

# Entrepreneurial Ecosystems Around the Globe and Early-Stage Company Growth Dynamics

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# Executive summary

Entrepreneurs are key drivers of economic and social progress. Rapidly growing entrepreneurial enterprises are often viewed as important sources of innovation, productivity growth and employment (small and medium-sized enterprises account for a high percentage of all jobs in emerging economies). Many governments are therefore trying to actively promote entrepreneurship through various forms of support.

The World Economic Forum, in collaboration with Stanford University, Ernst & Young and Endeavor, surveyed over 1,000 entrepreneurs from around the globe with the goal of better understanding how successful entrepreneurial companies speed access to new markets and become scalable, high-growth businesses. Executive case studies for 43 early-stage companies from 23 different countries were developed to enrich the feedback from the survey.

## Summary of Key Findings

1. For entrepreneurs, major differences in entrepreneurial ecosystems exist from one region to the next. When entrepreneurs consider expansion opportunities beyond their country or region, there is a potential alignment issue with governments that often adopt a strong “within country/region” focus in their entrepreneurial ecosystem policies.
2. According to entrepreneurs, three areas of an entrepreneurial ecosystem are of pivotal importance – accessible markets, human capital/workforce and funding & finance. This report is the first large-scale study that systematically examines which pillars of an ecosystem matter most to entrepreneurs when it comes to the growth of their companies. A potential alignment issue can arise between the time horizon of an entrepreneur and that of a policy-maker or politician, with the time horizon of the latter two typically following the electoral cycle.
3. In most regions, only a small number of breakout companies are the main contributors to a healthy, growing early-stage company sector. There are also substantially more similarities than differences in the issues facing entrepreneurs around the globe. These similarities appear in all regions and have an impact on the major growth accelerators and growth challenges for early-stage companies.
4. Large companies in the overall business ecosystem have the potential to provide important leverage for early-stage companies in their growth and development. However, there are potential pitfalls to navigate through in the relationship. The report highlights areas for productive relationships as well as areas where relationships can inhibit growth or be the source of revenue and job destruction in an early-stage company.
5. Entrepreneurs themselves can play multiple important roles in the build-out of an entrepreneurial ecosystem. Using case studies from Endeavor, five important roles are illustrated – mentorship, inspiration, investment, new founders and new employees.
6. Government and regulatory policies are viewed by entrepreneurs as both potential growth accelerators and growth inhibitors. The report highlights examples of case studies from different geographical regions that reflect the positive and negative impact economic policies can have on entrepreneurs. In some cases, entrepreneurs believe that government/regulatory policies aimed at supporting economic growth can actually be counterproductive to the growth of their early-stage company.



# Section 1: Focus of the Report and Information Sources Underlying the Analysis

Two questions on entrepreneurial ecosystems are central to this report:

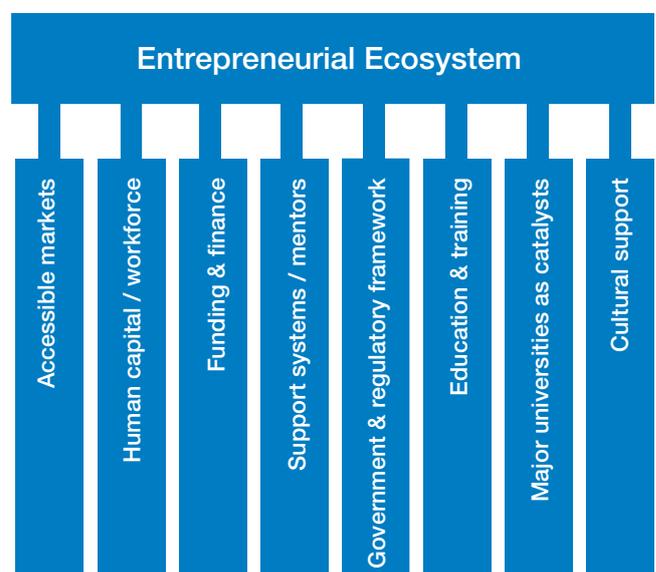
- Question 1 – What do entrepreneurs see as differences among entrepreneurial ecosystems around the world with regard to the ready availability of the pillars making up an ecosystem?
- Question 2 – Which pillars of an entrepreneurial ecosystem do entrepreneurs view as most important to the growth/success of their companies?

Exhibits 1-1 and 1-2 of the report illustrate the eight pillars considered to make up an ecosystem and the individual components of each pillar.<sup>1</sup> By jointly examining these two questions, this report advances the debate on entrepreneurial ecosystems in two important ways.

The first is that systematic polling of entrepreneurs addressed both of the report's two central questions. In contrast, many existing analyses of ecosystems do not explicitly use entrepreneurs as the core source of evidence. Advancing on public sector investments in ecosystems without systematic input from entrepreneurs runs the risk of misinformed decisions, as well as outcomes that differ greatly from a desired rapid surge in entrepreneurial activity. Politicians often find it convenient to make ecosystem recommendations with an electoral-cycle mentality, an approach that can differ greatly from that of entrepreneurs who aim to scale a new venture in a sustained way.

The second advance to the debate is that the same set of entrepreneurs answered both questions. Much of the evidence to date has been focused on Question 1. However, Question 2 provides pivotal information about what an entrepreneur views as important to growing a company. The more policy-makers understand what entrepreneurs consider as important, the greater the potential for policies to be better aligned with the actions of companies. The report also shows that entrepreneurs around the globe consider three ecosystem pillars as the most important ones for their companies' growth: accessible markets, human capital/workforce and funding & finance.

**Exhibit 1-1: The Eight Pillars of an Entrepreneurial Ecosystem**



Two very different sources of information were analysed for this report:

1. A two-phased online survey with responses from over 1,000 entrepreneurs. The Stanford Graduate School of Business' alumni database was used to seek responses from entrepreneurs with experience in early-stage companies. The response rate was approximately 10% of the alumni polled. Many in the database have not had experience as an early-stage company executive, so the response rate from the target population was sizeably higher than 10%. Several additional databases were used to supplement the survey – e.g. databases from Endeavor, Pakistan and Australia. Exhibit 1-3 (Panel A) gives an overview of the respondents. Part One of the online survey, which focused on entrepreneurial ecosystems, is analysed in Sections 2 and 3 of this report. Part Two of the survey, which focused specifically on the respondents' early-stage companies, is analysed in Sections 4, 5 and 7.
2. Executive case studies. Founders and senior executives from 43 early-stage companies responded to a standardized set of questions about their company's growth and the role of entrepreneurial ecosystems in that growth. Exhibit 1-3 (Panel B) provides a geographical breakdown of the executive case studies from 23 different countries.

## Exhibit 1-2 : Components of Entrepreneurial Ecosystem Pillars

### Accessible markets

- Domestic market:
  - Large companies as customers
  - Small/medium-sized companies as customers
  - Governments as customers
- Foreign market:
  - Large companies as customers
  - Small/medium-sized companies as customers
  - Governments as customers

### Funding & finance

- Friends and family
- Angel investors
- Private equity
- Venture capital
- Access to debt

### Government & regulatory framework

- Ease of starting a business
- Tax incentives
- Business-friendly legislation/policies
- Access to basic infrastructure
- Access to telecommunications/broadband
- Access to transport

### Major universities as catalysts

- Promoting a culture of respect for entrepreneurship
- Playing a key role in idea-formation for new companies
- Playing a key role in providing graduates for new companies

### Human capital/workforce

- Management talent
- Technical talent
- Entrepreneurial company experience
- Outsourcing availability
- Access to immigrant workforce

### Support systems/mentors

- Mentors/advisers
- Professional services
- Incubators/accelerators
- Network of entrepreneurial peers

### Education & training

- Available workforce with pre-university education
- Available workforce with university education
- Entrepreneur-specific training

### Cultural support

- Tolerance of risk and failure
- Preference for self-employment
- Success stories/role models
- Research culture
- Positive image of entrepreneurship
- Celebration of innovation

## Exhibit 1-3 : Key Information Sources Collected and Analysed

### Panel A: Entrepreneurial Ecosystems Survey

Respondents – Experience at Early-stage Companies	
In Years	Respondents
1-5	222
6-10	195
11-15	171
16+	332
Not Noted	122
Total	1,042

Respondents – Geographical Breakdown	
Continent	Respondents
North America	664
Europe	160
Australia/New Zealand	28
Asia	117
Africa/Middle East	20
South/Central America with Mexico	53
Total	1,042

### Panel B: Executive Case Studies

Geographical Breakdown	
Continent	Case Studies
North America	11
Europe	5
Australia/New Zealand	1
Asia	15
Africa/Middle East	7
South/Central America with Mexico	4
Total	43



# Section 2: Entrepreneurial Ecosystems: Similarities and Differences around the Globe

## Executive Summary

This report regards an entrepreneurial ecosystem as a system of interrelated pillars that impact the speed and ability with which entrepreneurs can create and scale new ventures in a sustainable way. Such ventures can deliver important benefits to multiple constituencies, including customers who use or purchase (directly or indirectly) its products or services; employees of the venture; companies and institutions whose growth or viability is affected by the venture; investors that provide capital for the venture; and cities and governments providing a public infrastructure that affects the venture. When examining the pillars of entrepreneurial ecosystems in different parts of the globe, the report takes the viewpoint of those associated with the starting and scaling of early-stage companies.

While entrepreneurial ecosystems around the globe differ dramatically in their breadth and depth, an ecosystem is characterized by eight pillars that underpin the starting and scaling of early-stage companies. This analysis takes the entrepreneur's perspective. Early-stage companies seeking to scale in a sustained way face the challenge of attracting cash inflows, either from revenues or financing, to build and deliver the products and services that their customers will value and pay for. This makes accessible markets and funding & finance as two central ecosystem pillars. Human capital/workforce is a third key pillar, as scaling typically requires the mobilization of people to produce and deliver those products and services to customers. The five remaining pillars are: support systems/mentors; government & regulatory framework; education & training; major universities as catalysts; and cultural support.

A survey of over 1,000 entrepreneurs in many parts of the globe showcases differences in the strength of entrepreneurial ecosystems. "Strength" in Section 2 of this report is represented by the ready availability of each factor as assessed by entrepreneurs in their respective regions. Heat-map methodology is used to highlight the sizeable differences in ecosystems across regions, countries and continents. The heat maps show key ways in which multiple ecosystems differ from Silicon Valley, widely regarded as the strongest entrepreneurial ecosystem. Sections 3 and 4 examine how entrepreneurs differ in the way they assess the importance of the eight pillars to the growth and success of their companies.

## 2.1 The Pillars of an Entrepreneurial Ecosystem

This section analyses the "ready availability" of the eight pillars presented in Exhibit 2-1. Exhibit 2-2 provides more details on the individual pillars. Similarities and differences around the globe in the ready availability of the pillars are covered, and Sections 3 and 4 examine similarities and differences in their relative importance.

**2.1.1 Accessible markets pillar:** Accessible markets with revenue-paying customers are the lifeblood of all for-profit companies. There is much diversity in early-stage companies in regards to the anticipated timing and magnitude of their initial revenues. These may occur at a very early stage, as with some service and consulting start-ups, or much later, as with many biotech, pharmaceutical and mining exploration ventures. While time frames of when revenues start to scale may differ, the need for every venture to have sustainable revenues at some stage is a central aspect of every economy's for-profit business sector.

The availability of accessible markets is important for the growth of companies in a region. A key aspect of the accessible markets pillar is the number and category of potential customers. Another aspect is whether potential customers are in the domestic market or a foreign market. Combining these two aspects provides the components of an accessible markets pillar:

- Domestic market:
  - Large companies as customers
  - Small/medium-sized companies as customers
  - Governments as customers
- Foreign market:
  - Large companies as customers
  - Small/medium-sized companies as customers
  - Governments as customers

For early-stage companies of a particular region, as the size of their accessible market increases, so does their ability to build their revenue base.

The executive case studies have multiple examples where the accessible market pillar was a key growth accelerator for an early-stage company. These include:

- **Cupola (United Arab Emirates [UAE])** — credit card processing company:
 

“Dubai, apart from driving its own phenomenal growth in the early to late 2000s, gave us access to the markets of the entire Middle East, South Asia and North Africa. Financial institutions and telecoms, two of our main customer segments, were reinventing themselves. Fortunately the GCC (Saudi Arabia, Bahrain, UAE, Qatar and Oman) has almost no import tariffs – an added bonus for us...”
- **Galaxy Desserts (USA)** — producer of baked goods and all-natural desserts:
 

“The US market is huge, and we still feel like we have only scraped the tip of the proverbial iceberg. With over 36,000 grocery stores in the US, we had a large market to attack, and that was just on the retail side.”
- **United Security Services (USS) (Argentina)** — security alarm installation and monitoring company:
 

“This has never been a problem with [an accessible market] as the security situation in Argentina continues to deteriorate.”
- **ViiCare (People’s Republic of China)** — provider of information technology solutions for hospitals:
 

“The healthcare industry in China has much room for growth. Most hospitals in China are owned or controlled by the government, including central and local health authorities, state-owned enterprises and the military. In 2009, the Ministry of Finance initiated a long-term health reform to achieve the objective that ‘everyone can have access to the essential healthcare service’. Significant investments were made to develop the healthcare system in China, creating substantial market opportunities for ViiCare. The domestic market in and of itself is big enough. We are striving to secure a strong foothold in the Chinese market before tapping into foreign countries.”

**2.1.2 Human capital/workforce pillar:** The scaling of an early-stage company is enhanced by the quality and quantity of its workforce. Regions with a greater depth of potentially relevant employees create a more hospitable environment for the scaling of early-stage companies. Key components of this pillar are:

- Management talent
- Technical talent
- Entrepreneurial company experience
- Outsourcing availability
- Access to immigrant workforce

These components recognize the heterogeneity of human capital resources that can affect the speed and magnitude of company growth.

Examples from the executive case studies highlight the key role human capital can play as a major growth accelerator for an early-stage company. These include:

- **d.light design (USA)** — manufacturer and distributor of solar light and power products in developing markets:
 

“A pivotal change in 2011 was recruiting a team of senior executives with over 20 years of local, in-country experience, in every key area – general management, product

design, production, sales, marketing and finance. In less than 18 months, we were able to introduce new products, raise industry quality standards several times and introduce innovative solutions for the decades-old problem of getting innovative products the ‘last mile’ to reach ‘bottom of the pyramid’ (BOP) customers. This combination quickly produced five-fold growth in retail outlets and customers served, and set us on our current path to continued rapid acceleration in scale.”

- **QC (Mexico)** — micro- and small-business loans company for low-income urban communities:
 

“Our community is well known for the availability of qualified human capital. We have been very lucky to attract very creative people who have helped define and implement an innovative business model.”
- **SouthWestern (Ireland)** — outsourced business processing company:
 

“We hired qualified resources from the local university and from returned emigrants, who had experience with the outsourcing models in other countries. There was high availability of semi-skilled labour in the region and this has provided for a stable and loyal workforce. We have the lowest staff turnover numbers in the industry.”

**2.1.3 Funding & finance pillar:** Companies with deep financial reserves benefit from the flexibility of acquiring many of the resources that help sustain their growth. Financial resources are chief among these as they allow, among other things, to hire people, buy or lease buildings and equipment, invest in marketing and sales, and undertake customer trials. Early-stage companies have multiple options to build their financial resources over and above revenues from customers or alliance partners. These options form the following components of the funding & finance pillar:

- Friends and family
- Angel investors
- Private equity
- Venture capital
- Access to debt

Greater depth in the availability of financing provides leverage to early-stage companies to scale faster and in a potentially more sustained way. In some cases, a venture sufficiently novel or differentiated can attract financing not available to many other start-ups. For example:

- **d.light design (USA)** — manufacturer and distributor of solar light and power products in developing markets:
 

“An entirely new group of ‘social impact investors’ emerged in response to our focus on deploying for-profit, private sector approaches to solve poverty and economic development problems in the developing world. The early leaders in impact investing – Gray Ghost Ventures, the Acumen Fund and the Omidyar Network – were among d.light’s early investors. Established venture capital firms like Nexus and Draper Fisher Jurvetson were attracted to these innovative models. Catalytic philanthropic and grant capital was deployed in certain high-risk or long-time-frame areas of market formation.”

Government-related financing can play a key role in promoting the growth of early-stage companies, and is reflected by these examples:

- **Arteris (France)** — semiconductor chips provider, including network-on-chip (NoC) solutions:

“Funding in Europe was available but limited in deal size. We did obtain interest-free loans from the French government’s Agence Nationale de Valorisation de la Recherche (ANVAR) and [French Innovation Agency] OSEO programmes and were beneficiaries of the generous R&D [Research and Development] tax credits available in France.”

- **Pintar International (Philippines)** — manufacturer of bone china (porcelain) ceramics:

“The Japanese government provided long-term money (up to 7 years) at a 7 3/8% p.a. interest rate to Philippine exporting companies. In the Philippines, even up to today, there really is no long-term financing available to manufacturers. A one-year loan is already considered long term. At the time Pintar availed of this financing, interest rates were running at 20–30%. Later government administrations frowned on this type of financial intervention (sadly) and wanted the regular banking channels to provide the needed financing.”

**2.1.4 Support systems/mentors pillar:** Regions differ greatly in the depth and breadth of individuals and other facilitating mechanisms that assist early-stage companies to connect the pieces of the entrepreneurial “puzzle” and scale the company. These mechanisms form the components of the support systems/mentors pillar:

- Mentors/advisers
- Professional services (such as accounting, human resources and legal)
- Incubators/accelerators
- Network of entrepreneurial peers

An example from the executive case studies illustrating this pillar’s importance is:

- **Aemetis (USA, India)** — renewable fuels and biochemicals company:

“Mentors and advisers played an important role in the growth of Aemetis, with advisers from the diverse industries that are impacted by or support the biofuels industry. Our board members and mentors include executives from oil refining, chemicals, agriculture, government and military backgrounds, in addition to finance, engineering and international trade. The high level of education and depth of accounting, finance and regulatory experience in Silicon Valley supported our rapid growth. Our CFO and VP Finance each worked at Apple for more than 10 years, and the chairman of our audit committee is a veteran CFO of five companies that each generated more than US\$ 1 billion of revenues.”

**2.1.5 Government & regulatory framework pillar:** There are dramatic differences across regions in how government policy and the regulatory framework accelerate or inhibit the starting and scaling of early-stage companies. In this regard, three components of the government & regulatory framework pillar are:

- Ease of starting a business
- Tax incentives
- Business-friendly legislation/policies

The remaining components of the pillar cover major differences in areas of the physical infrastructure across regions that can also impact early-stage company growth:

- Access to basic infrastructure (e.g. water, electricity, gas, other sources of power)
- Access to telecommunications/broadband
- Access to transport (e.g. roads, rail, air)

These pillar components can be heavily influenced by government policy at all levels – city, state or province, national, and international (the latter could include the European Economic Community [EEC] and North American Free Trade Agreement [NAFTA]).

There are multiple examples from the executive case studies where the regulatory framework/infrastructure has been either a growth accelerator or a growth inhibitor. Often there are elements of both, as shown in these examples:

- **Interpark (South Korea)** — online auction and shopping mall:

“Our growth was not so fast in the early stage. There were many problems related to online shopping, such as the delay in the proliferation of Internet infrastructure, the slow speed of the network and ineffective methods for calculating rates. Businesses connected to the value chain of online shopping malls, such as logistics systems and payments, had difficulties too. An express delivery service was in its initial phase of growth, and the use of Internet banking, credit cards and security programmes for accounts was minimal. The economic environment was very tough and Korea applied to the International Monetary Fund for a bailout in 1997, the very year we started our business. Our growth started to speed up in earnest in 1999. The main factor behind this growth was an improvement in the speed of the Internet. [The data communications technology] ADSL had spread very fast following a drive by the government. The government and carriers focused on Internet business and invested large amounts of capital. As a result, our confidence that the Internet would be the common network proved well founded, even though it came a little bit later than our expectation.”

- **Pintar International (Philippines)** — manufacturer of bone china (porcelain) ceramics:

“The ecosystem in the Philippines was not manufacturing-friendly when Pintar started. We encountered politicians grandstanding and passing 20% increases in minimum wages without regard to labour-intensive export industries such as Pintar. Over-regulation drove up the cost of doing business. Advance taxes on imports, automatic surrendering of foreign exchange to the central bank, and buying again when needed to import raw materials became part of doing business. Normally, in a well-developed economy, there is a lot of horizontal integration among industries. Thus if I were a ceramic factory, there would be clay mining companies, clay formulating companies, glaze making companies, colour makers, kiln manufacturers and kiln furniture makers. In a developing country, when one starts a new industry, there are no support industries. You have to source these abroad. This is feasible if you can bring in materials and equipment freely into your country. However, usually developing countries have very stringent rules about importing materials and tax them very heavily. Nonetheless, there were also positives for a small start-up from the government during our early years. They helped us participate in international trade fairs. The Department of Trade and Industry helped us negotiate ways to satisfy some government regulations. A major positive for Pintar

was the opening-up of the special funding for export industries called the Export Industry Modernization Programme.”

- **SouthWestern (Ireland)** — outsourced business processing company:

“Ireland is an easy place to do business. Where we needed certifications and accreditations, these were available to us as we took the right steps for training and certification. But there was little bureaucracy, so it has been possible to add new services and contracts fast.”

**2.1.6 Education & training pillar:** Early-stage companies potentially benefit from the availability of an educated workforce. Education is widely believed to promote the capacity to learn new things and to have a better appreciation of opportunities and challenges in the market- and workplace. To capture differences across regions in this area, three education-based categories are examined and form the components of this pillar:

- Available workforce with pre-university education (such as high school)
- Available workforce with university education
- Entrepreneur-specific training

Many investments in general education are made at the government level and can have long-term impacts. The depth of entrepreneur-specific training depends in part on: the availability of entrepreneurs; organizations encouraging entrepreneurship; and educators who, by distilling key learnings from their regions and elsewhere, can increase the entrepreneurial human capital in their respective regions.

The executive case studies include examples of how the pool of well-educated potential employees (or lack thereof) affected either the growth of a company or where a company located some of its activities:

- **Freelancer.com (Australia)** — global marketplace for outsourcing services:

“A significant disadvantage we face in Australia is the lack in number of graduates from STEM (Science, Technology, Engineering and Mathematics) degrees. We are trying to hire computer science graduates by the metric tonne, for example. When we place a job ad, we get perhaps one or two applicants per day. By contrast, I posted a job for an Office Manager and got 350 applicants in two days. The major problem is that we do not have a robust technology programme in K-12. There is a lack of awareness with the government, parents and within the education system of the importance of the technology industry to the future of the country. We need significantly more people entering the industry, otherwise companies like us will be forced to set up offices offshore to find talent.”

**2.1.7 Major universities as catalysts pillar:** Educational institutions such as Stanford University and the University of California, Berkeley have from the outset and continue to play a key role in the growth of entrepreneurship in Silicon Valley. Functions of major universities that form the components of this pillar are:

- Promoting a culture of respect for entrepreneurship
- Playing a key role in idea-formation for new companies
- Playing a key role in providing graduates for new companies

This pillar requires the existence of not only universities, but also key advocates of change within them who embrace entrepreneurship as a respected activity – one that serves the goals of and makes contributions to their respective institutions.

As outlined above, universities can be an important source of human capital (executives, technical talent and other employees) for early-stage companies. Additional examples from the executive case studies showcase this and other roles of major universities:

- **AMC Juices (Spain)** — processor of chilled, fresh juices:

“AMC’s head office was historically situated in the middle of a large plantation, relatively close to the city of Murcia. Twenty years ago, the company donated 80 hectares from the original plantation to the University of Murcia. Today, the University has 15,000 students, mainly in Food Science, Biology, Agricultural and Food Engineering, and Chemistry. In Food Technology, Murcia is probably the best school to graduate from, and it attracts the best talent in the country. We are today one of the main recruiters from the university.”

- **Green Biologics Ltd (UK)** — industrial biotechnology company:

“The workforce in Green Biologics is extremely multinational and multicultural. This is perhaps a function of the area around Oxford and Oxford University where we are located being a magnet for scientists, and the UK’s historic openness to scientific researchers from overseas. This has been a real advantage in allowing the company to have a culturally positive approach in the countries where it operates.”

- **Polyera (USA)** — materials science company:

“In January of 2005, I was scouting for technologies in US universities with the goal of finding the seed for an audacious technology company. I met Prof. Antonio Facchetti and Prof. Tobin Marks at Northwestern University and was introduced to the field of printed and flexible electronics. Antonio and Tobin were working on new classes of electronic materials which could enable novel form factors and manufacturing processes. After conducting some due diligence, it became clear that many of the world’s leading electronics manufacturers were extremely interested in the field of printed and flexible electronics, but that a key bottleneck was the availability of materials with suitable performances. Polyera was founded to address this bottleneck and enable the next generation of electronics. Because we spun-out Polyera from Northwestern, we decided to establish our labs minutes away from the University. Such close physical proximity was a big advantage to the company in its early days as we were able to leverage equipment at the University at low costs and avoid significant capital investments. In addition, Northwestern’s material science department consistently ranks as one of the top 10 in the world, and the University has been a great source of talent. We also continue to sponsor research at the University and benefit from new ideas which originate from these programmes.”

**2.1.8 Cultural support pillar:** Many discussions about leading entrepreneurial ecosystems include the strength of cultural support for entrepreneurship being important to explain differences across regions in the contributions made by entrepreneurial companies. Various aspects of cultural support make up this pillar’s components, which are:

- Tolerance of risk and failure
- Preference for self-employment
- Success stories/role models
- Research culture
- Positive image of entrepreneurship
- Celebration of innovation

Examples of positive and negative cultural support are:

- **Aemetis (USA, India)** — renewable fuels and biochemicals company:

“The Silicon Valley support infrastructure for entrepreneurs includes acceptance of the high risks and uncertainty involved with launching new companies. This cultural support allowed Aemetis to quickly move forward on transforming the entire biofuels industry, potentially altering the dynamics of the oil & gas industry, without facing criticism of potential failure in our local area.”

