. After a small spike in 1996, uranium continued to be a depressed industry, and Paladin continued to acquire uranium assets in Western Australia and Africa (Malawi). To survive during this period, in which gaining funding for uranium was almost impossible, Paladin diversified its activities and established software and IT companies to financially support its uranium efforts.

"Dissent from one shareholder group initiated a fight for control that Paladin overcame with its uranium assets intact. In 2002, with AU$ 50,000 in the bank, Paladin purchased the Langer Heinrich Project in Namibia for the sum of AU$ 15,000. Paladin survived on meagre earnings – share price from AU$ 0.08 cents to 3 cents – until funds slowly became available from January 2004 to April 2009. Through sheer commitment and adherence to its vision, Paladin built two uranium mines in Africa and initiated one expansion involving a US$ 360 million capital expenditure and US$ 70 million in working capital funds."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Borshoff: "Paladin is the only emerging uranium company in the world that is modelled on tier one principles. We developed A-to-Z in-house capabilities – including geological, project generation, feasibility studies, construction, production, and marketing – as well as a pipeline of projects available for future development. Three key factors created an ideal window of opportunity for Paladin: 1) understanding uranium and the nuclear industry from a long-term perspective, 2) appreciating the limitations imposed on the existing uranium miners suffering from 25 years of commodity depression, and 3) the loss of industry expertise and contraction of the industry worldwide. In the early stages, the company focused on Australia. In the mid-1990s, I decided that Paladin needed to obtain an interest in African projects. Langer Heinrich and Kayelekera were both strong, viable mines that formed the building blocks for Paladin. Development was orchestrated to complete activities at one mine before initiating the same activity at the other mine. These parallel activities were no accident.

"Paladin's sole focus on uranium created a huge opportunity base for the company. The company's pioneering processes resulted in intellectual property that gave Paladin access to ore bodies that were unavailable to other companies. Langer Heinrich and Kayelekera are the world's first two conventional mines built in the last 20 years. Paladin's unique process is recognized by other miners in the industry who consistently approach the company to partner with Paladin to develop their own deposits."

Barnaba: "In Paladin's early years, John generated so much confidence in his strategy that very high-quality people were eager to join the company. He simply made it very compelling to be part of Paladin, and he has a very good eye for people. John is viewed as the grandfather of the modern uranium industry worldwide. He is seen as one of the few global experts in uranium and is sought after for his views."

What were the major growth accelerators for your company in its high-growth years?

Borshoff: "There were three major growth accelerators during Paladin's high-growth years:

1. Our asset build-up strategy. We acquired uranium projects when no one else in the world wanted them.
2. Adoption of new mining process technologies in both African mines. This required both an appetite for risk and a technological services group that could satisfy bankers and financiers that the risks were properly mitigated. As a result, Paladin now has the world's only alkaline leach conventional uranium mine and the only modern 'Resin-in-Pulp' uranium mining operation.

3. Building a global marketing arm. The marketing group presented the benefits of uranium energy to potential clients and inspired confidence that Paladin was able to generate the required supply. Before 2005, the industry mainly looked at the demand side of the uranium market. People did not understand the shortage of supply due to the difficultly associated with the mining technology used to extract uranium. By helping Paladin's potential customers appreciate the supply constraints from existing mines and the effects of globalization on the consumer market, Paladin was able to generate strong demand for its products."

Barnaba: "John not only picked the cycle in as much as he put his money where his mouth was in buying assets at the bottom of the cycle, but he gradually convinced others, globally, of his point of view. Remarkably, John built an entire company from nothing in just a few short years. It took enormous personal belief, very visible leadership, persistence, stamina and in no small part, an ability to take many measured and calculated risks."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Borshoff: "One of the critical issues in a company that is undergoing extremely rapid growth from very low capitalization is to ensure that sufficient funding is available. With only a US$ two million market capitalization in 2003, we had to inspire the confidence of the banks and to share the vision we had for building the mining house. This was a challenge, given that the mines were in Africa and we were using a unique mining process. The company adopted a deliberate strategy to raise mostly project finance, even when equity finance was available, with private resource banks. We wanted Paladin to operate at a higher level of financing sophistication, even with its first project. Fortunately, we delivered on each capital raising, so there was no negative shareholder response to subsequent raisings. During the 2004 to 2008 period, Paladin raised US$ 130 million in equity, US$ 240 million in project financing and US$ 575 million in convertible bonds. Paladin is now in a phase of growing its financials to include cash-flows and measuring success on a clear and simple parameter – return on shareholder capital."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Borshoff: "We had to overcome three major challenges in Paladin's high-growth years:

1. Building confidence among external stakeholders that the uranium industry was set for a period of growth. For the past 20 to 25 years before the early 2000s, the uranium industry had been in decay. Our global marketing group was the key to meeting this challenge.
2. Creating an organization that recognized a mine construction culture that was quite different from the past. To accomplish this, we developed a construction owners group that reported directly to the CEO. This group helped to ensure that the project manager responsible for development and construction were kept honest in terms of deliverables. This group was a key reason Paladin delivered two mining projects on time and on budget in two different countries.
3. Balancing operational discipline and flexibility when searching for growth opportunities. From an early stage, we adopted a bi-modal organizational structure that combined the tight mechanistic discipline and operating practice required in a mining operation with a flexible, organic approach to accommodate growth via both exploration and acquisition. Creating a hierarchical structure with the ability to also utilize the benefits of a flexible matrix structure, where these teams could work within less structured principles, has been a continuous goal. Also, in terms of organizational management, the HR function has deliberately been reduced to a purely supportive, facilitating role. In this way, each key manager takes primary responsibility for his staff rather than being debilitated by an unconstrained HR department. Silo structures, which often serve self-interests and isolate employees from the company's business goals, are strongly avoided."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

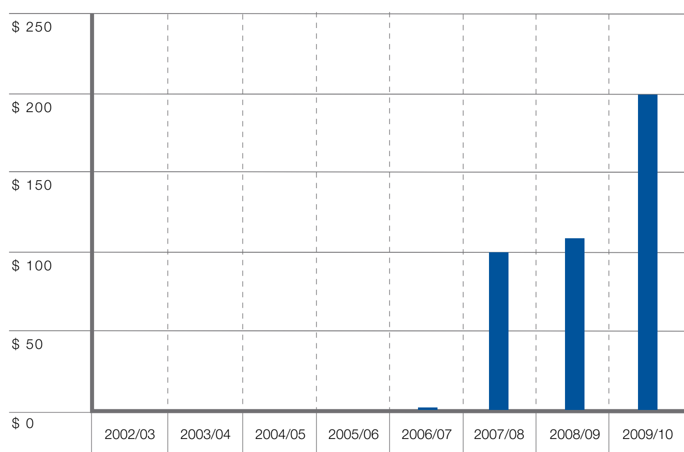
Borshoff: "In the early years, it was difficult to pay the bills and keep the team together. We had to diversify into other areas like IT, although we always managed to retain our uranium assets. It was hand-to-mouth for long periods of time. You had to keep reminding yourself – and your team – why you believed in the vision and why you thought the realization of that vision wasn't too far away. Raising money was difficult because it involved personal guarantees and knocking on the doors of family and friends. It was tough and you needed resilience, self-belief and fortitude to get through it.

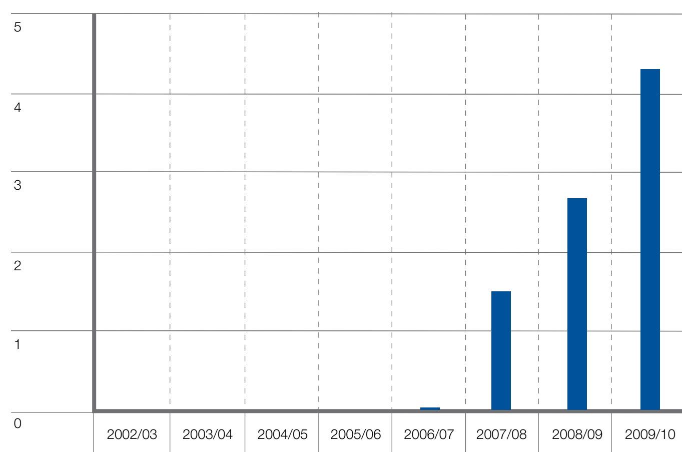
"Another dark moment concerned the shareholder revolt. The focus of Paladin was jeopardized by the self-interest of disgruntled shareholders who saw no sense in pursuing uranium. New board members promoted other agendas at the expense of board-to-management cohesion. In this toxic, emotionally disturbing environment, motives were questioned and our original vision was difficult to grasp. After a shareholders' meeting favouring the incumbents clarified the issue, we got back on course with a unified vision. For me, this episode reinforced the huge value of dream participation in a corporation whose common goal remains essential to achieving a difficult vision."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

3. Seek ways to partner effectively with key constituents. Kayelekera was the first modern mine to be built in Malawi. The Malawi government had no precedent or framework to deal with the complexity of establishing this project and engaging with diverging interest groups arising from the largest private investment in Malawi. We have placed a premium on working effectively with our host governments.
4. Beef up the horsepower of the board. After a shareholder skirmish that threatened to turn Paladin's focus from an emerging miner to a medical technology company, the board was established with an engineer engaged in developing Langer Heinrich, an investment banker, and others with specific financial expertise to complement the existing members." ■

Prepared by George Foster, Rana Mansoor, Sandy Plunkett and Azure Capital, 22 November 2010





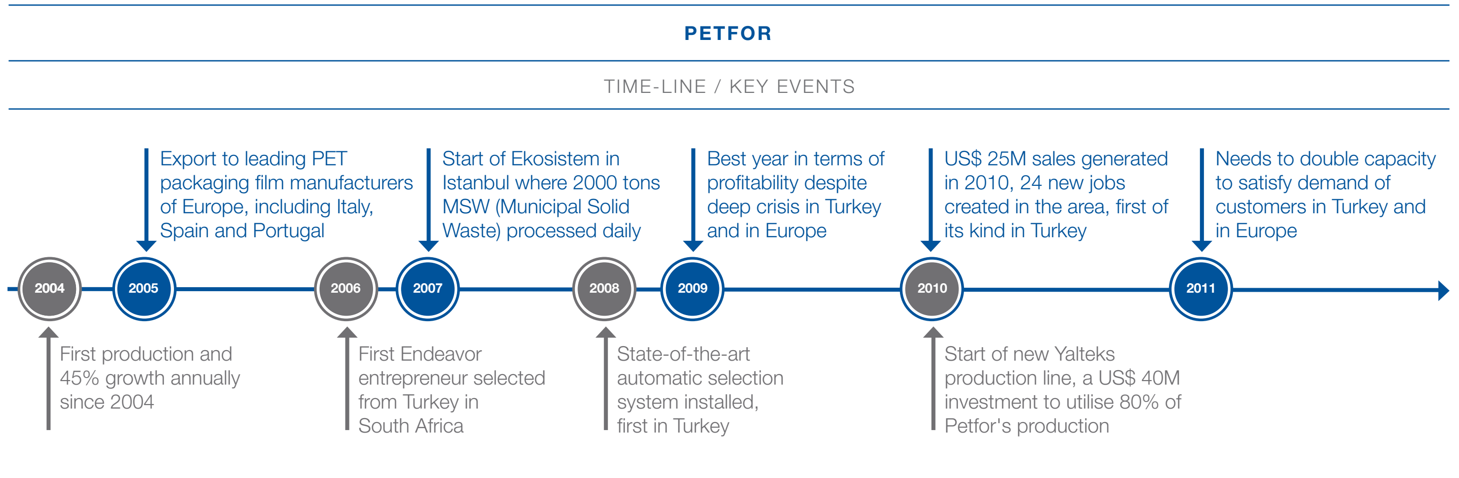
Borshoff:

1. "Be willing to stand alone in your beliefs. I felt I had the ability to inspire others to join me on a journey that would be exciting and challenging, knowing that if we got things right there would be a material reward following personal achievement and satisfaction.
2. Use support networks. In the early days, I knew that as a small group we did not have all the necessary skill sets in-house. Azure Capital became a key strategic advisor to us. The ability to bounce ideas in a confidential manner with a third party that did not have an equity position or self-interest worked extremely well for Paladin and was critical to our success. This close association gave Paladin the ability to fight above its weight class in areas in which we did not have prior experience.

Petfor | Turkey

OVERVIEW:

Petfor is a Turkish recycling company whose major activity is the recycling of PET, a commonly used consumer plastic. Semih Yuzen, who had worked at his family business (Yalteks) where he experienced shortages of polyester raw material, started Petfor in 2004. Recycled post-consumed PET bottles can be used to produce polyester. Yuzen spent time in Italy studying the recycling business prior to establishing Petfor. Operations began in 2004 with a state-of-the-art plant that recycles plastic bottles and produces high-grade PET flakes. The PET flakes are cleaned and the recovered material used to produce plastic bottles. Yuzen became an Endeavor entrepreneur in 2006.



QUOTATIONS FROM:

Semih Yuzen was born in Istanbul in 1970. He was 16 years old when he entered Istanbul University, and was one of the youngest graduates when he received his degree in business administration in 1990. He graduated from Pepperdine University in 1994, and worked at Yalteks between 1994 and 2001 as export and import manager. He took a year off in 2002 and travelled to Italy, and decided to establish Petfor in 2003. Money was raised through a bank. His father was the guarantor and all of the US$ 4 million loan was paid back 100% by 2009. Both his father and brother are chemical engineers. His brother lives in New York and his father has an asphalt processing business that supplies modified asphalt to the major road contractors in Turkey.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Yuzen: "I came back to Turkey after getting my MBA in the US in 1994 to work for the family company, Yalteks, which was already being run by my brother for three years. Although I was a 50% owner of Yalteks, I never thought it was mine and had to work as export/import manager for seven years. We had different ideas about running the company. Since he was the older and the more experienced one, I had to respect and continue working under him. We had to fight during the day and went out for drinking after work since we were (and still are) also best friends. It was really a strange and very difficult process. At that time, I was 24 years old and he was 30. We also had to fight against our father over business matters. He also had different ideas about how to run the business. We always managed to unite against him and that also brought us closer. The cash flow was always the issue. I was responsible for getting the raw material ready on time for production. I had to practice and learn the just-in-time concept. That helped me a lot, being able to run a business without money. At that time Yalteks had to import over 70% of its raw material from abroad and the most critical one was polyester felt, which was used as reinforcement in our products. Polyester felt is produced by 100% recycled post-consumed PET bottles and we were importing it from Italy, France and Holland. In 2001, we decided to run Yalteks differently and we let our production manager run the business. I took a year off and went to Italy to study Italian and recycling, and my brother decided to move to New York to open up a restaurant. In 2004, Petfor was up and running. The idea was to export PET flakes, which eventually would come back to Yalteks as polyester felt. At that time, we always dreamed about producing polyester felt one day using 100% Petfor's flakes."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Yuzen: "I always tried to keep it small and simple and looked for the talent inside Petfor. When this was not possible I brought in people. Pushing people to the limit and empowering them at the same time ensured loyalty. There has not been a sizeable change. Keep it small, efficient and under control. That is, I believe, the best method available. We are facing fierce competition and the learning curve is much shorter for them. As I previously mentioned, selling is not an issue. However, supplying enough PET and maintaining the quality is. For this reason we are bringing people from outside and increasing the number of people in production and quality control. We now concentrate on using existing personnel for getting enough bottles. We are opening new collection centres in various parts of the country; otherwise we will face a PET bottle shortage once we install the new line and double the capacity."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Yuzen: "Quality was the key to our success and still is. During the crisis, we were able to keep our customers with a higher rate of profitability. The margins were almost doubled because of the lower cost of input (PET bottles). We kept investing in new technology and that saved us during difficult times. We had an edge over our competition and Petfor remained as the benchmark for our industry. We also responded promptly to the claims of our clients. We always tried to come up with a solution that is the most convenient for them and they kept coming back."

What were the major growth accelerators for your company in its high growth years?

Yuzen: "Again, quality, new technology and availability. We are always available and reachable not only by our clients but also by our suppliers. That is very important during difficult times.

"Other than quality, it was the freedom to make mistakes and learn from them. My father helped me a lot and gave me breathing space. Although I was only six months behind my initial business plan and break-even point, his support enabled me to concentrate on quality and establishing good relationships with my clients."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Yuzen: "Family and the banks. Thanks to the family financing we were able to maintain high growth and profitability initially. That helped me taking risks.

"My cash flow was never in place despite the profitability. We were making enough money to pay the bills, however we had no bottles in stock. There were days when we were not able to produce due to bottle shortages. We were utilizing only 20% of our capacity. It was enough to keep going but not enough to grow. Because in recycling, you have to scale it to make it meaningful and really profitable."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

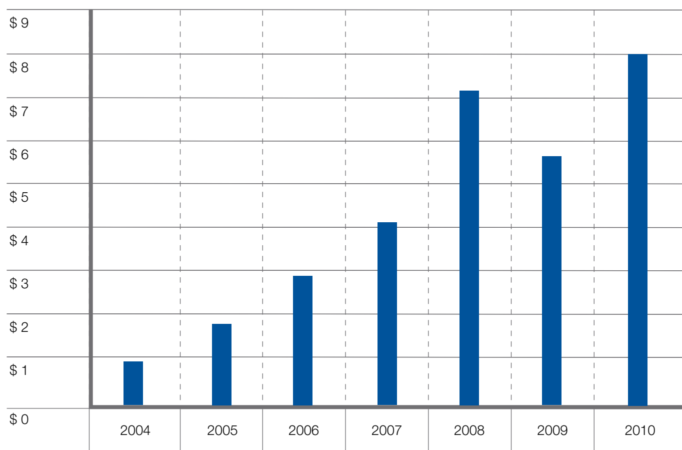
Yuzen: "Recycling is a very difficult industry and requires a lot of working capital especially at the beginning. The answer to that is hands-on

management. I still have my book open and I calculate the cost every single day (the price of what people eat, etc.) In the first three years, I was the first one to arrive in the factory and the last one to leave at night. I paid the salaries after shaking hands and thanking my workers personally during the first three years. That was also the case for our suppliers.

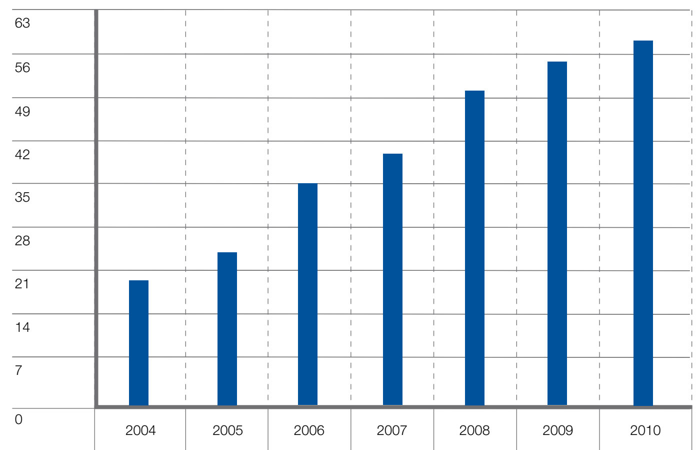
"Becoming a dependable supplier to the major European packing companies was also a big challenge. Getting the foot in the door and keeping it inside was difficult. I even learnt Spanish and Italian so that I could discuss the business and challenge them in their language (especially with their technical staff). But it has always been the quality that matters the most.

"In 2007, we started Ekosistem and invested heavily (both money and time) in this new business. In times it was frustrating because money and time was never enough. Instead we should have invested in Petfor and then in Ekosistem."

PETFOR



PETFOR



Give examples of dark moments or negative periods that your company or you as an executive faced as part of your journey with this company.

Yuzen: "Trying the run a company with limited cash was (and sometimes still is) the most difficult part. You have a million things in your mind and no cash in your hand. You have to wait, and when you wait too long there is always someone else who does what you were supposed to do. You lose the opportunity. That is really frustrating."

What are the key lessons about entrepreneurship and successful growth strategies you take from your company experience?

