MARKETS

# What Startups Can Teach Big Enterprise Firms

## Potential Lifelines in Three Areas

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Within the next decade, most of the names on S&P 500 will drop off and be replaced by new ones. In the 1930's, the average lifespan of a company on the S&P 500 (or the S&P Composite Index, as it was known until 1957) was 60 years, in the 1960's it was 30 years, and in the 1990's, 20 years. Today it's 15 years. In 2015 alone, 28 companies—more than 5 percent—vanished from the list. Departures from the S&P 500 in just the past few years have included legacy brands like *The New York Times*, Maytag, Circuit City, Radio Shack, Wendy's, and Eastman Kodak. In their place have come firms such as Amazon, Facebook, Google, and Netflix—a new generation that almost overnight evolved from visionary startups to industry upstarts.

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Startups exist only to disrupt the current way of doing business, and generally don't survive unless they achieve that goal. On the other hand, big enterprise firms, which need to maintain current lines of business and cash flows for business solidarity, must now also be able to respond, with a sense of urgency, to the ever-growing threats from these new and unfamiliar competitors. The cycle can be vicious. Even the CEOs of Facebook and Google are worried about the "two guys in a garage" working on the next big thing that

could displace them. Former Google CEO, Eric Schmidt, noted, “External threats are likely to come from a truly innovative company that builds itself a big enough business quickly enough that we can’t catch it.”

If a big-enterprise firm wants to survive into the 2030’s, it can’t operate like a big-enterprise firm from the 1930’s. What it can do, however, is learn from the competition—the very same startups that can threaten its existence. Startup firms, of course, don’t have a monopoly on creating twenty-first century innovations. But they have excelled at three areas in particular that offer potential lifelines for big-enterprise firms: the culture of the startup, the cult of the CEO and perhaps most obvious, the constant innovation and adaptability of the startup.

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**The Culture of the Startup: Making an Advantage of Employee Mobility**

**The War for Talent**

The employer/employee relationship has changed significantly over the past generation. Today’s big-enterprise firms can’t consistently offer pensions and long-term security to their new hires. Millennials know that. They know that the job interview they ace today is not going to be their last one. People born between 1977 and 1997 will work an average of 15 to 20 jobs in their lifetimes, according to the Bureau of Labor Statistics.

Just as companies focus on finding the right person for the right job, so do today’s prospective employees focus on finding the right job opportunity at the right company. A workforce that expects to change jobs is not necessarily one that thinks about the long-term climb up a single corporate ladder; it’s one that values the potential for short-term experience to advance long-term prospects well beyond the current job.

Startups expect this employee mobility and regard this fluidity in the workforce as a competitive advantage in attracting and nurturing talent. Adam Ramsey, of the executive-recruitment firm, Kindred Partners, says that when the media giant, ESPN, hires a writer away from upstart Bleacher Report, a sports website and a client of Ramsey's, this signals to potential and current Bleacher Report employees that writing for an early-stage firm can actually be good for their overall professional prospects and, hence, attracts new and better talent to Bleacher Report.

**The Reality of a Fluid Marketplace**

"We are losing talent every single day to new-wave firms such as Google and Facebook," admitted Bonin Bough, the vice president and chief media and e-commerce officer of Mondelez International, the food and beverage giant. He added to his comments in an onstage interview at the 2015 Cannes Lion International Festival of Creativity that "we have to change the model so it's no longer about saying, 'Come work for me for 24 years.' It's 'Come and work with me for 24 months.'" His goal, he said, "is to create rock stars. I don't care if you can go double your salary elsewhere. In fact, I want you to double your salary and tell every single person the reason you were able to double it is because you worked for Mondelez." Executives like Bough, taking a cue from the start-up crowd, have figured out how to leverage the fluid marketplace, with the understanding that employees, current and former, are the best ambassadors for their company's brand. Rodney Williams, the CEO of the Intel-backed technology startup, LISNR, agrees with building a culture where talent is fostered: "My goal has always been to build a company that people are proud to be from," he said. This strategy, a smart response to the nomadic nature of the new generation of employees, is called "employer branding," a concept that dates only to the 1990's.

"In today's hypercompetitive job market," says Ann Poletti, senior director of Employment Brand Marketing at DocuSign, "companies need to build their brand as a great place to work in order to win in the war for talent." The tem-

plate for employer branding, she says, is similar to that of traditional product branding: define the value of the "product" (in this case the corporation), drive awareness of the product, and build loyalty to the product—at least until the employee moves on to the next product.