- **Arteris (France)** — semiconductor chips provider, including network-on-chip (NoC) solutions:

“The French government policy was to support national champions, which were invariably large companies like Airbus, STMicroelectronics and Bull. There are relatively few successful start-ups coming out of France so the entrepreneurial culture is not very strong. This is particularly evident in the area of middle management, where we had trouble finding people experienced with the global sales and marketing issues facing emerging companies.”

- **USS (Argentina)** — security alarm system installation and monitoring company:

“Out of necessity, Argentina probably has more entrepreneurs than most countries. Entrepreneurship is viewed favourably in society but not necessarily by the government.”

## 2.2 Quantifying the Strength of Entrepreneurial Ecosystems – Differences across Continents

Section 1 of this report outlines the entrepreneurial ecosystem survey whose responses are presented and analysed in Sections 2, 3 and 4. A key question asked was:

- “Which pillars of the entrepreneurial ecosystem are readily available in your region? Select only those with significant viability.”

Heat maps are used to highlight differences in pillar strength for a given set of regions. The approach uses three basic colours: blue, yellow and red. The darkest blue is for pillars with the highest percentage of respondents citing ready availability, while the darkest red is for pillars with the lowest percentage. Pillars with the median percentage are represented in yellow. Gradations between the two extremes of colour are also shown. As the percentage of ready availability declines, the blues get lighter and combine with yellow to form shades of green, and ultimately shades of yellow. At the other extreme, as the percentage of ready availability increases from the lowest levels, the reds get lighter and combine with the yellow to form orange, and ultimately shades of yellow.

Summary results are presented for eight regions representing six continents (North America, Europe, Asia, South/Central America with Mexico, Australia/New Zealand and Africa/Middle East) and two subsets of the US responses: (i) Silicon Valley/Bay Area (defined as the broader San Francisco Bay Area); and (ii) US - Other Cities. A separate analysis of Silicon Valley/Bay Area helps to compare its ecosystem with those of US - Other Cities and the other five continent groups presented. Silicon Valley is regarded by many observers as having the deepest and certainly most publicly recognized and successful entrepreneurial ecosystem.<sup>2</sup>

Exhibit 2-3 presents the entrepreneurial ecosystem heat map for each of the eight regions. The percentage of respondents citing ready availability of each pillar in their region is shown, as well as the average percentage for all pillars in each region. With eight regions and eight pillars, the higher the percentages, the stronger the ecosystem is perceived to be regarding ready availability. The average percentages for ready availability across the eight pillars for each continent/region in Exhibit 2-3 are:

Ready Availability of Eight Pillars	
By Continent/Region	Average
US – Silicon Valley/Bay Area	86%
US – Other Cities	71%
North America	77%
Europe	58%
Australia/New Zealand	56%
Asia	44%
Africa/Middle East	45%
South/Central America with Mexico	41%

The sizeable strength and depth of the Silicon Valley/Bay Area ecosystem is clearly showcased in Exhibit 2-3. For each of the eight pillars, Silicon Valley/Bay Area has the highest percentage of respondents indicating ready availability in their region. It is the only region in Exhibit 2-3 that has five of eight pillars in the 90%-100% ready availability range, with seven pillars registering 80% or more. The only pillar below the 80% benchmark is government & regulatory framework (67%); included in this pillar are taxation and financial incentives to set up businesses and hire employees. Business leaders in Silicon Valley often comment that both company and individual taxation rates in their region are excessive relative to other regions of the US. Officials from other US states are now regularly visiting Silicon Valley to highlight their lower taxation rates and lower regulatory costs.

Europe and Australia/New Zealand have no pillars with ready availability in the 90% range, but several pillars between 60% and 81%. The three strongest pillars for Europe are human capital/workforce (81%), accessible markets (72%) and education & training (60%). The three strongest pillars for Australia/New Zealand are human capital/workforce (81%), accessible markets (69%) and funding & finance (69%). Asia, South/Central America with Mexico, and Africa/Middle East have very few pillars above 50%; they are: Asia – human capital/workforce (73%) and accessible markets (68%); South/Central America with Mexico – human capital/workforce (71%) and accessible markets (62%); and Africa/Middle East – accessible markets (68%), funding & finance (55%) and government & regulatory framework (55%).

There are marked differences in strength across the pillars. North America always has the highest continent percentages. The ranges from highest percentage to lowest percentage are:

Strength of Ecosystem Pillars: Highest and Lowest Continents (Percentage of Respondents)				
Ecosystem Pillar	Benchmark: US – Silicon Valley/Bay Area	Highest Continent: North America	Lowest Continent	
Accessible markets	92%	85%	62%	South/Central America with Mexico
Human capital/workforce	93%	90%	50%	Africa/Middle East
Funding & finance	91%	82%	44%	Asia
Support systems/mentors	91%	78%	35%	South/Central America with Mexico
Government & regulatory framework	67%	62%	39%	Asia
Education & training	80%	70%	27%	South/Central America with Mexico
Major universities as catalysts	88%	75%	23%	Africa/Middle East
Cultural support	90%	75%	16%	South/Central America with Mexico

These percentages highlight the sizeable differences across regions in the ready availability of ecosystem pillars.

The Appendix in this section gives a breakdown of the components of each pillar outlined in Exhibit 2-2. When a participant to the survey ticked one or more of the ecosystem pillars as “readily available”, the survey then drilled-down to individual components of that pillar. There were three to six components for each pillar. The percentages reported in the Appendix are for those first ticking a particular pillar as readily available in their region; they are not percentages of all respondents. For those pillars where the percentage of respondents indicating ready availability is relatively low compared to other pillars, expressing the percentages based on all respondents would show sizeably lower numbers. The Appendix highlights differences in the relative importance of the components within each pillar for respondents choosing it as readily available. Summary observations from the Appendix are as follows:

- Accessible markets: Across all regions, the ready availability of the specified customers has higher percentages in domestic markets than in foreign markets. Government as a customer scores consistently below large companies and small/medium-sized companies in domestic and foreign markets.
- Human capital/workforce: The differences across regions for management talent and for employees with entrepreneurial company experience are more marked than the differences for technical talent.
- Funding & finance: The differences across regions in ready availability of venture capital are greater than differences for friends and family. Across each of the five primary components of funding & finance, Silicon Valley/Bay Area consistently has the highest percentage of ready availability.
- Support systems/mentors: Ready availability of mentors/advisers scores high percentages across many regions. Differences across regions are more pronounced for the ready availability of other components, such as professional services.

- Government & regulatory framework: Access to telecommunications/broadband and access to basic infrastructure have a higher percentage of ready availability across the regions than components such as tax incentives/rates and business-friendly legislation/policies, which are related to regulatory initiatives that could target entrepreneurial companies.
- Education & training: For those indicating this pillar as readily available, the strongest components are available workforce with pre-university education and available workforce with university education. There are vast differences across regions in ready availability of entrepreneur-specific training.
- Major universities as catalysts: The strongest component of this pillar is major universities promoting a culture of respect for entrepreneurship. There is far less agreement across regions in the ready availability of major universities playing a key role in providing graduates for new companies.
- Cultural support: There are large variances across regions in how respondents judged this pillar’s ready availability, ranging from 90% in Silicon Valley/Bay Area to 26% in Asia and 16% in South/Central America with Mexico. Of those selecting this pillar as readily available, there are dramatic differences in scores given to individual components. For example, tolerance of risk and failure ranges from 96% in Silicon Valley/Bay Area to 22% in South/Central America with Mexico. In all regions except the latter, there is a relatively high percentage for ready availability of success stories/role models.

### 2.3. Differences across Countries in Entrepreneurial Ecosystems

An analysis by continent can mask sizeable differences among areas and countries with it. This issue was addressed by breaking out North America into US – Silicon Valley/Bay Area and US – Other Cities. For the other continents in the survey, a breakout by country is possible for those countries with at least 15 respondents. Exhibit 2-4 presents the ready-availability percentages for each of the eight pillars and their combined average for US – Silicon Valley/Bay Area, US – Other US Cities and 10 separate countries. The average percentages for the countries are:

Ready Availability of all Eight Pillars:		
Continent/Region	Country	Average
North America	US	77%
Europe	UK	67%
	Switzerland	63%
	Ireland	55%
	Spain	50%
Asia	Singapore	56%
	Pakistan	46%
	India	37%
Australia/New Zealand	Australia	53%
South/Central America with Mexico	Mexico	45%

For the nine countries in Exhibit 2-4 (excluding US), the highest and lowest percentages for ready availability by pillar are:

**Ready Availability of Pillars:  
Highest and Lowest Countries (excluding US) – Percentage of Respondents**

Pillar	Benchmark: US – Silicon Valley/Bay Area	Highest Percentage	Lowest Percentage
Accessible markets	92%	89% Switzerland	52% Mexico
Human capital/workforce	93%	92% Pakistan	50% Singapore
Funding & finance	91%	68% UK	22% Pakistan
Support systems/mentors	91%	68% UK	28% India
Government & regulatory framework	67%	80% Singapore	28% India
Education & training	80%	62% Spain	22% India
Major universities as catalysts	88%	68% UK	11% India
Cultural support	90%	50% UK	17% India

As with the results by continent/region in Exhibit 2-3, the individual country results in Exhibit 2-4 reinforce the dramatic differences across the 10 countries in the ready availability of an entrepreneurial ecosystem's pillars.

## 2.4 Entrepreneurial Ecosystems for Published Rankings of Countries and Country Variables

There are multiple published rankings of countries based on variables from the Exhibit 2-1 eight-pillar framework. In this section, heat maps across different groups of countries are analysed using separate country rankings from Ernst & Young (EY) and the World Bank. These comparisons reinforce the continent and country conclusions about diversity in the ready availability of the entrepreneurial ecosystem's individual pillars.

EY has a long history of engagement with entrepreneurs around the globe. Its annual Entrepreneur of the Year Award is based on a year-long evaluation process that makes awards at the country level and culminates in a Global Entrepreneur of the Year Award. EY's entrepreneurial ecosystem has five categories:

**Ernst & Young's Entrepreneurial Ecosystem Categories**

- Access to funding
- Education
- Regulation and taxation
- Culture
- Coordinated support

Using variables representing each of these five categories, scores were computed for individual countries. Individual countries were then placed into one of four categories – A, B, C and D – with Group A the countries having the strongest ecosystems using the EY model, and Group D the countries with the weakest ecosystems. For the 45 countries represented in the sample of respondents, the countries ranked from No. 1 (Singapore) to No. 128 (Venezuela) in the EY country rankings, with the US ranked No. 7. Exhibit 2-5

shows the ecosystem heat maps for US – Silicon Valley/Bay Area, US – Other Cities and Groups A, B, C and D. The countries in Groups A to D are listed under Exhibit 2-5.

The same dramatic differences in ecosystems observed across continents/regions and countries are also apparent when countries are placed into different groupings using the EY five-category model. The average percentage of ready availability across the eight pillars for the six groups in Exhibit 2-5 range from 86% for US – Silicon Valley/Bay Area to 41% for Group D. Among Groups A to C, the percentages are: Group A (63%), Group B (51%) and Group C (50%).

Since 2004, the World Bank's Doing Business Project has published *Doing Business: Smarter Regulations for Small and Medium-Size Enterprises*, a yearly report attracting sizeable attention. In the 2013 report, the economies of 185 countries are ranked on an equally weighted average of ten topics related to ease of doing business:

**World Bank: Ease of Doing Business Ranking**

Starting a business	Dealing with construction permits
Getting electricity	Registering property
Getting credit	Protecting investors
Paying taxes	Trading across borders
Enforcing contracts	Resolving insolvency

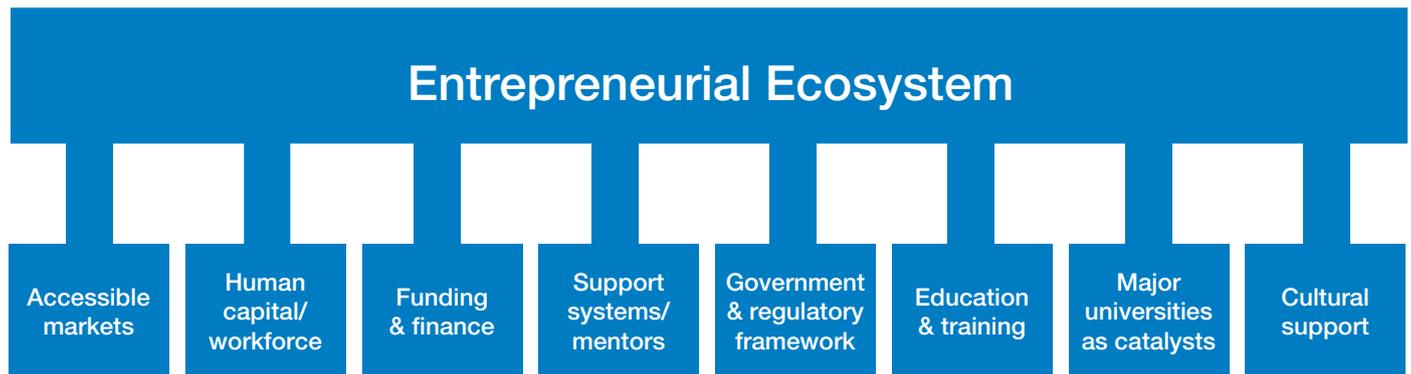
A high ranking means the regulatory environment is more conducive to the starting and operation of a local firm. The rankings, based on respondents from countries in this sample, range from Singapore (No. 1) to Venezuela (No. 180). Exhibit 2-6 shows similar patterns to those in Exhibit 2-5. This is due in part to significant overlap among the countries in Groups A to D for both the EY and World Bank rankings. The percentages for Groups A to D in the World Bank rankings are Group A (58%), Group B (56%), Group C (50%) and Group D (42%).

## Appendix: Readily Available Pillars and Individual Components of Entrepreneurial Ecosystems, by Continent/Region

Pillar	US – Silicon Valley/Bay Area	US – Other Cities	North America	Europe	Australia/New Zealand	Asia	Africa/Middle East	South/Central America with Mexico
Accessible markets	92%	83%	85%	72%	69%	68%	68%	62%
Human capital/workforce	93%	87%	90%	81%	81%	73%	50%	71%
Funding & finance	91%	76%	82%	57%	69%	44%	55%	45%
Support systems/mentors	91%	72%	78%	52%	58%	38%	36%	35%
Government and regulatory framework	67%	57%	62%	54%	54%	39%	55%	42%
Education & training	80%	62%	70%	60%	38%	34%	32%	27%
Major universities as catalysts	88%	67%	75%	52%	42%	30%	23%	27%
Cultural support	90%	64%	75%	33%	35%	26%	45%	16%
<b>Components: Accessible markets</b>								
Domestic market (DM) – Large companies as customers	77%	71%	75%	68%	72%	51%	73%	64%
DM – Small/medium-sized companies as customers	84%	77%	81%	71%	94%	73%	60%	88%
DM – Governments as customers	50%	50%	50%	41%	39%	19%	53%	30%
Foreign market (FM) – Large companies as customers	42%	33%	41%	59%	33%	44%	53%	27%
FM – Small/medium-sized companies as customers	33%	31%	33%	50%	50%	40%	27%	27%
FM – Governments as customers	22%	18%	21%	24%	22%	5%	7%	12%
Other	7%	13%	9%	7%	0%	12%	13%	6%
<b>Components: Human capital/workforce</b>								
Management talent	94%	83%	87%	80%	80%	51%	36%	64%
Technical talent	95%	88%	91%	91%	90%	77%	55%	90%
Entrepreneurial company experience	91%	65%	76%	50%	50%	26%	55%	26%
Outsourcing availability	74%	60%	65%	56%	45%	44%	45%	38%
Access to immigrant workforce	48%	31%	40%	36%	25%	18%	45%	8%
Other	1%	5%	3%	1%	5%	8%	0%	3%
<b>Components: Funding &amp; finance</b>								
Friends and family	80%	72%	75%	62%	67%	55%	58%	71%
Angel investors	91%	74%	82%	70%	72%	53%	42%	63%
Private equity	71%	62%	68%	63%	56%	60%	50%	50%
Venture capital	87%	70%	79%	67%	44%	53%	42%	50%
Access to debt	63%	53%	58%	42%	39%	55%	33%	38%
Other	5%	5%	6%	14%	6%	9%	17%	4%
<b>Components: Support systems/mentors</b>								
Mentors/advisers	95%	91%	94%	89%	93%	93%	88%	89%
Professional services	91%	86%	89%	82%	86%	62%	75%	58%
Incubators/accelerators	77%	65%	71%	63%	50%	40%	50%	42%
Network of entrepreneurial peers	95%	80%	88%	70%	79%	74%	75%	63%
Other	1%	0%	1%	2%	0%	0%	0%	0%
<b>Components: Government &amp; regulatory framework</b>								
Ease of starting a business	88%	82%	84%	73%	100%	81%	50%	52%
Tax incentives	32%	29%	32%	48%	50%	57%	42%	19%
Business-friendly legislation/policies	44%	41%	42%	48%	50%	48%	33%	52%
Access to basic infrastructure	96%	95%	95%	96%	100%	69%	83%	71%
Access to telecommunications/broadband	98%	93%	95%	96%	86%	90%	92%	81%
Access to transport	85%	86%	86%	91%	100%	79%	42%	62%
Other	1%	1%	2%	1%	0%	2%	17%	10%
<b>Components: Education &amp; training</b>								
Available workforce with pre-university education	63%	70%	66%	78%	100%	66%	71%	73%
Available workforce with university education	99%	98%	98%	95%	88%	91%	100%	93%
Entrepreneur-specific training	72%	52%	62%	37%	38%	20%	29%	20%
Other	1%	1%	1%	1%	0%	0%	14%	0%
<b>Components: Major universities as catalysts</b>								
Promoting a culture of respect for entrepreneurship	96%	84%	90%	69%	80%	65%	80%	87%
Playing a key role in idea-formation for new companies	91%	70%	81%	54%	70%	35%	20%	47%
Providing graduates for new companies	92%	87%	90%	81%	70%	65%	40%	73%
Other	1%	1%	1%	0%	0%	3%	0%	0%
<b>Components: Cultural support</b>								
Tolerance of risk and failure	96%	82%	89%	27%	38%	36%	56%	22%
Preference for self-employment	72%	63%	68%	35%	75%	46%	56%	56%
Success stories/role models	96%	88%	92%	69%	75%	82%	78%	33%
Research culture	73%	58%	67%	62%	50%	14%	22%	11%
Positive image of entrepreneurship	99%	92%	96%	71%	88%	79%	89%	78%
Celebration of innovation	92%	82%	87%	63%	75%	46%	56%	44%
Other	1%	0%	1%	2%	0%	0%	0%	0%

## Exhibit 2-1: The Eight Pillars of an Entrepreneurial Ecosystem

This model builds on the previous work on entrepreneurial ecosystems by EY, the Organisation for Economic Co-operation and Development (OECD), and Professor Daniel Isenberg (Babson College)



## Exhibit 2-2: Components of Entrepreneurial Ecosystem Pillars

### Accessible markets

- Domestic market:
  - Large companies as customers
  - Small/medium-sized companies as customers
  - Governments as customers
- Foreign market:
  - Large companies as customers
  - Small/medium-sized companies as customers
  - Governments as customers

### Funding & finance

- Friends and family
- Angel investors
- Private equity
- Venture capital
- Access to debt

### Government & regulatory framework

- Ease of starting a business
- Tax incentives
- Business-friendly legislation/policies
- Access to basic infrastructure
- Access to telecommunications/broadband
- Access to transport

### Major universities as catalysts

- Promoting a culture of respect for entrepreneurship
- Playing a key role in idea-formation for new companies
- Playing a key role in providing graduates for new companies

### Human capital/workforce

- Management talent
- Technical talent
- Entrepreneurial company experience
- Outsourcing availability
- Access to immigrant workforce

### Support systems/mentors

- Mentors/advisers
- Professional services
- Incubators/accelerators
- Network of entrepreneurial peers

### Education & training

- Available workforce with pre-university education
- Available workforce with university education
- Entrepreneur-specific training

### Cultural support

- Tolerance of risk and failure
- Preference for self-employment
- Success stories/role models
- Research culture
- Positive image of entrepreneurship
- Celebration of innovation

### Exhibit 2-3: Readily Available Pillars of an Entrepreneurial Ecosystem: Heat Map for Continents/Regions

Pillar	US – Silicon Valley/Bay Area	US – Other Cities	North America	Europe	Australia/ New Zealand	Asia	Africa/Middle East	South/Central America with Mexico
Accessible markets	92%	83%	85%	72%	69%	68%	68%	62%
Human capital/workforce	93%	87%	90%	81%	81%	73%	50%	71%
Funding & finance	91%	76%	82%	57%	69%	44%	55%	45%
Support systems/mentors	91%	72%	78%	52%	58%	38%	36%	35%
Government & regulatory framework	67%	57%	62%	54%	54%	39%	55%	42%
Education & training	80%	62%	70%	60%	38%	34%	32%	27%
Major universities as catalysts	88%	67%	75%	52%	42%	30%	23%	27%
Cultural support	90%	64%	75%	33%	35%	26%	45%	16%
Average score	86%	71%	77%	58%	56%	44%	45%	41%

#### Heat Map Key

- Highest % of respondents citing "ready availability"
- Approximately Half % of respondents citing "ready availability"
- Lowest % of respondents citing "ready availability"

### Exhibit 2-4: Readily Available Pillars of an Entrepreneurial Ecosystem: Heat Map for Top 10 Countries and Two Regions

Pillar	US – Silicon Valley/Bay Area	US – Other Cities	United States	United Kingdom	Switzerland	Ireland	Spain	Singapore	Pakistan	India	Australia	Mexico
Accessible markets	92%	83%	86%	82%	89%	79%	67%	70%	78%	72%	71%	52%
Human capital/ workforce	93%	87%	90%	79%	67%	74%	90%	50%	92%	72%	79%	65%
Funding & finance	91%	76%	82%	68%	61%	53%	43%	65%	22%	44%	67%	52%
Support systems/ mentors	91%	72%	79%	68%	56%	53%	29%	40%	58%	28%	54%	48%
Government & regulatory framework	67%	57%	61%	57%	61%	63%	48%	80%	31%	28%	54%	52%
Education & training	80%	62%	70%	61%	61%	37%	62%	40%	39%	22%	33%	30%
Major universities as catalysts	88%	67%	75%	68%	67%	37%	38%	65%	22%	11%	38%	35%
Cultural support	90%	64%	75%	50%	39%	42%	24%	40%	25%	17%	29%	22%
Average score	86%	71%	77%	67%	63%	55%	50%	56%	46%	37%	53%	45%

#### Heat Map Key

- Highest % of respondents citing "ready availability"
- Approximately Half % of respondents citing "ready availability"
- Lowest % of respondents citing "ready availability"

### Exhibit 2-5: Readily Available Pillars of an Entrepreneurial Ecosystem: Heat Map for Ernst & Young-based Ecosystems

Pillar	US – Silicon Valley/ Bay Area	US – Other Cities	Group A	Group B	Group C	Group D
Accessible markets	92%	83%	77%	66%	63%	68%
Human capital/workforce	93%	87%	74%	74%	78%	76%
Funding & finance	91%	76%	62%	60%	53%	40%
Support systems/mentors	91%	72%	55%	49%	40%	39%
Government & regulatory framework	67%	57%	68%	48%	52%	31%
Education & training	80%	62%	56%	48%	47%	32%
Major universities as catalysts	88%	67%	65%	40%	35%	23%
Cultural support	90%	64%	43%	26%	31%	21%
Average score	86%	71%	63%	51%	50%	41%

#### Heat Map Key

- Highest % of respondents citing "ready availability"
- Approximately Half % of respondents citing "ready availability"
- Lowest % of respondents citing "ready availability"

## Countries for Groups A-D of Exhibit 2-5

Ernst & Young-based Ecosystems: Countries by Group			
A	B	C	D
Canada	Australia	Chile	Argentina
Finland	Austria	China	Brazil
Germany	Belgium	France	Colombia
Hong Kong SAR	Denmark	Ireland	Ghana
Netherlands	Japan	Israel	Greece
Singapore	Malaysia	Italy	India
Sweden	New Zealand	Korea, Rep.	Indonesia
Switzerland	Norway	Portugal	Mexico
Taiwan	Saudi Arabia	South Africa	Pakistan
United Kingdom	United Arab Emirates	Spain	Peru
			Philippines
			Poland
			Russian Federation
			Thailand
			Turkey
			Venezuela
			Vietnam

## Exhibit 2-6: Readily Available Pillars of an Entrepreneurial Ecosystem: Heat Map for World Bank-based Ecosystems

Pillar	US – Silicon Valley/ Bay Area	US – Other Cities	Group A	Group B	Group C	Group D
Accessible markets	92%	83%	71%	77%	61%	70%
Human capital/workforce	93%	87%	72%	72%	77%	81%
Funding & finance	91%	76%	61%	58%	51%	41%
Support systems/mentors	91%	72%	54%	47%	43%	38%
Government & regulatory framework	67%	57%	63%	58%	53%	26%
Education & training	80%	62%	49%	48%	49%	34%
Major universities as catalysts	88%	67%	55%	48%	39%	23%
Cultural support	90%	64%	38%	40%	25%	22%
Average score	86%	71%	58%	56%	50%	42%

### Heat Map Key

- Highest % of respondents citing "ready availability"
- Approximately Half % of respondents citing "ready availability"
- Lowest % of respondents citing "ready availability"

## Countries for Groups A-D of Exhibit 2-6

World Bank-based Ecosystems: Countries by Group			
A	B	C	D
Australia	Canada	Austria	Argentina
Denmark	Germany	Belgium	Brazil
Finland	Ireland	Chile	China
Hong Kong SAR	Japan	Colombia	Ghana
Malaysia	Saudi Arabia	France	Greece
New Zealand	Sweden	Israel	India
Norway	Switzerland	Mexico	Indonesia
Singapore	Taiwan	Netherlands	Italy
Republic of Korea	Thailand	Peru	Pakistan
United Kingdom	United Arab Emirates	Portugal	Philippines
		South Africa	Poland
		Spain	Russian Federation
			Thailand
			Turkey
			Venezuela
			Vietnam



# Section 3: The Relative Importance of Entrepreneurial Ecosystem Pillars to Entrepreneurs: The Big Three of Accessible Markets, Human Capital/ Workforce and Funding & Finance

## Executive Summary

The important contributions that a strong entrepreneurial ecosystem provides to a region are driven by a relatively small percentage of companies that achieve high and sustainable scaling. Entrepreneurs identify three pillars of the entrepreneurial ecosystem as main contributors to their companies' achieving high-scaling status: **accessible markets, human capital/ workforce** and **funding & finance**. These three major pillars are not restricted to a geographically defined ecosystem, such as a country, state, province or city. Attempts by entrepreneurs or policy-makers to strengthen or supplement these pillars can include initiatives either within an ecosystem's borders or beyond them. To generate revenues, ventures benefit from a foundation of accessible markets. Without a laser focus on this revenue-based pillar, many starting ventures will likely fail to scale. Companies positioned to address large or rapidly growing markets benefit from "sailing with the wind in their sails". And, with access to broad and deep human resources, early-stage companies can more easily attract and retain the best talent at all levels. This access can be within a given geographical region and even augmented from outside. The funding & finance pillar has varying levels of strength across many regions. This variation impacts the scaling ability of companies that need additional cash infusions for investment in continuing growth opportunities. Many of the eight pillars examined in this section play an important role in creating a new-business culture. However, the three major pillars of the entrepreneurial ecosystem ultimately determine how many start-ups are able to sizeably scale in a sustainable way.