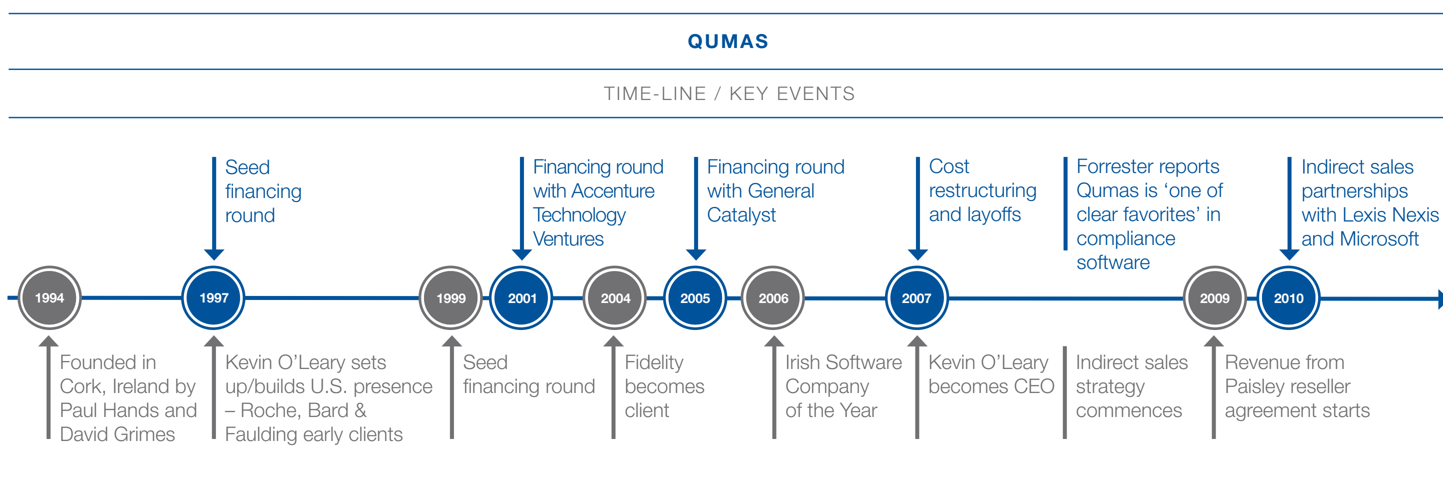
Yuzen: "I would say success is dangerous. Once you start thinking 'I am invincible', that is the time when you are most vulnerable and you start making wrong judgments and mistakes. However, there is no better way to learn other than failing. You keep failing and making fewer mistakes. If you are clever, you don't repeat the same mistakes but you make new mistakes, which I think it is acceptable. The key is to not repeat the same mistakes." ■

Prepared by George Foster and Endeavor Center for High Impact Entrepreneurship, 18 November 2010

Qumas | Ireland

OVERVIEW:

Qumas is an Irish-based software company assisting companies to fulfil their regulatory compliance and other compliance requirements in an efficient and effective way. Software development is in Cork, Ireland. Early targeted industries in the mid to late 1990s were pharmaceutical and financial services. Products covering both document compliance and process compliance have been developed and progressively refined. Revenues in 2009 were in the US$ 15 million to US$ 20 million range. Prior to 2007, a direct sales strategy was employed. Since 2007, Qumas has shifted strategy to include important indirect sales partners such as Paisley and Lexis Nexis. Qumas was founded by Paul W. Hands and David Grimes in 1994. It was the "Irish Software Company of the Year" in 2006. In 2007, Forrester rated Qumas as "one of the clear favourites" in compliance software.



QUOTATIONS FROM:

Kevin O'Leary became chief executive officer in 2007, having been with Qumas since its inception. He established the company's presence in the US in 1997. He has worked within regulatory industries since 1987. He was responsible for the original design and development of the company's first product release in the mid-1990s. O'Leary studied computer science at Cork IT and then studied industrial management through the Federation of European Production & Industrial Management Societies. He was a member of the Enterprise Ireland/Stanford University Learning for Growth Program in 2009-2010.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

O'Leary: "In the mid-1990s, the founders had the Irish rights to a then leading ERP system. Missing from this, and most other ERP's at that time, was quality management compliance functionality. Organizations in highly regulated industries all face the common problem of how to manage their compliance risk. The company was set up to fill this gap with a focus first on one high value vertical. Pharmaceuticals-life sciences was the chosen vertical. It had a high value add and there was the rational that many global pharmaceutical companies already had operations in Ireland. The 1996 to 97 period was when we were proving out the idea – both that the technology we were developing actually did work and that there was a market for it. By 1997, we had three early adopters, all European. I led the setting up of our US presence in 1997. After 9 months in the US, we had three significant clients across several verticals – Roche, Bard, and Faulding. By the end of 1998, we had evidence that our compliance software was viable across several verticals and we had clients in multiple geographies. From 1998 to 2001, we continued to double revenues each year."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

O'Leary: "Our aspirations kept being adjusted over time. In the early days, the first hurdle set was to reach US$ 1 million in revenues from US clients. We wanted to have clients that other people in addition to us would care about. The next hurdle was US$ 10 million in revenues. We then shifted the next hurdle to get to US$ 20 million in revenues with at least two verticals."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

O'Leary: "The initial strategy was to develop and market our compliance software product on a single vertical, pharmaceuticals-life sciences, with a direct sales model. Our first customers were in Europe. The first strategy addition was a North American focus of our direct sales efforts. Over time, we have added a second vertical of expertise – financial services. Both of these verticals are huge areas of opportunity globally.

"Up to 2007, we relied exclusively on a direct sales strategy. However, this model proved to be limiting, especially for a small company with product development in Cork, Ireland. You can afford just so many salespeople and there is a huge geographic spread of potential customers. As a relatively small company, when our direct sales force was not on the job, our sales engine was stopped. When I became the CEO in 2007, we added an indirect sales channel strategy and that has become our dominant sales engine. The key here is getting superb channel partners, as great channel partners attract other great channel partners. "We also have continued to build our product portfolio. Our DocCompliance product is a content management system that focuses on lifecycle control over compliance related content. The newer process compliance product is a flexible business process management system that automates business processes to track events and manage the flow of information. We now have also added a research and development product related to compliance content for that activity."

What were the major growth accelerators for your company in its high-growth years?

O'Leary: "Some key accelerators were:

1. Signature customers. At key times in our history we have attracted important names. The very first set of lighthouse customers was Roche, Bard, and Faulding. Then, in 2004, we signed Fidelity as a major client in the financial services vertical. This was huge for us. We also added a major US bank as a client that year.
2. Signature partners. Since we added the indirect sales strategy in 2007, we have attracted a blue ribbon set of channel partners – such as Paisley, LexisNexis, and Microsoft. We are committed to working effectively with these partners. My motto is, 'pay everyone', which translates to making sure that both the sales and marketing of both the channel partner as well as our own sales and marketing people have strong incentives.
3. Culture in which there is open and frequent communication.
4. Quality software development team in Cork. Ireland has a strong education system. We have been able to attract a talented set of technical people to our Cork hub.
5. Industry recognition. Endorsements from leading opinion makers such as Forrester and AMR Research has helped build recognition of our products and our growing presence. Forrester, in December 2007, placed us in the upper right of their compliance management platform that included over 10 competitors. They stated, 'With strong content management capabilities for its GRC platform, Qumas is one of the clear favourites for addressing broad compliance needs'."

Describe briefly the financing of your company and how this financing impacted the growth of your company.

O'Leary: "We had small seed rounds from Irish investors in 1997 and 1999. The 1997 round was used to set up the US office, while the 1999 round was used to grow our market in the US. In 2005, we had a significant financing round – from General Catalyst and from the investment arm of Fidelity Investments. The Fidelity investment came after they became a client and was a ringing endorsement for us as both a product and a growth company."

What were the major challenges your company had to handle in it's high-growth years, and how they were managed?

O'Leary: "Some challenges include:

1. Building the sales engine. Our direct sales model that we exclusively relied on until 2007 places a lot of reliance on finding very effective sales people. There is little margin for error here. A sales hire that does not work out can freeze your sales effectiveness in an area for some time. One reason for adding the indirect-channel partner model was that our partners would have a strong and broad based sales force in areas where we could not afford to be on our own. However, it is essential to demonstrate to your channel partners that they have your top mind as well as you hoping that they have QUMAS as top of mind in the compliance product area. We need for our channel partners to see QUMAS as adding value to their sales effectiveness and commissions. We try to do things for them that are meaningful, positive and unexpected – over and above just QUMAS product education and support.
2. Building a culture where there is open and frequent communication. It is critical to keep the lines of communication open in both good times as well as bad times, especially in bad times. If you betray your culture you will have a broken culture."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

O'Leary: "Every company I know has had dark moments. We have had layoffs in 2007 when it became very important to better manage our cost structure. We had to be very transparent in how we did this, both for those who were laid off and for the morale of those who stayed. Our open communication culture helped here. I got up in front of the company and outlined 'Here it is and why', rather than just saying, 'Trust me'.

"When we lost a significant customer, I shared the bad news very quickly and most importantly, had a positive set of action steps for QUMAS to take. In this case, the customer left due to a major change in their strategy rather than any non-performance issues with QUMAS. "Regardless of how dark it is, it is essential for the CEO and the top management team to lead with a positive attitude. There is an extra cultural aspect here for QUMAS. In Ireland, people are not content with a drama. They want a crisis and part of our challenge when things look down is to diffuse that mindset."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

O'Leary:

1. "Creating a market for your products is harder than you think and will invariably take longer than you think. You need to commit large amounts of your time as well as those of others to meeting this challenge.
2. Culture is fluid, intangible, wonderful, frustrating, and critical. Take the time to consider and embrace your culture. A common vocabulary across the organization will help its building. Having transparency as a core aspect of your culture is essential. It will enable you to navigate through the bad times much better.
3. Team building is pivotal. Dictators never build teams, only servants. The team will empower the scaling of a company.
4. Alignment of key aspects of a company – such as strategy, HR policies, incentives, culture, etc. – will greatly increase your chances of success." ■

Prepared by George Foster, 24 November 2010

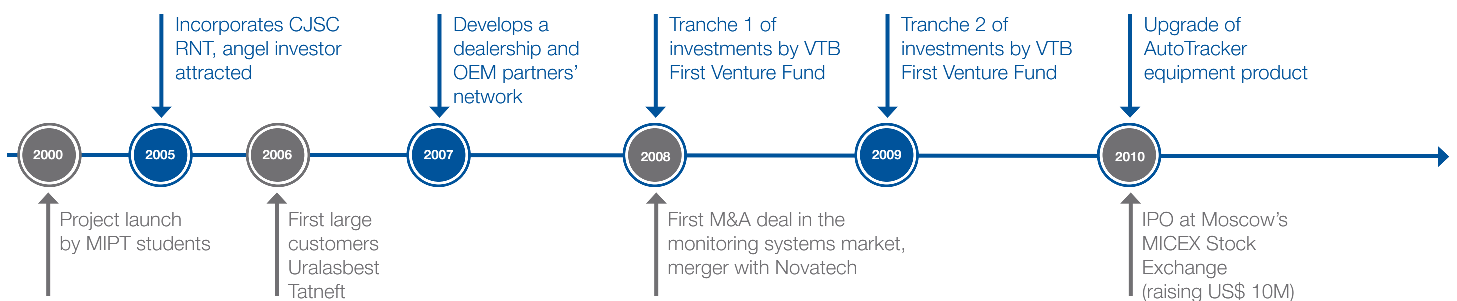
Russian Navigation Technologies | Russia

OVERVIEW:

Russian Navigation Technologies (RNT), established in 2005 in Moscow, is the largest designer, manufacturer and integrator of telematics systems in Russia, holding a 30% share of the overall telematic market in 2009, adapted for the domestic transportation industry. With offices all over Russia and over 70,000 installed systems, the company keeps growing by offering AutoTracker's GPS/ GLONASS-based telematic systems for transportation monitoring and fleet management. The company had its Moscow IPO on 7 July 2010 on MICEX, raising RUB 300 million (US$ 9.6 million) at a market cap of RUB 1.663 billion (US$ 53.7 million). Domestic sales in 2009 were RUB 210 million (US$ 6.7 million) with 149 employees, and estimates for 2010 of about RUB 300 million (US$ 10 million) in sales with about 200 employees.

RUSSIAN NAVIGATION TECHNOLOGIES

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Ivan Nechaev is the executive director of Russian Navigation Technologies (RNT) and a leading expert in GPS/GLONASS systems in Russia. RNT was established as a department in 2002 at Ruslan Communications. It became an independent company in 2005 under the management of Nechaev and Boris Satovsky (CEO of RNT).

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Nechaev: "We discussed the initial idea while we were students at MIPT. However, it was implemented later when I joined 'Ruslan Communications'. RNT was established in 2002 as a department of Ruslan Communications and after the successful launch of the telematic concept, it became an independent company. The initial product idea arose from interest in both GPS navigation and the transportation sector, followed by rapid IT development. We have been lucky to get the first project in 2004 with our only client, Don-Stroy, a large construction company in Moscow. The implementation was on the risky side with a chance of not being paid if work was not completed. However, we made it and could therefore successfully move on with our business.

Going forward (2010+ / post-IPO):

Our priorities include strengthening our position in promising market segments, which are government contracts and small and medium-sized businesses. Besides, we are focused on international expansion and the development of new technologies."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Nechaev: "Our initial target was to build a medium to larger size business, but this was trickier than we anticipated. The major changes we faced were related to the primary positioning of our products for the appropriate target segments. For example, we initially targeted large-scale firms as our primary customers. However, when the GPS systems developed and became more affordable, the mid-sized firms became our clients as well. After all, the product also became popular abroad: clients from South America, North Africa and Eastern Europe were among our client group. These opportunities led to the next restructuring of our firm. Basically, the company transformed from a small student start-up to a larger corporate structure today. In addition, we had to raise an angel investment round, followed by institutional venture capital investments in order to scale the company. The recent IPO (July 2010) provided us with more visibility and credibility in the market. I guess we have grown up with the company and are ready for a new move."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Nechaev: "Well, firstly the clients get all the benefits. The system offers complex cost-cutting solutions and further benefits for the entire business. The system offers a modular-based solution with a basic starter kit. Additional systems can be added to improve the performance. For example, the modules can monitor the driving distance, speed, fuel expenditure, add additional safety, and so one. Therefore, the more benefits the client gets, the more willing they are to add more elements to facilitate the logistics issues they need to solve.

"The majority of sales have happened through referrals from past 'reference' clients. Once starting, our clients stay with us, adding more product lines and growing to a successful business together with us.

"Finally, we use our own core expertise, such as product development and support, logistics, and marketing, in order to deliver high-quality solutions. Moreover, client communication and service support are important factors. In order to maintain these services, we established a nationwide service/support network to provide rapid help to our clients. To achieve it in a short period of time, we acquired another company, which was specialized in such services. Our in-house engineers and R&D department continuously tests and improves the product in order to stay ahead of the competition".

What were the major growth accelerators for your company in its high-growth years?

Nechaev: "We have five elements, which are:

1. *Development of the mobile phone industry:* More clients have been able to afford the mobile phone services; therefore our product line could develop more rapidly to fulfil new clients' needs.
2. *Lack of official standards:* The requirements from customers led to a situation where our competitors claimed more than they could actually deliver. In contrast, our AutoTracker product keeps its promise, since we developed the original concept with highly sophisticated corporate users. We can easily scale the product to a client's specific needs.
3. *Clear and simple solution:* The product had been developed before the existence of GPRS. As a result, our system architecture provides minimal server load and offers fast monitoring. Such systems are very affordable for large scale businesses with hundreds of transportation units.
4. *Ongoing R&D:* These investments allow our product to become more functional and efficient, and also increase security and safety.
5. *RNT People:* The human factor is one of the key points contributing to the company's success. There are 200 people on the team, generally 26- to 27-year-old professionals. We were looking for high-achievers with professional competence and a desire to add more to the team's knowledge. Our HR department recruits from the best universities across Russia and provides extensive training and various growth opportunities. On the other side, our selection process is very stringent, since we focus on those who can adapt to our fast-paced environment. However, we do believe that our young company would help them to get a unique experience for their life/career."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Nechaev: "Until today, RNT is the only company in Russia, which underwent every single step of the financing roadmap, starting from business angel to venture investments to the IPO. The IPO of RNT (AutoTracker) is the first venture capital-backed IPO of a Russian technology company on the Russian stock exchange.

"The first financing was provided by Boris Satovsky, CEO of RNT's mother-company – 'Ruslan Communications'. Nearly $0.5 million was spent on the development of technology and software for constructing the first-working device.

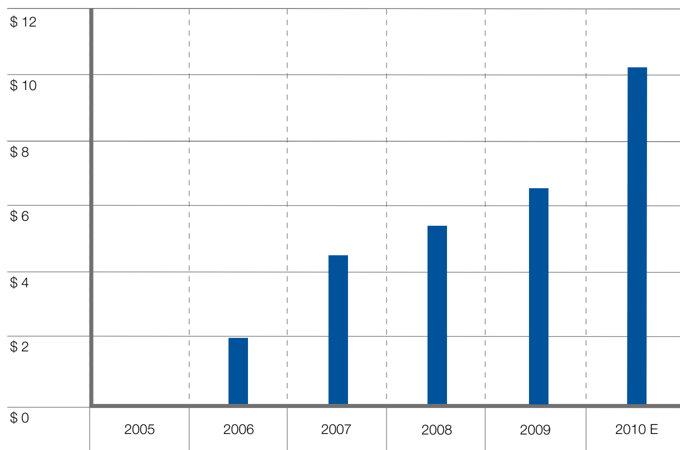
"In September 2008, VTB-Capital invested RUR 170 million (US$ 5.7 million), which was spent on R&D (for a unique, new generation

platform), sales and marketing development and mass-production resources. We needed to manufacture more devices and expand resources to sell them for the growth path. These investments helped to do it. In July 2010, we had a successful IPO. The proceeds of the IPO will be channelled towards accelerating the company's global market expansion, building the network of representative offices, and launching the operator sales model that requires extra funds for development. These are directions where growth is planned."

IPO Details:

"RNT made an initial public offering of its shares in the MICEX (Market for Innovations and Investments) in Moscow on 7 July 2010. The company sold to investors 3,520,000 newly issued shares (or 18.03% of the company's share capital) at RUR 85.23 per share. The volume of placement amounted to RUR 300 million (US$ 9.6 million). The

RUSSIAN NAVIGATION TECHNOLOGIES



company's capitalization after the additional issue is RUR 1,663 million (US$ 53.7 million). After the IPO, VTB owns a 30.7% stake in RNT. Boris Satovskiy, the CEO of RNT owns a 26.6% stake in the company."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

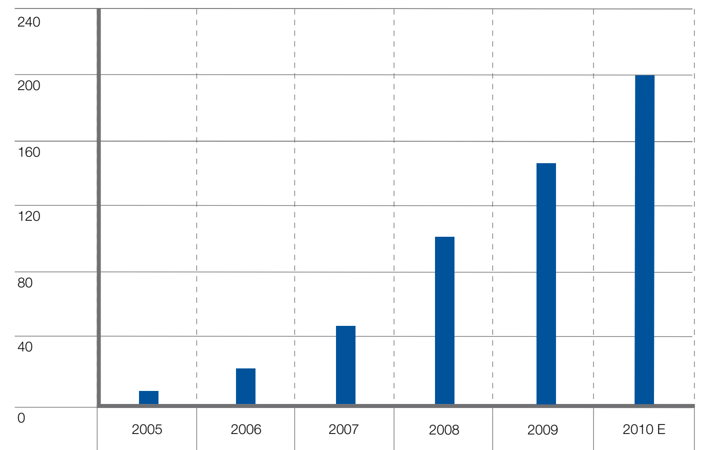
Nechaev: "In our situation our team is the main challenge. Each member is part of the process and they are interrelated. Although Russia has a large engineering pool, the current employment market is short of qualified professionals and people who are passionate about what they do. We therefore provide in-house training and comprehensive professional development in order to stay attractive and to further RNT. Since our company grows extremely fast, we therefore have to adapt our corporate structure together with the business requirements. The team faces continuous changes, which are addressed daily by the participation of top management in the various aspects of our business."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Nechaev: "We have been lucky so far of not having any of them. The product is new to the country; hence, there is a growing need even during times of economic crisis."

What are the key lessons about entrepreneurship and successful growth strategies you take from your company experience?

RUSSIAN NAVIGATION TECHNOLOGIES



Nechaev: "I would say the main ones are the following:

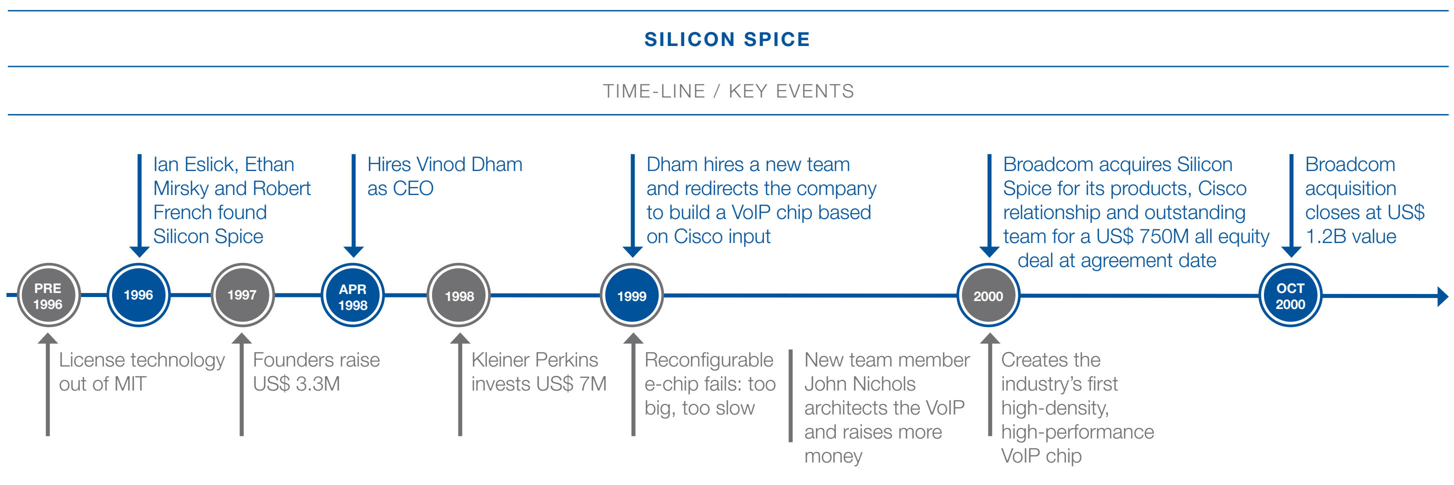
1. People, project, process and change management skills. We do believe that people drive the product. However, the overall management process is an essential tool to fulfil the gap between both of them.
2. Ability and desire for continuous learning. This helps us to offer new cutting edge solutions to our clients as well as retain the talents of our team.
3. Universal approach. The company grows rapidly and our team members are ready to perform tasks that they have never done before. We are open to changes and each of the team members is ready to embrace them." ■

Prepared by Martin Haemmig and George Foster, 22 November2010
Supported by Russian Venture Company (I. Agamirzian, G. Bikkulowa, RNT (Natalia Degtyareva)

Silicon Spice | US

OVERVIEW:

In 1996, MIT undergraduates Ian Eslick, Ethan Mirsky and Robert French (also a Stanford PhD) founded Silicon Spice. The company's product was a single integrated chip that communicates a large amount of data, which previously could only be achieved by a bank of microprocessors. One year later, when the company was still in POC (proof of concept) stage with a dozen employees, Silicon Spice hired Vinod Dham of "Father of Pentium" fame as chief executive officer and chairman. He redirected the development focus from a reconfigurable chip that had proved unviable (too big and too slow) to a custom voice-over IP (VoIP) processor for the commercial market. Dham built a strong team and company culture, and he signed on Cisco as a strategic partner and investor. In 2000, Dham sold Silicon Spice for US$ 1.2 billion to Broadcom, one of the world's top 20 semiconductor sales leaders.