Inevitably, prospective and current employees have been turning to social media for guidance. "The rise of social media has made companies a great deal more transparent," Richard Mosley, VP of Strategy and Advisory at the talent research and employer branding firm, Universum, recently wrote in the *Harvard Business Review*. "People are far more likely to trust a company based on what its employees have to say than on its recruitment advertising." In effect, employees can become an extension of the marketing department. If they're excited about where they work, their excitement is likely to be viral.

For the big-enterprise firm hoping to recruit a dedicated millennial workforce the "startup way," worry less about cultivating long-term loyalty. Focus increasingly on your employees' long-term personal success by helping them build their resumes through exciting new opportunities within your company.

**The Cult of the CEO**

Where does the dedicated passion for the CEO and company mission, synonymous with much of startup culture, come from and how is it cultivated? In the world of the startup, as well as in big enterprise, it tends to start at the top, with a cult of the CEO.

Cult, in this context, is a positive attribute. Startups that flourish often have founders who are mission-driven and can rally the workforce to join that mission. Tesla founder, Elon Musk, knew what his mission was: to challenge the entire automotive industry. And he knew how to inspire his employees: As Musk famously said, "Failure is an option here. If you are not failing, you are not innovating enough."

Not having a mission would seem to be an unwise option. Yet in a recent survey of executives at big enterprise firms across more than 20 industries, the

growth strategy consulting firm Innosight found that nearly one quarter of the respondents thought their companies lacked “a coherent vision for the future.”

Even when a big-enterprise firm does have a mission, it’s nearly always one that the current CEO hasn’t created, simply because many of these long-standing firms have outlived their original founders. Instead, the mission is often one the CEO has inherited. For the legacy mission to remain effective, the CEO needs to be able to communicate that mission to the firm’s most important brand ambassadors, its employees, and do so in a manner that is powerful and effective. Certainly some big companies have begun to modernize their communications function, adjusting to the reality of a relatively short-term workforce by committing resources to employer branding equal to their corporate and consumer branding. Yet in a 2014 survey of 2000 senior executives in 18 countries, conducted by Universum, only half of the respondents said their companies are meeting the twenty-first-century minimal requirement of measuring their social media activities, and only a third had employees who posted content and responded to users on a regular basis.

For big-enterprise CEOs who hope to emulate the relationship between startup CEOs and their employees, the task is twofold: Be articulate; be intimate. The CEO must be able to communicate the corporate mission clearly, via effective and modern channels, and to communicate it directly to the primary audience who will embrace and carry out that mission—the corporation’s employees.

One of the big enterprise firms that has mastered the effectiveness of developing a “cult”-like culture and has formed a strong employee rapport, is the athletic apparel giant Nike, Inc. In the summer of 2016, when national tensions over race relations were leading to one tragedy after another, Nike CEO, Mark Parker, wanted to send a clear and effective message to his employees that diversity and inclusion were paramount to Nike’s culture. As such, Parker elected to bypass the usual channels and communicate his concerns more directly to his employees. “Our voices matter,” he wrote in an open letter. “This is your company and we want you to be heard.” If he was

right—if his 32,000 employees felt that Nike was their company and that the CEO wanted to hear their voices—it was only because he had developed a culture in which he could talk to 32,000 workers in a manner reflecting the intimacy of a startup.

In part, he had accomplished that task by transforming the demographics of the workforce and communicating this transformation using effective and intimate channels to speak more directly to his employees. In May 2016, Nike reported that for the first time, the majority of its employees were "minorities." In an accompanying statement, the company argued, "To serve every athlete individually and completely, across hundreds of countries where we do business, we need teams that reflect the diversity of our consumers and a culture of inclusivity that respects the communities in which we live and work."

**Innovation and Transformation**

If a big-enterprise firm actually adopts the culture of the start-up and achieves the cult of the CEO, it then has several options on how to complete the transition to the twenty-first century.

Of course, the big-enterprise firm first has to be willing and able to take chances. Among the questions that the Innosight survey asked of executives was whether their organization needs to transform itself "in response to rapidly changing markets and disruption" and whether it can do so. The answers: 66 percent said yes, the corporation needs to change; 37 percent said they were not confident it could achieve a transformation over the next 5 to 10 years; and only 15 percent said they were "very confident." Why the general lack of confidence? The answers: 27 percent agreed that they're "too busy executing" and "really don't have time to focus on it"; 33 percent agreed that they "don't have a good process for formulating a growth strategy that we're confident about."

These executives know their companies need to change in order to survive, but they also acknowledge that, oftentimes, their companies can't or won't

take the steps necessary for self-preservation. However, for the rare, big-enterprise firm that both wants to and can actually take the steps necessary to change in order to meet the challenge from startups, there are several options.