### 3.1 The Scaling Imperative: The Dominant Contribution of the Few to the Growth of the Early-stage Company Sector

An important characteristic of a thriving ecosystem for early-stage companies is having multiple companies scaling in a sustainable way. Evidence across many countries indicates that a small percentage of early-stage companies contribute a disproportionate amount of the gains accruing from their sector. Exhibit 3-1 reinforces this finding from an earlier World Economic Forum report on global entrepreneurship.<sup>3</sup> The evidence relates to the contribution made by the top small percentage of early-stage companies to gross revenue and gross job creation from this sector. Exhibit 3-1 focuses on revenue and job creation in Year 5 following start-up for over 360,000 companies from 10 countries (Belgium, Finland, France, Italy, Norway, Spain,

Sweden, United Kingdom, Japan and South Korea), chosen for having available revenue and job data from their start-ups' early years. Companies in each country were ranked from the highest revenue contributor or "creator" to the highest revenue "destroyer" from Year 4 to Year 5. The gross revenue creation for the sector is the aggregate of all those companies with positive revenue gains from Year 4 to Year 5. This approach was replicated independently using headcount data for each company. The percentage of gross sector revenues and jobs created by the top tiers of creator early-stage companies are:

Gross Sector Revenue and Job Creation by Tier of Early-stage Companies<sup>5</sup>

Creation Sector	Top 1% Creators	Top 5% Creators	Top 10% Creators
Revenues	44%	72%	84%
Jobs	40%	67%	80%

Early-stage companies typically do not experience immediate and continual growth on a year-to-year basis. In fact, an entrepreneur sees less value in an ecosystem that helps a start-up generate growth in Years 1 and 2 than one that supports sustained growth over the long term. Many entrepreneurs who experience sizeable scaling in their early years, subsequently encounter daunting challenges and often significant revenue or job losses ("destruction") thereafter. Exhibit 3-2 uses the same methodology underlying Exhibit 3-1 to focus on gross sector revenue and job destruction:

Gross Sector Revenue and Job Destruction by Tier of Early-stage Companies

Destruction Sector	Top 1% Destroyers	Top 5% Destroyers	Top 10% Destroyers
Revenues	53%	81%	91%
Jobs	46%	74%	87%

The significant contribution from the very small percentage of high-scaling companies highlights the importance of providing insight into how entrepreneurs view the relative importance of an entrepreneurial ecosystem's pillars to the growth and success of their companies.

## 3.2 The Relative Importance of Different Pillars in the Entrepreneurial Ecosystem

The same respondents summarized in Section 2 were asked which of the eight pillars “were most important to the growth/success of your company.” Section 2 reported sizeable heterogeneity across continents and countries in the ready availability of an ecosystem’s pillars. However, respondents expressed significant homogeneity in how they view pillars considered of high value to the growth/success of their companies versus those pillars of low value. The evidence draws on two key sources:

1. The above-mentioned survey responses.
2. Executive case studies from this report’s Appendix. These cases include multiple quotations from responses to a standard set of questions relating to company growth dynamics and the role of ecosystems in that growth.

### 3.2.1. Quantifying the relative importance of ecosystem pillars – the Big Three

Section 2 presented heat maps for the ready availability of different pillars in four different ecosystem groups. Heat maps for these same four groups, but focusing on the relative importance of different pillars to the growth and success of companies, are shown in:

- Exhibit 3-3: by continent/region
- Exhibit 3-4: by country
- Exhibit 3-5: an Ernst & Young (EY) ranking of country ecosystems using five variables (access to funding, education, regulation and taxation, culture, and coordinated support)
- Exhibit 3-6: a World Bank ranking of countries based on “ease of doing business”, and represented by an equally weighted average based on the following 10 variables: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency

The heat map can take relevant cells from each Exhibit and rank them from the highest to lowest percentage. For Exhibit 3-3 the range is 74% to 0%. Using a basic three-colour coding (blue, yellow and red), the cells are shaded from dark blue for highest percentage to dark red for lowest. In effect, shading goes from dark to light blue, then in combinations of light blue and yellow yielding shades of green, then yellow, orange and finally red. The dominant patterns in Exhibits 3-3 to 3-6 are the prevalence of blue and green for the top three pillars (accessible markets, human capital/workforce and funding & finance), and orange and red for the bottom three (education & training, major universities as catalysts and cultural support).

An equally weighted average for each ecosystem pillar (each row) in Exhibits 3-3 to 3-6 can be computed. The following table summarizes these averages for the four different respondent groupings: continent, country, EY ecosystem groups and the World Bank ecosystem groups.<sup>4</sup> The consistent pattern across these exhibits is that three of the eight pillars have sizeably higher percentages than the others; respondents consistently view these three as being most important to the growth/success of their company: accessible markets, human capital/workforce and funding & finance.

Most Important Pillars for Four Respondent Groupings

Pillar	Average Percentages for :			
	Continent/ Region	Country	EY Ecosystem	World Bank Ecosystem
Accessible markets	60%	59%	58%	58%
Human capital/ workforce	62%	62%	64%	65%
Funding & finance	59%	56%	58%	58%
Support systems/ mentors	26%	28%	26%	26%
Government & regulatory framework	18%	22%	18%	18%
Education & training	15%	13%	15%	15%
Major universities as catalysts	8%	9%	9%	9%
Cultural support	18%	15%	17%	17%

Using quotations from entrepreneurs around the globe, Section 3.3 helps to illustrate key aspects of how the pillars have contributed to scaling their companies.

## 3.3 Entrepreneur Viewpoints on the Role of Ecosystem Pillars in Promoting Company Growth

The Appendix in this report presents 43 executive case studies drawn from 23 countries across six continents. Not surprisingly, quotations frequently relate to the three major pillars documented as “most important” in Exhibits 3-3 to 3-6.

### 3.3.1 Accessible markets

The accessible markets pillar can have both domestic and global market aspects. The Appendix in this section provides a breakout of the pillar’s components and the percentage of respondents viewing these as important to their company’s growth. In the majority of cases and consistent for all continents, early-stage companies focus on their domestic market and have either not sought or delayed seeking revenues in foreign markets. However, in some cases ventures are “born global” – foreign markets are the relevant ones from the outset (for example, technology ventures in Israel). Section 4 discusses this important area further.

The following quotations from executive case studies illustrate both domestic and global aspects of the accessible markets pillar:

- **AMC Juices (Spain)** — processor of chilled, fresh juices:

“There was clearly an emerging, growing demand for high-quality chilled juices from the European consumer. AMC Juices was located, as a member of the European Union, inside of a very affluent and large, accessible market. The European consumer wished and could afford to trade-up in their choice of fruit juices. Being inside the European Union, with no commercial barriers and a common currency, has indeed been an extremely favourable framework for the expansion of the business.”

- **Delicious Bakery (Egypt)** — provider of high-end bakery products sold through retail and wholesale outlets:

“In 2008, the market in Egypt was underserved and we had a first-mover advantage. We grew to 15 stores and there is still room for growth. Egypt has a population of 90 million, and there is a growing urbanization trend with people consuming a lot of food outside of their homes.

Disposable income is rising, with high-income earners looking to spend on quality products rarely found and maintained in Egypt. We focused on the local market to serve this need. We are now looking to establish this presence in other markets, such as Dubai, as we started to see similar gaps that can be filled.”

- **Hangzhou Goudian Dam Safety Engineering (China)** — provider of high-tech products for hydropower dams:

“According to the China Electricity Council, hydroelectric power is currently the largest source of renewable energy in China. It is estimated that China’s installed capacity has exceeded that of Brazil, the USA and Canada combined. More importantly, this sector is expected to be on a continued trajectory of increased growth as investment in hydropower is one of China’s key areas of focus. By 2015, China’s hydropower installations are targeted to reach around 325 gigawatts, creating significant market opportunities for our company.”

- **NEXON (South Korea)** — leading worldwide developer and publisher of free-to-play (F2P) online games:

“The PC market was growing rapidly, and users were eager for more entertainment. Our games were accessible online for the PC platform which at the time was quickly becoming a home device, and appealed to both genders and diverse age groups. Early penetration of broadband and the popularity of PC cafes in Korea also helped. Eventually, our conversion to a free-to-play model became a major growth accelerator because it appealed to a wider audience, and enabled us to aggressively expand into foreign markets early.”

- **OpenDNS (USA)** — leading provider of cloud-delivered Web security services:

“As we became more and more sophisticated at detecting and blocking malicious customers from using our services, they would simply hop to another, less well-maintained service. In effect, policing our virtual neighbourhood simply moved the bad actors somewhere else. OpenDNS was created to address that by moving the security and protection to the perimeter and edges of the Internet, where companies connect to the Internet. The rise of malicious attacks on businesses, the rise of mobile devices, and the shift to cloud computing all have created massive transformations in how IT [information technology] organizations protect their users, resources and data. We have grabbed onto that trend and it’s been a rocket ship ever since.”

- **TaKaDu (Israel)** — provider of software promoting efficient water usage:

“The market need is huge and global, especially when considering the inadequate innovation in this field during the past few decades. There is an enormous and growing global need for solutions to make water supply sustainable. As an indication, in its Global Risks 2013 report, the World Economic Forum ranked ‘water supply crises’ second out of 50 in terms of impact. Insufficient water supply can trigger food shortages, demographic changes, political strife and even armed conflict. On the practical level, while the demand for water is continuously growing, more water is wasted through leakage as water infrastructure ages and deteriorates. Water utilities worldwide suffer from a deteriorating infrastructure in drastic need of capital. This forms a great opportunity for

technologies that provide superior operational performance at lower costs. This is one of the key growth drivers for TaKaDu, which by using a software-as-a-service (SaaS) delivery model, helps water utilities to increase their operational efficiency while involving no upfront investment or capital cost.”

### 3.3.2 Human capital/workforce

Human capital/workforce is consistently ranked as a pivotal ecosystem pillar for company growth. For those selecting this pillar, management talent and technical talent rank high among all the pillar’s components listed in the Appendix. Examples of quotations in the executive case studies include:

- **Green Biologics (UK)** — industrial biotechnology company:

“Our workforce is extremely multinational and multicultural. This is perhaps a function of the area around Oxford where we are located being a magnet for scientists, and the UK’s historic openness to scientific researchers from overseas. This has been a real advantage in allowing the company to have a culturally positive approach in the countries where it operates. This has been reinforced early on by having a business development person (hired locally) in each country. It has helped that I and other members of the team have had extensive international experience in the target markets and so are able to draw on their previous networks in these areas.”

- **Hangzhou Goudian Dam Safety Engineering (China)** — provider of high-tech products for hydropower dams:

“Our workforce is composed of many top-tier engineers and experts in the field of seepage prevention and leakage treatment materials. They are the key driving force behind the company’s R&D activities. We truly understand the importance of human capital and talents in shaping the future of our company and in enabling us to compete in the global arena, so we reach out to the best researchers and engineers in the field and are willing to provide highly competitive compensation packages in order to attract and retain them.”

- **PCH International (Ireland and China)** — supply-chain provider of consumer electronics products:

“Having a skilled workforce in China is probably one of the greatest assets you can have. China is not about cheap labour; in fact labour costs on the products we make are typically a very small percentage of the overall amount, it’s down to the skilled workforce. As China has evolved over the last 15 years, so has the workforce. Shenzhen used to be the place to make cheap products. Then it became a cheap place to make products. Now it’s the only place to make products that we work on. We are moving from “Made in Shenzhen” to “Made by Shenzhen” to “Designed by Shenzhen”. Poor quality is now the exception rather than the rule. The new China lies in design, quality, clean technology, innovation, and in setting new world standards for global business. Finding the right people was a key growth accelerator. For example, in the early days of PCH, one of our core team members, who was very well connected and had deep knowledge of the PC industry in Taiwan, was very helpful in expanding the company’s supply base. As more local staff, myself included, joined the company, the operation started to be managed locally instead of remotely from Ireland.”

Silicon Valley is often seen as providing fast-scaling companies with broad access to management and technical talent. However, several quotations from our executive case studies highlight the multiple human capital challenges facing this region, including high labour costs and potentially lower employee loyalty. Companies facing human capital shortages in one region can try to augment their human capital by either recruiting immigrant labour where permissible, or outsourcing to or setting up operations in other regions.

- **LoopUp (UK)** — provider of cloud-based solutions for business conference calling and online meetings:

“We have a great nucleus in our engineering team: team members who have been with us for many years now. However, growing a product development team around them in our San Francisco office has come with challenges. Ironically the Silicon Valley ecosystem has been as much a hindrance as an enabler in this respect, with its very competitive employment market. Hiring top talent with experience is difficult; even hiring junior talent is expensive. We’ve dealt with the challenge in two ways, both with international components. First, one of our core team members returned to his home country of Indonesia, and we’ve built an outsourced development strategy around him. He is a critical lynchpin of this remote team back to our core San Francisco development operations, our product and our methods. Second, I founded the ‘Silicon Valley Internship Programme’ (SVIP), which offers UK software engineering graduates a year’s experience in Silicon Valley. Participants work full-time with sponsoring technology companies, with the aim of inspiring them to return to the UK with the skills and confidence to do a start-up or work in an early-stage tech company. LoopUp is one of nine companies taking a total of 15 UK college graduating students in the programme’s inaugural year.”

- **OpenDNS (USA)** — leading provider of cloud-delivered Web security services:

“Frankly, starting a company in Silicon Valley, despite its many benefits, is one of the most expensive places to try and start a business. And it’s not just expensive due to cost, but due to the distraction cost, the challenges in hiring great people, and finding office space. It’s in high demand for a reason; starting elsewhere would have provided many of these other benefits at a much lower friction point. The cost of hiring is high resulting from the large full-time recruiting staff we have to employ, even for a relatively small company. We have to compete not only with the big tech companies like Google and Microsoft, but also hot start-ups like Square and Box, so the effort required to build a world-class organization is large and occupies a huge amount of everyone’s time.”

Human capital in some regions can require substantial in-house training to make it an important contributor to company growth:

- **Pronto Promo (Pakistan)** — promotional products company:

“One challenge is the lack of trained workforce and management personnel. Labour is not cheap in Pakistan, it is actually very expensive. The lack of education and poor vocational training makes them very expensive. It is very difficult to train people without basic literacy and numeracy. On the workforce end, we have been successful in implementing an effective training system

particularly when it comes to assembly-line products, but there are serious gaps in technical areas. The poor quality of training imparted at vocational training institutes is a serious handicap. A bigger challenge is capacity-building at managerial levels. The quality of education does not equip people coming in at executive positions for any form of critical thinking. They do not possess the right skill sets and domain knowledge that can help them grow in an organization.”

- **USS (Argentina)** — security alarm system installation and monitoring company:

“Availability of workforce is a very challenging area for us particularly in the physical guard business, as the level of education of the candidates to be guards is very limited. We have an intense training programme which we hope adequately makes up for the low level of education. However, this training is costly and time consuming during which time we are not billing hours for the guards being trained.”

### 3.3.3 Funding & finance

Many ventures require front-end funding to build scale quickly. The Appendix outlines some important differences across continents/regions among those selecting funding & finance as the “most important” pillar for their company’s growth. For example, angel investors and venture capital were the two dominant financing components in the Silicon Valley/Bay Area. In contrast, friends and family was the most important investment source in Asia, Africa/Middle East and South/Central America with Mexico.

Quotations from the executive case studies provide multiple examples of available financing as pivotal to growth, and a shortage of financing as a growth inhibitor:

- **Aemetis (USA, India)** — renewable fuels and biochemical company:

“In 2003, I had co-founded an ethanol company called Pacific Ethanol which had been very successful in raising US\$ 570 million of equity and debt capital, including a US\$ 85 million equity funding by Bill Gates’ Cascade Investments. By 2006, Pacific Ethanol had a market valuation of more than US\$ 1 billion.”

- **Interpark (South Korea)** — online auction and shopping mall:

“The most important factor in the surrounding ecosystem was a funding system for start-up companies to secure their operating capital. We went public in 1999 through KOSDAQ [Korean Securities Dealers Automated Quotations], which was started in July 1996. We could lighten our financial burden and conduct a sustainable business through the money raised from KOSDAQ, and also investors wanted to invest in us under the condition of being listed on KOSDAQ. It emphasizes protecting investors now. At that time, it focused on the potential growth and support for companies.”

- **PCH International (Ireland and China)** — supply-chain provider of consumer electronics products:

“One of the key accelerators launching PCH from around a US\$ 100 million revenue company in 2008 to over approximately US\$ 1 billion in 2013 was the closing of its US\$ 21 million Series A venture funding in September of 2008.”

- **TaKaDu (Israel)** — provider of software promoting efficient water usage:  
 “The geographical location also played a role in the initial stages of the company. Seeking investors for the first funding round, we have benefited from the developed VC [venture capital] community and investment industry (lawyers, CPAs [certified public accountants]) in Israel. In addition, being based in Israel, with a strong personal network, it was relatively easy to find top-notch researchers and developers to join the venture and develop the solution.”

- **Wildfire (USA)** — social media marketing platform:  
 “We bootstrapped the business from inception until the end of 2008. At that time, we were awarded a US\$ 250,000 grant from Facebook, which was enough for us to hire a couple more developers, launch the product out of beta and get to profitability without raising money. As a profitable company, there were all kinds of funding available to us and we raised a Series A through a venture capital firm in the area. We felt great about the team the VC [firm] had and also it seemed like a good fit. When we changed the business model, we raised an insider Series B.”

There are also many quotations indicating that limited or lack of financing inhibited a company’s early-stage growth:

- **Pronto Promo (Pakistan)** — promotional products company:  
 “Pronto Promo’s biggest challenge has been the lack of funding. There are very limited financing options available to entrepreneurs in Pakistan. There is no cash-flow-based lending in this economy. Here, you have to be born into money to make money. There was never enough running finance (R/F) available to support our operations. We have historically given between 10 to 15 times turnover against the R/F facility available. Despite all this, we can never get funds on time... The government regulations fuelled the problem. Prudential regulations of the State Bank of Pakistan (SBP) do not allow cash-flow-based lending. There can be no clean line of credits. The only time SBP allows companies to export against purchase order (PO) is when the payment is made against documents. No multinational is interested in taking this headache.”
- **QC (Mexico)** — micro- and small-business loans company for low-income urban communities:  
 “One of the obstacles we faced in the beginning was a lack of access to capital. Despite the fact that microfinance can have a tremendous impact to alleviate poverty, sources for funding were limited. We looked at development banks in Mexico and their funds were scarce or non-existent back in 2005. In the international markets, Mexico was not on the priority list for many microfinance funds as they were focusing on projects in other parts of the world. Our industry is capital intensive and since we are not a bank, we are not allowed to get deposits from our customers. Access to funding through private investors who were willing to endorse QC has been crucial for our growth.”

- **ViiCare (China)** — provider of information technology solutions for hospitals:  
 “Another obstacle we faced was a lack of access to capital. The healthcare sector in China is subject to a high entry barrier, high risks, strict government regulation, and underinvestment by government in basic infrastructure. As a result, start-up companies in the healthcare sector generally have a longer lead time to revenues and lower growth rates compared to, say, Internet companies. Consequently, venture capital firms that aim for quick exits and high returns are generally not interested in healthcare ventures.”

### 3.3.4 Support systems/mentors

Respondents ranked the support systems/mentors pillar fourth in being most important to their companies’ growth. Within this pillar, respondents often selected two components as most important: mentors/advisers and network of entrepreneurial peers (see Appendix). Quotations from the executive case studies illustrate diversity in this area:

- **Arteris (France)** — semiconductor chips provider, including network-on-chip (NoC) solutions:  
 “There are a number of experienced European semiconductor executives advising Arteris, and we particularly benefited from advice of Philippe Geyres, one of our board members, who originally ran about half of STMicroelectronics.”
- **Pronto Promo (Pakistan)** — promotional products company:  
 “Availability of mentors is a factor that has helped me chase my dream. My teacher and MBA project adviser at LUMS has been a great mentor. Every time I thought I had reached a dead end, he was someone I turned to. He gave me ideas, insight and considered opinion that helped me take up the challenges head on. The physical proximity of the school also helped me reach out to him easily and frequently. My husband has been a coach and mentor to me for the past four years. Having been at the helm of affairs of large organizations, he played a pivotal role in Pronto Promo’s restructuring and helped me to focus more on the bigger picture. He has been my biggest constructive critic and supporter.”
- **SouthWestern (Ireland)** — outsourced business processing company:  
 “There was good availability of mentors and advisers, including the former CEO of SWS and state agencies.”
- **Taste Holdings (South Africa)** — vertically integrated franchiser with strong brand focus:  
 “If I want to credit one thing that enabled us to achieve the relative success we’ve had, it would be that in the past 13 years we have always had, and I have personally had, an enormously strong circle of advisers and mentors.”

In some emerging industries, domain experts may be limited so that mentors may come from industries with related operational challenges:

- **NEXON (South Korea)** — leading worldwide developer and publisher of free-to-play (F2P) online games:  
 “There were not many people we could turn to for advice or help as the PC [personal computer] game business was just emerging. Pre-1990s, South Korea was centred on conglomerate corporations with strict hierarchies and traditional industries. We instead turned our attention to other companies, which oftentimes did not provide the answer but helped us find one. Data and documents from Japan’s Square and other companies provided a surprising plethora of information, such as the types of incentive programmes or policies companies adopted as they grew. We needed to look beyond the PC gaming scope, to packaged games and other industries.”

### 3.3.5 Government & regulatory framework

On average, respondents ranked the government & regulatory framework pillar fifth in being most important to the growth of their companies. The Section 3 Appendix shows this pillar’s diverse set of components. It includes ease of starting a business, tax incentives, business-friendly legislation/policies, access to basic infrastructure (such as water and electricity), access to telecommunications/broadband and access to transport. Ease of starting a business is often ranked high among the components. Quotations from the executive case studies illustrate how this pillar can help to either accelerate or inhibit growth. Often there are elements of both for one company:

- **Aemetis (USA, India)** — renewable fuels and biochemical company:  
 “The adoption by India of a 5% biodiesel blending target, a tariff and a favourable tax rate for biodiesel were significant factors in our decision to construct a biodiesel plant in India. The lower cost of construction and operation of the 50 million gallon-per-year plant has enabled us to be competitive in supplying Europe with biofuels from our Indian plant. The most frustrating part of operating in India is the inability to achieve logical, beneficial, productive goals due to bureaucratic delays and inefficiency. These delays are often deliberate, with the intention of receiving payment from us before issuing a needed licence or approval. The international finance community should understand that systemic failure to enforce the rule of law against government bureaucrats is the primary reason for the inability of India and other underdeveloped countries to achieve economic progress.”
- **Brochas y Productos (BYP) (Mexico)** — paint applicator company:  
 “Another challenge comes from infrastructure. As we ship from our warehouse to every state in the country we experience first-hand the great disparity in infrastructure available in our country. It takes some shipments less than 24 hours to be delivered, but more than five days for others going to the most remote places. Therefore, customer service is critical to manage our logistics and post-sales process. Recently, security has also been an issue as crime increases the cost of doing business. We must invest in security measures, and insurance premiums skyrocket.”

- **Galaxy Desserts (USA)** — producer of baked goods and all-natural desserts:  
 “Regulation has also been a challenge. The California workers’ compensation system, as one example, is an extraordinarily expensive, inefficient and misused system, which puts us at a cost disadvantage versus our out-of-state competitors.”
- **NetSol Technologies (Pakistan, USA)** — global provider of enterprise IT solutions:  
 “The company benefited immensely from the favourable regulatory framework and infrastructure in Pakistan as it allowed tax exemptions on software exports. One aspect of the entrepreneurial ecosystem that creates a great challenge is security. Security challenges in Pakistan have affected countrywide business activity. NFS [NetSol Financial Suite], our enterprise solution for our global financial customers, is mission-critical to them. Given such dependence, often we see an initial reluctance among them to invest in our product. They fear that the country’s security challenges could affect our ability to serve them round the year.”
- **ViiCare (China)** — provider of information technology solutions for hospitals:  
 “Lack of enforcement of favourable government policy is a major challenge. Although the government has put forth many favourable policies in an effort to reform the healthcare industry, many of these policies have not been enacted.”