QUOTATIONS FROM:

Vinod Dham was chairman and chief executive officer of Silicon Spice from 1998 to 2000. He was one of the architects to develop the Pentium processor at Intel between 1990 and 1995, which won him the name "Father of Pentium." He was the Chief Operating Officer and Executive Vice President of NexGen, a start-up firm later acquired by Advanced Micro Devices (AMD). After the sale of Silicon Spice, Vinod founded an incubator called NewPath Ventures. Subsequently, he founded IndoUS Venture Partners (IUVP), an India-focused early-stage venture capital fund where he serves as managing general partner.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Dham: "The founding team – Ian Eslick (MIT), Robert French (MIT) and Ethan Mirsky (Stanford) – had the initial idea to build a single communications modem chip that would greatly reduce the bandwidth problems facing users of the Internet. Eslick and French were the technologists, and the technology license was out of MIT. The concept was to build multiple modem chips on a single chip. At that time, you required a modem to get on the Internet. On the carrier side, you needed a bank of them. To get a bank of them, they used to be on big cards. If you can get a lot of them on a single chip, then you can have a smaller card. When I joined the board of Silicon Spice, they had already begun developing a chip based on the technology license for reconfigurable architecture from MIT. Unfortunately, the concept of using reconfigurability, although intellectually sexy, was unviable commercially. The founding team struggled for a couple of years to come to that realization by building a proof-of-concept chip – appropriately named GDC for 'God Damn Chip' – which turned out to be a dismal failure.

Although it showed that reconfigurability was possible, it came at a prohibitive cost in terms of very large die size and snail-like speed. When this chip came out, it ran at a few MHz speed, and it should have been running at a multi-GHz speed."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Dham: "When the chip failed in late 1998, we had a couple of choices. One was to shut down the company, take the losses and move on. Only a small amount of money had been spent at that time. The alternative was to see what we could do with the technology and the concept. While working on the GDC, we had started forming a relationship with Cisco, which had also been looking for product in the emerging VoIP market. We studied this new market and decided there was an opportunity to address this nascent need for high density (hundreds of voice channels on a single chip) and become a leader in this space. We shared our idea with Cisco. They liked it and made a token investment of US$ 5 million into the company, promising to be our teacher/customer and a strategic partner for this new product. I fundamentally took the existing team and added an experienced chip architect (John Nichols) from Sun, beefed up the systems side of management with Andy Axel (Ex-Nortel) and brought in my trusted chip designers, Jim Miller and Mustafiz Chowdhry (Ex-Intel duo from the Pentium team), to implement the chip design. I then redirected the company to build this new product. The current state-of-the-art was a voice modem built by TI with only eight channels on a chip. We targeted and successfully built a single chip with 256 voice channels. We signed up Cisco and Nortel as our beta customers.

"The idea to reconfigure computing was very sexy, and sexiness turns on investors in this industry. I didn't want to kill that idea completely. There were research firms predicting at the time that the market we internally thought we were addressing was in the many US$ billion level. One stance we adopted when we redirected the company was to not go into the high-profile hype mode while in development as some companies like to do. We divulged little publicly about what we were working on and stayed in stealth mode. I believed that we should wait and let the product speak for itself when it was ready for a market test. One Forbes article, while noting that we had sizeable pedigree in our people and were working in a potentially big space, discussed the mystery surrounding what we were doing."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Dham: "Our strategy was to be first in the high-density, high-performance, low-power VoIP market and carve out a leadership position. The business model was to provide lower cost per channel by packing in more channels per chip, thereby offering superior value proposition to our customers than was being offered by Texas Instruments, the incumbent supplier. Our chip sat between the network and the PC and reduced the bandwidth bottleneck. Old monopolies like the regional carriers had not kept up with Moore's law. I had begun to believe that the bottleneck in using computers was no longer the processor speed – it was the speed of connectivity that was important. Therefore, we dubbed our chip as a communications processor.

"Given my background at Intel and then at NexGen, I put a premium on having a strategy that combined technology leadership with a good sense of what the major market opportunities were."

What were the major growth accelerators for your company in its high-growth years?

Dham: "One of the biggest growth accelerators in any start-up like Silicon Spice is the quality of the people you attract. I hired John Nichols, a brilliant architect from Sun Microsystems, along with Jim Miller and Mustafiz Chowdhry to implement the design flawlessly. We followed Intel's culture of 'Focus and Execute' and developed a tight culture of open communication between employees and management to inspire employees for the greatest success. Indeed, when Broadcom approached me in 2000 about a possible acquisition, we were in the midst of 'taping out' our chip. I did not want us to be distracted; I certainly did not want our team to be distracted. So I told Broadcom we had no interest. They were persistent, so we decided that we would only take a meeting in my office for a maximum of one hour. No longer than an hour and no distractions to our team before or after.

"The meeting went well, and Broadcom expressed a strong desire to acquire the company. This later culminated in a US$ 750 million offer.

"The Silicon Spice team developed Calisto, which came out a year later than originally planned but was first-run functional. The product enabled a new generation of high-density carrier-class voice gateways, broadband access voice gateways and voice-enabled remote access concentrators supporting hundreds of thousands of packet telephony channels. Calisto dramatically reduced our customers' system power and cost while operating on a single device. Gary Banta, our VP of Marketing, Rick Hyman, our VP of Sales, and Andy Axel, our VP of Systems, played a very important role in securing customers and building the business side of the company.

"We hit a sweet spot and got picked up by Broadcom. The company was originally acquired for US$ 750 million in an all-stock swap deal. However, the final acquisition price was US$ 1.2 billion on closing since Broadcom's share price had gone up since the time the deal had been agreed to."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Dham: "In 1997, the founders raised US$ 3.3 million in first-round funding from New Enterprise Associates (Mark Perry) and Worldview Technology Partners (James Wei). Kleiner Perkins Caufield & Byers (Vinod Khosla) invested over US$ 7 million in 1998. We had blue-ribbon investors. By the time we sold to Broadcom, over US$ 50 million had been raised in venture capital. Ultimately, the company sold for US$ 1.2 billion, the highest price for an early-stage semiconductor start-up at that time. Silicon Spice was a major financial success for its investors, in no small measure due to the redirection of the company to a new product and the talents of the strong technology team we had built after the initial failure of the first product."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Dham: "The company faced its first major challenge when the first chip (GDC) proved that the MIT intellectual property (IP) of reconfigurable technology was a commercial failure. And it was. When you change the direction, you need to know how to build up a team and have the confidence and faith that the new product and team are likely to succeed. The leader of the team has to instil that confidence. What I learned at Intel I applied here. We had weekly staff meetings. The whole staff would get together, and we openly talked about things. Everyone learned about everything and everybody else. Our employees knew about our marketing, our operations, about the budget and so on. I presented to the employees weekly in a very open-ended way. We had extremely smart people.

"We managed our product development and programme success with customers by putting in place quarterly objectives and key results – a discipline I had studied while at Intel. This is a top-to-bottom process of engaging the entire team in a single focus for results. The process enables you to crisply define each task needed to meet the final goal, clearly defining who is responsible for accomplishing that task. It is stated in a measurable, quantifiable manner so at the end of the quarter, real progress can be measured against the goal to assess what changes in resource allocation and capital are needed to get to the end result on time or close to on time. I brought a lot of the Intel culture along with me, and it certainly gave us much discipline that helped deliver some pretty amazing results."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Dham: "One dark moment was when the first product failed. It was a very significant dark moment because not only had we misfired, but now we were also under much greater pressure to deliver success on the second product. A second dark moment was when we were a year late in our next product. It was complex enough that there were enough misses in enough places that our original product delivery schedule was out by a year. A couple of VCs decided not to put money in the next financing round, which is not a good thing in Silicon Valley.

"The process of selling the company to Broadcom was very, very stressful. They were extremely aggressive, challenging lots of things and trying to reduce the transaction price. I remember there was one meeting in a Palo Alto lawyer's office that was going on until 02.00 in the morning. It was a crucial discussion. They had a lawyer who was talking complete nonsense from my point of view. And I basically said, 'I refuse to talk to your lawyer anymore. I want to talk to the CEO'. Finally, they got the CEO's second-in-command, who came and broke the logjam."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Dham:

1. "The most important thing I learned from Silicon Spice is that no matter how sexy or exciting your idea may look, if you want increase your chances for success, then you must actively engage with potential customers early on. They may not become your ultimate customer, but they certainly will teach you about the product and its features and functionality very early on. I would say that's one of the most critical things to do, even if you have to make a sweetheart deal with them to get their engagement.
2. As an entrepreneur, you have to have the DNA in you to not give up. I could have easily given up on Silicon Spice and moved on to do something else. This drive to succeed at any cost is part of every successful entrepreneur I have worked with. You have to figure out whatever it takes to make a success of the company.
3. The biggest thing I learned from Intel and that I have carried with me since is there is a discipline about focus and execution. You have to focus on very crisply defined deliverables. You can't just clutter people with 100 things. You have to distil them down to one or two. However, you have to be very careful. You can't dump all of Intel's culture into a start-up, either. But there are elements of the Intel culture that, when brought in a suitable manner, can help a start-up become far more efficient and successful." ■

Prepared by George Foster, Xiaobin He and Mateen Syed, 16 November 2010

SKLZ | US

OVERVIEW:

SKLZ/Pro Performance Sports is a marketing company focusing on delivering innovative and effective sports training products. The company was founded in 2002 and came to prominence with its baseball swing trainer, the “Hit-A-Way”. This was a multimillion dollar sales success that was sold via direct response television. It has subsequently added basketball training equipment, football trainers, tennis and racquet tools, soccer training aids, a lacrosse trainer, and a full spectrum of golf training aids. It has also expanded into speed, agility and quickness tools. The company’s positioning statement is: “Practice » Play » Win.” It has a strong portfolio of athlete endorsers, including both current players – such as Albert Pujols (baseball) and Maria Sharapova (tennis) – and legendary players – such as Reggie Jackson (baseball) and Joe Montana (football).

QUOTATIONS FROM:

With the original design of the Hit-A-Way baseball swing trainer, **John Sarkisian** founded Pro Performance Sports to market the trainer via direct response television. He is the current chief executive officer. He started out as a commercial real estate broker with Marcus & Millichap, then CEO of Trevi Group (Real estate), and Pat & Oscar’s (restaurant chain sold to Sizzler). He has a BA in economics from the University of Michigan and a MBA from San Diego State University. **Tom Quinn** is president of Pro Performance Sports. He joined as vice-president of sales and marketing. He previously was with Loctite Corporation (chemicals), Greenfield Industries (industrial cutting tools) and Nextec Applications (woven textiles). He has a bachelors degree in Chemical Engineering from Lafayette University.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Sarkisian: “The company’s original idea was the Hit-A-Way product. Then, because of the success of the product, it led us to start thinking about training aids and the role of training young athletes. The Hit-A-Way provided additional capital on top of investments, which helped to fund the company. It also helped to get us into retail channels, which would have been difficult, had we not had such a successful product.”

Quinn: “The initial idea was actually not an idea, but an opportunity to

bring a popular product to market. The company really started with the commercialization of the Hit-A-Way that was brought to market in 2002. The popularity of the DRTV spots quickly led to the relationships we began forming with retailers. With the popularity, retailers took that one or two SKUs and put them in their stores, something that is very rare. "The initial thought was to build a DRTV brand and simply bring to market innovative products. However, after discussion and research, we decided to dedicate the company to become one centred on skill development training. This was really the turning point of the company. This really gave us direction on what type of products we were going to focus on and even the type of people that we were going to hire."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Sarkisian: "The initial growth vision was derived around building a successful line of training products. This growth vision was developed over time and has now changed into building the SKLZ brand as a full athletic training brand including products, instruction, apparel, protective wear and possibly even nutrition. We are growing into being the provider of total athletic performance."

Quinn: "Our growth plan really matched up to what was happening in the market – we saw that athletes were specializing in their specific sports. It wasn't even just the athlete; it was the parent, the grandparent, the significant other or friend who would be the potential purchaser of a training product. This created a broad marketplace. Also, from a logistics point of view, there was no need to over-invest in SKUs and colours in training aids. The other thing was that China, as a source to manufacture products of this value, allowed us to make a good product at a good value. We saw scale – we could take products from one sport and could make meaningful products in another category. Opportunities arose to expand into SAQ and training centre missions."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Sarkisian: "The business model is built upon accessing and developing innovative products, branding and marketing them into a line of products in direct sales and big box sales. Now it's evolved further into moving these brands into institutional channels, college and high school. In the future, products will be combined with full content to complement them."

Quinn: "We had a strategy on what types of products to bring to market and there was also a clear branding strategy. Having relationships with retailers from early on really helped in our growth. There was an appetite in our distribution channels and we were able to capitalize upon it. It's really what you want in a business mode; to have the right products, at the right time, at the right value, with a broad distribution channel and a company that could service those channels and really keep pace."

What were the major growth accelerators for your company in its high-growth years?

Sarkisian: "Major growth accelerators are really all about new products. This encompasses product development and the introduction of new products."

Quinn: "In the history of our organization, SKU growth and growth across sports were the company's major accelerators. When we move to position ourselves as the leader in innovation in athletic training, we are staying true to the course by bringing fresh products to market. "The market within athletic training was another accelerator that allowed for growth. People were becoming aware that to become better at sports there were things that they needed, including training aids." Briefly describe the financing of your company and how this financing impacted the growth of your company.

Sarkisian: "Financing has been done internally except for some bank debt and private debt. This has actually been somewhat of a limiting factor to growth because we did not want to take in additional equity until we had a certain scale and scalability. The time to take on this is quickly approaching."

Quinn: "We were very fortunate in this. The Hit-A-Way sold very well and the profits we made from this product helped to finance the company. As Hit-A-Way profits started to plateau a few capital investments from friends and family were what helped us. During a tough time we had great vender relationships that really helped push us through this time by extending terms and even lending us money. We have a very favourable asset based loan programme that has helped to keep great banking relationships. This puts us in a great position for now which really was our end goal. We wanted to stay close to our expenses and budget numbers so we could be where we are today."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Sarkisian: "A big challenge that we face is the changing retail environment. Retailers are becoming more focused on margin and at one time were sceptical of innovation. To get through this, we have had to be more aggressive in programmes, including guaranteed sales consignment and co-marketing."

Quinn: "Some challenging times: where we saw several opportunities that we really wanted to pursue but we were tied with the amount of capital and structure we could put behind the product. Due to limited capital we were not able to spend the promotional dollars we needed to grow. We have best-in-class products but we would be a stronger company if we could inform more people about them, and promotional

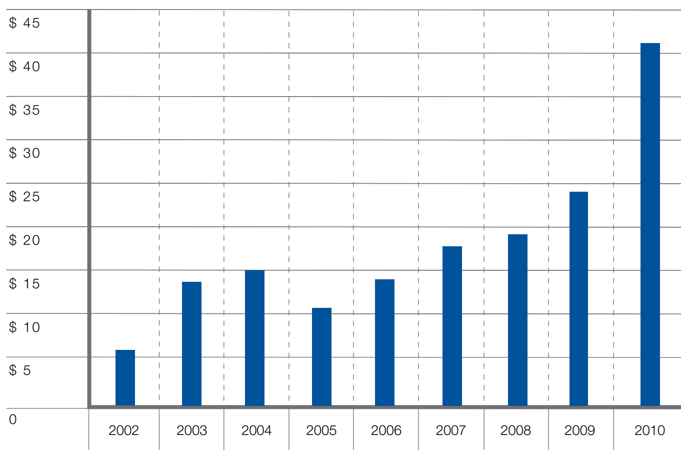
dollars were just something we have had to wait on. Something that goes hand in hand with limitations on capital included the growth of the team. The team was required to wear multiple hats and put in the hours to build our company to where it is presently."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

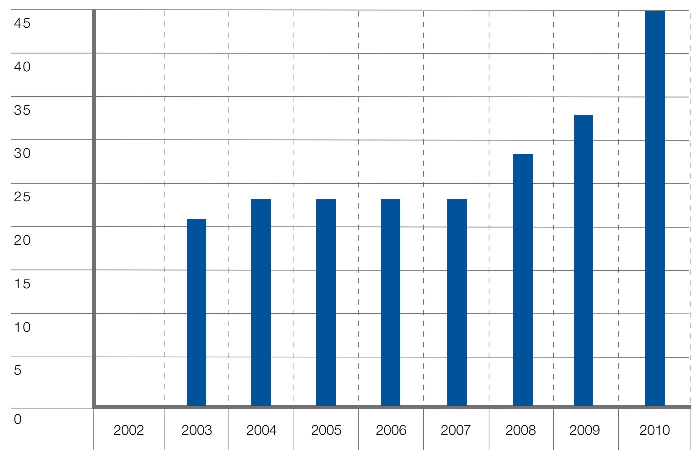
Sarkisian: "In 2008, the company expanded in anticipation of the business expanding. Unfortunately, the economy took a big hit and our business was affected as well. We were forced to lay off about 15% of our employees, some of which have returned at present. Also, the team froze and took salary cuts. We were also forced to abandon a couple new product introductions. Fortunately this helped us to survive through this time and we have grown tremendously since."

Quinn: "When capital was tight we had to make choices to where we had to allocate money and be smart about expenses. We made some tough choices during this time to let some key people go, and the executive team had reduced salaries on two different occasions. It was difficult to maintain relationships with retailers, vendors and even team member morale. You have to have a plan, even in tough times, and be truthful about how the company is doing."

SKLZ



SKLZ



What are the key lessons about entrepreneurship and successful growth strategies you take from your company experience?

Sarkisian:

1. "It's important to have a vision and have a plan that aligns with that vision.
2. Hire people who are smart, driven and passionate.
3. Focus on delivering a product that is trusted and has great value. Then make sure customers are more than satisfied with its performance and results of the product."

Quinn: "One, you must surround yourself with people that have the same spirit, enthusiasm, energy and understanding as you and the company. For most of us, that means people who can adapt to change. It's important for entrepreneurial companies that these people also be bright and well rounded. You are hiring someone that is a good hire and also someone who is a good hire for an entrepreneurial company. You also need to have a fundamental plan to execute what you need to do financially, including investor relationships and bank relationships. Very importantly, don't let your enthusiasm fool you that you have a great product or a great business strategy. You should use outside resources and advisors to give you input. You should also be honest with yourself: are your costs in line? Do you have a product that the market has an appetite for? Are the projections you have realistic? Look for any shortcomings and don't put blinders on because this is how entrepreneurial companies fail.

"Also don't forget about lady luck, when opportunities knock at your door you should be open-minded. It might not be the perfect fit for your strategy, but if it's close to your core competencies you should evaluate that before you turn it away." ■

Prepared by George Foster, 22 November 2010

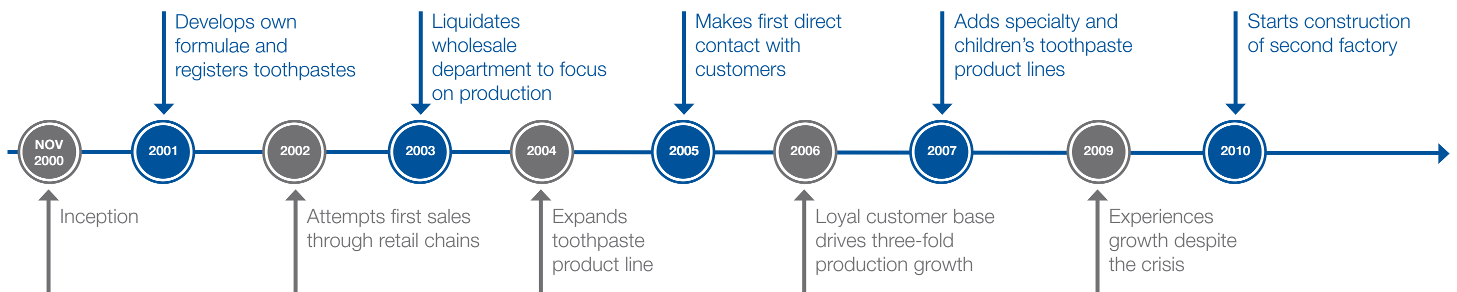
Splat Cosmetica | Russia

OVERVIEW:

A Russian start-up specializing in oral care, Splat Cosmetica was launched from scratch in November 2000 – at a time when the market had been dominated by foreign multinationals. It eventually grew into a major company with a 10% share of the Russian toothpaste market. Splat Cosmetica succeeded in this highly competitive market with virtually no funds for large-scale advertisement by relying primarily on building trust relationships with its customers.