The first is to innovate from within. As most, if not all, executives today realize, some cosmetic changes do allow for greater communication and collaboration among employees—the open-plan office layout, the snack station, the communal foosball or ping pong table. Some of these signature startup elements have become standard features at big-enterprise firms. Big corporations can even rent workspaces that mimic the style of start-ups and that situate their employees side-by-side with startups. WeWork, which provides shared flexible workspaces, community, and services for entrepreneurs, freelancers, startups, and small businesses, has seen increasing interest from enterprise firms. Silicon Valley Bank, which provides banking services to startups and technology firms, rents hundreds of desks from WeWork; other clients include General Electric, KPMG, and Cognizant, who recognize the benefits of locating some of their employees in an entrepreneurial environment. Jennifer Berrent, Chief Culture Officer at WeWork, says that mid- to large-size companies are ironically “one of our fastest-growing member segments.”

Cutting-edge workspaces, though, are only a start. In order to be effective in the long run, they have to be accompanied by a broad institutional rethink.

Nestlé, for instance, has inaugurated a program it calls the Digital Acceleration Team, led by Global Head of Digital and Social Media, Pete Blackshaw. Every eight months, 18 “high-potential” managers, virtually all of whom are millennials, rotate in the company headquarters. Their job is to “reverse mentor” the established executives. Upon “graduation,” they assume influential roles within a company they’ve gotten to know from the top down, literally. Blackshaw notes, “The DAT has been an incredible catalyst for change and innovation across the organization, and we are proud of that.”

Jeff Immelt, CEO of General Electric, has embarked on a particularly aggressive transformation for his 124-year-old firm, with a goal to be a "top software company" by 2020, taking on Amazon, Cisco, Google, IBM, and countless startups, and exposing the company to a new set of rivals in the industrial internet market. He calls this transformation "probably the most important thing I've worked on in my career." He added in an interview with The New York Times, that there is no turning back, no other option. "It's this or bust."

More commonly, though, big-enterprise firms innovate not from within but from without. Through the first half of 2016, corporate venture groups invested more than $1 billion for ten straight quarters. In 2015 alone, corporate venture capital's $7.8 billion in investments represented more than 13 percent of all venture capital investment.

Sometimes, the big-enterprise firm incorporates a startup sensibility by simply going out and buying it. Witness Walmart's recent acquisition of the unprofitable three-year-old startup Jet.com for $3.3 billion in the hope that the deal will jumpstart the growth of the retail giant's e-commerce operations. Or consider Unilever's $1 billion purchase of the four-year-old startup, Dollar Shave Club. In the immediate aftermath of the announcement of the deal in July, Unilever CEO, Paul Polman, said that the acquisition "goes well beyond either shaving or ecommerce." It immediately endows Unilever with "expertise and technology in direct-to-consumer sales we can use internationally and in other parts of our business."

"The fact is that most startups focus on specific elements of a larger solution or opportunity," says Marlon Nichols, a former director of investments at Intel Capital and now general partner at Cross Culture Ventures. "That focus allows them to cover more ground in shorter periods of time. Smart corporations appreciate this fact so they work with and invest in startups, creating top-notch solutions that can be incorporated into or that further their business." Roy Bahat, head of Bloomberg Beta, echoed that sentiment: "A number of executives at Bloomberg realized technology was being devel-

oped in the startup world they were only seeing once it was mature enough to be ready for Bloomberg, but that was often too late to be able to fully understand it. So they just wanted greater awareness of what startups generally were doing." If big enterprise firms do not engage with startups and fail to make it easy and attractive for these newcomers to engage with them, they are likely to miss out on critical competitive advantages.

Big-enterprise firms are also entering the world of startups by "growing their own," so to speak. The big food industry, for instance, has experienced extensive disruptions from small competitors who can foster and meet consumer demand for "fresh" food from sustainable sources. Having paid small fortunes to protect its market share—$1.55 billion for the Bolthouse Farms line of smoothies, juices, carrots, and dressings; $231 million for Garden Fresh Gourmet—Campbell Soup CEO, Denise Morrison, in early 2016, authorized a $125 million venture capital fund to invest in startups. The previous year, General Mills had begun pursuing the same venture-capital strategy; one outcome, in May 2016, was a $18 million investment in Kite Hill, maker of dairy-free (nut-based) cheese and yogurts—a bargain if the business takes off, and budget dust if it doesn't.

**Natural Partners**

The startup is not the S&P legacy firm's enemy, nor vice-versa. Their stark differences, in fact, make them natural partners. Big-enterprise firms have advantages in the marketplace that most start-up firms can only envy: capital, purchasing scale, deep relationships, established channels of production, and giant pools of talent with experience operating at scale. For a major corporation, startups can add agility, speed, experience with close collaboration, the expectation of innovation, and a narrow, rigorous focus on products, customers, and the future—a future that just might include a spot on the S&P 500 for decades to come.