### 3.3.6 Education & training

A key underpinning of the human capital/workforce pillar is the education and training of domestic workers and potential workers from abroad. For respondents selecting the education & training pillar as important to their company’s growth, the university-educated workforce was the most important component (Section 3 Appendix). Examples supporting this survey response are:

- **Aemetis (USA, India)** — renewable fuels and biochemical company:  
 “The high level of education and depth of accounting, finance and regulatory experience in Silicon Valley supported our rapid growth. Our CFO and VP of Finance each worked at Apple for more than 10 years, and the chairman of our audit committee is a veteran CFO of five companies that each generated more than US\$ 1 billion in revenue.”
- **Arteris (France)** — semiconductor chips provider, including network-on-chip (NoC) solutions:  
 “Within France, the workforce availability was and is quite good. French engineers are well trained in math, they are taught to work in teams and they are taught to think through complex problems. Arteris needed all three capabilities. A number of our key employees came from the École Polytechnique and the Laboratoire d’Informatique de Paris 6 (LIP6), universities which produce very well-trained graduates with the uncommon mix of network, hardware and software engineering skills required by Arteris.”

- **SouthWestern (Ireland)** — outsourced business processing company:

“We hired qualified resources from the local university and from returned emigrants, who had experience with the outsourcing models in other countries. There was high availability of semi-skilled labour in the region and this has provided for a stable and loyal workforce. We have the lowest staff turnover numbers in the industry. We collaborated extensively with University College Cork (UCC). First of all, UCC helped us to build our strategy. Then we collaborated with them in finding good, qualified people. We have continued this relationship over the years.”

As noted in Section 3.2.2, there is a concern by some that many education programs are overly general and very thin on operational skills easily adaptable to business contexts.

- **Taste Holdings (South Africa)** — vertically integrated franchiser with strong brand focus:

“Unfortunately universities have not helped overcome the shortage of skills we face. We have as a country more and more people going to university, but many have not acquired the skills we require. We could get ourselves educated employees, but there is a good chance many may have poor financial management skills. So I would say the education system hasn’t helped most of us in business.”

### 3.3.7 Major universities as catalysts

Major universities can potentially play multiple roles in promoting the growth of early-stage companies in their region. Outlined in the Appendix, the components of this pillar as cited by those choosing it as an important growth contributor are: promoting a culture of respect for entrepreneurship; playing a key role in idea-formation for new companies; and playing a key role in providing graduates for new companies. Examples from the executive case studies include:

- **Freelancer.com (Australia)** — global marketplace for outsourcing services:

“While the number of graduates in STEM (Science, Technology, Engineering and Mathematics) in Australia is relatively low, the quality of education is very high. Being an Adjunct Associate Professor in Engineering & IT at the University of Sydney was a significant advantage in the early stages for attracting great talent.”

- **Hangzhou Goudian Dam Safety Engineering (China)** — provider of high-tech products for hydropower dams:

“One major accelerator was our close association with a large national hydropower research institute, which granted us superior access to state-of-the-art research and industry information.”

- **ViiCare (China)** — provider of information technology solutions for hospitals:

“Based in Beijing, ViiCare has access to top-tier academic institutions including Tsinghua University, Peking University, and the Chinese Academy of Sciences. These institutions are able to provide us with a large pool of IT talent. In addition, because of our close affiliation with Tsinghua University, we are able to benefit from its brand and a wider range of resources.”

### 3.3.8 Cultural support

For several components, the rating for the cultural support pillar differs widely at the continental and country level (a positive rating where it exists; a negative one where obstacles make it difficult to support) and for its relative importance to company growth. For example, 76% of Silicon Valley/Bay Area respondents selecting the cultural support pillar rate the tolerance of risk and failure component as important to their company’s growth. The comparable percentages for other regions are significantly lower – Asia (9%), Africa/Middle East (29%) and South/Central America with Mexico (20%). Examples of quotations showing this component’s diversity across regions are:

- **OpenDNS (USA)** — leading provider of cloud-delivered Web security services:

“Starting our company in Silicon Valley was pivotal to our early success. Not only are we surrounded by an entire support structure to create companies through venture capital, but also an ecosystem that encourages risk and tolerates failure. Moreover, there is an entire industry of service providers (lawyers, accountants, etc.) who are all familiar with start-up challenges, legal requirements and more, to help facilitate the structure that start-ups need to be successful, helping us focus on our core business. The proximity of the venture capitalists makes it easy to get visibility, network and set-up face-to-face meetings when in a capital-raising mode. Our location has made it much more efficient when raising money and has allowed us to close on rounds of funding without spending a large amount of time.”

- **d.light design (USA)** — manufacturer and distributor of solar light and power products in developing markets:

“We quickly learned that you simply can’t export the entrepreneurial, risk-taking culture of the US to India, China and Africa. In these markets, talented people working for multinational corporations are more risk-averse, and less motivated by equity. Convincing the best people to join a start-up at a lower salary but greater ‘upside’ was very difficult, but without the best people, we were unlikely to be able to overcome the obstacles needed to create an entirely new market. We had to adapt to local demands to attract and retain exceptional local teams. We also underestimated the importance of continuous, local engagement. In our markets, partnerships and joint efforts with locals are essential. Every market is totally different, so you really need local knowledge to succeed.”

- **Interpark (South Korea)** — online auction and shopping:

“Most university-graduated students wanted to work for large companies for their soft landing on the society. I could say that that phenomenon was based on the Korean culture that prefers stable jobs to risk-taking ones.”

- **ViiCare (China)** — provider of information technology solutions for hospitals:

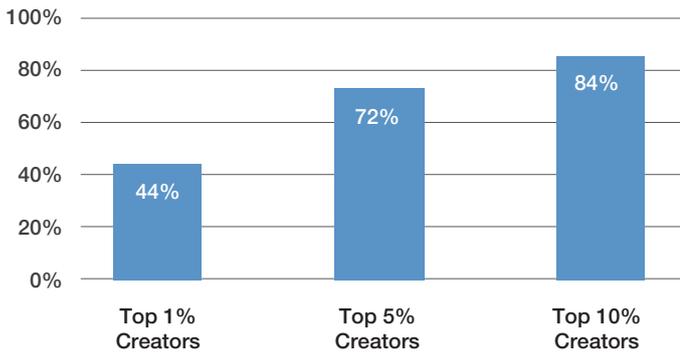
“One key aspect of the entrepreneurial ecosystem surrounding ViiCare that existed only in a weak form was social respect and support for entrepreneurial companies. Compared to western countries, Chinese culture generally is less tolerant of failures. In China, when you fail, sometime you ‘lose face’ in front of your friends and others.”

## Appendix: Relative Importance of Pillars and Individual Components of Entrepreneurial Ecosystems, by Continent/Region

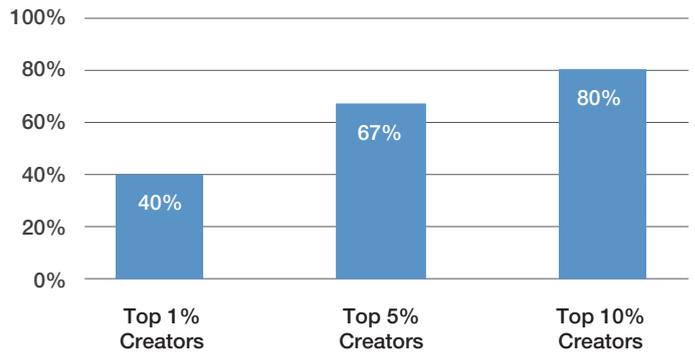
Pillar	US – Silicon Valley/Bay Area	US – Other Cities	North America	Europe	Australia/New Zealand	Asia	Africa/Middle East	South/Central America with Mexico
Accessible markets	44%	59%	53%	59%	74%	65%	68%	57%
Human capital/workforce	63%	70%	67%	64%	41%	67%	59%	63%
Funding & finance	64%	62%	63%	49%	56%	56%	55%	63%
Support systems/mentors	35%	24%	29%	23%	33%	27%	14%	22%
Government & regulatory framework	10%	11%	11%	21%	19%	27%	14%	33%
Education & training	10%	14%	12%	17%	15%	23%	18%	9%
Major universities as catalysts	17%	9%	13%	9%	7%	5%	5%	0%
Cultural support	31%	19%	24%	10%	7%	11%	32%	11%
<b>Components: Accessible markets</b>								
Domestic market (DM) – Large companies as customers	55%	59%	57%	47%	60%	41%	53%	63%
DM – Small/medium-sized companies as customers	67%	61%	61%	57%	80%	61%	60%	67%
DM – Governments as customers	10%	20%	17%	18%	15%	17%	27%	10%
Foreign market (FM) – Large companies as customers	14%	12%	18%	38%	30%	32%	20%	13%
FM – Small/medium-sized companies as customers	11%	14%	15%	29%	35%	39%	27%	17%
FM – Governments as customers	0%	5%	3%	12%	5%	6%	0%	0%
Other	11%	12%	12%	9%	0%	8%	27%	13%
<b>Components: Human capital/workforce</b>								
Management talent	59%	66%	63%	70%	64%	67%	54%	63%
Technical talent	82%	72%	77%	71%	73%	71%	62%	53%
Entrepreneurial company experience	50%	35%	41%	30%	18%	30%	54%	19%
Outsourcing availability	13%	9%	11%	13%	18%	12%	31%	16%
Access to immigrant workforce	6%	5%	5%	5%	0%	11%	31%	9%
Other	2%	4%	3%	2%	0%	3%	0%	3%
<b>Components: Funding &amp; finance</b>								
Friends and family	28%	32%	30%	34%	40%	53%	50%	47%
Angel investors	52%	35%	43%	30%	60%	35%	25%	29%
Private equity	14%	23%	20%	34%	13%	27%	17%	24%
Venture capital	54%	40%	48%	52%	13%	22%	33%	26%
Access to debt	15%	23%	19%	26%	33%	23%	17%	26%
Other	9%	14%	11%	10%	13%	12%	8%	3%
<b>Components: Support systems/mentors</b>								
Mentors/advisers	79%	72%	77%	73%	78%	83%	100%	82%
Professional services	23%	25%	24%	30%	33%	27%	33%	9%
Incubators/accelerators	9%	13%	10%	27%	0%	13%	0%	0%
Network of entrepreneurial peers	52%	41%	45%	38%	33%	17%	33%	45%
Other	0%	2%	2%	0%	0%	7%	0%	9%
<b>Components: Government &amp; regulatory framework</b>								
Ease of starting a business	57%	39%	46%	48%	100%	44%	67%	29%
Tax incentives	23%	18%	26%	33%	0%	52%	67%	24%
Business-friendly legislation/policies	27%	43%	34%	52%	20%	48%	67%	35%
Access to basic infrastructure	33%	29%	31%	33%	40%	32%	33%	18%
Access to telecommunications/broadband	60%	39%	49%	30%	40%	40%	33%	18%
Access to transport	30%	18%	20%	27%	20%	36%	0%	6%
Other	10%	18%	14%	12%	0%	16%	0%	18%
<b>Components: Education &amp; training</b>								
Available workforce with pre-university education	10%	13%	12%	31%	25%	21%	0%	25%
Available workforce with university education	77%	82%	82%	77%	75%	71%	50%	75%
Entrepreneur-specific training	37%	10%	20%	12%	25%	33%	25%	0%
Other	3%	10%	8%	4%	0%	0%	25%	0%
<b>Components: Major universities as catalysts</b>								
Promoting a culture of respect for entrepreneurship	73%	56%	66%	36%	50%	67%	0%	-
Playing a key role in idea-formation for new companies	59%	60%	58%	57%	0%	33%	100%	-
Providing graduates for new companies	35%	32%	40%	57%	50%	50%	100%	-
Other	2%	4%	2%	7%	0%	17%	0%	-
<b>Components: Cultural support</b>								
Tolerance of risk and failure	76%	53%	69%	56%	100%	9%	29%	20%
Preference for self-employment	25%	41%	32%	31%	0%	27%	71%	40%
Success stories/role models	45%	47%	44%	63%	100%	64%	57%	0%
Research culture	8%	6%	8%	25%	0%	9%	0%	0%
Positive image of entrepreneurship	63%	59%	63%	69%	100%	55%	71%	60%
Celebration of innovation	44%	45%	44%	44%	0%	18%	14%	40%
Other	2%	0%	1%	0%	0%	9%	0%	0%

**Exhibit 3-1: Gross Sector Revenue and Job Creation by Tier of Early-stage Companies**

**Revenue Creation**

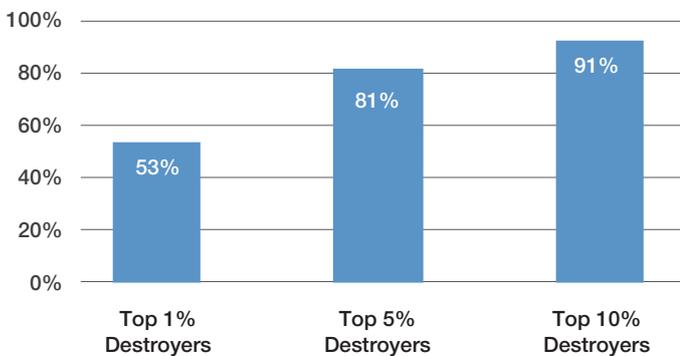


**Job Creation**

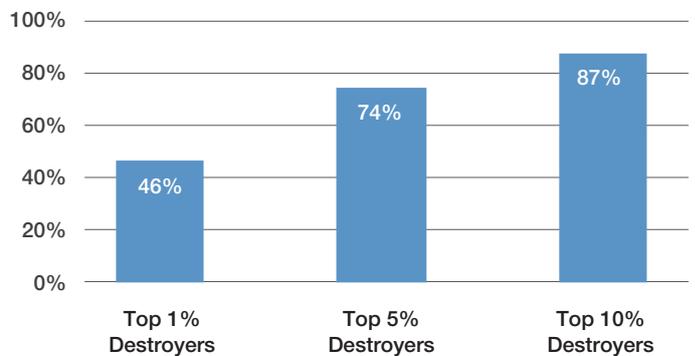


**Exhibit 3-2: Gross Revenue and Job Destruction by Tier of Early-stage Companies<sup>6</sup>**

**Revenue Destruction**



**Job Destruction**



**Exhibit 3-3: Entrepreneurial Ecosystems Heat Map by Continent/Region: Pillars Most Important to the Growth/Success of Respondents' Companies**

Pillar	US - Silicon Valley	US - Other Cities	North America	Europe	Aus/NZ	Asia	Africa / Middle East	South/Central America + Mexico
Accessible Markets	44%	59%	53%	59%	74%	65%	68%	57%
Human Capital Workforce	63%	70%	67%	64%	41%	67%	59%	63%
Funding and Finance	64%	62%	63%	49%	56%	56%	55%	63%
Mentors/Advisors/Supp. Sys.	35%	24%	29%	23%	33%	27%	14%	22%
Reg. Framework/Infras.	10%	11%	11%	21%	19%	27%	14%	33%
Education and training	10%	14%	12%	17%	15%	23%	18%	9%
Major Universities as Cata.	17%	9%	13%	9%	7%	5%	5%	0%
Cultural Support	31%	19%	24%	10%	7%	11%	32%	11%

**Heat Map Key**

- Highest % of respondents citing "most important"
- Approximately Half % of respondents citing "most important"
- Lowest % of respondents citing "most important"

### Exhibit 3-4: Entrepreneurial Ecosystems Heat Map by Country: Pillars Most Important to the Growth/Success of Respondents' Companies

Pillar	US - Bay Area	US - Other Cities	United States	United Kingdom	Switzerland	Ireland	Spain	Singapore	Pakistan	India	Australia	Mexico
Accessible markets	44%	59%	52%	53%	61%	84%	48%	53%	89%	44%	72%	43%
Human capital/ workforce	63%	70%	67%	67%	50%	68%	67%	53%	80%	61%	36%	61%
Funding & finance	64%	62%	64%	73%	44%	42%	19%	47%	49%	67%	56%	78%
Support systems/ mentors	35%	24%	29%	10%	33%	21%	33%	26%	34%	22%	36%	30%
Government & regulatory framework	10%	11%	11%	20%	28%	21%	24%	42%	11%	28%	20%	39%
Education & training	10%	14%	12%	7%	11%	0%	24%	0%	31%	28%	12%	4%
Major universities as catalysts	17%	9%	13%	7%	11%	5%	10%	11%	6%	11%	8%	0%
Cultural support	31%	19%	24%	7%	11%	16%	10%	21%	6%	17%	8%	13%

#### Heat Map Key

- Highest % of respondents citing "most important"
- Approximately Half % of respondents citing "most important"
- Lowest % of respondents citing "most important"

### Exhibit 3-5: Heat Map for Ernst & Young-based Ecosystems: Pillars Most Important to the Growth/Success of Respondents' Companies

Pillar	US - Bay Area	US - Other Cities	Group A	Group B	Group C	Group D
Accessible Markets	44%	59%	60%	70%	58%	66%
Human Capital Workforce	63%	70%	62%	53%	72%	64%
Funding and Finance	64%	62%	55%	53%	43%	61%
Mentors/Advisors/Supp. Sys.	35%	24%	20%	26%	25%	27%
Reg. Framework/Infras.	10%	11%	24%	18%	22%	27%
Education and training	10%	14%	7%	20%	21%	21%
Major Universities as Cata.	17%	9%	8%	9%	5%	3%
Cultural Support	31%	19%	15%	6%	12%	11%

#### Heat Map Key

- Highest % of respondents citing "most important"
- Approximately Half % of respondents citing "most important"
- Lowest % of respondents citing "most important"

### Countries for Groups A-D of Exhibit 3-5

Ernst & Young-based Ecosystems: Countries by Group			
A	B	C	D
Canada	Australia	Chile	Argentina
Finland	Austria	China	Brazil
Germany	Belgium	France	Colombia
Hong Kong SAR	Denmark	Ireland	Ghana
Netherlands	Japan	Israel	Greece
Singapore	Malaysia	Italy	India
Sweden	New Zealand	Korea, Rep.	Indonesia
Switzerland	Norway	Portugal	Mexico
Taiwan	Saudi Arabia	South Africa	Pakistan
United Kingdom	United Arab Emirates	Spain	Peru
			Philippines
			Poland
			Russian Federation
			Thailand
			Turkey
			Venezuela
			Vietnam

### Exhibit 3-6: Heat Map for World Bank-based Ecosystems: Pillars Most Important to the Growth/Success of Respondents' Companies

Pillar	US - Bay Area	US - Other Cities	Group A	Group B	Group C	Group D
Accessible Markets	44%	59%	60%	72%	55%	67%
Human Capital Workforce	63%	70%	55%	67%	67%	65%
Funding and Finance	64%	62%	61%	50%	42%	62%
Mentors/Advisors/Supp. Sys.	35%	24%	25%	18%	23%	31%
Reg. Framework/Infras.	10%	11%	24%	18%	27%	24%
Education and training	10%	14%	14%	9%	22%	21%
Major Universities as Cata.	17%	9%	7%	6%	7%	5%
Cultural Support	31%	19%	11%	13%	11%	10%

#### Heat Map Key

- Highest % of respondents citing "most important"
- Approximately Half % of respondents citing "most important"
- Lowest % of respondents citing "most important"

### Countries for Groups A-D of Exhibit 3-6

World Bank-based Ecosystems: Countries by Group			
A	B	C	D
Australia	Canada	Austria	Argentina
Denmark	Germany	Belgium	Brazil
Finland	Ireland	Chile	China
Hong Kong SAR	Japan	Colombia	Ghana
Malaysia	Saudi Arabia	France	Greece
New Zealand	Sweden	Israel	India
Norway	Switzerland	Mexico	Indonesia
Singapore	Taiwan	Netherlands	Italy
South Korea	Thailand	Peru	Pakistan
United Kingdom	United Arab Emirates	Portugal	Philippines
		South Africa	Poland
		Spain	Russian Federation
			Thailand
			Turkey
			Venezuela
			Vietnam



# Section 4: Growth Accelerators and Growth Challenges for Early-Stage Companies

## Executive Summary

Entrepreneurs show much consistency across countries and continents in how they rank major accelerators of and challenges to their company's growth. This section reports findings based on their responses to open-ended questions on growth accelerators and growth challenges. These responses were coded using a previously developed categorization. The top four categories of growth accelerators across continents, countries and industries are market opportunity, top management, human resources and funding & finance. Companies seeking foreign revenues put highest priority on market opportunity. Funding & finance and human resources are the highest-ranked growth challenges across respondent groups. There is strong similarity between the three highest-ranked pillars of entrepreneurial ecosystems and the very important growth accelerator categories in this section. While the method of collecting responses from entrepreneurs differed – “click-the box” questions in Sections 2 and 3 versus open-ended questions in Section 4 – the consistent conclusions reached in both sections increase the reliability of the findings.

## 4.1 Categorizing Growth Accelerators and Growth Challenges

Section 3 focused on the role of an entrepreneurial ecosystem's eight pillars in company growth. In Section 4, the focus shifts to growth accelerators and growth challenges from a *company's* perspective. The similarity of entrepreneurs' viewpoints in Section 3 and 4 underlines the central importance of the three major pillars (accessible markets, human capital/workforce and funding & finance) to the growth of their companies. Exhibit 4-1 presents a classification of different categories of growth accelerators and challenges used in multiple prior studies by the report team members.

While Section 2 and 3 responses came from standardized, “click-the-box” questions on categories and subcategories, those in Section 4 were own words from the surveyed entrepreneurs. The first two questions examined are:

- What were the three major accelerators leading to growth in your company's early stages?
- What were the three major growth challenges to overcome in your company's early stages?

The responses were first coded into the 16 categories of Exhibit 4-1 and then cumulated and expressed as a percentage of all respondents mentioning that category as one of the three major growth accelerators or growth challenges. The percentages are based on equal weighting of the columns in each Exhibit.<sup>7</sup> Separate analysis was conducted for the continent and country groupings (presented in Sections 2 and 3), and an industry breakdown was also done.<sup>8</sup> For each of these three groupings, the top eight categories are presented in Exhibit format.

## 4.2 Growth Accelerators

There is much consistency across the major growth accelerator categories in Exhibits 4-2 to 4-4. The four most frequently mentioned categories by respondents are:

Top Growth Accelerator Categories: Average Percentage of Respondents						
Category	Continent Grouping (Exh. 4-2)		Country Grouping (Exh. 4-3)		Industry Grouping (Exh. 4-4)	
	%	Rank	%	Rank	%	Rank
Market opportunity	54%	1	53%	1	47%	1
Top management	47%	2	48%	2	46%	2
Human capital	43%	3	46%	3	46%	2
Funding & finance	39%	4	37%	4	43%	4

The above categories map into the three top-ranked pillars of entrepreneurial ecosystems from Section 3: accessible markets, human capital/workforce and funding & finance.

The following examples of the four growth accelerator categories are from the executive case studies.

#### 4.2.1 Market opportunity as growth accelerator

Examples of market opportunity include:

- **Bubbly (Singapore)** — provider of mobile social networks and messaging:

“The initial company was started under the premise there was no voicemail penetration in emerging markets in Asia. However, that turned out to be a pretty crappy business. After I spent some time doing due diligence on Twitter for Sequoia, I realized the potential of one-to-many messaging and bringing that to the masses across emerging markets via voice (rather than text) over simple feature phones. Once we launched it, we quickly gained over 1 million users in a couple of months – and 80% of them were paying for the premium version of the service, so we immediately knew we had a viable business.”
- **LoopUp (UK)** — provider of cloud-based solutions for business conference calling and online meetings:

“We noticed how most business professionals so blatantly disliked conference calls. From our own personal experience, it wasn’t difficult to see why: issues with dial-in numbers and access codes; not knowing who’s on the call and who’s speaking; late joiners and missing guests; irritating background noise; the list goes on. We decided to do something about it, by building a conference-calling product that people would dislike less. We came up with a no-training-required experience, where the host receives an alert to their smartphone and PC as soon as their first guest joins the call, which takes them to a web or mobile app that shows them who’s on the call and puts them in control. LoopUp [has become] a seamless meetings product – combining audio and Web – providing a less painful way to meet remotely.”
- **NEP (Malaysia)** — manufacturer of water filtration systems:

“In 1997, a salesman from Taiwan introduced us to a water filtration product and told us about its ability to purify and mineralize the water. He referred to it as the ‘miracle water’, as the filtered mineral water had many attributes essential for health and skincare. Filtered water in the Malaysian market also had the potential to serve many other purposes such as cooking, drinking and even making coffee. We ordered 15 units from the Taiwanese salesman, brought them to Malaysia and installed them in different villages. We allowed people to try the filtered water for free and asked for feedback on the product. Potential customers who tried the water were really happy with the product and affirmed that the water was really good for cooking, skin care and many other uses. Most of them came back to ask about the price of the filtration system. This strong consumer feedback convinced us that this product had great potential. In fact, the demand grew exponentially. We started distributing the product under new branding – we called it ‘DIAMOND’. In Malaysia, municipality water requires some form of filtering. The filtration system helped improve water quality and was an immediate success.”
- **Tough Mudder (USA)** — adventure-challenge company staging large-scale events:

“At the time (2010), there was a big push towards fitness. During the (2008–2009) recession, there was huge growth in the number of marathons, 10Ks [10 kilometres] and triathlons. We felt this trend would remain strong as people

focused attention on staying fit and getting healthier to help cope with financial stress. This shift was an important driver for us. We also benefited from the growing popularity of mass-participation events. Our society has moved toward sharing common experiences as a form of social currency. This phenomenon was amplified by the rise of social media.”

- **Victoria Seeds (Uganda)** — full-line seed company:

“The source of the initial idea was the observation that the majority of the yields achieved by Ugandan farmers was much lower than that realized at research levels – at times one-third lower. A government body was formed – the National Agricultural Advisory Services (NAAS) – to facilitate members of the private sector, such as ourselves, to go out and distribute inputs to small farmers. It provided subsidies to farmers to allow them to demonstrate proof of concept and subsequently generate enough income to sustain themselves on their own. So it was very exciting because the demand was there for really growing improved seed. By incentivizing the private sector to participate, farmers adopted hybrid maize at levels that we didn’t have before. Demand grew from just 100 metric tonnes per annum in 2004 to now over 2,000 metric tonnes in 2011. It was huge, and the policy environment was right.”