SPLAT COSMETICA

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Co-owner and CEO **Eugeny Demin,** began leading Splat Cosmetica in 2001 after graduating from the Sochi State University of Health Resort and Tourism Business. A team of family and school friends has led the company since its inception.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Demin: "The underlying idea was to change the world for the better and do something good for at least one person each day. We did not want to focus on sales only but rather on creating something of our own, something new, something also global. We chose toothpaste because it is a daily-used consumer product – an important factor for business in the early 2000s when people in Russia could only afford to buy the basic products.

"Moreover, Russians could not offer high-quality, reasonably priced products. Among our friends, we found some scientists who volunteered to develop our first toothpaste compositions – as well as advising designers on package design and assisting with our first sales."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Demin: "Since we were investing a huge amount of energy and love into our products, we thought that they were going to sell really fast. But they did not. The product was new to the market, and our marketing budget was low. As a result, the first two years of the company's development were slow-paced. Hence, major business changes were required.
"We shared with our customers our enthusiasm and let them know how hard we work to make an ideal product. Quality and attention to little details were our major focus.

"To show our customers our attitude and share with them our conviction and efforts, we decided to communicate a personal message to each of them. A small 'note' with our values and goals could be found in every single package of our toothpaste. Every note contains my personal e-mail address. Once per month, I review the feedback from our customers and share it with our management team.

"These 'notes' became a tradition, and since then, I have written a different one every month. So far, I have developed 65 of them."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Demin: "We placed our stake on perfectionism, on outstanding products, on living up to our promises and on building trust and loyal relations with our customers. We never released a new product until we ensured its perfection. We do not limit our engineers' drive, dreams or determination with cost or design requirements. Instead, we declared, 'The sky is the limit!' Hence, they keep on being creative and enthusiastic!"

What were the major growth accelerators for your company in its high-growth years?

Demin: "From the beginning, we believed in:

1. Being open and loyal to employees, customers and shareholders
2. Making continuous innovations and improvements to the product
3. Building trust and loyal relations with our customers
4. Developing a human resources strategy. Since the team is the number-one growth factor for our company, careful recruitment of new team members and ongoing training helped our company grow to the new stages of our corporate development. Recruitment of key personnel is rather slow due to our high requirements for fitting as a team member. We are looking for soul mates as well as for professionals – those who will stand next to us while the world is changing around us."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Demin: "We were very conservative about financing during the first seven years and thus did not leverage external capital. We only relied on our own profits, which got reinvested into the company. We also leveraged our suppliers' credits. Three years ago, we started using factoring, leasing, overdraft and short-term loans. Such a policy took us to our high-liquidity ratio today. We do not depend on banks and can solely rely on ourselves."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

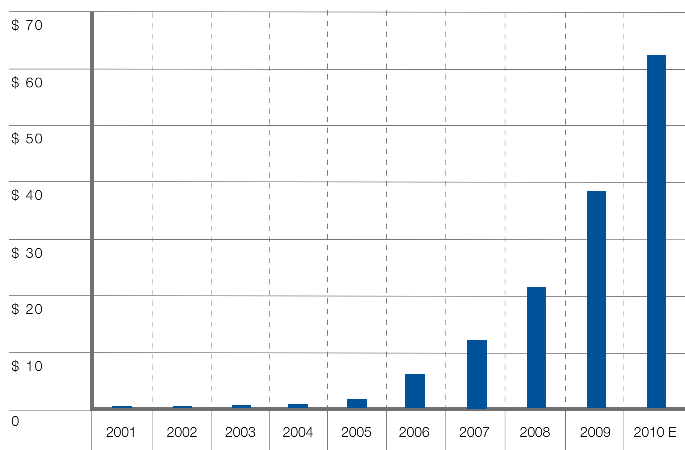
Demin: "It was a balancing act of:

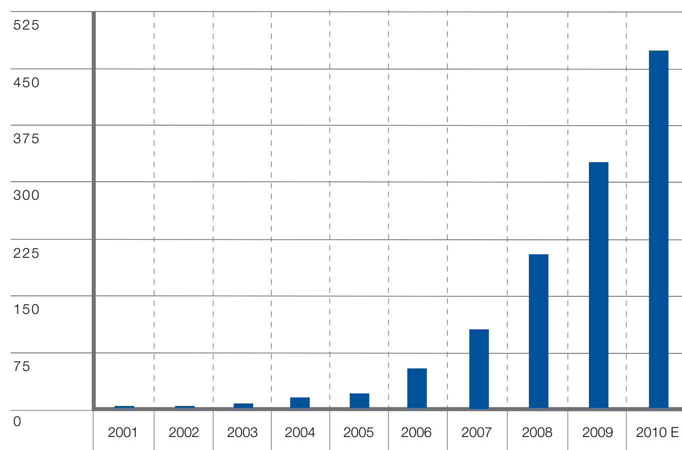
1. Maintaining and professionally developing our team to ensure sustainable growth
2. Simultaneously building a solid brand and a corporate structure
3. Maintaining and generating new intellectual potential"

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Demin: "We had quite a few of them:

1. In our early years, we had little understanding of how and where to market our products. Customers were not aware of why our product was different from the rest on the market. They were not aware of our brand, and they did not see why they were paying a premium versus other local products.
2. When we refused to distribute other companies' products and focused on pushing our own brand [initially, our core business had been related to wholesale], our sales decreased. Our customers' interest was low, and so were our profits. However, we focused on developing our own product, and within a year managed to bounce back with our profits."





What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

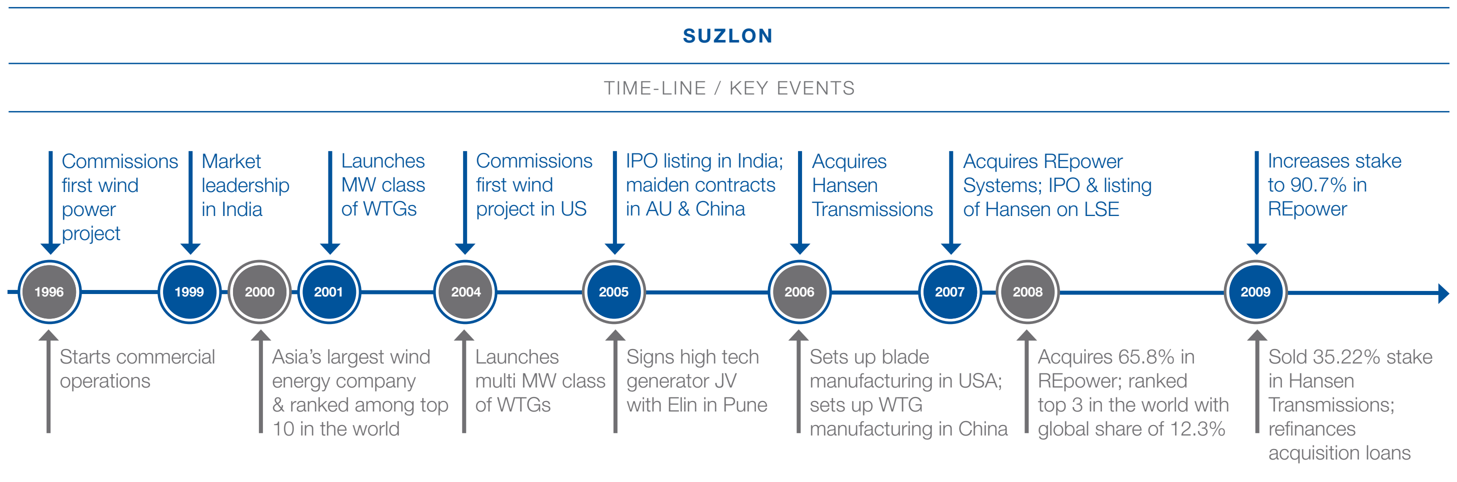
Demin: "The important thing is that you should only do what you really love to do. You must have a passion and a dream of becoming the best in the world in your business area. In the Russian consumer market, stay committed to providing customers with opportunities for a healthy lifestyle and do not compromise on quality. Finally, professional business execution and communication are key. Make these part of your mission because customers in Russia will experience the difference." ■

Prepared by Martin Haemmig, 22 November 2010
Supported by Russian Venture Company (I. Agamirzian, G. Bikkulowa, Financial University under the Government of Russian Federation – Prof. Andrei Yudanov)

SUZLON | India

OVERVIEW:

Established by Tulsi Tanti in 1995, Suzlon is now a leading wind power company with 16,000 people in 25 countries. It has operations across Americas, Asia and Europe. It is now the world's third largest wind turbine manufacturer (10% market share). A key philosophy is to be a company that serves society with sustainable wind-power on a commercial scale with a focus on continuously increasing the efficiency and reliability of our wind turbines. The company has won numerous awards including The Solar Energy Society of India Award, Wind India Conference Award, KPMG Infrastructure Today Award 2008, Best Manufacturer (2006-2008).



QUOTATIONS FROM:

A commerce graduate and a diploma holder in mechanical engineering, **Tulsi Tanti** originally from Gujarat, is presently based in Pune, India. Tanti was earlier into textiles, but the lack of constant power supply to his manufacturing unit and the constant rise of power prices, led him to the hedging of power using wind energy. Hence, Suzlon was born. Among many personal awards since 2003, Tanti was honoured with the "Champion of the Earth" title for Entrepreneurial Vision by the United Nations Environment Programme in 2009, and earlier as "Hero of the Environment" by *TIME Magazine*, and "Entrepreneur of the Year 2006" by Ernst and Young.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Tanti: "After finishing my education, I started a textile company with manufacturing units in Ahmedabad and Ankleshwar. In the last five years of the textile business, there was no baseline growth and the costs were increasing. A little study of the cost made me realize that textiles were a highly energy-dependent business. Further, we struggled with a continuous power supply and the power costs were only increasing. We started evaluating possibilities to hedge the power costs and ensure a regular supply of power to the manufacturing units. A study of wind energy business potential suddenly made me realize an opportunity."

Mr. Tanti developed a clear vision to build a new business: "Initially, we set up a windmill to hedge the power cost for the textile manufacturing unit. We later understood the policy framework for the wind energy markets in India, which was very much in favour for anyone investing in this market. As a result, Suzlon was started and we identified partners in Germany from whom efficient technology could be procured. The company then started to slowly spread into various geographies both organically and inorganically. It acquired Hansen of Belgium, and REpower of Germany. Today, Suzlon stands as the 3rd largest wind player in the world with a market share of approximately 10% (combined: Suzlon & REpower)."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Tanti: "Our vision is
1. To establish technology leadership in the wind sector
2. To be among the top three wind companies in all the key markets of the world
3. To be the global leader in providing profitable end-to-end wind power solutions
4. To be the 'stakeholders choice' company.

"We wanted to become a global player out of India and always aspired to have the revenue growth and highest profitability in the industry, while constantly looking for organic and inorganic growth. For me it was clear not to get into a joint venture, as I would end up becoming just a worker, not an entrepreneur. In the year 2000, I felt that restricting growth only to India was not logical, hence we ventured into new global possibilities. Even today, lots of hidden markets exist on this planet and we need to wake up and tap them.

"As a result, the status of the company is as follows at the end of 2009:
1. Supplied over 8,000 MW across the world
2. Registering 100% growth rate year on year
3. Was ranked the third leading wind power equipment manufacturer (Source: *BTM Consult ApS, March 2010)
4. Earned a global market share of 9.8% (combined Suzlon & REpower)
5. Maintained market leadership in Asia
6. Suzlon installed over 4800 MW of wind turbine capacity, acquired over 50% market share (YOY) and reigned as the market leader consecutively for the last 11 years."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Tanti: "This topic is one of the key factors, which we addressed early, both domestically and internationally. These were:
1. During our initial years in India, the conflict and pressure was in getting the correct technical human capital and training the work force. For this reason, we opened a training institute in Pune, India, to impart education as per company requirements. In addition, we also had to train our suppliers, in order to have them match our standards.
2. By acquiring foreign technology companies, we upgraded our technology knowledge. In a developing country like India, technology used from a developed country won't always work. The acquired technology has to be adapted to meet the needs and requirements of the developing world. As a key strategy to help overcome this issue, the technical resources and experts were brought to India and the technology was jointly adapted to existing conditions. As a result, the technical knowledge was transferred to Suzlon's work force in India. There were some initial challenges, due to difference in dialect and working conditions, however, we learned to deal with it over time.
3. We don't believe in central management of a global company. Hire local managers in every country. Each unit in each country acts as an independent business enterprise. This helps in scaling higher growth.
4. Our employee compensation programme was divided into base salary, annual performance bonus and stock options."

What were the major growth accelerators for your company in its high-growth years?

Tanti: "Year one to five: domestic; year six to nine: globalization; year 10 to 12: inorganic growth.

However, as for the first five years, we had to focus on some India specific (domestic) issues, which were:
1. Innovative end-to-end solution model, allowing individual financial investors to purchase Suzlon turbines, a first in the global wind market.
2. Right product in the right market at the right time.
3. Commitment to green power and sustainable growth – social, economic and ecological sustainable development of our world. This required us to drive policies through regulators and to develop an innovative financial model."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

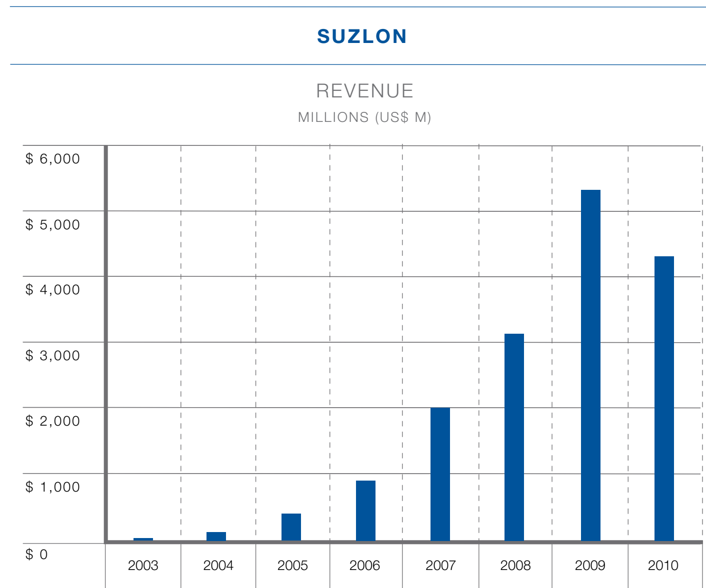
Tanti: "Financing is, to my mind, the second most important thing for a business. The first, of course, is the business idea. The name of my company Suzlon comes from precisely this. 'Suz' from the Gujarati word meaning idea, and 'lon' an inflection of the word loan.

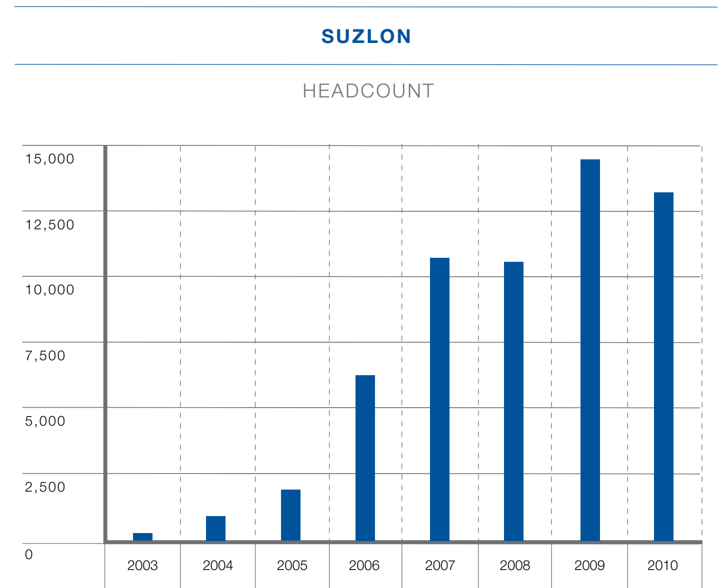
"Financing has always played a critical part in the growth of Suzlon. The seed capital from private equity firms that helped us climb onto the national stage, the IPO that helped take us international, crucial financing helped us tie up the acquisition of Hansen Transmissions, and then helped us secure REpower in the face of some very determined opposition. Finance has without a doubt, been a key determining factor at every crucial point on our journey. Looking ahead, financing and the way we use this as an asset will shape our future as a company."

What were the major challenges your company had to handle in its high-growth years and how were they managed?

Tanti: "It was an even mix of external and internal factors:

1. An early key issue was convincing the government to bring in policy changes, which would help encourage alternative energy resources.
2. Another external challenge was about convincing the financial institutions to finance the project.
3. Educate both employees and customers. Since this industry was non-existent in India until Suzlon started, a major issue was in training the resources about the technology and making all the stakeholders aware of our business model.
4. At a later stage, when we started to go more international, the issue was in attracting global leaders to join Suzlon. At the very beginning, we had to convince our own managers to hire international leaders and experts. Given our current brand recognition, this factor is no longer a key issue. The focus is on identifying the right key people in our target markets overseas and offering them a great level of freedom, by running their business like an independent company. We found that many top managers from multinationals need lots of approval from their headquarters. The ones with strong entrepreneurial DNA like our leadership structure, in which they are the CEO with full authority and freedom."





Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Tanti: "I am an entrepreneur and so am blessed to be an eternal optimist! As a businessman, I have, of course, faced a number of challenges over time, but I wouldn't characterize any as dark moments. However, our entry into the wind market was the result of one such challenging moment! My textile business was struggling under the high cost of power and very erratic availability. But these issues helped open another door into a new field – one which created Suzlon, and has today become more than a business – but a cause to me."

What are the key lessons about entrepreneurship and successful growth strategies you take from your company experience?

Tanti: "It may sound like a textbook answer, but I really believe in the following for unlocking entrepreneurship:

1. Identify the pain or needs and its opportunity. Remember: 'big problem, big opportunity'.
2. Any individual can become an entrepreneur. It is only that he has to focus on that direction.
3. Ability to take risk is what differentiates the best and an average entrepreneur. Distinguish between technological, market and people risk, but also understand the difference between 'blind risk vs. calculated or managed risk'.
4. Have clear vision and build the management team around the vision.
5. Execution excellence and focus on profitability is the key for success." ■

Prepared by Martin Haemmig and George Foster, 29 November 2010
Supported by JM FINANCIAL (A. Kampani, R. Narasimhan)

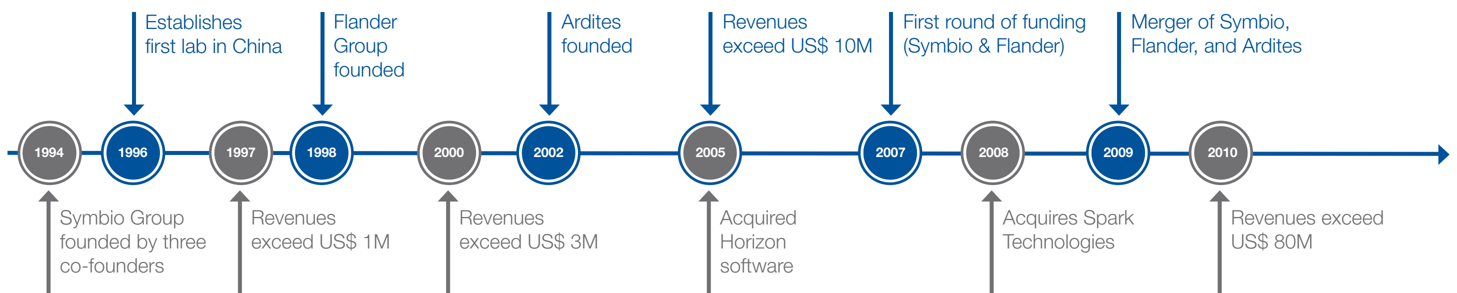
Symbio | China

OVERVIEW:

Symbio is a global product development and R&D outsourcing services company with headquarters in Beijing, China. The company offers a wide range of services, including software design and development, quality assurance and testing software globalization, and product operations. Its major clients include China Mobile, Ericsson, IBM, Microsoft, Nokia and PayPal. The company currently has over 1,500 employees, 22 locations around the world, seven R&D centres and five offshore development centres.