#### 4.2.2 Top management as growth accelerator

This category of growth accelerators is in multiple executive cases studies:

- **TaKaDu (Israel)** — provider of software promoting efficient water usage:

“After selling my previous venture to Microsoft, I was eager to do something with significant environmental impact in the cleantech space as a future growing sector. Initiating a venture in the water sector is more complex than doing it in other fields like Internet, communications or IT [information technology]. VCs [Venture capitalists] are more reluctant as the water market is considered conservative and slow moving. As a serial entrepreneur, I had some advantages – I was familiar with the process, knew what needed to be done and had the right connections. The reputation I gained from my previous projects, combined with the ability to finance the early stage (seed investment) myself, has also facilitated the process. The geographical location also played a role in the initial stages of the company. Seeking investors for the first funding round, we have benefited from the developed VC community and investment industry (lawyers, CPAs [certified public accountants]) in Israel. In addition, being based in Israel, with a strong personal network, it was relatively easy to find top-notch researchers and developers to join the venture and develop the solution.”
- **ZheJiang HuiFeng Warp Knitting Co. (China)** — producer of tricot fabrics:

“I was able to exit the first venture with a decent payoff, and I basically invested all of it into HuiFeng to set up the manufacturing plants and facilities, purchase manufacturing equipment and hire managers for key positions. Having sufficient start-up capital significantly reduces the pressure to make decisions that trade off long-term benefits for short-term gains, and enables us to focus on important strategic activities such as research and development, human resources and quality control.”

### 4.2.3 Human capital as growth accelerator

There are several rich examples of this category as a growth accelerator:

- **9F Group (China)** — financial services company:

“In order to maintain a sustainable growth, we pay very close attention to our talent pipeline, making sure we develop and maintain a steady stream of people to turn to when it’s time to hire. We build channels with major universities in Beijing and in other provinces to create a viable candidate pool and would actively recruit via campus interviews, etc. Currently 98% of our company employees have at least a bachelor’s degree, and 20% are graduates from top-tier universities in China. We have a particularly good relationship with Peking University as most of our top management are alumni of this institution.”
- **NEXON (South Korea)** — leading worldwide developer and publisher of free-to-play (F2P) online games:

“We benefited from the ecosystem in general. Many were predicting the rise in PC and PC-related entertainment and the market was full of potential for software engineers. South Korea requires all able-bodied men above the age of eighteen to enlist in military service for a couple of years. As a growing domestic company, we were eligible to provide a programme in which these men could work for NEXON instead of going to the military, which was a very attractive alternative to young talents. The network infrastructure at schools incubated start-up efforts. Back in the days when the Internet was not available at the national level, top-tier universities in Korea had already established networks for their students. The infrastructure at these universities – Seoul National University, KAIST [Korea Advanced Institute of Science and Technology], POSTECH [Pohang University of Science and Technology] – enabled elite students to discuss and experiment together.”
- **Tough Mudder (USA)** — adventure-challenge company staging large-scale events:

“We are able to attract top talent. Many people are disillusioned with the corporate environment, and want to join a rapidly growing company that is doing something fun, interesting and positive for the world. The common viewpoint is that most entrepreneurs want to enter the tech space and create the next Google. Lucky for us, this leaves Tough Mudder as a viable alternative for those not looking to enter that industry. Hiring great people is so, so important. As with any start-up, it was tough attracting talent at first. We did a good job of messaging the ancillary benefits of working for the company and were fortunate to attract a few incredibly smart people without having to give out big salaries. Now, we have several ex-corporate lawyers, multiple accountants, and a few ex-investment bankers.”
- **PCH International (Ireland and China)** — supply-chain provider of consumer electronics products:

“The human resources side of PCH has been greatly strengthened. With increasing success PCH has been able to attract more senior, successful managers and has given them the decision-making authority needed to scale the business faster. One of Liam’s (the founder) early limitations was to have to be in control of all aspects of sales and the key customer relationships for each account. I have seen this in many private company founders over

the years. Liam has adapted and improved greatly in this area as the company has grown. The broader management team at PCH embraces an expansive and strategic approach that is essential to scale the company and bring in multiple new customers.”

- **Pronto Promo (Pakistan)** — promotional products company:

“Availability of workforce: contrary to the plight of many entrepreneurs and small businesses (in Pakistan), who constantly complain of the workforce-related issues, this has never been a constraint for us. It is actually one of our biggest strengths. Due to the very nature of our business – a dynamically changing product line, varying workforce requirements that are highly dependent upon order quantities, timing of the campaign and the lead time available – we always had a very large component of temporary workers. Our production model is geared to hire, train and assimilate fresh workers and get quality production from them. It takes us between 3-4 days after induction to reach optimal production target on our assembly line. With the permanent workforce at 35, our peak-time temporary workforce has gone as high as 300.”

### 4.2.4 Funding & finance as growth accelerator

While this category is a growth accelerator, at some stages for a company it can be a major growth challenge:

- **PCH International (Ireland and China)** — supply-chain provider of consumer electronics products:

“One of the key accelerators launching PCH from around a US\$ 100 million revenue company in 2008 to likely over US\$1 billion in 2013 was the closing of its US\$ 21 million Series A venture funding in September of 2008. Lack of expansion capital was a major challenge in the early days. Our customers are well-known and reputable companies, so there was not much problem in getting the payment. But we didn’t have sufficient capital to expand product/service offerings, make new investments and launch new production lines to meet particular customer requirements.”
- **Inspirato (USA)** — destination club for luxury travellers:

“In our first year of operations, we generated just under \$20 million of revenue, which is almost unheard of in the travel sector or in Silicon Valley. We began using those proceeds to help fund our growth. At that time, we were fortunate enough to meet the team at Kleiner Perkins Caufield & Byers and to have a solid-enough business model that they were interested in. That really wasn’t part of the plan. But, when institutional capital entered nine months into operations, the capital allowed us to further expand our efforts. It was one thing to announce Inspirato as a company from the founders of Exclusive Resort. Yet, it was a very different story to represent us as the first and only destination club that has institutional capital behind it. It provided validation and credibility and helped build our brand. “

## 4.2.5 Word cloud analysis of growth accelerators

Word clouds are an effective way to convey the relative frequency of key words mentioned by respondents when listing their growth accelerators. The more frequently a word is mentioned, the larger it appears in the word cloud (the colours are for design purposes only). Exhibit 4-5 shows the word cloud across all responses. The top 10, ranked in order and starting with the most frequently mentioned word, are: “market”, “customers”, “funding”, “companies”, “capital”, “products”, “business”, “talent”, “experience”, and “team”. This word cloud analysis reinforces the importance of market opportunity, human capital (including top management) and funding & finance as key growth accelerator categories.

## 4.2.6 Growth accelerators beyond the domestic market

Respondents were asked, “What were the three most important accelerators in building your revenues in countries outside your domestic market?” The same top four categories of international growth accelerators – market opportunity, top management, human resources and marketing & branding – were selected by each of the following three respondent groups:

Top International Growth Accelerator Categories: Average Percentage of Respondents						
Category	Continent Grouping (Exh. 4-6)		Country Grouping (Exh. 4-7)		Industry Grouping (Exh. 4-8)	
	%	Rank	%	Rank	%	Rank
Market opportunity	49%	1	50%	1	50%	1
Top management	24%	2	32%	2	22%	3
Human capital	22%	4	24%	3	28%	2
Marketing & branding	23%	3	19%	4	20%	4

Market opportunity is the dominant category in Exhibits 4-6 to 4-8. Exhibit 4-9 shows the word cloud for all responses to this international growth accelerator question. The top-10-ranked words, in order and starting with the most frequently mentioned word, are: “market”, “customers”, “local”, “partners”, “products”, “countries”, “relationships”, “business”, “good” and “regulation”.

## 4.3 Growth Challenges

Respondents were asked, “What were the three major growth challenges in the early stages of your company that you had to overcome?” The top-ranked categories of growth challenges are shown in Exhibit 4-10 (continents), 4-11 (countries) and 4-12 (industries). Average percentages and ranks for the most frequently mentioned categories are:

Top International Growth Accelerator Categories: Average Percentage of Respondents						
Category	Continent Grouping (Exh. 4-10)		Country Grouping (Exh. 4-11)		Industry Grouping (Exh. 4-12)	
	%	Rank	%	Rank	%	Rank
Funding & finance	51%	1	55%	1	52%	1
Human capital	51%	1	47%	2	45%	2
Market opportunity	33%	3	33%	3	34%	3
Government & regulatory	33%	3	32%	4	27%	4

There are several major differences between the growth challenges and growth accelerators:

For the three shared and most frequently mentioned categories (funding & finance, human resources and market opportunity), there are differences in ranking. Funding & finance is the most frequently mentioned growth challenge category, whereas market opportunity is the most frequently mentioned growth accelerator category. Government & regulatory is the fourth most important growth challenge category, whereas it is not among the top six categories for growth accelerators. Section 7 of this report covers the government & regulatory category.

### 4.3.1 Funding & finance as growth challenge

The executive case studies showcase the diversity of challenges in this category. Examples include:

- **Digitouch Media Group (Turkey)** — digital marketing agency/affiliate marketing network:

“I wish I could say that investors really accelerated the business, but it really wasn’t strategic, it was equity. It wasn’t like when they came in we could fast-forward. We took in seed investors who were actually quite familiar with the industry, but the thing that happened is that we were remote – kind of far from the western market – and also, if you’re not in the space anymore, you get out of it very fast. If I stopped today being in digital marketing, in a year and a half I would probably be obsolete. It’s very cutting-edge. The investors weren’t as involved in the digital space anymore. Sometimes it’s better to get a strategic partner to bring some knowledge, technology, training – that could have been a great accelerator. And I see around me a few companies that have done that. I’m sure it has its own complexities in terms of shareholder rights, etc., but at the same time I see that their time-to-market is quite faster than us in certain aspects.”

- **Heartland Payment Systems (USA)** — credit card payments company:

“Funding was a bit of a roller coaster ride. In addition to the US\$ 1 million that Heartland Bank invested to co-found the company, they provided about US\$ 7 million in debt financing to help fund our initial growth. In December 1999, they dropped the bomb that they had to withdraw all advances to non-banking clients before year end, forcing us to pursue outside sources of capital, fast. In the end, we ended up selling one-third of our merchant portfolio to a third party, and repaid the debt on 31 December. Needless to say, our relationship had changed, so we then undertook a management buyout, in which I granted Heartland Bank rights to the cash flow from half of our merchant portfolio in exchange for their 50% ownership in the company. The environment was imperfect, but, with complete control over the business, it did enable Heartland to access the private equity ecosystem, which ultimately allowed the company to flourish.”

- **Pronto Promo (Pakistan)** — promotional products company:

“Pronto Promo’s biggest challenge has been the lack of funding. There are very limited financing options available to entrepreneurs in Pakistan. There is no cash-flow-based lending in this economy. Here, you have to be born into money to make money. There was never enough running finance (R/F) available to support our operations. The

government regulations fuelled the problem. Prudential regulations of the State Bank of Pakistan (SBP) do not allow cash-flow-based lending. There can be no clean line of credits. The only time SBP allows companies to export against purchase order (PO) is when the payment is made against documents. No multinational is interested in taking this headache.”

### 4.3.2 Human capital as growth challenge

Human capital is the only category that ranks in the top three across all three groupings for both growth challenges and growth accelerators. Some of the many examples of this growth challenge from the executive case studies include:

- **Digitouch Media Group (Turkey)** — digital marketing agency/affiliate marketing network:  
 “Our top problem in the company is human resources. It’s actually my number one problem. We do have a full-time internship programme in which our employees get paid. Within the first two to three months we try to understand if they are good for the start-up business or not. One of the key problems that we see in any market, but much more in Turkey, is a lack of talent.”
- **Victoria Seeds (Uganda)** — full-line seed company:  
 “The biggest challenge we have faced has had to do with our employees. Many times, even the best employee does not grow in-line with the company. In such situations, and given our size, I’ve had to be not only a CEO and manager, but also a mentor, which has been very challenging. At times, I’ve had to make a decision to let employees go in order to bring in new talent that is more aligned with the company. Those moments are very dark.”
- **ZheJiang HuiFeng Warp Knitting Co. (China)** — producer of tricot fabrics:  
 “Unfortunately, the labour costs in China have been on the rise in the last few years, which significantly increased our cost of goods sold. In addition, the domestic market is also highly competitive. Lack of sufficient management bandwidth to oversee both domestic and international operations is another challenge.”

### 4.3.3 Market opportunity as growth challenge

Many new ventures face multiple challenges of identifying and building their market opportunities. The following examples illustrate several sources of challenges:

- **SinoCare Group (China)** — hospital management company:  
 “We came to a consensus that China’s healthcare industry and hospital management were significantly lagging behind that of the US, and we wanted to do something to change the situation. China’s healthcare industry is subject to strong government regulation. Prior to 2007, foreign capital had only limited access to China’s healthcare industry, which was a major challenge for us given our foreign background. As a result, SinoCare did not experience a strong growth momentum in the early days. The situation was changed after 2009 when the State Council launched a new policy to encourage greater private and foreign capital involvement in the nation’s hospitals and clinics as part of a health system reform programme that aims to make affordable healthcare available to the general public. Under the new policy,

foreign investors can now take up the majority shareholding of a hospital, which enabled us to tap into more hospitals and subsequently accelerated our growth.”

- **TaKaDu (Israel)** — provider of software promoting efficient water usage:

“One of the most significant challenges for any entrepreneur is gaining the first bulk of customers. This is even more challenging when you are in the water business — early adopters within the water sectors are hard to find. One of the darkest moments I remember was when realizing that many of the UK water utilities, which have developed their own in-house solution over the years, are less tempted to try a new approach, practically delaying our entry to the UK market by a few years. Most water utilities are conservative and risk-averse and local references from the same country are always needed which means that putting the foot in the door in each territory is a complex task requiring high investment. We address this challenge by first identifying markets with high awareness of water scarcity issues, spotting the few early adopters that do exist in those territories and approaching them, as well as leveraging well-recognized customers that can serve as good references for others.”

### 4.3.4 Word cloud analysis of growth challenges

The word cloud for all responses to the question on growth challenges is in Exhibit 4-13. This word cloud takes each individual word as a unit of analysis. The top 10 words, ranked in order and starting with the most frequently mentioned, are: “funding”, “customers”, “market”, “companies”, “products”, “regulation”, “capital”, “talent”, “business”, and “people”.

### 4.3.5 Growth challenges beyond the domestic market

Respondents were asked the following question: “What were the three most challenges you faced in building your revenues in countries outside your domestic market?”

The rankings for the eight most frequently mentioned categories are shown in groups by continent (Exhibit 4-14), country (Exhibit 4-15) and industry (Exhibit 4-16). These three groups share the same top six categories, but with slightly different rankings. Human resources and market opportunity are the two most frequently mentioned challenges that companies face when building international revenues.

Top International Growth Challenge Categories: Average Percentage of Respondents						
Category	Continent Grouping (Exh. 4-14)		Country Grouping (Exh. 4-15)		Industry Grouping (Exh. 4-16)	
	%	Rank	%	Rank	%	Rank
Human capital	38%	2	48%	1	36%	1
Market opportunity	36%	1	31%	2	36%	1
Strategy/business model	25%	4	24%	4	21%	5
Government & regulatory	29%	3	27%	3	36%	1
Operations management	24%	5	23%	5	30%	4
Funding & finance	18%	6	18%	6	15%	6

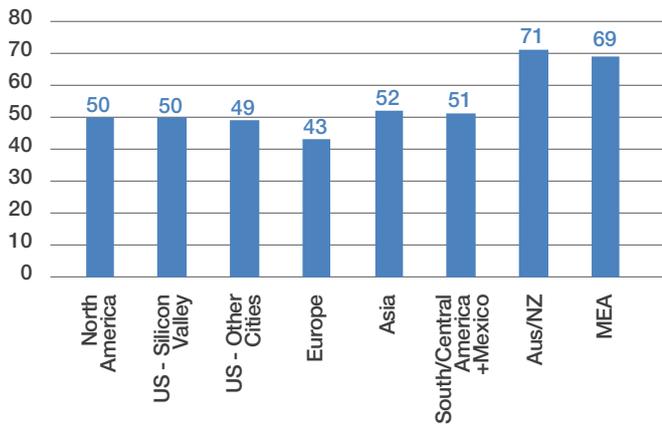
Exhibit 4-17 shows the word cloud for all responses to this question on international growth challenges. The top 10 words, ranked in order and starting with the most frequently mentioned, are: “local”, “customers”, “markets”, “cultural”, “regulation”, “cost”, “business”, “countries”, “time” and “partners”. An underlying theme is the challenge of localization when companies seek to build presence in foreign markets.

#### Exhibit 4-1: Categories of Company Growth Accelerators and Growth Challenges

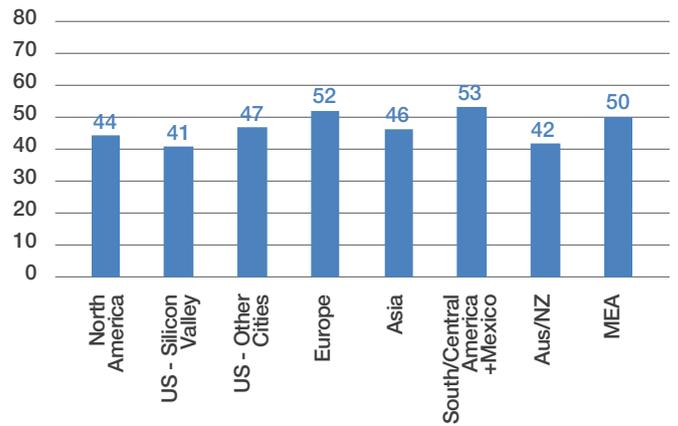
Classification	Description
I	Market opportunity/customers & competitive landscape
II	Top management/board of directors or advisers/networks
III	Human capital/people/organization/culture
IV	Funding & finance/cash flow/liquidity
V	Strategy/business model/pricing
VI	Operations management/execution/management systems
VII	Marketing & branding
VIII	Sales & distribution
IX	Research & development (R&D)/new product development/technology/patents
X	Products/services/after-sales-related
XI	Partnerships/joint ventures
XII	Acquisitions/mergers
XIII	Capital markets/financial reporting
XIV	Legal/lawsuits
XV	Government & regulatory/taxation/country infrastructure
XVI	Macroeconomic/social/political/events/and their impacts

**Exhibit 4-2: Relative Importance of Most Frequently Mentioned Growth Accelerator Categories, by Continent**

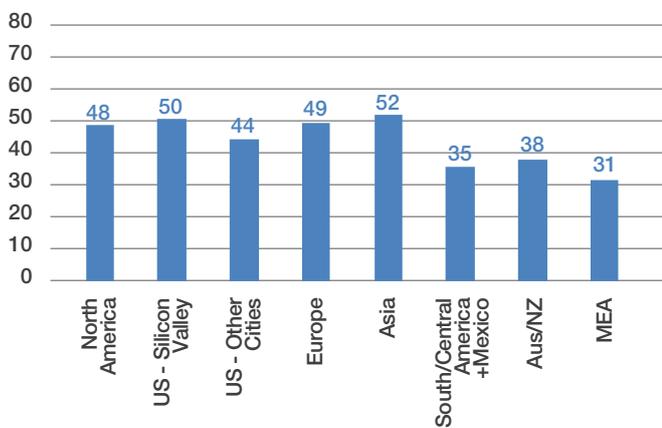
**Market Opportunity**



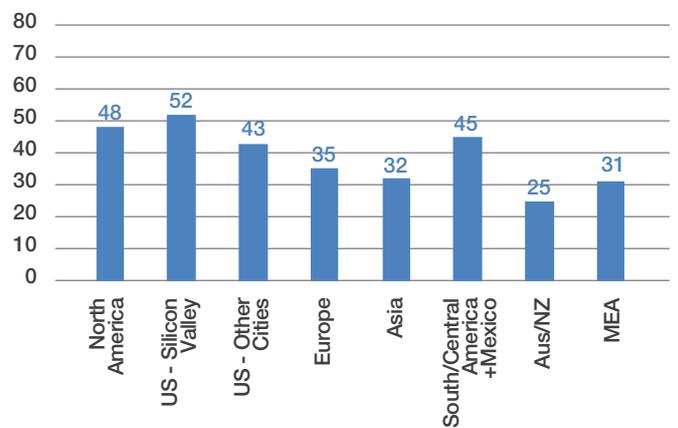
**Top Management**



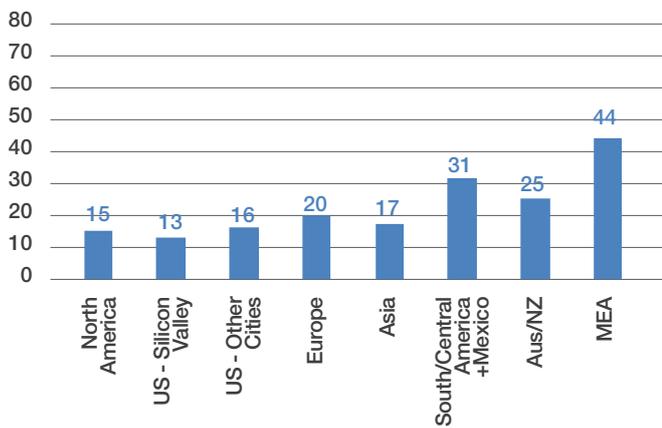
**Human Capital**



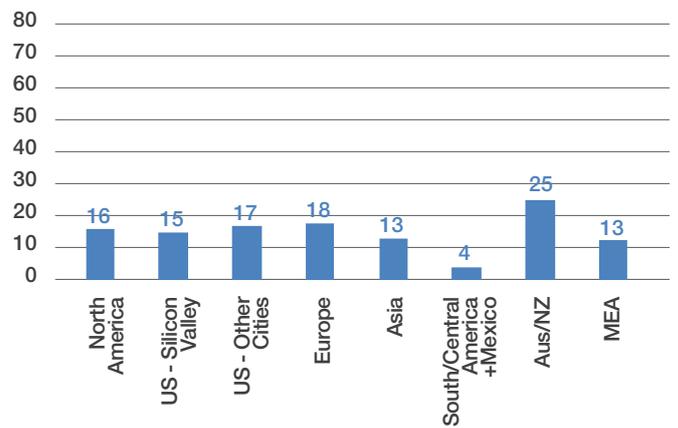
**Funding and Finance**



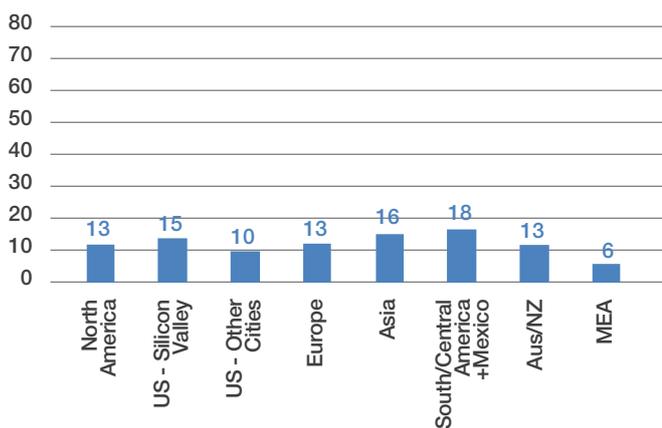
**Strategy**



**R&D and Technology**



**Government Regulatory**



**Marketing and Branding**

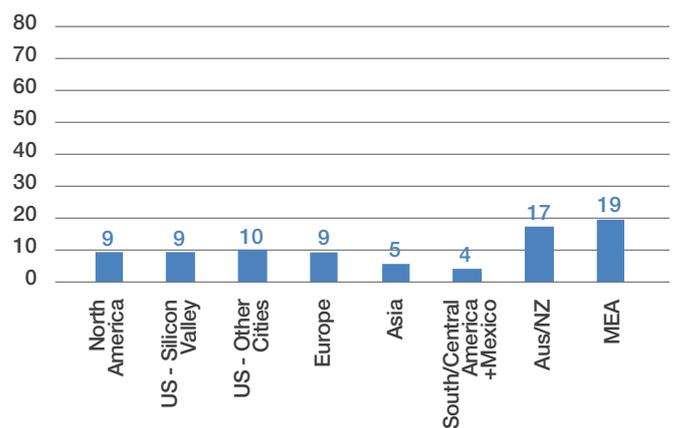
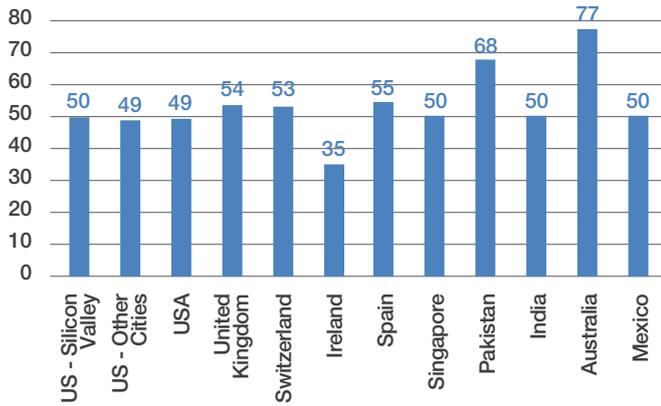
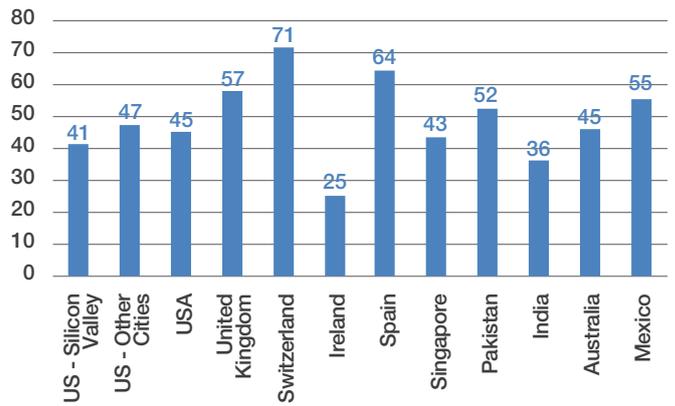


Exhibit 4-3: Relative Importance of Most Frequently Mentioned Growth Accelerator Categories, by Country

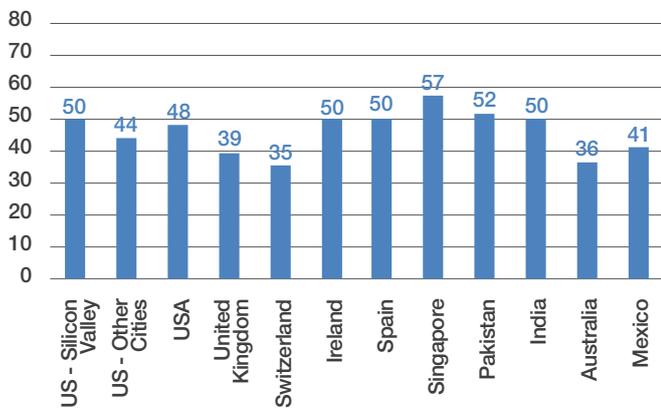
### Market Opportunity



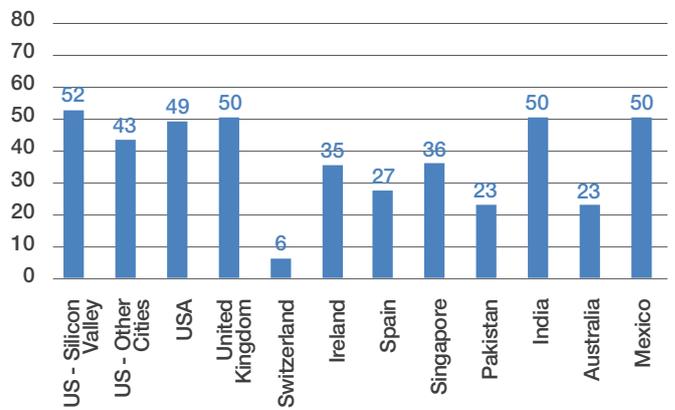
### Top Management



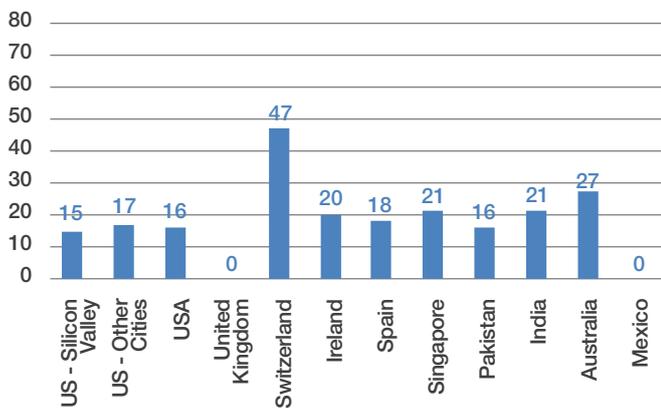
### Human Capital



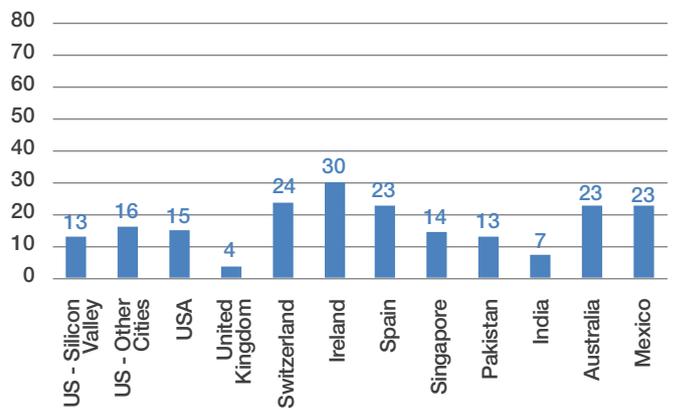
### Funding and Finance



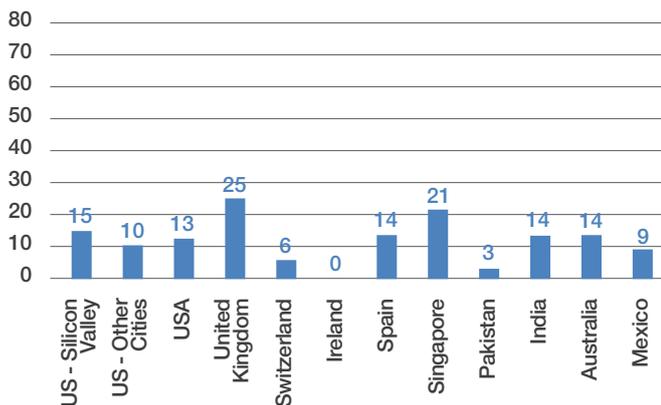
### R&D and Technology



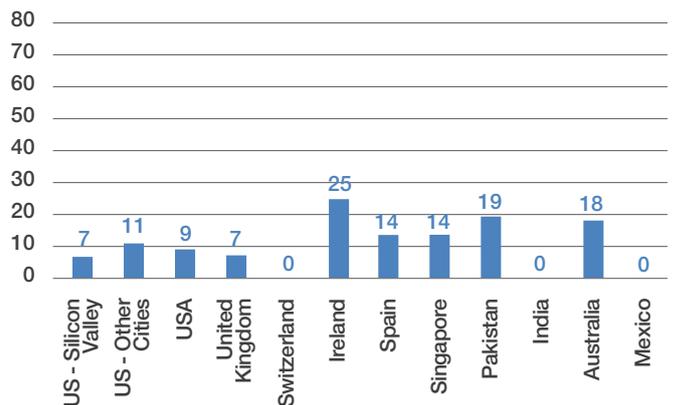
### Strategy



### Government Regulatory

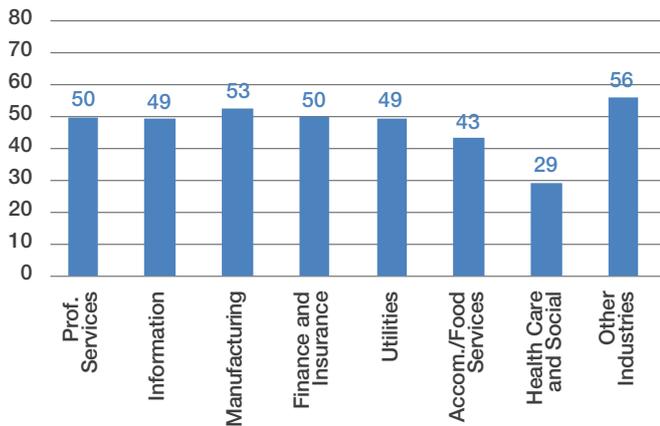


### Services and After-Sales

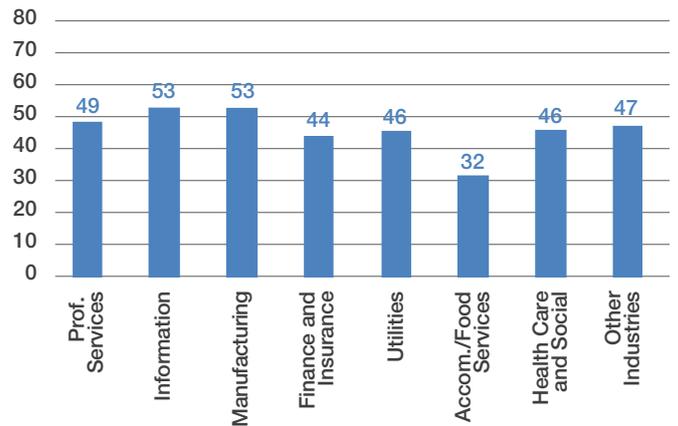


**Exhibit 4-4: Relative Importance of Most Frequently Mentioned Growth Accelerator Categories, by Industry**

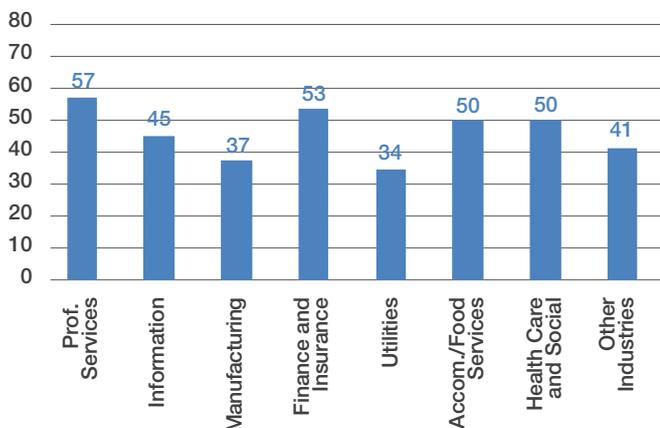
**Market Opportunity**



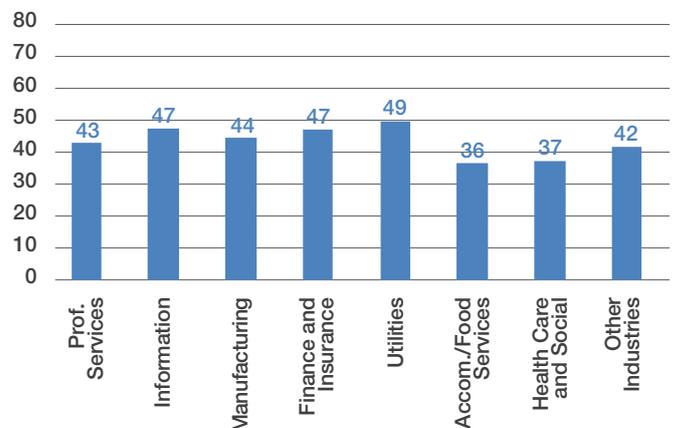
**Human Capital**



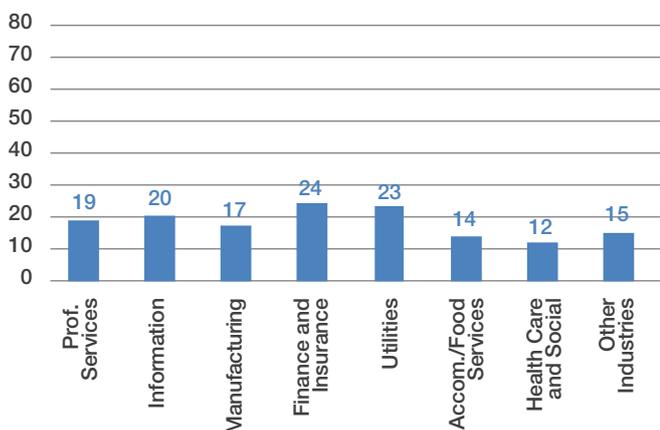
**Top Management**



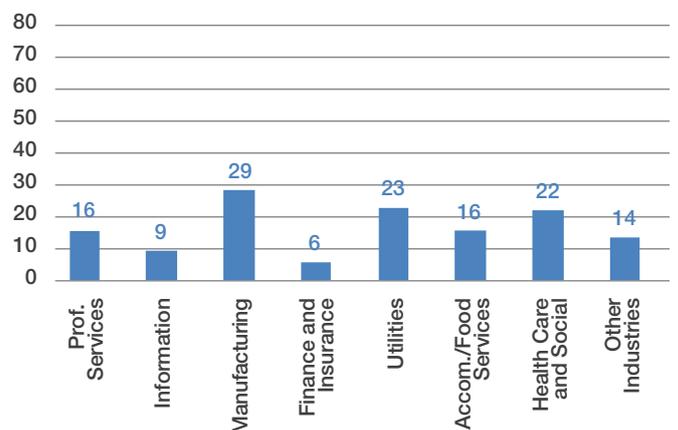
**Funding and Finance**



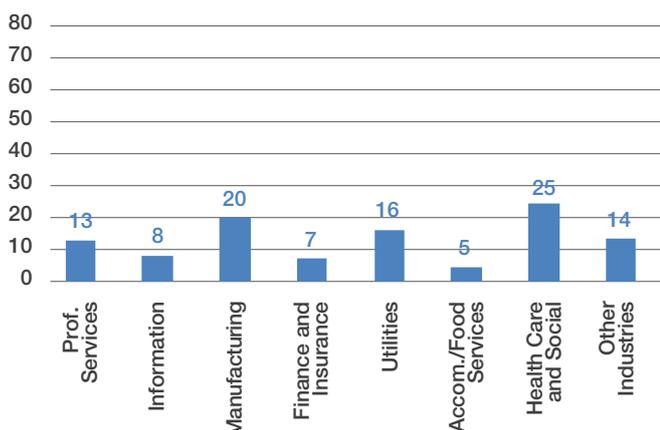
**Strategy**



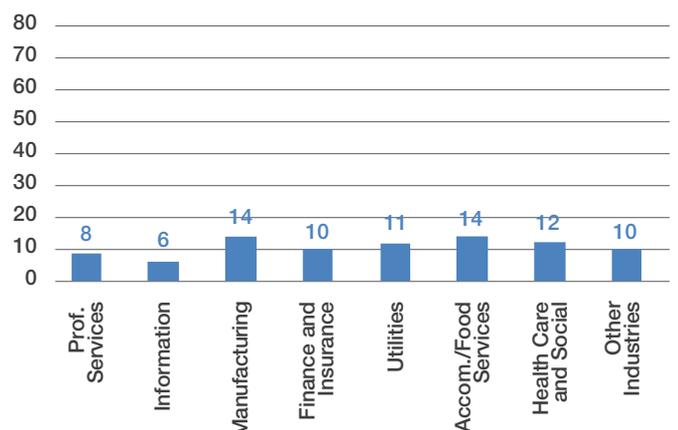
**R&D and Technology**



**Government Regulatory**



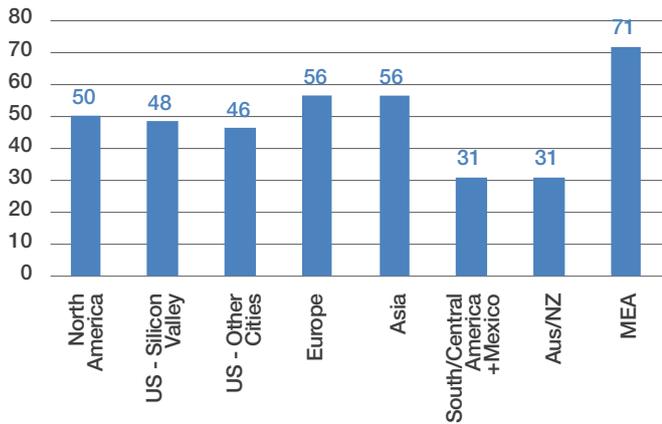
**Services and After-Sales**



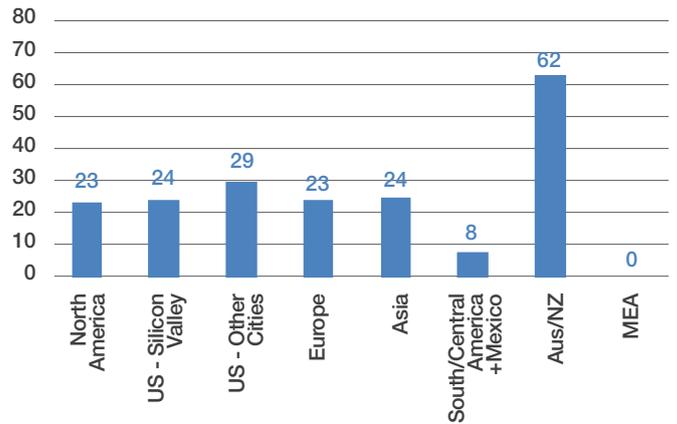


**Exhibit 4-6: Relative Importance of Most Frequently Mentioned International Growth Accelerator Categories, by Continent**

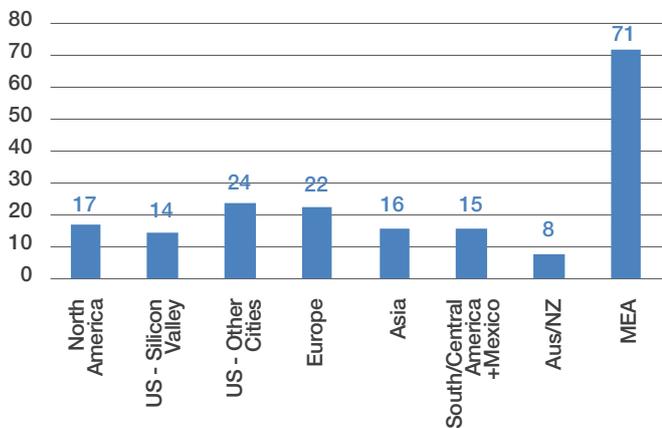
**Market Opportunity**



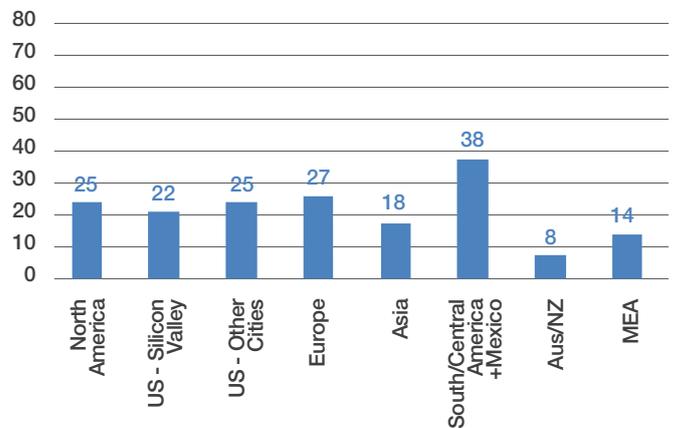
**Top Management**



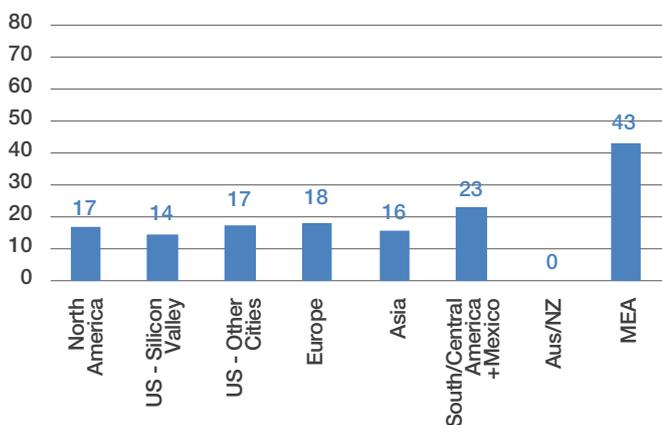
**Marketing and Branding**



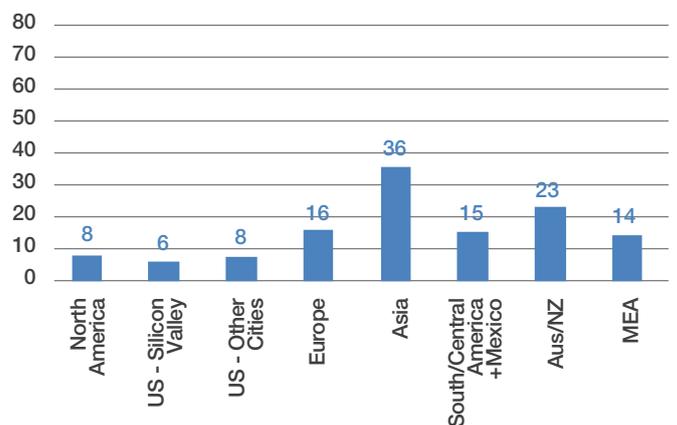
**Human Capital**



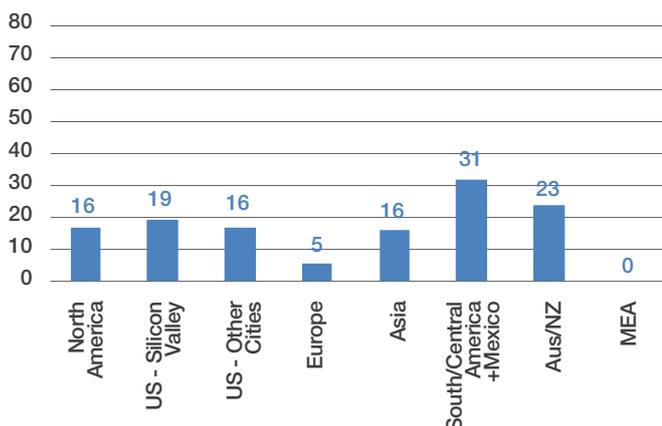
**Services and After-Sales**



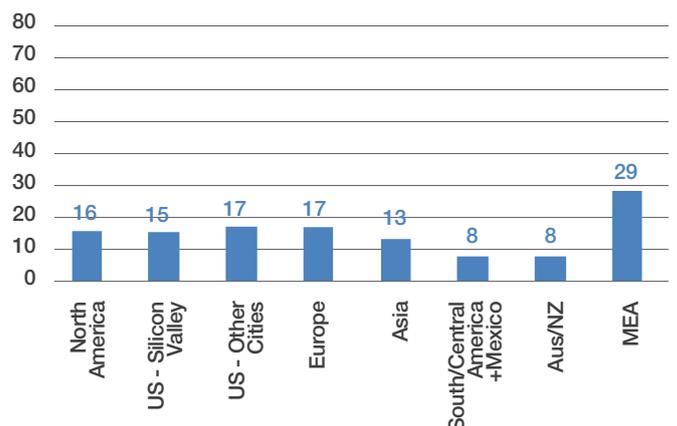
**Strategy**



**Government Regulatory**

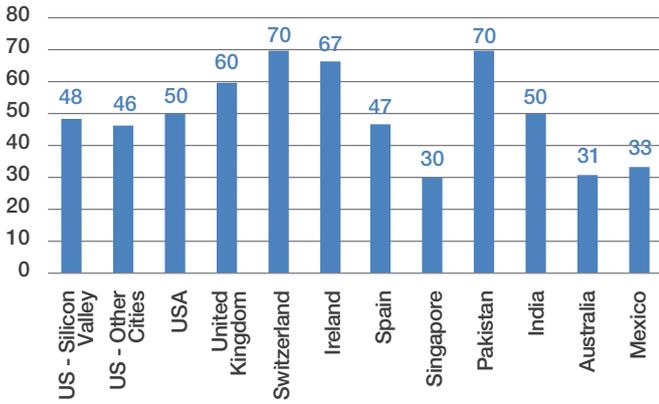


**Partnerships**

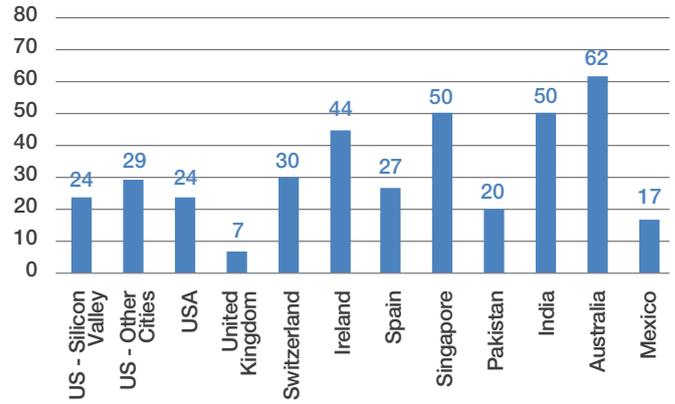


**Exhibit 4-7: Relative Importance of Most Frequently Mentioned International Growth Accelerator Categories, by Country**