SYMBIO

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Jacob Hsu is the current chief executive officer of Symbio. Hsu joined the company in 1998 and has served as President, COO, and CMO. Prior to joining Symbio, he was the CEO of Trilogica Technologies, a data aggregation software company, and CEO of Epitome Software, an IT services company focused on financial services. Hsu is a graduate of Wharton School of Business.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Hsu: "Symbio was founded on the vision that software R&D and product development could be done in a more optimized way, delivering cutting-edge innovation, quality, and performance in a fast, predictable, and cost-efficient manner. The Symbio of today is the result of a merger among Symbio Group, Flander Group, and Ardites. Founders of those companies came from software R&D backgrounds, hailing from large-scale global labs at IBM and Nokia. Because some of the founders were originally from Taiwan, the initial idea was to create a software foundry and become the 'TSMC of the software industry'. The initial focus was on providing high-quality software engineering services at a lower cost by leveraging offshore development teams in China and Taiwan. Over time, this value proposition changed to become more about delivering new product innovations with best-in-class quality and performance. When the company changed its focus, the business growth really began to fire on all engines."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Hsu: "The initial growth aspiration of the founding team was quite modest: It was focused on working on 'cool' projects and growing a sustainable business. All elements of Symbio's modern day business model and value proposition were there from day one; however, the emphasis has shifted from delivering primarily cost savings with high quality to delivering cutting-edge innovations and new competencies in a fast and cost-efficient manner. There are three distinct eras in the evolution of Symbio:

- *Symbio's First Era (1994 – 2006)* was characterized as a close partnership among its partners. The teams were happy to work on all kinds of engineering projects regardless of the profile, and the bread-and-butter projects were low-level software development and testing projects. During this first era, growth was entirely organic and relied mostly on bootstrap financing. Over the course of 12 years, the company grew to over US$ 10 million in revenues and a staff of 350.
- *Symbio's Second Era (2006 – 2009)* is when the company began to transition from one built around a core of founders to one having institutionalized processes and professional management. This process began when the company received a serious acquisition offer by another offshore outsourcing player. The founders decided not to sell the company, but started a process to ensure Symbio would outlast their careers. In 2007, the company received a first round of outside funding that led to the appointment of outside directors and professional managers, including a new CEO. This second era ended with the merger of Symbio Group, Flander Group and Ardites to form the new Symbio. Over the course of three years, the company grew from a little over US$ 10 million to US$ 65 million.
- *Symbio's Third Era* began in 2009 with R&D and engineering labs located across 22 locations in China, Taiwan, Finland, Sweden, and the United States. The focus of Symbio in this era is the development of cutting-edge expertise and competencies that are integrated with proprietary IP and know-how, into turnkey product solutions that can be deployed globally across multiple markets. The company aspires to be at the forefront of innovation and has produced highly-visible and widely-used products. Symbio will end 2010 with over US$ 80 million in revenues, with a target to grow to over US$ 100 million in 2011."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Hsu: "There are five key strategic focus areas that enabled our growth:

1. Focusing Symbio's software R&D strategy on digital convergence, which is the fusion of applications/content with device software and cloud services. This enabled us to provide companies coming from the mobile industry with new innovations and competencies in applications and web services, while also providing companies coming from traditional desktop software and web services with new innovations and competencies in mobile technologies.
2. Re-orienting Symbio's recruiting and HR practices, bringing in the 'best minds' as opposed to the 'most brains'. That is, we wanted to bring in the best talent with cutting-edge competencies, not just hire lots of engineers. We carefully consider and screen for cultural fit and the ability to scale beyond a narrow set of project requirements. We are looking for future innovators, not just project resources.
3. Making Symbio's quality and efficiency the two key focus areas of our engineering process and optimizing our internal project delivery processes around those two objectives. In order to deliver on our promise of cutting-edge innovations in an optimized manner, Symbio must objectively prove it has one of the industry's best software engineering processes. As such, Symbio has set a board-level corporate initiative to be one of the 'Top 3' in the industry by 2015 with third-party industry benchmarks for software quality and delivery efficiency.
4. Designing Symbio's global project delivery network to work together in real time, not in an 'onshore/offshore' method. Symbio sets up offices and development centres in the markets that are global software innovation centres – the United States, Finland, Sweden, China, Taiwan, Japan and Korea – and we execute projects in all of these centres. The key point is our project delivery capabilities are globally distributed across all the locations we operate in. Where projects are delivered depends on the kinds of innovation our client wants to incorporate and the competencies they need to tap into.

5. Developing a Symbio portfolio of knowledge assets, toolkits, and reusable IP that enables us to design and develop software products faster and with cutting-edge innovations. By leveraging our IP portfolio, we are able to achieve faster revenue growth without having to linearly add staff whenever projects need to be delivered. While our revenue model is predominantly services based, we continue to increase the proportion of projects where we can re-use our knowledge assets and IP. Symbio maintains a global technology solutions development team comprised of CTO-level technology experts that continually develop our IP portfolio to ensure that it is at the forefront of where commercial technology products are headed."

What were the major growth accelerators for your company in its high-growth years?

Hsu: "The major growth accelerators for Symbio during its high growth years came from two major shifts in global perception. The first shift in perception was when China entered the WTO (World Trade Organization) in 2001. In the following two to three years, Symbio saw a major growth in Western companies looking to establish R&D operations in China and Symbio experienced 100 percent+ annual growth in headcount and sales between 2002 and 2006 in its China operations. The second major growth period began in 2009 when the company made a series of strategic mergers that tripled its revenue base and expanded into new markets in Europe, adding 12 new offices and delivery centres globally. The company has continued on a high growth trajectory since the mergers with its focus on digital convergence technologies. Compared to other regions post-recession, Symbio has seen its revenue base coming from Asia grow in a faster proportion as Chinese and Taiwanese companies with global ambitions work with Symbio to develop products for the global markets."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Hsu: "Symbio has always operated conservatively. The company was entirely bootstrapped from founders' equity and savings. Because Symbio's revenue model is primarily from services, the company was able to finance its growth through reinvested income from project work until 2007. When the company began to see opportunities to consolidate its market position, a decision was made to bring in institutional investors. The company would not have been able to complete the series of mergers that tripled its revenue base had it not been for new financial backers. Symbio expects to take the company public in 2011-2012 to raise additional growth capital."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

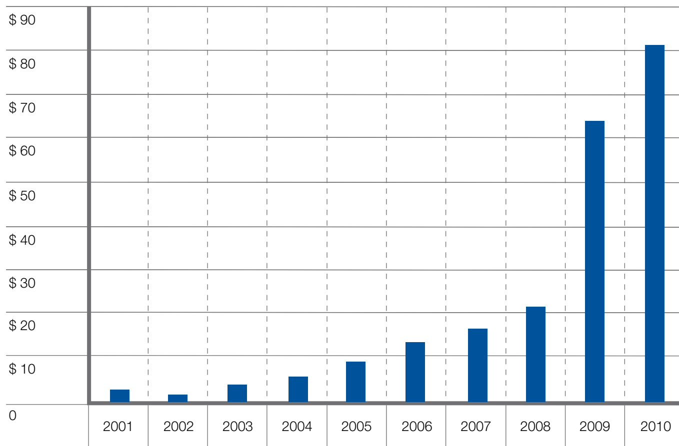
Hsu: "Symbio faced two major challenges in its high growth years (2003-2009):

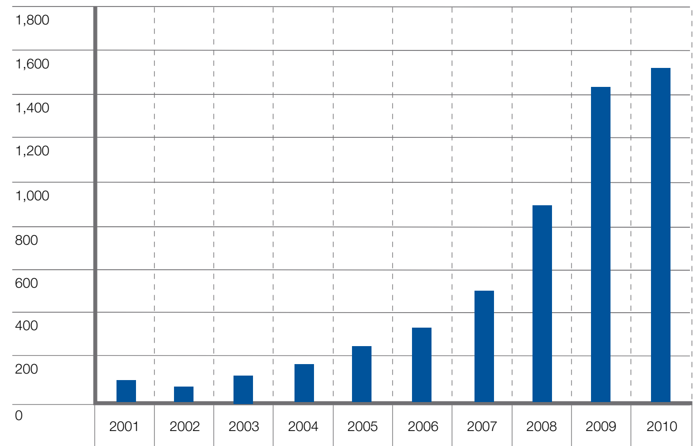
1. Continually develop its management staff to scale their capabilities, while also recruit and retain new management teams. Our challenge was finding people who had experience managing large teams of 100+ employees. The other challenge was finding qualified project managers and middle management staff who could be relied upon to manage daily project activities, particularly in China. The company relied on a combination of internal development programmes to train its managers to scale up their capabilities, partnering with professors to administer weekly 'Mini-MBA' programmes for managers. Symbio also instituted a formal management rotation programme that placed high-potential managers on rotation mes across different functions in the company, as well as international transfers.
2. Create a consistent messaging process to external and internal constituents across multiple international locations. Problems emerged as the company grew, whereby different regions were selling a narrow set of services and solutions portfolio, and not communicating the right messages in the right markets. Problems also emerged internally because staff in different locations did not understand the company's vision, positioning and major strategic initiatives. The company created a centralized corporate marketing organization. The head of this group reported to the EVP of sales, but also worked with the CEO directly on setting and communicating corporate direction and strategy. The group became a central switch by which marketing messages that were effective in different regions could filter and be disseminated to other regions. To promote the sharing of external messages, the group created a knowledge-sharing system by which all marketing material could be accessed by all sales and marketing staff in the company. The group also managed a quarterly external newsletter that was sent to all clients, and oversaw an internal 'Symbio Way Ambassadors' programme, which was a volunteer-based organization that helped send employee welfare and communication feedback directly to the executives. Other initiatives were an on-going internal Intranet that included employee-generated wikis and blogs, monthly CEO letters directly to all staff, and a quarterly employee newsletter."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Hsu: "The darkest moment for me as an executive came at the outset of the 2008-2009 recession. Up until this point, the company put growth

ahead of profitability and cash flow. Throughout 2007 and 2008, we were adding staff ahead of projects in anticipation of a continuation of our historical growth patterns. As a result, our growth in headcount grew faster than our revenues, and we saw our revenue per employee start to dip down historical levels. When the recession began and we started seeing our DSOs push out and certain clients shut down, we knew this slowdown would be very different than the past and we had to make a major course correction and refocus on cash flow and profitability. As an executive, tough choices had to be made in terms of shutting down unprofitable divisions, which inevitably led to letting go of staff in a difficult economic environment. Symbio had to exit some unprofitable accounts, and unfortunately some of our staff, even though they were doing a fine job, were let go because they were on bad projects."





What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Hsu: "There are three lessons that I would share with entrepreneurs:

1. Don't fall in love with your business model or marketing. Business models and market opportunities come and go. The challenge is continually repositioning your product or service portfolio to keep up with market needs (and even sometimes completely re-inventing your business).
2. You can't do it alone, no matter how great you think you are. A great entrepreneur builds a great complimentary team around him/her. Know your weaknesses and blind spots (as well as your strengths) and build your team to address those traits. It's not about finding 'superstars' but rather finding the right fit to match your own personality, even if that means making yourself obsolete.
3. Entrepreneurship is about persistence, which comes through commitment. There were times when it would have been easier to just quit or not take action, but my commitment to ensuring that the company could win in the long run fuelled my persistence to keep at it." ■

Prepared by George Foster and Ning Jia, 16 November 2010

Technisys | Argentina

OVERVIEW:

Technisys was started in 1996 by three co-founders: Miguel Santos (CEO), Adrian Iglesias (COO) and German Pugliese Bassi (EVP). Its focus was Internet banking products for the financial service industry. After initial traction with major signature clients, the Argentinean crisis in 2002 to 2003 left the founders with a company struggling to survive. Since its resurgence in the same industry and product area in 2004, Technisys has continued on a consistently strong and profitable growth path. In 2001, the founders were selected as Endeavor entrepreneurs.

QUOTATIONS FROM:

Miguel Santos is the chief executive officer and co-founder of Technisys. Prior to founding the company, Santos worked for the financial services division of IBM. Santos obtained a BS degree and an MS degree in computer science from the University of Buenos Aires. He has also completed post-graduate work in symmetrical process systems, distributed databases and network computing. In March 2001, Santos was selected as an Endeavor entrepreneur. He has chaired seminars on entrepreneurship at New York University and Stanford University and has made presentations at many banking conferences, including BAI, CLAB, Felaban, Febraban and AMBA.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Santos: "One of the co-founders, who worked for IBM Argentina, was inspired to think of working in his own company rather than for a large company like IBM. I met him while working on a job for the financial division of IBM. Although we observed IBM suppliers making more money than those working directly for IBM, we did not want to set up a supplier company to IBM. Having decided to set up our own company, we next searched for the target market and chose the financial service sector. This was a big stable market in Argentina, and it had a very good track record of paying bills to its vendors on time. In Argentina, this is a big issue in general and is especially important for start-ups. Many vertical companies in Argentina do not have a good reputation for paying on time.

"Finally we decided on the product. We selected e-banking from two other alternatives we considered because we believed that the Internet would radically transform the way consumers access financial services. And it did. This idea evolved over time. Around 2002, the company started to explore new banking applications for web-based technologies such as branch automation, self-service kiosks, ATMs and web call centres. In 2006, with the introduction of new related architectures such as service-oriented architecture (SOA), the company transformed its product offering into an integrated multi-channel banking suite, which solved quite nicely the channel integration problem. In 2008, while mastering SOA, Technisys entered the core banking arena, starting to

develop Cyberbank Core, a new generation, process oriented, multi-channel, multicurrency, multi-bank, fully SOA-based, core banking system."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Santos: "We had big aspirations from the start. We didn't set any limits. We wanted to be Bill Gates or Steve Jobs. At the same time, however, we had little experience in building a company from the start. Our confidence and aspirations were reinforced when Deutsche Bank became our first customer in 1996. We launched a pilot Internet banking project for Deutsche Bank in Argentina, which was one of the earliest e-banking initiatives in Latin America."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Santos: "The company combines the sale of software licenses with related recurrent services to generate a robust income model. Each contract sale produces up to five revenue components, including a one-time license and customization services, a recurrent license maintenance fee, and technical support services. It is also important to note that we've decided to grow through geographical expansion versus the option of expanding into other industries, helping us to scale the business better. The next step in a high rate of growth is yet to be seen because the product is reaching critical mass in the market, thus attracting interest from integrators and resellers such as Accenture, Bull, Sonda and TCS. We think this indirect sales model will allow us to scale up revenues dramatically in the coming years."

What were the major growth accelerators for your company in its high-growth years?

Santos: "Some key growth accelerators in the early days:

1. *Our ability to sell things that did not yet exist.* We used prototypes to show potential customers what the product might look like.
2. *Innovative products.* This was a big factor from the very beginning. As industry specialists, we work hard to anticipate demand and fulfil our customers' needs on time.
3. *Early signature customer wins.* Our first customer was no less than Deutsche Bank Argentina, which had many benefits because it was a major lighthouse customer. We also benefited greatly from the rigorous due diligence that Deutsche Bank of New York required us to go through as part of the bidding process. We had never done this before, and it gave us much more industrial strength. It was our first encounter with an excellent and demanding client.
4. *Exploitation of the company's successful track record.* We did this first with Deutsche Bank and then with major brands like Citibank and HSBC.
5. *Our ability to hire really good technical people.* We were technical people ourselves, so we had a good sense of who was AAA and who was not. In contrast, we were not as good at hiring business people, and this hurt the company.
6. *Becoming an Endeavor entrepreneur.* This had a deep impact because it opened our mind to a broader set of opportunities to manage the business and grow. One key area was financing, where we became much more aware of and open to outside investment funding. It was not just reading the Endeavor entrepreneur stories, but also the ability to meet other entrepreneurs and exchange ideas. It was very inspiring for us."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Santos: "We were a bootstrapped company until 2007. There was effectively no venture capital market in Argentina, and even if there had been, we likely would not have known about it. We were totally focused on developing products and linking up with customers. We had to grow organically from the living room of one of the founders, with a couple of old PCs, cooking our own lunch each day. During the early years of progress (1999 to 2001), we had some accounts with very good margins, and we built up a cash reserve. This cash proved a great buffer when the crisis hit us in 2002. But then in 2003, we needed to fund the company from our own savings. Not only were we not drawing salaries, but we were putting more of our own money into the company. You can do that for two to three months, but then you wonder whether this is a hole that will keep getting bigger. Luckily, the company had resurgence in 2004 and returned to profitability."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Santos: "These include:

1. *Scalability challenges.* The major growth challenge for us still is to implement business processes that guarantee that every single person in the company shares the company's values, vision, objectives and culture. Scalability is the key.
2. *Attracting and retaining talented people.* We are better at this for technical people than for business people. For technical people, we work on selling their projects and also on constantly motivating them with new challenges and better working conditions. We failed big time on one of our first senior management hires. In 2002, we hired our first commercial manager, who came from a major global technology company. Great resume. He did not understand and did not

want to understand our start-up culture. He expected a lot of people to be working for him. In our company, this just does not happen. We expected him to add value, and he did not. We learned that a hiring with a bad outcome cannot only freeze you but set you back.

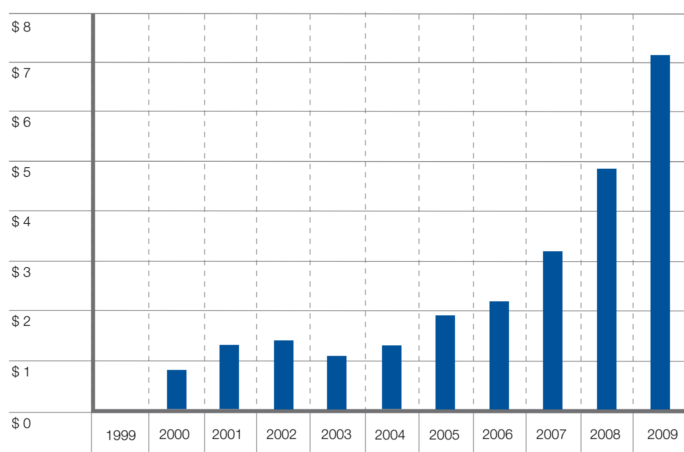
3. *International expansion.* Building out the international dimension of Technisys is still in its early days."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Santos: "Definitely the 2001 to 2003 period associated with the Argentinean crisis, where we almost gave up, was a dark moment. NASDAQ's blow-up and the Argentinean crisis, one after the other, lost us contracts, gave us an empty pipeline and produced sad faces

TECHNISYS

REVENUE
MILLIONS (US$ M)



all over. We quickly realized that with a very unstable economy, a non-existent VC industry, and a small local market, we were probably born in the wrong country.

"Being forced to lay off good, committed people was without a doubt the worst feeling I've ever experienced at Technisys. I had never done layoffs before, except for an isolated person with a bad attitude or a non-performer. Here I was laying off 20% or more of our people, even though they had good attitudes and good performance records. That was really tough. At first some of those who remained felt some guilt about being kept or felt insecure, worrying 'am I next?' But luckily we had some good events that helped rebuild the morale, including being able to hire back some of those we had previously let go.

"At some points in 2002 and 2003, we nearly ended the game. But then we saw that we had a good product, some good customers and some good employees, so we decided to continue on."

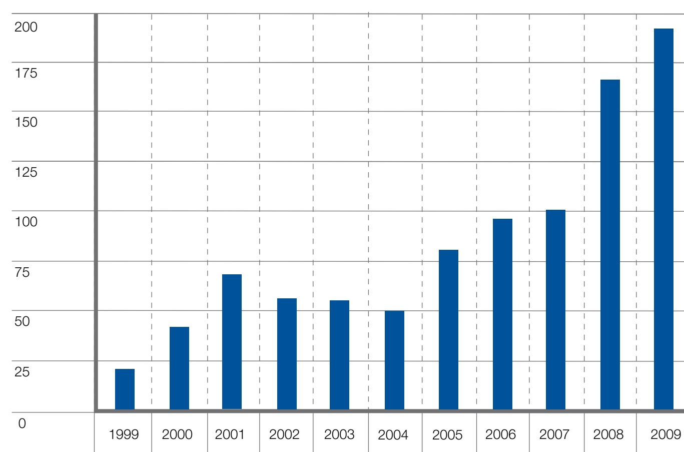
What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Santos:

1. "*Think big.* You will use all of your time, so it had better be worth the effort.
2. *Go for a big market.* That way, there are no natural limits to your company's growth.
3. *People are so important.* Take your time to select your partners, investors and employees.
4. *Build a scalable business model from the very beginning.*

TECHNISYS

HEADCOUNT



Processes, processes and more processes.

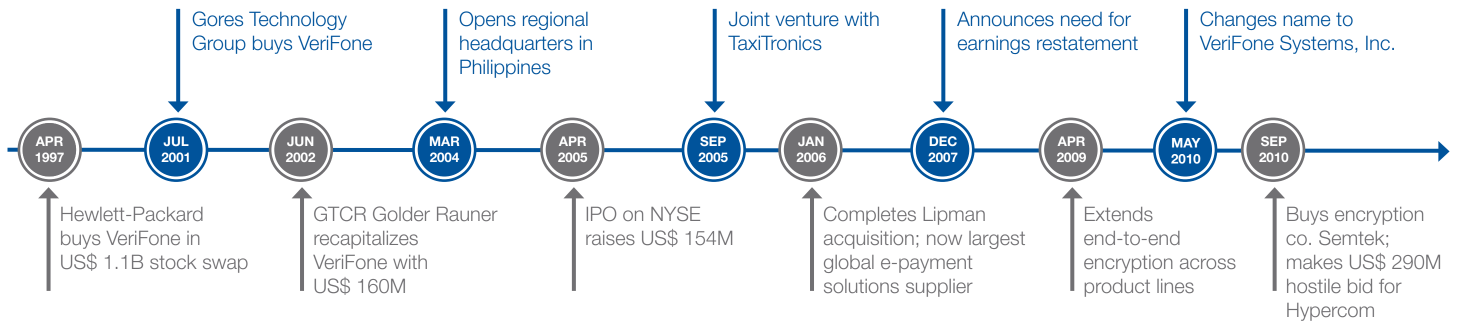
5. *Commit to your clients.* Commit to their businesses, and establish long-term relationships. If you can help them once, they will buy again." ■

Prepared by George Foster, Antonio Davila, Pilar Parmigiani and Endeavor Center for High Impact Entrepreneurship, 16 November 2010

Verifone Systems, Inc. | US

OVERVIEW:

VeriFone Systems (NYSE: PAY) is a leading global provider of secure electronic-payment solutions for financial institutions, merchants, consumers and governmental organizations. VeriFone changed ownership several times in the 1990s. In 1997, it was a successful publicly traded company when Hewlett-Packard bought it for $US 1.3 billion. In 2001, it was sold to the investment firm Gores Technology Group in a restart deal led by its current chief executive officer, Doug Bergeron. In 2002, the private equity firm GTCR Golder Rauner gained a controlling interest in the company. The deal was again led by Bergeron, who had reinvigorated the company by entering developing markets and expanding into mobile payment applications. VeriFone had its second initial public offering on the New York Stock Exchange in 2005. Its 2006 landmark acquisition of Lipman Electronic Engineering for US$ 793 million cemented its leadership in the global market. In late 2010 VeriFone had a US$ 3.4 billion market capitalization and 3,000 employees worldwide.