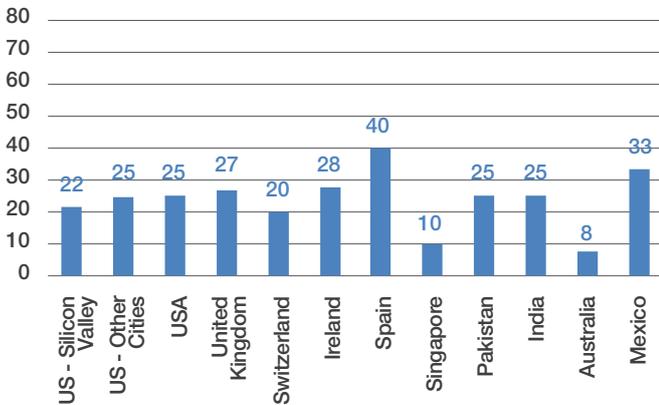
**Market Opportunity**



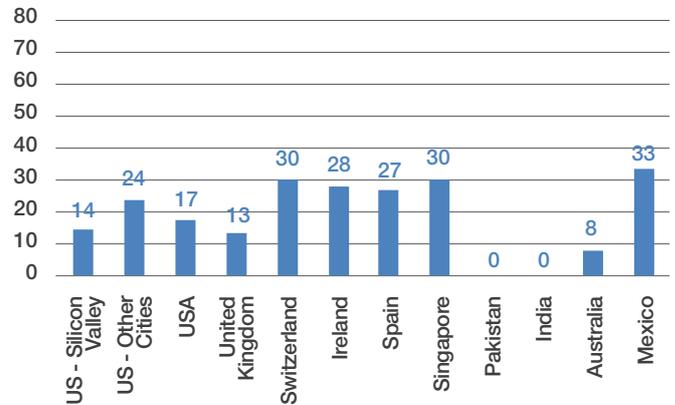
**Top Management**



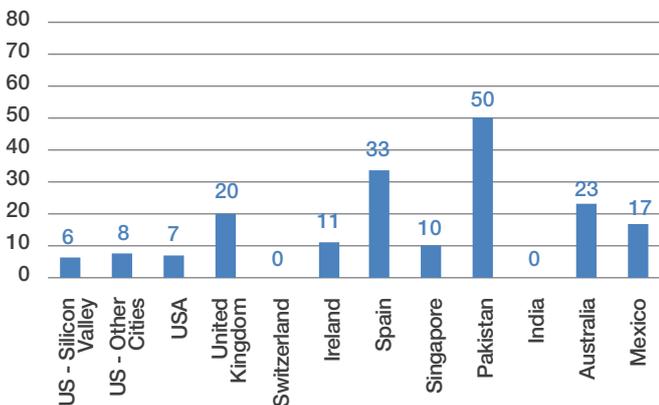
**Human Capital**



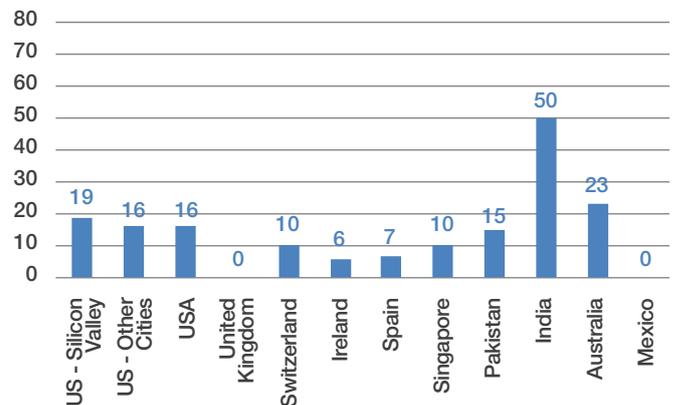
**Marketing and Branding**



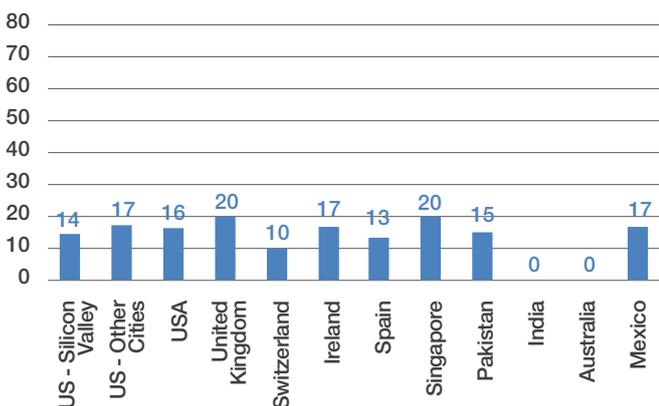
**Strategy**



**Government Regulatory**



**Services and After-Sales**



**Partnerships**

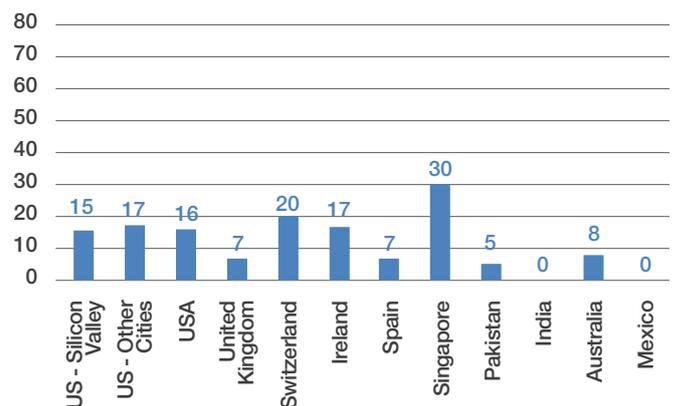
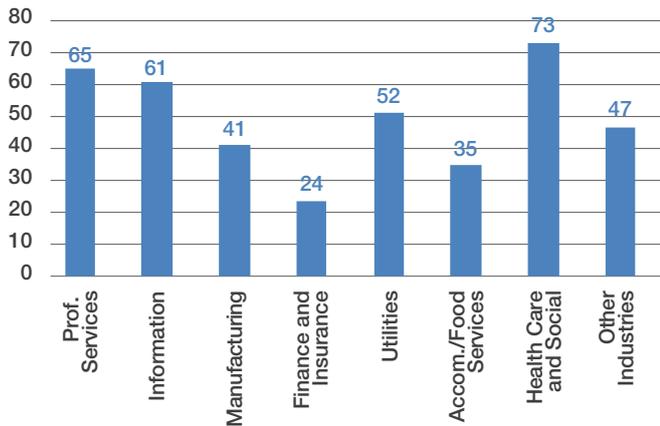
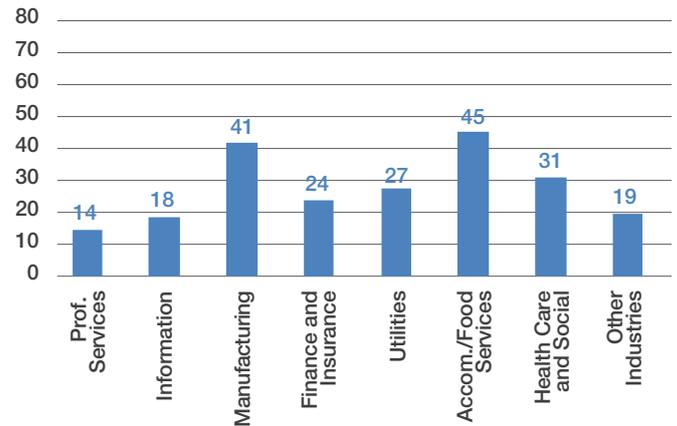


Exhibit 4-8: Relative Importance of Most Frequently Mentioned International Growth Accelerator Categories, by Industry

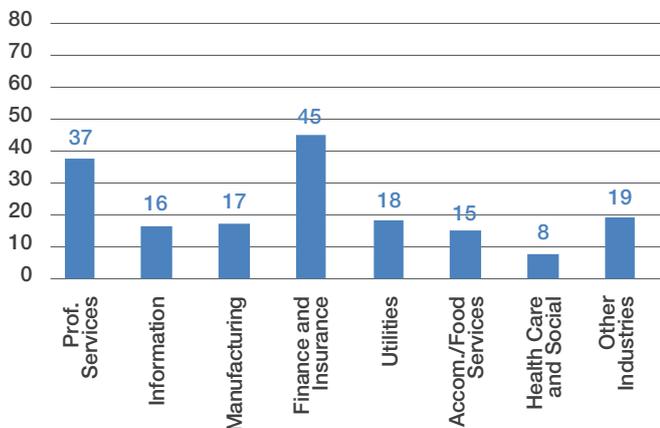
### Market Opportunity



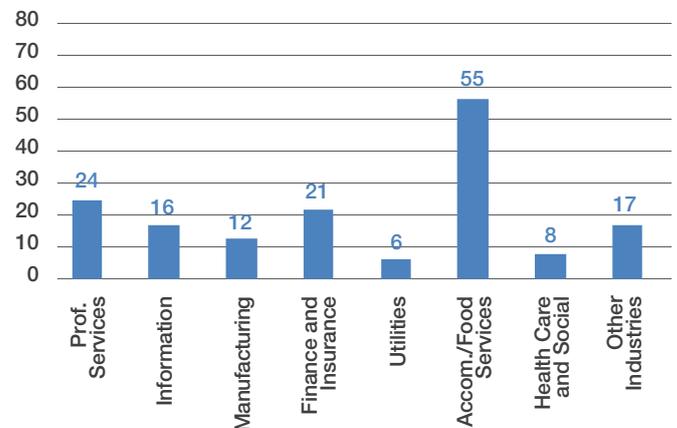
### Human Capital



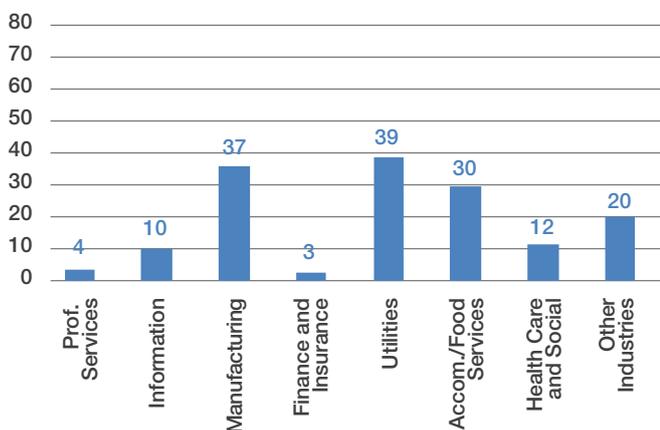
### Top Management



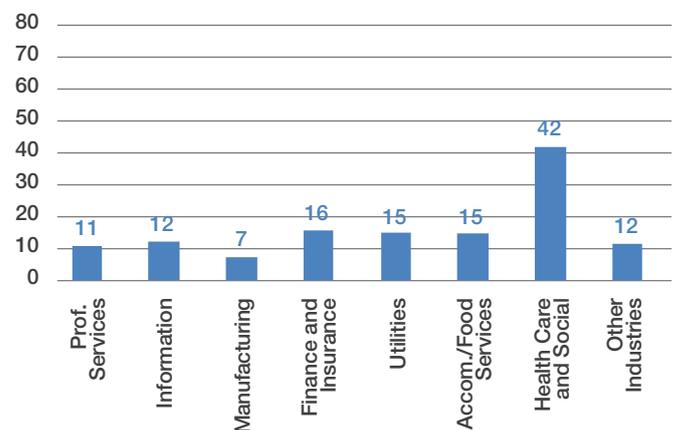
### Marketing and Branding



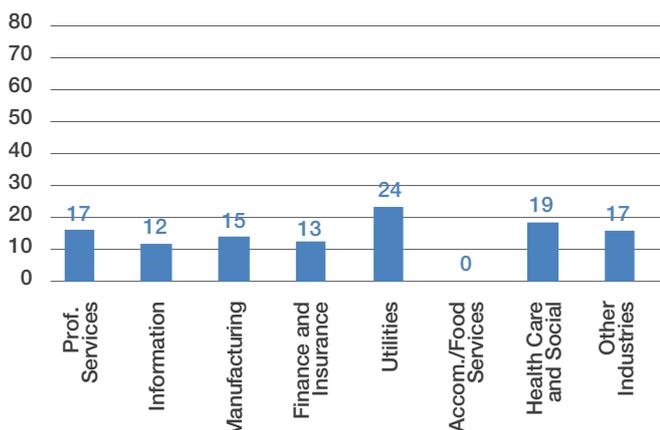
### Services and After-Sales



### Government Regulatory



### Partnerships



### Strategy

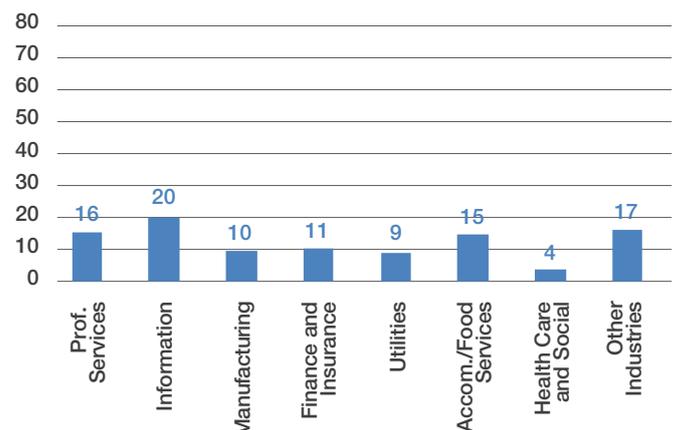
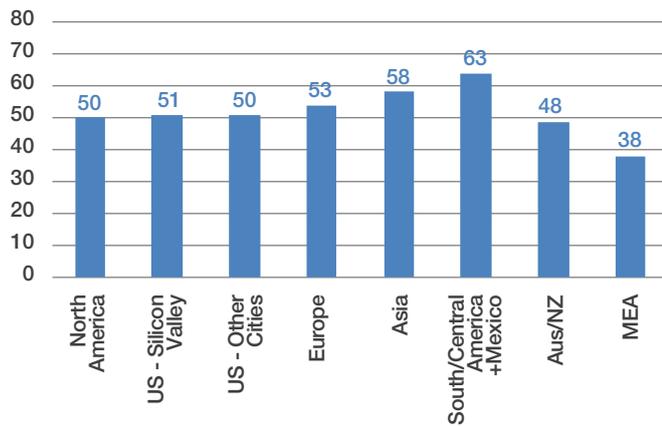


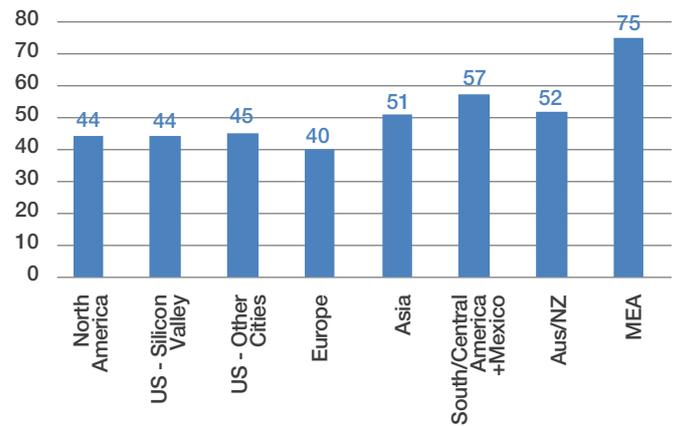


Exhibit 4-10: Relative Importance of Most Frequently Mentioned Growth Challenge Categories, by Continent

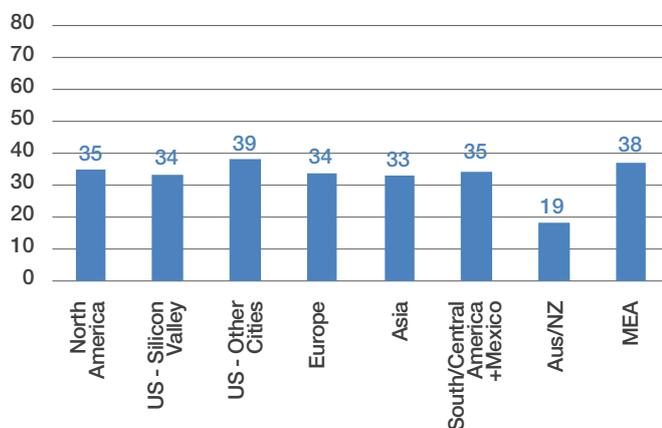
### Funding and Finance



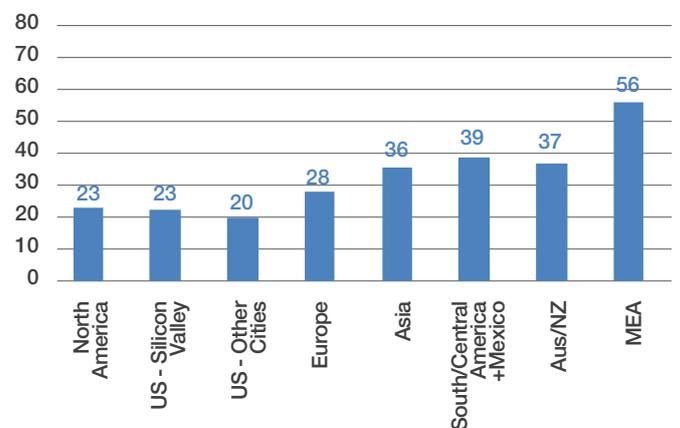
### Human Capital



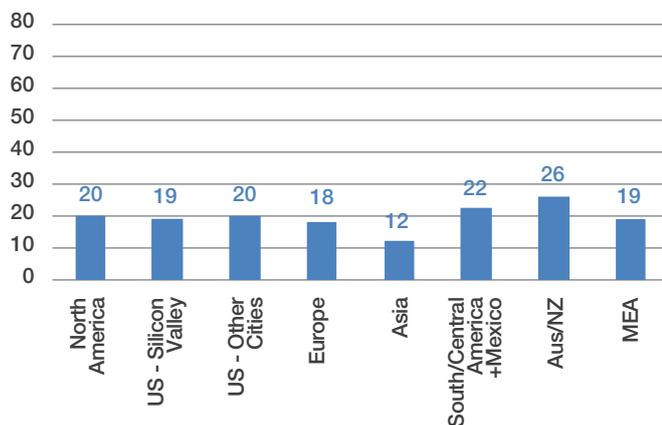
### Market Opportunity



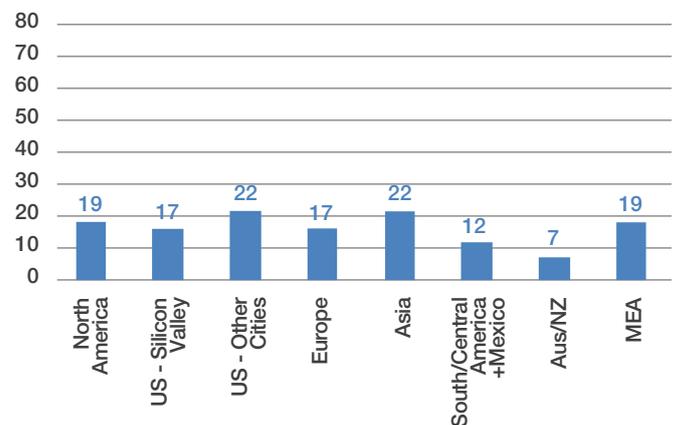
### Government Regulatory



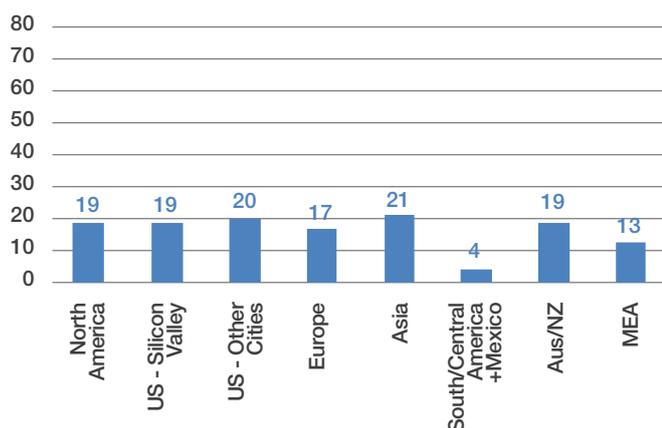
### Operations Management



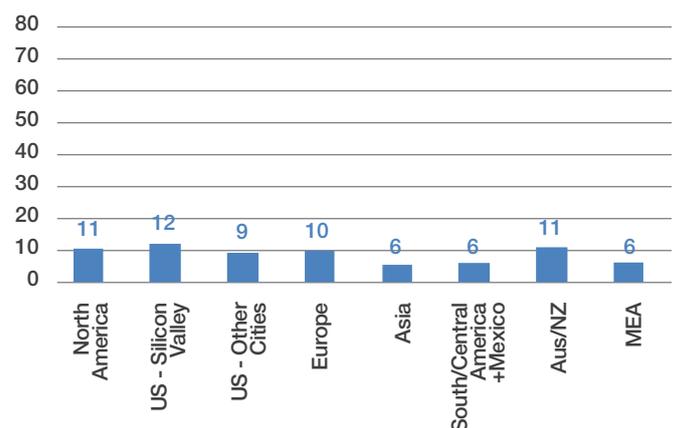
### Top Management



### Strategy

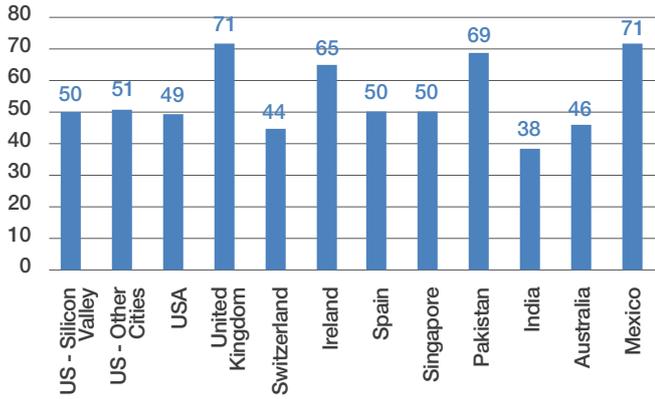


### Marketing and Branding

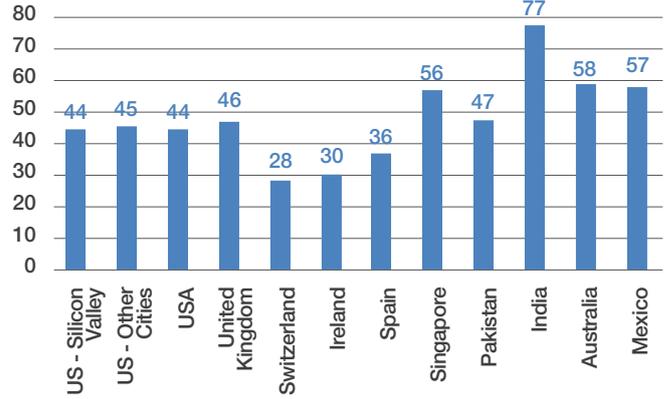


**Exhibit 4-11: Relative Importance of Most Frequently Mentioned Growth Challenge Categories, by Country**

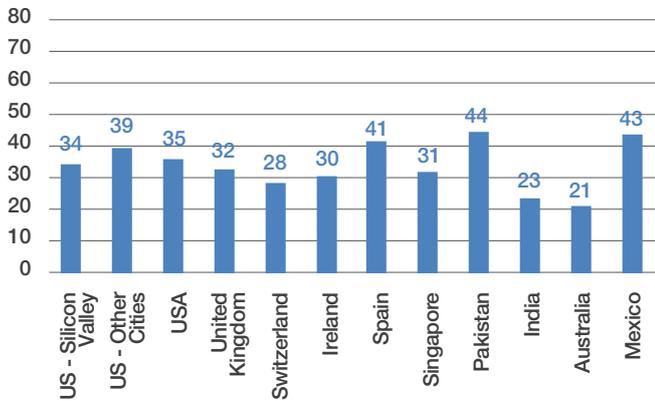
**Funding and Finance**



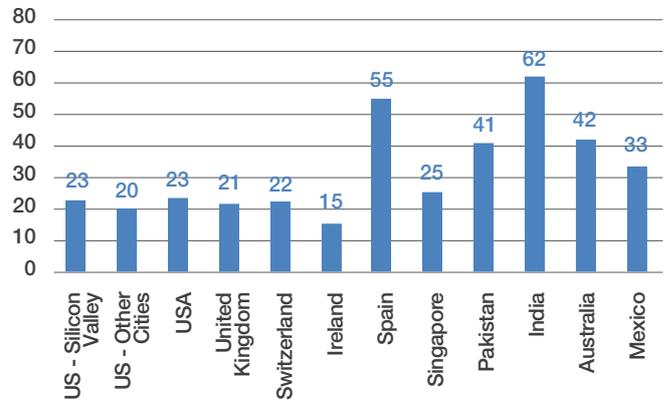
**Human Capital**



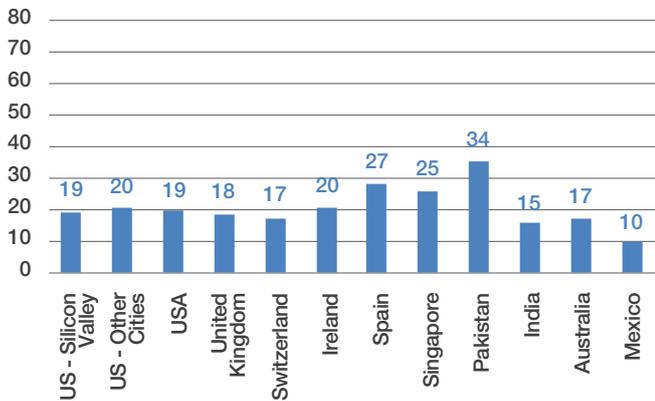
**Market Opportunity**



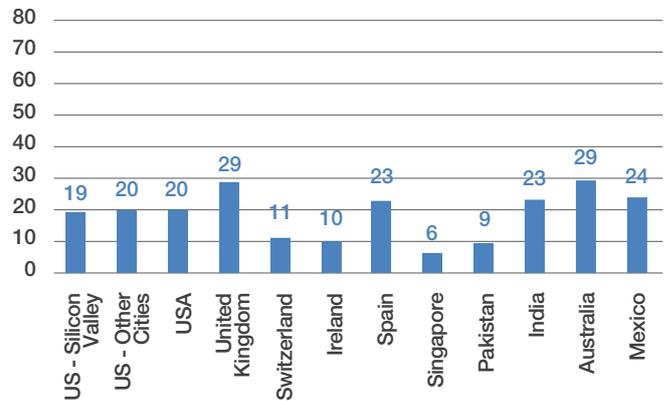
**Government Regulatory**



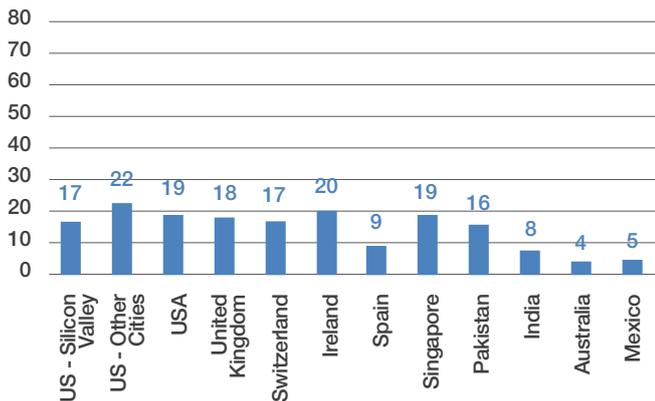
**Strategy**



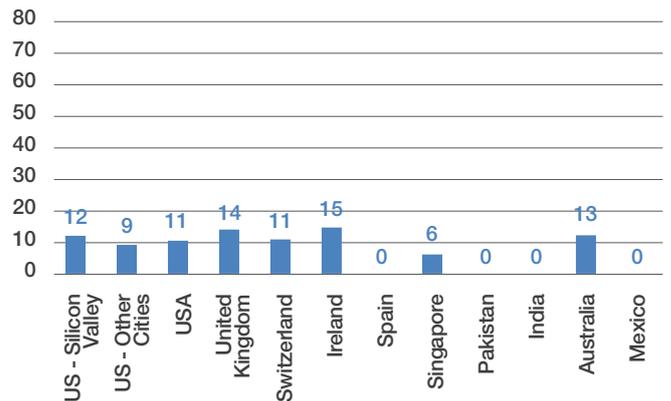
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**Top Management**