QUOTATIONS FROM:

Douglas Bergeron has been the chief executive officer and a director of VeriFone since July 2001. From December 2000 to June 2002, he was the group president of Gores Technology Group, the investment group that bought VeriFone from Hewlett-Packard (HP) in 2001. From April 1999 to October 2000, he was the president and CEO of Geac Computer Corporation. Prior to that, he held a variety of other senior executive management positions in the information technology industry. Bergeron obtained a Bachelor of Arts degree (with honours) in computer science from York University in Toronto, Canada, in 1983, and a Master of Science degree from the University of Southern California in 1987. Bergeron sits on the advisory board of NYSE Euronext.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Bergeron: "I led the carve-out from HP in 2001 through an investment group in Los Angeles called Gores Technology Group, where I was president. It was a re-founding of the company. The original concept of VeriFone in the early 1980s was to bring to all merchants the technology for the authentication of a credit card using existing telecommunications capability – the telephone. Before 1980, merchants determined whether a card was valid or not by thumbing through phone-book type volumes of bad cards because the technology was not available to authenticate cards using telecommunication systems. But it was a solution waiting to happen because the card networks, the card processors and the banks were all in support of the idea. There was no question that the proliferation of electronic forms of payment was going to represent the wave of the future. When HP bought the company in 1997, it was a successful publicly traded company with about US$ 470 million in revenue. By 2001 it was a neglected asset within HP. One of the classical textbook tactics of finding undervalued assets is to look at divisions within companies that have had a CEO change. Typically new CEOs like to take inventory of acquisitions made by their predecessors and are willing to dispose of those assets for non-economic motivations. In this case, HP was busy trying to negotiate the Compaq deal, which was announced that September. We announced the deal to buy VeriFone from HP in July. HP wanted two things in the deal: (1) to get rid of a business that wasn't performing well and didn't fit into the Compaq deal and (2) to indicate to their employees how they would be treated in divestitures. It turned out that the biggest thing HP wanted was to be very generous on severance and really didn't care what they got for the business. As long as we were able to read that, we were able to play that music for them. So there have been three generations of VeriFone: the pre-HP period, the three years within HP and the post-HP restart."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Bergeron: "It was really a repositioning, a restart of the company. My management team was partially in place in 2001, and we do see ourselves as the re-founders of the company. The business had grown 10 to 20% organically for every year prior to 1998. It had started with seed capital, and when it was sold to HP it had US$ 470 million in revenues. Under HP, VeriFone had declining growth to about US$ 297 million in revenues. Nothing had happened in the macroeconomy that should have caused that; it was a result of execution. Our initial objectives weren't around growth per se; they were around righting the ship. The company lost US$ 70 million pretax in the year before it was sold to us. We thought of this business as a stand-alone business. Looking back at the public filings in the 1990s with 15% annual growth and 15% operating margins, we thought that in year one we should be able to get it growing again and get it to 10% operating margins. And we did. But then we had to ask, 'What's the growth going to look like with 9 billion people in 2020, and where are credit cards going to be used?' It was very clear to us that 5 billion consumers in Asia and the emerging markets were where our focus should be."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Bergeron: "The repositioning and growth strategy was based on two epiphanies:

1. *Focus on emerging markets.* We had to look at what was happening in the world at large, and it was pretty clear that the liberation of the new middle class, which had taken place politically in the 1990s, was going to create great economic opportunity because electronic forms of payment are used by the middle class. We felt that the business was under-leveraged in places like China, Turkey and Brazil – the BRIC (Brazil, Russia, India and China) economies. So we built up a strong presence there and built up great relationships with card network communities and banking communities. We made a couple of acquisitions that were better positioned in those markets. Today, we earn 40% of our business from the so-called BRIC countries, which is astonishing really. It's what a lot of technology companies say they would like to do, but only dream about its happening.
2. *Payment is mobile.* We recognized early that payment in the future will not just take place at a fixed checkout location. Mobile payment is necessary, especially in emerging economies that don't have a fixed-line infrastructure. Also, with 15 million to 20 million merchants in America, we reckon there is another 10 million of them that don't have store fronts. They are people who are working from home, selling art or insurance. If we had taken the position that our value proposition was just at a fixed checkout, we'd be losing half our opportunity in the developed market."

What were the major growth accelerators for your company in its high-growth years?

Bergeron: "The growth priorities were getting back to basics by selling more to our existing North American customer base, as well as breaking into China and the developing economies. But it was really about reclaiming the natural trajectory of the company that had been lost during the three HP years.

1. *Mobile and emerging markets.* I would say that the mobile and emerging market phase was the accelerator that has taken us from 2005 to the present.

2. *R&D & technology.* We also got lucky with technology development. As networks became more robust, with a wider bandwidth of IP connection to the point of sale (POS), we recognized that there would be more opportunity for us to do more at the POS. The more unharnessed computing power our systems had at the POS, the more things we could do. Ten years ago, we started actually delivering more computing power than was required, and we continue to do that. Today we are able to force through VISA and MasterCard much more rigorous encryption algorithms and capabilities, such as advertising capabilities, to make more value for the merchant, the consumers, even the regulators and the people who protect privacy.
3. *Universal pull away from cash.* It's one of those interesting industries where your channel partners are not at odds with one another, so it makes good sense to put your arm around them. Even the government doesn't like cash. Cash gets counterfeited; cash gets stolen; cash is an ancient modality that should eventually go away. Even five years ago it was almost impossible to use your credit card at a sandwich shop or a fast food location. Today it is standard. Same with taxis. VeriFone is available in New York cabs, and that's going to be standard. There will be many more examples of this."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Bergeron:

- *2001 buyout by Gores Technology Group.* "There wasn't a lot of financing requirement because we were buying a balance sheet, and we paid a discount to net tangible assets. So there were four partners and US$ 5 million of equity. We each pitched in, borrowed money against the working capital and had a seller note from HP. Financing was very difficult in 2001 because it felt a lot like 2008 in terms of extreme risk aversion.
- *2002 recapitalization.* I bought out my partners at Gores Technology Group in 2002, and we were able to get a private equity firm (GTCR Golder Rauner in Chicago) to re-value the business at US$ 160 million and take a majority stake. I rolled my equity into the company. We paid off the debt in one year because we collected our receivables. Customers are actually banks, and it's not too difficult to get them to pay their bills. So the US$ 5 million in equity in 2001 was US$ 160 million by 2002. The recapitalization of the business had US$ 60 million in equity and US$ 100 million of more traditional private equity debt.
- *2005 IPO on New York Stock Exchange.* In April 2005, we went public, raising US$ 154 million, and we did a secondary offering in September of that year. We borrowed money a couple of times to buy businesses, and we did a big convertible debt deal in 2007. After 2009, GTCR sold the equity that had cost it US$ 60 million in 2002, and the sale yielded US$ 1.3 billion for them."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Bergeron: "Our biggest challenge was changing the company culture. The good news is that the market and the customers were thirsty for the return of the company. They had an almost sentimental longing for the company's historical pace of innovation, service and technology leadership that it had been known for in its 15 years of independence. Under HP the quality was maintained, but the velocity of the company had been dramatically reduced. I had to change the company culture dramatically. On day one, literally, we reduced the headcount from 1,300 to 805 people. Today we have 3,000 employees. I brought in people that had worked with me or for me in the past. They might not have been the perfect fit in every respect, but they were people I could go to at 3:00 in the morning who had achieved success in other battles. We harnessed this kind of "we're back" culture. We basically lopped off the folks that had been part of the culture within HP. Unfortunately for many of them, they probably weren't personally responsible for the value destruction, but because they were at the scene of the accident they had to leave. We never laid off one person after that second day. I think it is important in restructuring exercises to cut deeply, even a little too deeply. But it is better to do that and get back into hiring mode versus the all too common way of cutting 70% of what you think you need to cut and then having to go back three months later and cut another 20 to 30%. That leaves people with the expectation that the knives haven't been put away. The confidence in the company of the mid-level employee or engineer or sales person after a few months was dramatically improved. They felt that this was a place where they could make some money and have a good time."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

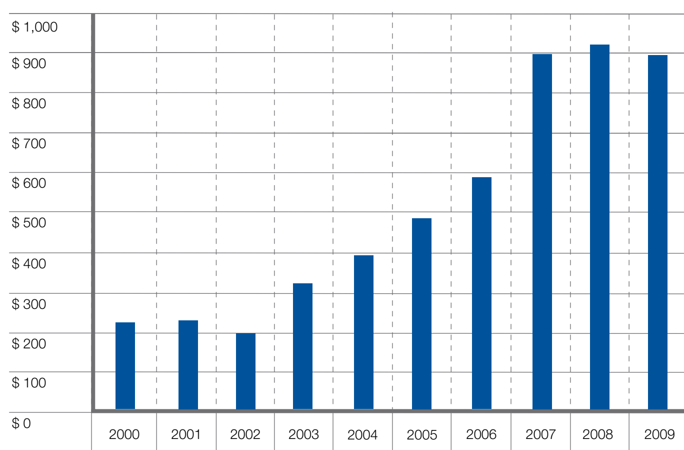
Bergeron: "I'm embarrassed by it, but in late 2007 as a result of multiple years of phenomenal growth and a lot of it international, we had an accounting restatement that whacked two-thirds off the market capitalization of the company. It was followed by a few quarters of negative growth through the recession, and that was a real wake-up call to the fact that growth at some point can be very painful if not all the i's are dotted and the t's are crossed. We came out of it fine. We had shareholder lawsuits that were eventually dismissed and an SEC investigation that we came up clean on. Nevertheless, you don't get all this growth sometimes without paying the price of complexity, and we didn't have all of the best practices in back-office controls that we needed to have. We spent 2008 and 2009 developing that and being committed to the next phase of growth with all these controls around it."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

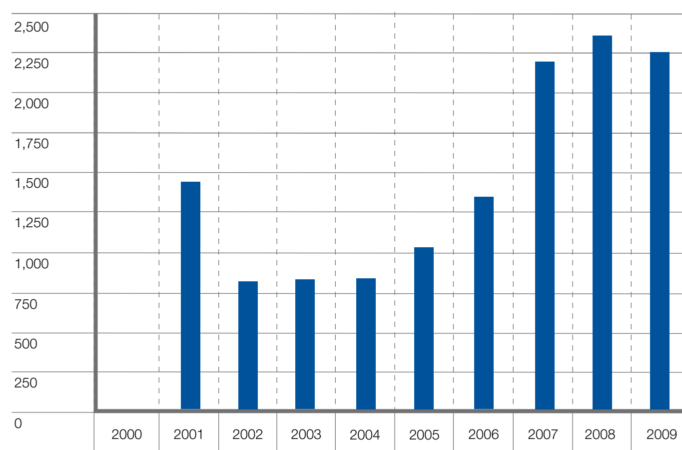
Bergeron:

1. "*Have a long-term vision.* So many people think they have a vision, but 15 years ago we really tried to picture what the world would look like in 2020. As it turned out, there are not a lot of differences of opinion in what the world's going to look like in the payment industry. The future will arrive before you know it, so start positioning the business as early as possible to meet the future.
2. *Perfection can be an enemy.* It's one of my most basic management philosophies on entrepreneurialism. I think both intuitively and with good data, intelligent people with experience can get to the right answer 99% of the time in 10% of the time it takes you to get to 100% certainty. As long as you have humility and are willing to undo a bad management decision quickly, the benefits to the velocity of the organization are tremendous if you are not actually hell-bent on getting to 100% certainty – if that ever exists." ■

VERIFONE SYSTEMS, INC.



VERIFONE SYSTEMS, INC.



Prepared by George Foster, Xiaobin He, and Sandy Plunkett, 16 November 2010

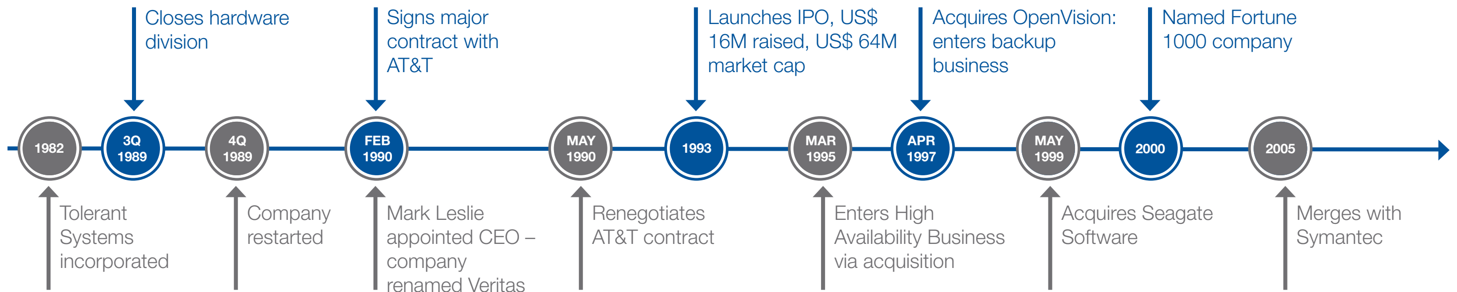
Veritas Software | US

OVERVIEW:

Originally called Tolerant Systems, VERITAS Software was renamed in 1989. VERITAS was a supplier of file and disk management software products. In 1997, after merging with OpenVision, it emphasized backup and recovery software products. By 1998, VERITAS had established itself as market leader. In 2000, VERITAS was the 10th largest independent software company by revenue and third largest by market capitalization. VERITAS merged with Symantec in 2005 in an all-stock transaction valued at approximately US$ 13.5 billion.

VERITAS SOFTWARE

TIME-LINE / KEY EVENTS



QUOTATIONS FROM:

Mark Leslie became Tolerant's (later VERITAS Software's) chief executive officer in February 1990 after being on its Board of Directors since 1988. He took VERITAS from 12 employees and US$ 95,000 in revenues in 1990, to 4,784 employees and US$ 1.2 million in revenues in 2000. From 1984 to 1990, Leslie was CEO of Rugged Digital Systems and turned down a CEO offer from Tolerant in 1988. Leslie previously had worked at IBM, Scientific Data Systems, and Data General. From 1980 to 1984 he was founder and CEO of Synapse, which built fault-tolerant systems. Leslie has an undergraduate degree in physics and mathematics from New York University and post-graduate education at Harvard Business School.

Fred van den Bosch had a 14-year career at VERITAS Software as executive vice-president of engineering, chief technology officer, and a board member. On leaving VERITAS, he became CEO of PANTA Systems and is now CEO of Librato, Inc.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Leslie: "In 1982, VERITAS was started as Tolerant Systems to design and build high availability computer systems. This was a high profile, well-funded company with a grandiose plan. In late 1988, the company significantly missed its forecasts. The investors, with US$ 50 million already in, decided to shut the hardware division down.

"The company, prior to this catastrophic failure, had developed some technology in the UNIX Operating System (OS), which had value to anybody that was trying to use UNIX for commercial applications. And they had set up a little group of 10 or 12 people. When the company failed, they looked at that little software thing and said 'well maybe there's a business here'. And that's what became VERITAS – that small group of people who had this software technology that made UNIX more commercially robust. VERITAS went from 200 people in 1987 to 12 people in 1989 when the whole hardware business was shut down. It was truly a restart.

"We had the technology that made UNIX more suitable in certain commercial areas, so we ended up doing a deal with AT&T, and that's what turned me towards this opportunity. This deal basically said that for the two product areas that we had, AT&T would stand back from developing their own, that we would develop them to be consistent with the AT&T version of UNIX, and the two companies would go-to-market together to systems manufacturers, with an original equipment manufacturer (OEM) strategy. It gave us a preferred position in the marketplace. I looked at that and said with that we could probably build a nice company – not a big one – but rich in intellectual property. We were on the right trend in the industry and that gave us a unique opportunity."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Leslie: "Because we didn't start it as a raw start-up, we really never had to go define all that stuff. Being an OEM supplier to systems manufacturers, we ended up coming to believe that we would probably see revenues peak out at around US$ 50 million. Pretty small. In 1995, we acquired a company with high-availability fail over software, in the SUN marketplace. We also started a company in India to build our own versions of SUN's File System and Volume Manager, which were based on VERITAS technology. In 1996, we were introduced to the CEO of OpenVision. They acquired a lot of companies that didn't work out; however, they had one property that was great: their backup. VERITAS was US$ 36 million of revenue, and OpenVision was about US$ 36 million, too. We had 180 employees and they had 240. I sat down with the CEO and said 'We'd like to put these two companies together, here's our theory, here's our strategy. We're only really interested in the backup stuff. If this other stuff works, fine, if it doesn't work, it's also fine'. We closed a deal in 1997. They brought the backup, some mid-tier management, and distribution. They had an Oracle-style, end-user sales force with what are called enterprise reseller channels. We had the OEM channel. We shed about US$ 16 million of their US$ 36 million of revenues. So at the end of 1996, we were US$ 36million or US$ 56 million combined. Four years later we were US$ 1.2 billion in revenues."

Describe the strategy/business model that enabled your company to achieve its high rate of growth.

Leslie: "In 1993, we went public, with US$ 10 million in revenue. In the following year we probably did around US$ 15 million - US$ 16 million. In early 1994, we concluded that what we really need to do is come up with a strategy to get us to an opportunity to grow well beyond US$ 100 million. The first thing we said was, 'Are there more things we can sell to the same customers?' We decided that we wanted to do a high-availability, fail over capability, because it was right up our alley. The second thing we said was, 'We got all these versions of our file system and volume manager – what can we build that can sit on top of them?' We had to develop our own version that sat on top of Sun and HP versions. The third thing we said was, 'If we could sell add-on products – basically segment our product into lite and full and sell the full version – if we could sell these, why don't we go create even more specialized versions of those that optimized key environments, like Oracle and Microsoft Exchange?' Then we said, 'What we really ought to do is to get in the backup business because we are now pretty much the standard file and disk management across the entire industry, essentially controlling all of the UNIX disk I/O.' When we did the analysis, the only way to get there was through acquisition. The last element was to say, 'We don't know if the next operating system of commercial importance is going to be NT, Netware, or OS2, but we know that whichever one wins, we have to be on that one'. For that we needed to be able to acquire a distribution channel that could sell into that market, and ultimately we ended up doing that also. It was what I call 'strategic transformation'."

"We grew from 0-US$ 36 million organically, US$ 200 million based on the OpenVision merger, from US$ 200 million to US$ 400 million through the Seagate acquisition, and then from US$ 400 million to US$ 1.2 billion organically. We were not on the road doing acquisitions; we were on the road doing strategy. It happened to be through acquisitions rather than organically because that was the only way that we could accomplish it. But the fact that it was acquisitions was really secondary

to what we were really doing, which was executing a very well thought through strategy."

What were the major growth accelerators for your company in its high-growth years?

Leslie: "Focus on strategy and its execution. We recognized the need for strategy, we set a strategy, we executed it, mostly through acquisition, and that's where the growth accelerators came from. But the only difference between our strategy and how it came out was that it came out so much better than what we hoped. But if you look at the company in 2000, and at the strategy that we set in 1994, it's dead on –we just did everything on the list. We defined our own segment. When we first went public, I would ask people to write research on VERITAS, and they would say 'well, what segment are you in?', and I'd say 'well, we're storage management software', and they said 'well, we don't have such a segment, so we can't cover you'. And I got that answer from everybody. By the time I left as CEO of VERITAS in 2000, there were 500 start-ups in storage management of some kind or another. So we defined the segment. And the companies that ultimately became visible were EMC, NetApp, and VERITAS."

van den Bosch: "Two additional ones to Mark Leslie's comments:

1. Acquisition execution and integration: The successful execution of the Open Vision and Seagate Software acquisitions and of a strategy that leveraged the synergies between the technologies and distribution channels of the three entities made us unique and were the key to our accelerated growth."
2. Mark Leslie. As an entrepreneur: Mark always keeps the bigger vision for the company in mind and has the courage to undertake ambitious projects, such as major acquisitions, that put the company at risk. As a leader, he keeps his team on their toes by setting aggressive goals and not accepting lesser results. He does not get involved in the operational management of the company, which yields an environment in which the members of his team can thrive (if they're comfortable working independently). This is reinforced by his non-authoritarian leadership style in which decisions are reached through discussions in which everybody's opinions are heard. Mark has remarkable and very creative business skills, which on multiple occasions allowed us to accomplish business terms in working with partners that established the roots for long-term success.

Describe briefly the financing of your company and how this financing impacted the growth of your company.

Leslie: "After the restart in 1989, we raised a US$ 1.5 million bridge in a crush-down round along with a 50:1 reverse split. This washed out old investors and original founders so we could get a drag start. About a year later, and with great difficulty (we were turned down by all the investors we pitched to), we raised an additional US$ 1.5 million and the original investors kicked in another million. We did not raise any additional venture money after that – so total contributed capital was US$ 4.0 million."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Leslie: "Deciding on the sales strategy. We're sitting there in 1990, we've closed deals with a bunch of companies, and we're waiting for revenue to show up. We're waiting for them to ship this stuff, and there's an argument that rages inside the company. Should we go out and hire a sales force, stand next to the SUN, the HP, and the IBM sales forces, to make this thing happen? I was more or less the guy that was resisting all this. We did the math on this, and determined 'we just could not afford to do this – it made no sense'. The OEM discounts were so steep that our take on this was too small to justify direct selling. Moreover, the salesmen from SUN and HP don't want you to be there; selling VERITAS software is not their main focus. And we had this realization in maybe 1991."

van den Bosch: "Our strategy during the initial years depended on building successful partnerships with the computer system OEM's. This made us dependent on these OEM's for our sales. Without our own significant sales force, our ability to grow was limited, and as a public company, we were limited in the speed at which we could invest in building a sales force. The OpenVision acquisition was intended to do two things for us: give us the sales force we needed to accelerate our growth and bring us into the backup business."

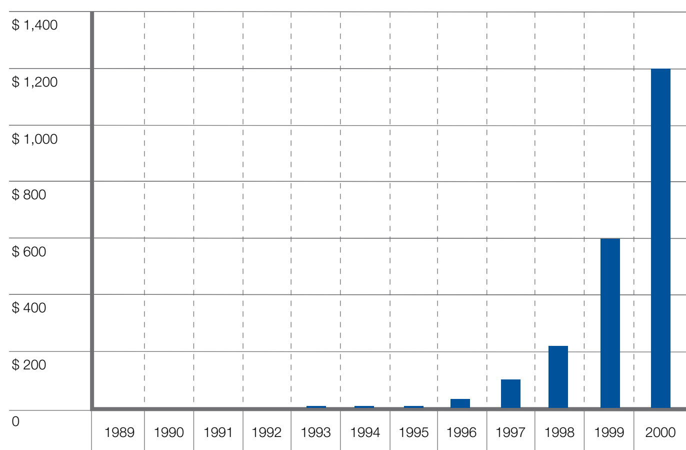
Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Leslie: "Every company has dark days. In a young company there's a huge amount of uncertainty. One dark day occurred in the first quarter after we went public. I'm off on a Friday with my wife and my aunt and uncle, and we're up in Point Reyes –there was no email. So I called into my voicemail, and we had just got notified by one of our customers that they were cancelling a US$ 375,000 development project. We were going to miss our first quarter public. The rest of the day, I'm living in a silent movie. They're all talking to each other, but I have no idea what's going on. I'm sitting there spinning in my own mind. I have a knot in my stomach. I am calling into the office every 15 minutes, but there is no news. I came into the office on a Monday morning, after having some time to reflect on it. I said, 'Well, first we ought to try to go back up to this company that cancelled us and see if we can get them to give us US$ 100,000'. We did a lot of things that quarter, and we figured it out. It was a very dark period. Bad news travels fast and everybody knew we were just hosed. There was no way to fully make it up, and it was awful."
"A second dark moment was when we were stood up at the acquisition

altar by Legato. We were shocked and stunned. My fantasy at that time was that we could take VERITAS, Legato and Tivoli, and combine those three companies. But IBM ended up buying Tivoli and EMC ended up buying Legato. We put a lot of effort into the Legato negotiations and it fell apart right at the end."

van den Bosch: "During the early years, the company depended heavily on a small team of engineers working exceedingly long hours for its product development, and for executing the technical side of our OEM partnerships. There was significant disagreement between one of our two most important founding engineers, who was also an opinion leader, and management about incentive compensation (stock options). One day I received a call from a friend telling me that this engineer was contacting other companies, including one of our partners, and offered them to hire our entire engineering team. If he had been successful, it would have been the end of VERITAS. It took me several weeks to turn the situation around, working with both Mark and the engineers, and at the expense of breaking the close bond between the dissenting lead engineer and the rest of the team."

VERITAS SOFTWARE



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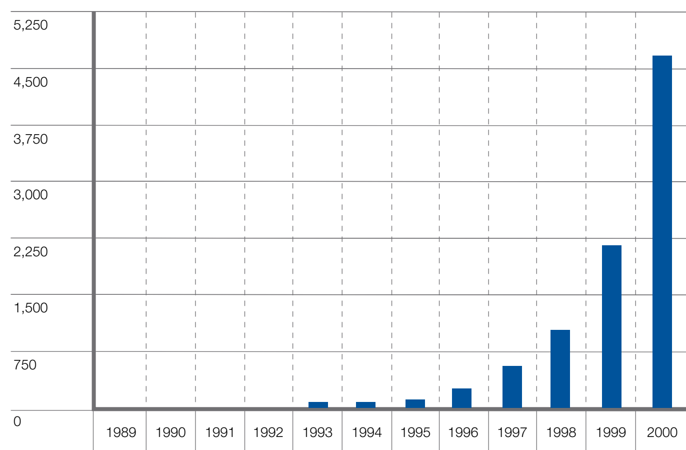


What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Leslie: "Number one: The most important thing is the right product, in the right market, at the right time.

"Number two: The greatest flaw that the entrepreneurial character has is that they get excited about their own ideas and they start filtering with a confirmation bias. What you want to do is open all portals to new information.

"Number three: One of the hardest things for me is this very profound ambiguity you experience. You have a vision of what you want to do, who you are and what defines you, but along the way, you have to do all these opportunistic and pragmatic things, which draw you in different directions and you just never see that original vision. You have to be able to do things that betray that original vision for the good reasons along the way. Sometimes you have to just abandon it and move onto the next thing because it's the better thing to do. For me, that turned out to be a very hard thing to do.

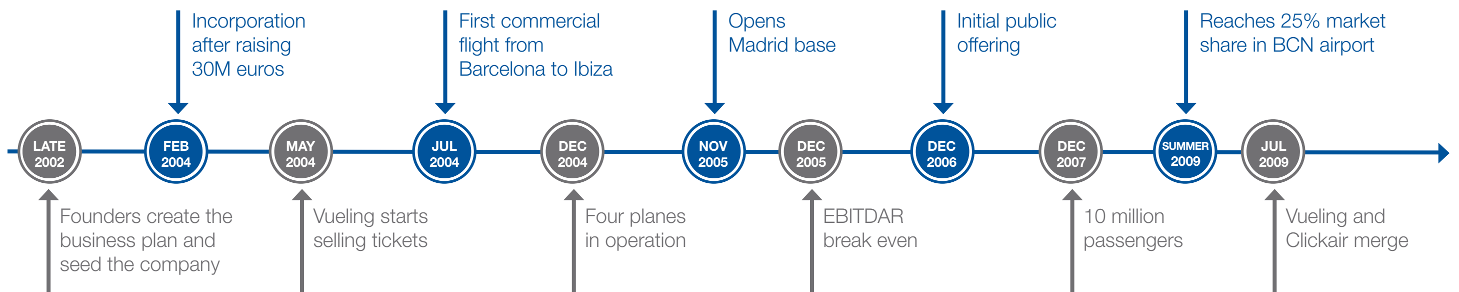
"Number four: If you don't listen to your board, you may or may not get fired. But if you listen to your board and investors, you're guaranteed to get fired. I believe you have to take leadership. And if I sit and think about the business 24 by seven, and when you run a company – it's the only thing in your life, it's 24 by 7 – guys that show up once a month or quarter, and kind of flirt with this thing, are simply not qualified to have a better opinion. And investors who buy your stock and sell it ten minutes later, are even less qualified to have a better opinion – although that doesn't prevent them from having opinions. You have to do what you believe is the right thing for the company and you have to put your job on the line to do it sometimes, and that's just part of what it is. Sometimes you win, sometimes you lose." ■

Prepared by George Foster, William Croisettier, Xiaobin He, and Benjamin Huaman de los Heros, 22 November 2010

Vueling | Spain

OVERVIEW:

Vueling, led by its co-founders Carlos Muñoz and Lázaro Ros, is the most successful low-cost airline in Southern Europe. Its headquarters are in Barcelona, Spain. It was founded in February 2004 and went public in December 2006. By 2007, its revenues were north of 350 million euros. In October 2006, Iberia (the incumbent major Spanish airline) led the creation with other investors of a new company (Clickair) to compete against Vueling. In 2009, Clickair merged with Vueling, with the Vueling as the continuing brand in the marketplace. Vueling is now the second largest Spanish carrier, with Iberia having a major equity stake.



QUOTATIONS FROM:

Carlos Muñoz is a co-founder and the original chief executive officer of Vueling. He studied business administration at ICADE, Madrid, Spain and then received an MBA from the Harvard Business School in 1998. Before co-founding Vueling, he worked for McKinsey and for his family business in the fruit and juice industry.

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Muñoz: "A pilot and an airport manager gave me the idea of a low-cost airline between Manchester and Valencia (one of them lived in Valencia and the other in Manchester). Low-cost airlines were being started like mushrooms in the UK because of easyJet and Ryanair. The founders made a study about the state of low-cost airlines in Europe. We found out that the UK was packed with competitors with new ones coming in, but there was nobody in Southern Europe. Low-cost airlines had a 30% market share in the UK with more than 15 new companies created in 2001. Yet Spain, France and Italy had none, not a single competitor of any significant size or potential. Airline charters were trying to evolve into this market, but it was hard for them to transform themselves into low-cost carriers.

"Having lived in the US, I knew about Southwest Airlines and had seen easyJet. I realized that in Southern Europe there were no flights costing less than 150 euros. How was it possible that they could have cheap flights outside Southern Europe but nothing in this area? During my time at McKinsey, I had looked at other low-cost business models. So I teamed up with Lázaro Ros, and we did a study about low-cost airlines and the feasibility of such an airline in Southern Europe. The business plan was called, 'Vueling: the winning low-cost airline for Southern Europe'.

"We saw a very big opportunity and decided to embark fully on this new adventure. I had no experience in airlines but surrounded myself with people who were knowledgeable in various parts of the industry."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe.

Muñoz: "The vision from the very beginning was to create a low-cost airline for Southern Europe, and from the very beginning we believed that it could be very big. The business plan was to attain 20 aircraft in the fleet in year five. The reality was that we reached 40 aircraft in year five. The key for this growth beyond what we had planned was that after nine months, together with the lead investor (the financial investor), we saw that the operations were well managed, the brand was working and the numbers were being hit. Vueling was second only to Ryanair in cost per ASK (available seat mile) and maintained half the cost of the local competitors. We also saw that the opportunity was much bigger than we had thought and that we had to move fast to take advantage of the opportunity. At that time the big worry was that someone would create a 'Vueling 2'. So we decided to double our growth aspirations and raised another 20 million euros from the original investors to fund a growth with double the valuation.

"The capital investment in this industry goes 18 months ahead of needs. So when the economic downturn came in 2008, the company had a pipeline of investments that had been made without considering this sudden drop in the economy. But as soon as we saw the early warning signs (coming also from outside Europe), we stopped our investments."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Muñoz: "The business model is relatively simple to explain. The idea was to replicate an existing business model from elsewhere and introduce it in a market that had not experienced this business model. The company reproduced what Southwest Airlines had created 25 years before in the US and what was then replicated by Ryanair from Ireland UK and by easyJet from the UK. Competition in the low-cost segment was intense in the UK in early 2000 but almost absent in Southern Europe. So we saw the business opportunity in using the same principles as the other low-cost airlines: point-to-point service, high labour productivity, high asset utilization, identical planes, and traffic stimulation through low fares. Distribution was done through the Internet with low use of traditional travel agencies. Vueling.com was the number one Internet travel site destination in Spain in 2007.

"The main differentiation from a Ryanair type of model is that Vueling decided to operate through main airports, to offer assigned seats and to have new airplanes, all to give better service to the customer. The company also emphasized the brand, creating a fun experience from the positioning of the brand onwards. The creation of the brand was not a significant investment, but the management team felt it was a way of improving customers' perception of the service. The positioning and the advertising campaign were so successful that we still use them after six years of operation.

"The Southern Europe market was totally up for grabs. The key to the success of the model was to move fast and grab the market before anybody else came in, whether new entrants or existing competitors from other regions. The key was to implement with flawless execution from an operational perspective. Within the company, we were proud of our operational metrics and our ability to deliver superb service to the customers. In a 2006 customer satisfaction survey among 10,000 consumers in the EU, Vueling ranked 23 – at the same level as Lufthansa or Finnair – while easyJet ranked 33 and Iberia 87. This ability to execute on an existing business model in a new market was based on alignment among investors, management, and people. There was a very high commitment among all of us to grow and create a winning

airline. Additional growth came from the fact that the market ended up being much larger than initially expected."

What were the major growth accelerators for your company in its high-growth years?

Muñoz: "The largest factor was that there was a huge market available, and it was easy to scale to that market. Each new plane was 300,000 additional passengers per year and an extra 20 million to 25 million euros in sales. For the first four planes that came into the company, we created special project teams to make sure that the integration happened smoothly. From there on, the process became routine and structured. The implementation of the business model was almost as a cookie cutter in the processes of recruiting, training, operations, routing, etc. All became quickly formalized in the company because little adaptation was required to get new planes or go into new routes. The planes were the same, and new destinations were similar in operations.
"Another factor was that the board of directors was well aware of the growth potential and the idea of getting to IPO figures. So the board was supportive in terms of going for high growth and provided the investment required to achieve the growth that the company eventually realized.

"Brand positioning was also important. It was very clear that Vueling was low cost and had a very powerful brand. The company believed that creating a brand was not expensive, and they wanted to create a low cost that did not mean bad service. We wanted to have a good image, especially centred on people. We hired people 'unpolluted' (i.e., without the bad habits of employees from traditional airlines who were accustomed to work practices associated with companies with almost monopolistic positions). Most new employees were from outside the industry, and we recruited for attitude by concentrating on people with a customer service view. The CEO and COO interviewed every single hire for the first few hundred employees until the culture was created. In terms of pilots, up until 2003 the pilot had to be Spanish to fly in Spain, but then it was opened to all Europeans and the company hired from this larger pool. This also brought an international character to the company, and English became the work language."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Muñoz: "The first round of financing for the founding of the company was 30 million euros from private investors and then a second round of 20 million euros from the same investors to accelerate growth. The project was so attractive that the founders were able to choose from various potential investors. We ended with APAX as the financial investor that brought the financing knowledge. Then there was a local partner for the local network and finally an investor from JetBlue, a successful US airline start-up. The fact that lots of people were interested gave the founders the opportunity to choose. The total of 50 million euros in financing was relatively high by European standards, but it was enough for the company to accomplish its growth plans.

"The company also had negative working capital that resulted from customers paying ahead of using the service and our paying the suppliers on credit. That gave the company 25 days of revenues as 'free' funding.

"The IPO date was at end of 2006, and we raised 100 million euros. This funding was critical to survive the price war that was started a few months later by Clickair, which was a new Spanish entrant to the low-cost carrier market. Clickair was set up by Iberia along with other major investors. It commenced operations in October 2006, and over time a major price war ensued, with both us and Clickair losing money."

What were the major challenges your company had to handle in its high-growth years, and how were they managed?

Muñoz: "Keep the culture and keep on finding people with the right attitude. Do not let that attitude deteriorate. Hold monthly meetings in an open, town hall style, with meetings held separately for pilots, cabin crews and maintenance people. Stay in touch to maintain the culture. People are key.

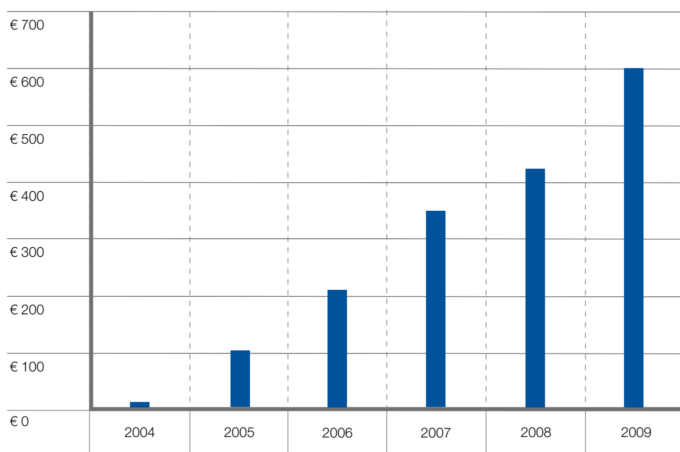
"We quickly got on the radar of the incumbent, who later led the start-up of Clickair. When we got 10% of the market in Barcelona, we were well and truly on their radar screen.

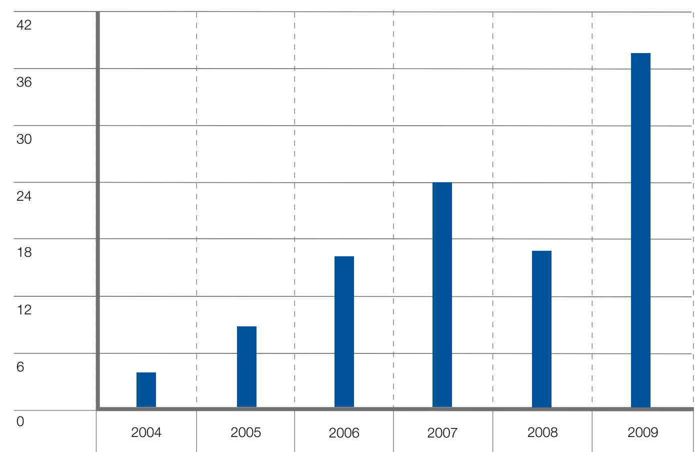
"In 2008, we saw the slowdown of the economy, and we were in the midst of a price war with Clickair, so we had to stop our high-growth plans."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Muñoz: "After its significant growth and the road to the IPO, the company started to feel a strong pressure from competitors who began to see Vueling as a threat. In the ramp up to the IPO, management was busy with the road show and getting used to the capital markets. But at that very time competitors began to use bazookas against us. So management was caught between the demands of an IPO process and very strong competitive moves. Clickair started going after the same routes as Vueling, and a price war ensued."

"The second dark moment was both depressing and a good learning lesson. The moment was a very heavy snow storm in February 2005. It was impressive but also brought up the dark side of how Spain works. The snowfall was much larger than ever experienced before. The airport needed snow removal machines, and there were only three at the airport – two of which did not work, while one worked only partially because of bad maintenance. For Vueling it was the biggest operational disaster. The problem was our inexperience. We had promised to our clients that there would be no cancellations, and we had always fulfilled that promise. The day of the great storm, we discovered that trying to keep our promise was worse than cancelling would have been. We found that it would have been better to tell customers immediately that there was a cancellation instead of having them wait to leave and then telling them that the flight was cancelled. We cancelled 14 flights. Trying to stick to our promise beyond reasonableness ended up being worse for our customers. It would have been better to have estimated early in the day what would be cancelled and just do it. We were very proud of our operations and our reputation with the customer, and that proved to be fatal that day in fighting against the snow and the lack of airport readiness."





What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Muñoz: "These are some of the lessons learned:

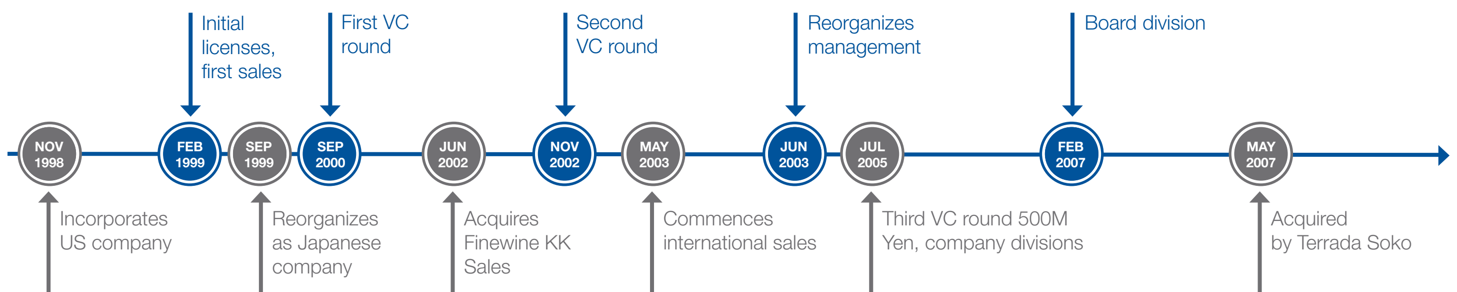
1. Having a good investor that demands professional work is key.
2. Look for investors that are strong (financial, industrial and political) and can help you.
3. Persevere once you have clear objectives and a vision, despite the ups and downs.
4. Allow for flexibility in implementation and growth plans. Do not plan assuming that all will go as expected (e.g., undoing the company's huge growth plans when we saw the economic crisis was a very good decision).
5. Concentrate on the quality of people and incentives. But employee stock ownership plans (ESOPs) do not work in Southern Europe because people here do not appreciate it. Rather than seeing it as a motivator, they interpreted it as a lottery and thought it was a yearly thing. Management was not able to convince people that it was linked to company performance. And the people who chose not to participate eventually felt excluded.
6. Find a mentor who has already succeeded in a start-up. He knows what to do and the mistakes he made. In our case, the mentor was an investor from a US airline.
7. Have a strong, creative brand and advertising.
8. Don't underestimate competitors.
9. Don't overestimate enthusiasm, and don't underestimate experience." ■

Prepared by Antonio Davila and George Foster, 16 November 2010

WineInStyle | Japan

OVERVIEW:

WineInStyle was created in late 1998 to take advantage of Japan's recovering economy and growing market for imported wines. The firm was conceived as a direct importer and distributor, eliminating layers of the traditional distribution chain, and thus capturing margin. This additional captured margin allowed WineInStyle to maintain the highest average gross margins in its industry, while offering prices 10% to 20% below standard industry mark-ups. The company used a unique strategy of direct sourcing through deep relational contacts in the California wine industry to both ensure supply and disallow wines to competitors. The company furthered operational excellence and the ability to maintain below market pricing by using a unique supply chain system, dynamically programmed to maintain the lowest inventory levels in the business.



QUOTATIONS FROM:

Robert Eberhart is founder and chief executive officer of WineInStyle. A fluent Japanese speaker and reader, he was formerly president of Plantronics, Japan, a telephone headset company. His previous experience in the semiconductor industry included operations and quality responsibilities at Applied Materials. Eberhart has a MA in economics from the University of Michigan. He is currently a SPRIE Research Fellow in the Freeman Spogli Institute at Stanford University.

Richard Maher is chairman of WineInStyle. Richard is a 40-year wine industry veteran with rich domain experience and industry relationships. He has served as president of multiple wine companies, including Heublin Fine Wine (1989-92), Christian Brothers (1986 -89) and Beringer Vineyards (1975-83). Maher has a BA from Rensselaer Polytechnic Institute and a MBA from Stanford University. He is recognized as a "Pioneer of the California Wine Industry."

What was the source of the initial idea, and how did that idea evolve into a viable high-growth business venture? How did it change over time?

Eberhart: "The idea was the direct result of my responsibilities as the head of a Japanese subsidiary of a US company, Plantronics. In the period 1997-1999, I was aware of multiple reforms to Japanese importation, wine licensing, and venture capital funding laws. The laws regarding who could obtain, and how they could obtain, retail and wholesale liquor licenses were fundamentally eased. Moreover, the prior system where liquor in Japan was distributed by a government monopoly was abolished. As an importer of electronics, I was also aware of changes in the laws surrounding import and informal import restrictions that substantially eased in the wake of Japan's financial crisis of the 1990s. Finally, laws were promulgated allowing venture capital firms to form as limited partnerships resulting in a bloom of new firms with start-up capital. Our fundamental idea was to take advantage of these changes by direct importing of wine and direct sales to customers. Also, the regulatory changes allowed us to own the entire supply chain allowing us to optimize inventory and maintain the highest margins in the business."

What was the initial growth vision or aspiration of the founding team? Was there a sizeable change in this growth vision or aspiration over time? If a change, please describe

Eberhart: "The initial aspirations of the founding team were to grow the business through operational excellence and high margins to drive a decisive change to the distribution system in Japan. The strategic idea was to force a large company in a related business to acquire us. As the early part of the 2000s progressed, the interests of our venture capital (VC) investors changed to a focus on IPO as the financial markets in Japan were particularly active then."

Describe the strategy or business model that enabled your company to achieve its high rate of growth.

Eberhart: "The company followed a five point strategic plan:

1. Promote operational efficiency to ensure high margins while always positioning WineInStyle as the low price supplier.
2. Ensure the ability to grow and construct competitive barriers by having the best relationship-based sourcing strategy leveraging the strength of our significant California wine industry connections.
3. Pursue an international customer base to even out seasonality and mitigate local economic problems.
4. Operate as a Japanese company to our customers and as a venture funded firm to our investors.
5. Aggressive pricing, as major competitors were constrained because of long-standing distribution contact terms that made it extremely difficult to attack our prices.

"Point one allowed us to penetrate the market with a good value. Point two was a key to defensive strategy – we could source wines that others could not and we could take wines from competitor portfolios if needed. Point three was a demand-smoothing strategy, and point four ensured comfort in the company and the trade. Point five constrained large company competition and was the main key to our initial success."

What were the major growth accelerators for your company in its high-growth years?

Eberhart: "Two factors were critical in our acceleration years. First, the revival and boom in the Japanese economy that began about 2002. Personal consumption rose and the new consumers were younger and more likely to drink wine as opposed to more traditional drinks like sake and shoutchu. Second, our independence from a traditional supply chain allowed us to price and market portfolios to meet customers' needs, resulting in substantial sales deals with major customers such as Costco and Seiyu (Wal-Mart Japan). In addition, the sales to these 'big box' customers facilitated our expansion to Taiwan, Korea and China."

Maher:

1. "We benefited from the total wine market size in Japan increasing and the growing share of that market being held by California wineries. There was a shift in Japanese beverage consumption towards wine in the last 10 to 15 years that helped provide an opportunity for WineInStyle combined with the recognition that California wines were high quality. California wines, especially from Napa and Sonoma, were increasingly seen as on a par with many of the French brands that previously dominated the high-price category.
2. Execution factors associated with the WineInStyle on the ground team. Robert Eberhart, who led the team, spoke Japanese and was more culturally aligned with the Japanese customers than many, who attempt to do wine exporting into Japan. Using the expression that 'business luck occurs when preparation meets opportunity', I would say we were very prepared.
3. We differentiated ourselves from the French wine importers. We were offering a fresh new product, presented very professionally to restaurants and retailers, at a time when the Japanese consumer was willing to be more experimental. The French in the wine industry suffer at times from arrogance. We were the upstart that was trying harder than they were. But they did fight us tooth and nail."

Briefly describe the financing of your company and how this financing impacted the growth of your company.

Eberhart: "The company was financed through the initial capital of the founders (US$ 500,000), followed by four subsequent rounds of increasing valuation venture capital financing from Japanese venture capital companies. Our first round was a US$ 1 million investment for 20% of the firm in September of 2000, and this was followed with a planned injection of US$ 1 million about a year later, since we met sales and performance targets. The investors in both rounds were well-established Japanese venture capital firms. The third round, three years later, added American and New Zealand-based venture firms. Finally, the funders of the third round, combined with the investments funds of our distribution partners, recapitalized the company in 2007 with half of the board resigning or having their interest purchased. The new investor in this round largely purchased the founder's interest."

What were the major challenges your company had to handle in its high-growth years and how were they managed?

Eberhart: "We faced three major challenges: working capital shortages to fund increasing sales levels, cross-border management, and the strong competitive reaction. As the company gained market share, inventory levels needed to increase. The company, founded as an inventory management play, required financing of increasing inventory levels. Unfortunately, as a VC funded, foreigner-managed company, normal Japanese bank loans were unavailable. The company turned to factoring accounts receivable to fund operations, but this was based in the US and created very difficult accounting and tax issues. Secondly, the company was founded and financed as a fast-growing growth company. However, growth brought in sales personnel from a less dynamic wine sales background. The managerial problems were difficult. Finally, competitors reacted strongly and with the knowledge that relief in the courts were unlikely. Competitors paid our customers to get them to stop business with us, unflattering news articles were published, and even the price tags were removed from our wines in stores to create confusion."

Maher:

1. "Mega players existed in the Japanese market that had deep resources – such as Kirin and the Seagram joint venture. These had deep relationships that we had to overcome.
2. We were the newcomer and there was scepticism about our ability to consistently deliver. There is an expression, 'Would you hire David if Goliath is looking for work?' We were David!
3. A challenge in the early days was convincing the Californian winery suppliers that we could help them sell in Japan and that we would pay them on time. This was one of my roles. Over time we built up their confidence in WineInStyle, but it did not occur instantaneously."

Give examples of dark moments or negative periods that your company or you faced as part of your journey as an executive with this company.

Eberhart: "There were three dark moments:

1. After the second round, the sales team could not meet their objectives and our online management system for inventory and sales fulfilment did not pass reliability tests. We began planning for bankruptcy, as cash became impossibly constrained. Fortunately, in a critical month, extremely large and unexpected sales orders appeared that provided cash flow sufficient to save the firm. But it was a very dark period.
2. We discovered that a group of shareholders and directors were seeking to bankrupt the firm to create a new firm that they would own, free of liabilities. This occurred as the firm was having its strongest run up in sales and was an attempt, by the group, to acquire the company without paying for it. We managed this with legal means.
3. My eight-year-old son drew a picture of his family for third grade. I was not part of the picture because of my long absences."

What are the key lessons about entrepreneurship and successful growth strategies you've taken from your company experience?

Eberhart: "Going into business against the big boys in Japan and growing a new venture, while daunting, is certainly possible to do. My takeaways from the success we had there were:

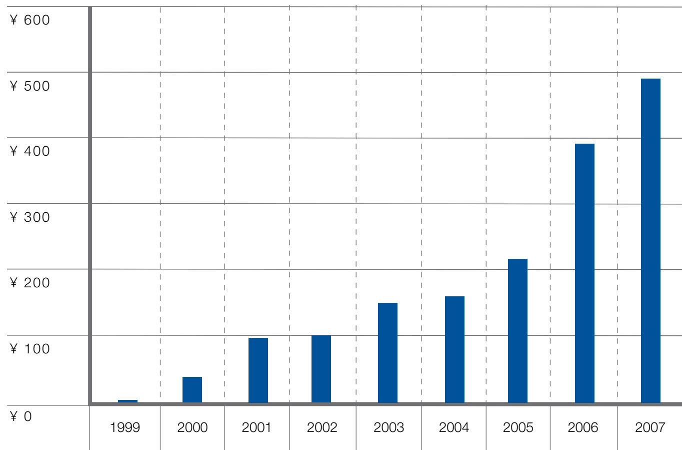
1. Large traditional companies can lack flexibility. These companies are usually tied up by their own methods. For example, they cannot compete with their own retail chain so they are really tied up by the pricing strategy and the way they operate.
2. If you are convinced that you have a product of value with sufficient margin, stop listening to everybody else because when you go and take on a large competitor in this market, everybody from your investors to your employers will tell you, 'Don't do that, it's stupid'. It's important to have a good 'I can!' attitude and a realistic assessment of your product. Then make a decision and go with it.
3. Know when to back away. Price competing with large competitors is futile without funds. Big competitors know how to price compete, and that's going to be their main weapon of choice against you. Back away if they are going to price compete because you are going to lose.
4. Ensure all your operating processes are functioning smoothly so that weaknesses don't show. Unless everything in the company is running well. For example, if I get an order and I know I can fulfil it, invoice accurately and do everything else, I'm not going to take on a large competitor because if things don't work well, they are going to find out about it and they will spread the word about that weakness throughout the market. The first time you are wrong everyone will know it. If you think you have problems in some area of your operating systems, back away until you get them fixed." ■

Prepared by George Foster, 19 November 2010

WINEINSTYLE

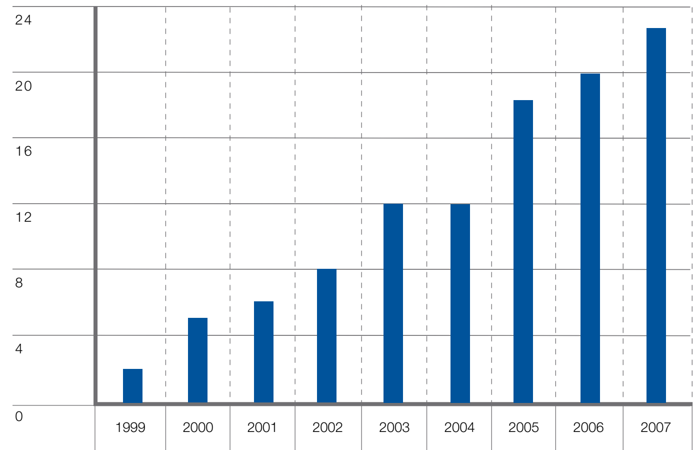
ANNUAL SALES

MILLIONS (¥ M)



WINEINSTYLE

HEADCOUNT



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Project Team

Lead Academic,
Professor George Foster,
Stanford University, USA

Professor Antonio Davila,
IESE, Spain

Professor Martin Haemmig,
CeTIM (Centre for Technology & Innovation Management),
Germany and Stanford University, USA

Professor Xiaobin He,
Huazhong University of Science and Technology,
People's Republic of China

Professor Ning Jia,
Tsinghua University, People's Republic of China

From the World Economic Forum

Max von Bismarck,
Director and Head of Investors Industries,
World Economic Forum, USA

Kerry Wellman,
Senior Community Manager, Investors Industries,
World Economic Forum, USA

Project Administrator

Diane Lee,
Stanford University, USA

From Endeavor

Shaun Young,
Senior Manager,
Endeavor, USA

David Wachtel,
Senior Vice-President, Marketing, Communications and Research,
Endeavor, USA

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Allen & Buckeridge
Australian Venture Capital Association
Azure Capital
BDTI/Board Director Training Institute of Japan
Beijing University of Technology Incubator
Bloomberg New Energy Finance
Business Accelerator
Centrum Capital
Cleantech Group
Confederation of Indian Industry (CII)
Deloitte
Department of Science and Technology
Dow Jones/VentureSource
Draper Fisher Jurvetson
Endeavor Global
Enterprise Ireland
Ernst & Young, Venture Capital Advisory Group
Fast Track
Federation of Indian Chambers of Commerce & Industry (FICCI)
Foresight Equity Fund Management Company
GBS Venture Partners
GSR Ventures
Haworth & Lexon Law Office
Huawei
iDTechVentures
Inc.
Infosys Technologies
Innovation Capital Associates
Innovation Works
Irish Software Association
Irish Venture Capital Association
JM FINANCIAL
Kauffman Foundation
Khosla Ventures
Kleiner Perkins Caufield & Byers
Kitara Capital
Matrix Partners China
Mentoring India
Microsoft
National Graduate Institute for Policy Studies (GRIPS)
National Natural Science Foundation of China
National Venture Capital Association
New Zealand Venture Capital Association
Oak Investment Partners
Pan IIT Alumni
Qiming Venture Partners
Queensland BioCapital Fund
Queensland Government – Department of Employment Industry and Innovation
Redpoint Ventures
Reliance Industries
Russian Venture Company
SB Capital Partners
SECA/IFZ Switzerland
Shanghai Venture Capital Association (SHVCA)
Sierra Ventures
Silicon Valley Bank/SVB Capital
Sinolinks/Goshawk Group
Steamboat Ventures
Southern Cross Ventures
Starfish Ventures
Telstra
The Indus Entrepreneur: TiE Delhi, TiE Bangalore, TiE Mumbai
Times Private Treaties
Tsukuni Associates
TusPark Ventures
USITO
Venture Intelligence
Versant Ventures
Victorian Government – Department of Innovation, Industry and Regional Development
WI Harper
Wilson Sonsini Goodrich & Rosati
World Executive Group
Zero2ipo, Beijing
Zhongguancun Science Park Administrative Committee

About the Authors

Professor George Foster

George Foster is the Wattis Professor of Management and Dhirubhai Ambani Faculty Fellow in Entrepreneurship at the Graduate School of Business and SPRIE/STVP faculty affiliate, Stanford University, USA. His research and teaching areas include entrepreneurship, sports business management and globalization. He directs the Executive Program for Growing Companies at Stanford University. Foster is the founding director of the Enterprise Ireland/Stanford University Leadership for Growth one-year executive programme for Irish CEOs and their management teams. This programme is now in its fourth year, with over 100 companies having participated. Foster is the author of many books and reports, more than 40 published articles and more than 70 cases. He has won multiple research, teaching and alumni awards. Foster interacts extensively with leading groups in the entrepreneurship and sporting sectors and regularly brings more than 50 outside executives to co-teach at his Stanford classes each year. He has been a board member of multiple early-stage companies. He holds a BEc and MEc from The University of Sydney, a PhD from Stanford University, and honorary doctorates from University of Ghent, Belgium and University of Vaasa, Finland. Foster has participated at multiple meetings of the World Economic Forum, including the Annual Meeting in Davos-Klosters, the Annual Meeting of the New Champions in China, the Indian Economic Summit, and the Global Agenda Council meetings in Dubai.

Professor Antonio Davila

Antonio Davila heads the Entrepreneurship Department as well as the Entrepreneurship and Innovation Research Centre at IESE Business School in Barcelona, Spain. He is also a professor in the accounting and control department. Before coming to IESE, he was a faculty member at the Graduate School of Business, Stanford University for seven years after receiving his doctorate from Harvard Business School. His work has been published in journals such as *Harvard Business Review, California Management Review, Journal of Business Venturing*, and *Research Policy*. His book, *Making Innovation Work*, has led various book rankings on the management of innovation. He has received IESE's research award three times, and his dissertation was distinguished by the American Accounting Association. The Spanish government recognized his work by awarding him the Ramon y Cajal scholarship. He was also a finalist for the McKinsey Best Paper Award from the Strategic Management Society.

Professor Martin Haemmig

Martin Haemmig is senior advisor on Venture Capital for SPRIE at Stanford University (APARC), and adjunct professor at CeTIM in Germany on venture capital, incubation and high-tech start-ups. His research covers the global VC industry in 15 countries. During his annual 7 to 8 months of global travels, he lectures and/or researches at Stanford University, UC Berkeley, INSEAD, UniBW Munich and ETH Zurich, as well as at China's Peking University, Tsinghua, Renmin, Fudan and JiaoTong Universities, plus India's IITs IIMs and ISB. He is author of books on the globalization of venture capital in English and Chinese, as well as book chapters and articles on the various venture capital ecosystems. He is a co-founding professor of the world's only doctoral degree programme on venture capital (Renmin University, Beijing) and was appointed as adviser for China's largest science park (Zhongguancun in Beijing). He also holds a few global strategic advisory positions and is a frequent speaker at conferences around the world on VC/PE. Haemmig earned his electronics degree in Switzerland, his MBA and doctorate in California. He is a graduate from the Board Management School at the University of St. Gallen in Switzerland. He worked for 20 years in global high-tech companies and obtained the Swiss National Marketing Champion award in 1994, before returning to academia a decade ago.

Professor Xiaobin He

Xiaobin He is assistant professor at the School of Management, Huazhong University of Science and Technology (HUST), in Wuhan, People's Republic of China. He received a BA and MA in sociology from Renmin University of China in Beijing, and a MS degree in statistics and PhD in sociology from Stanford University. His research interests focus on organizational and economic sociology, entrepreneurship and social network analysis. Besides his work on entrepreneurship and the successful company growth strategies around the globe, he is currently working on a paper comparing the governance structure differences between the state-controlled and private-controlled public-listed companies in China.

Professor Ning Jia

Ning Jia is an associate professor of accounting at Tsinghua University, School of Economics and Management, People's Republic of China. Jia's research and teaching focuses on the growth and valuation of entrepreneurial companies. She has published a number of articles in top international and Chinese journals and is the leader of research projects sponsored by the National Natural Science Foundation of China. Her teaching at Tsinghua includes doctoral seminars in capital market research, corporate finance and valuation. She also teaches on the Women Entrepreneurship Track Program at Tsinghua University and the Executive Program for Growing Companies at the Graduate School of Business, Stanford University. She has written a number of cases on emerging companies such as eBay, Baidu, Suntech, and Focus Media. Jia holds an undergraduate degree from the University of Minnesota and doctorate from the Graduate School of Business, Stanford University.

From the World Economic Forum

Max von Bismarck

Max von Bismarck is director and head of investors at the World Economic Forum. In that capacity, he leads an international team based in New York and Geneva, which oversees all global activities and relationships of the World Economic Forum related to Private Equity, Hedge Funds, Venture Capital, Institutional Investors and Sovereign Wealth Funds. He also is a trustee of the World Economic Forum USA Retirement Plan.

Prior to joining the World Economic Forum, von Bismarck helped to build two companies as an entrepreneur. He was a co-founder and managing director at Public One Strategy Consulting and director, legal of the Oxford-based technology company Mondus Limited. He studied law and modern history at St. John's College, Oxford University and Humboldt Universitaet zu Berlin, and he holds an Executive Masters in Global Leadership from the World Economic Forum (programme in collaboration with Wharton School of Business, Columbia University, INSEAD and London Business School). He was named a German-American Young Leader of the Atlantik Bruecke in 2004 and Global Leadership Fellow by the World Economic Forum in 2005. He also is a senior adviser on global business for the Program on Regions of Innovation and Entrepreneurship (SPRIE) at Stanford University.

Kerry Wellman

Kerry Wellman is senior community manager, investors industries, at the World Economic Forum, USA, and is currently responsible for managing the Venture Capital Community. Previously, Wellman was senior coordinator for the Banking, Insurance and Investors Communities; editor of the World Economic Forum's Communications Department; and team coordinator of the Global Competitiveness Network, where she represented the Network in numerous countries, presenting the Network's reports and establishing new relationships with partner institutes. Wellman has a background in sales and marketing and has also worked as an English language teacher.

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World Economic Forum
91- 93 route de la Capite
CH – 1223 Cologny/Geneva
Switzerland
Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744
E-mail: contact@weforum.org
www.weforum.org/ictforgrowth