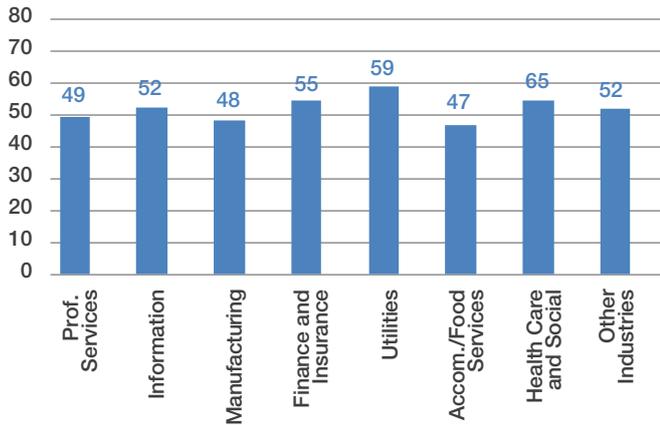


**Marketing and Branding**

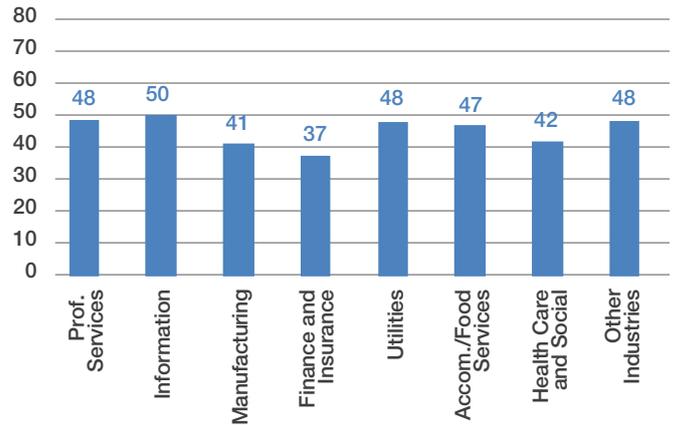


**Exhibit 4-12: Relative Importance of Most Frequently Mentioned Growth Challenge Categories, by Industry**

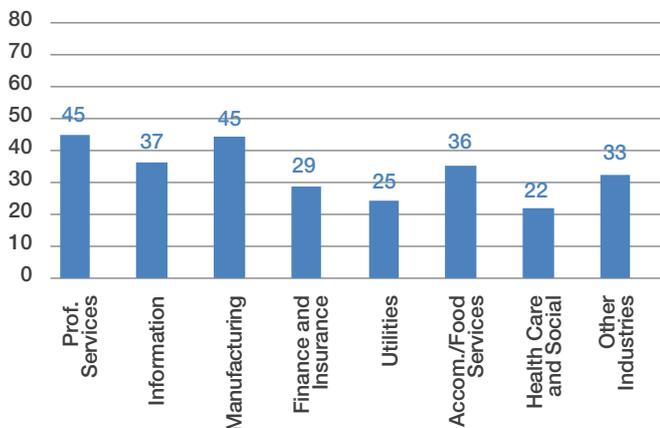
**Funding and Finance**



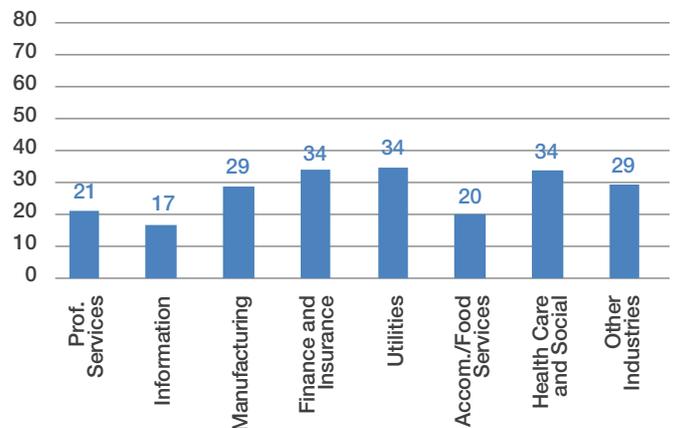
**Human Capital**



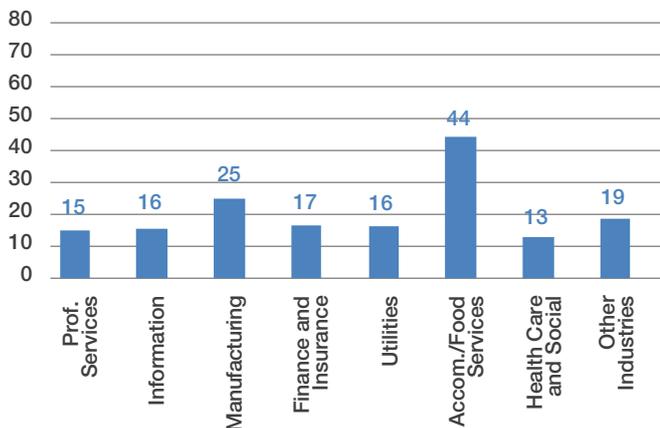
**Market Opportunity**



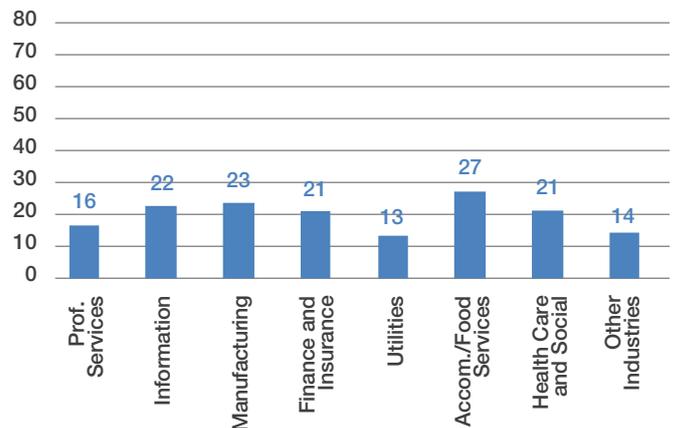
**Government Regulatory**



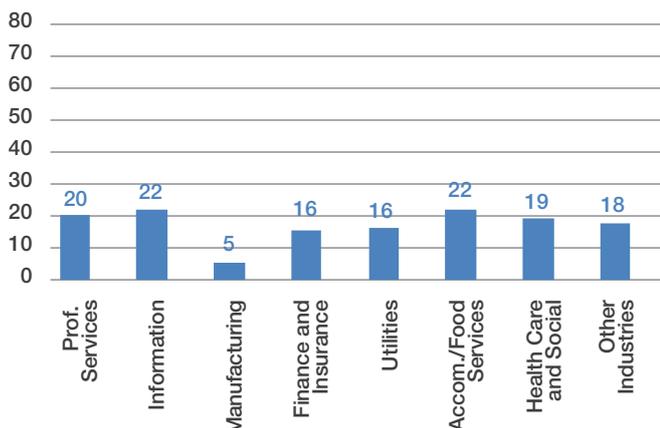
**Operations Management**



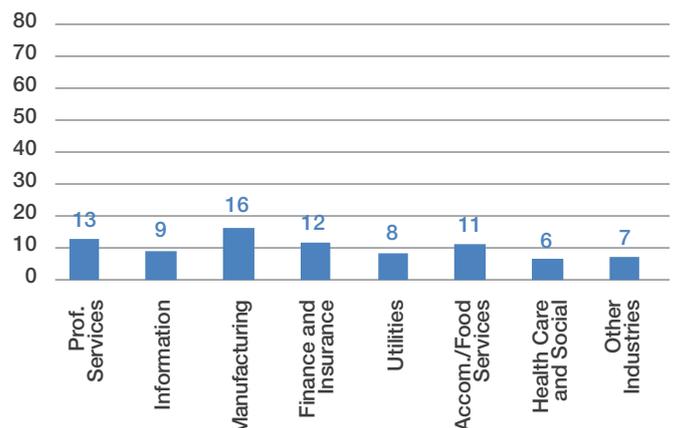
**Top Management**



**Partnerships**



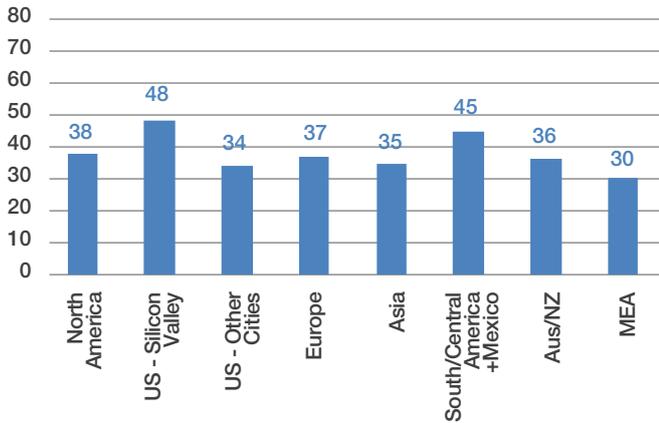
**Marketing and Branding**



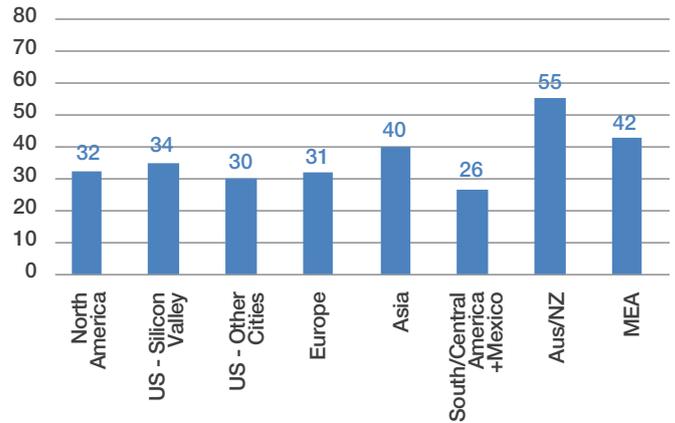


**Exhibit 4-14: Relative Importance of Most Frequently Mentioned International Growth Challenge Categories, by Continent**

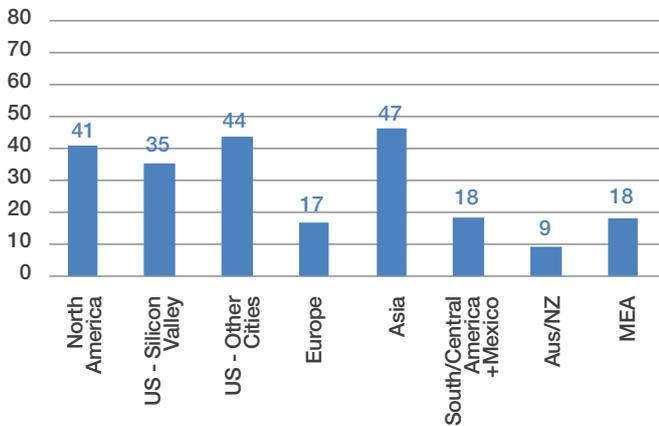
**Human Capital**



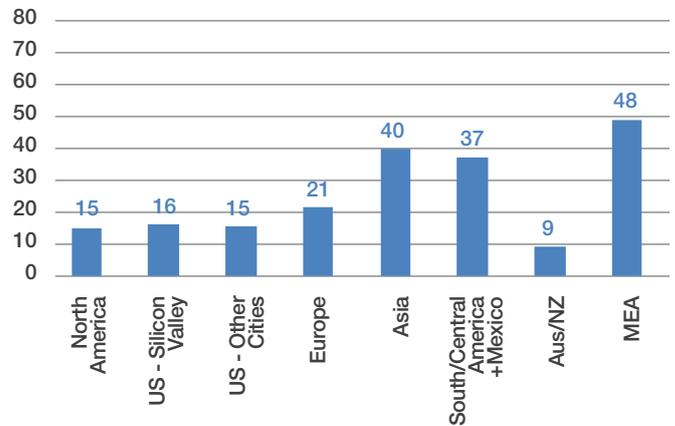
**Market Opportunity**



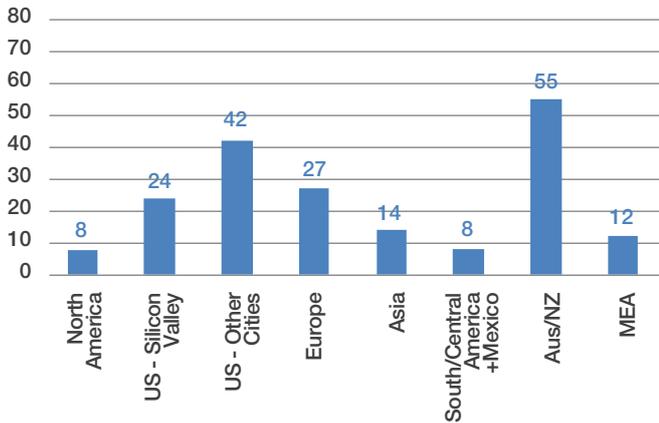
**Government Regulatory**



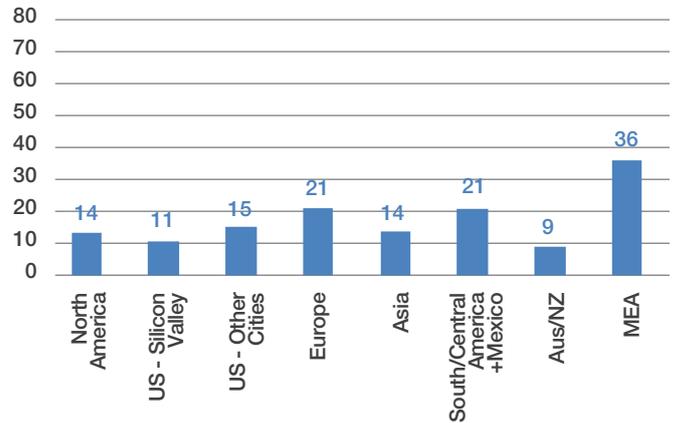
**Strategy**



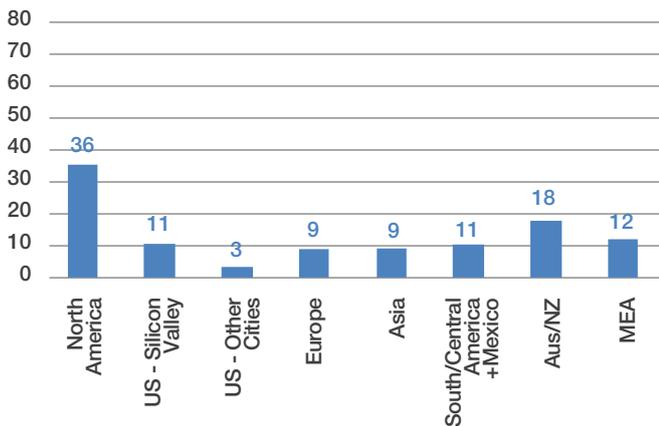
**Operations Management**



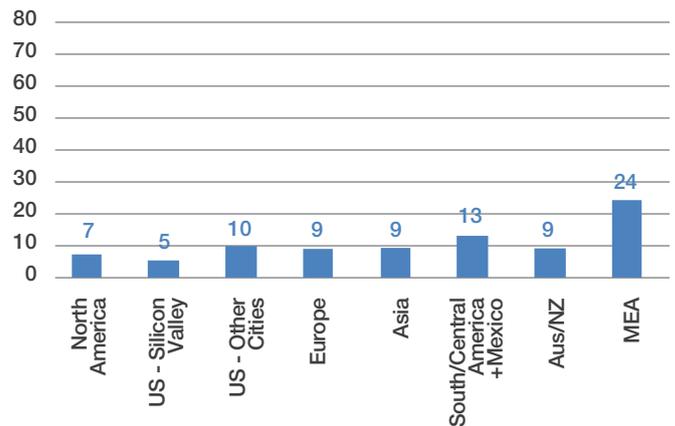
**Funding and Finance**



**Marketing and Branding**

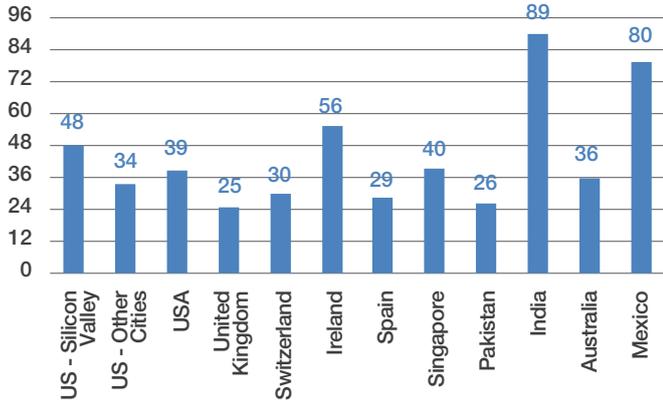


**Partnerships**

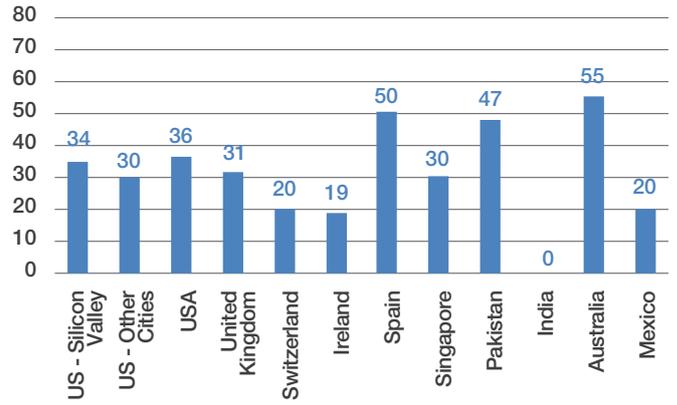


**Exhibit 4-15: Relative Importance of Most Frequently Mentioned International Growth Challenge Categories, by Country**

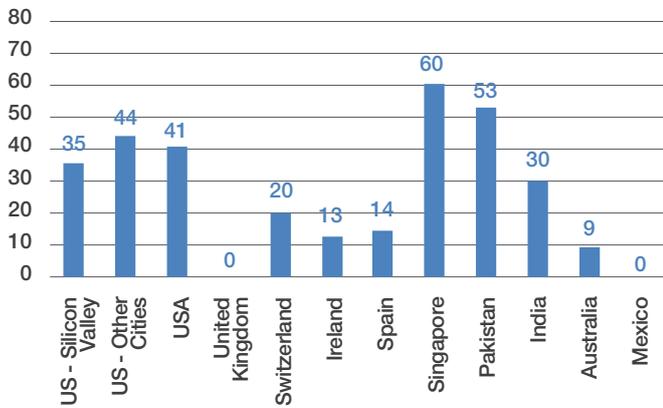
**Human Capital**



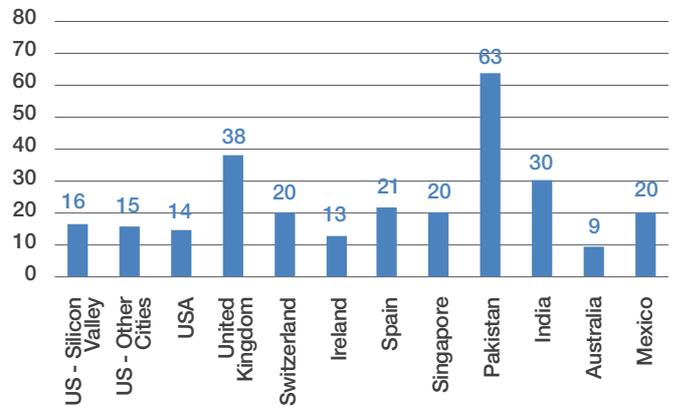
**Market Opportunity**



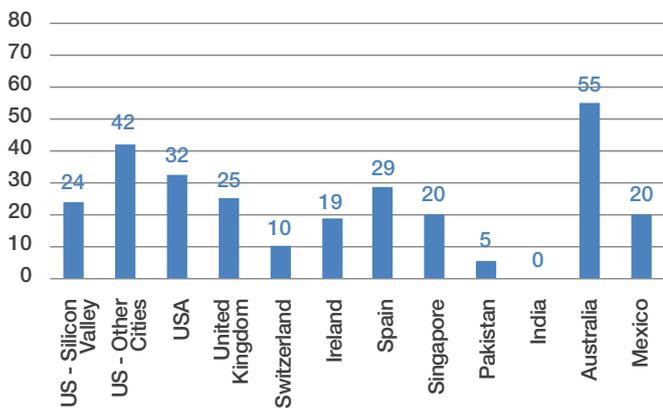
**Government Regulatory**



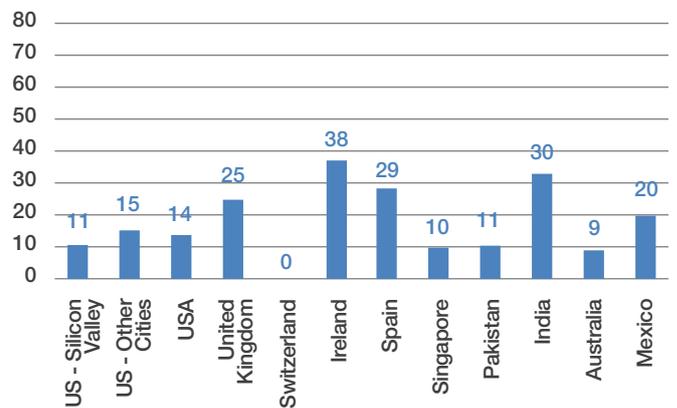
**Strategy**



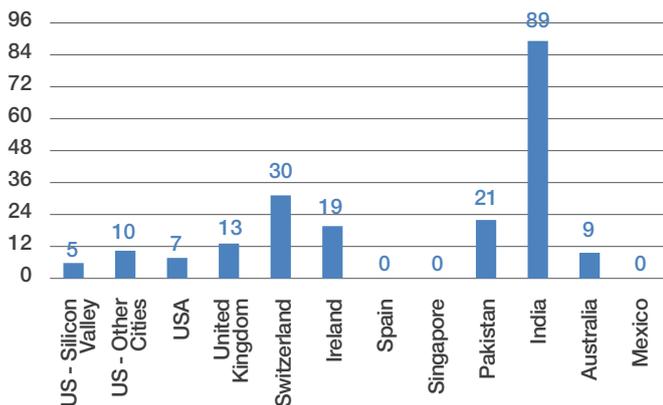
**Operations Management**



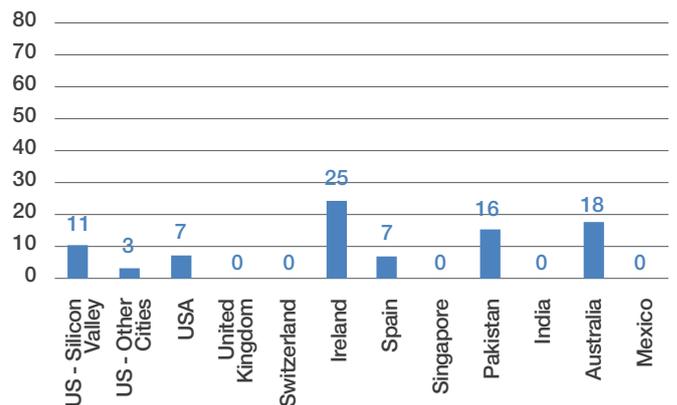
**Funding and Finance**



**Top Management**

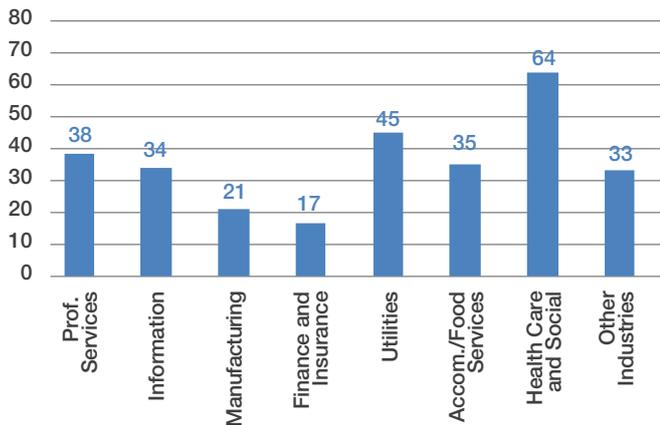


**Marketing and Branding**

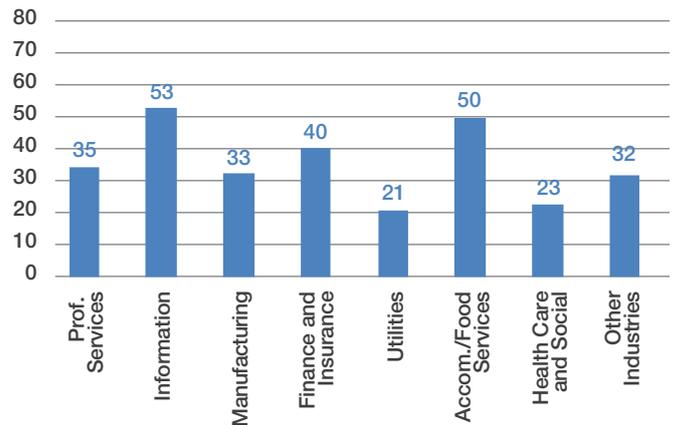


**Exhibit 4-16: Relative Importance of Most Frequently Mentioned International Growth Challenge Categories, by Industry**

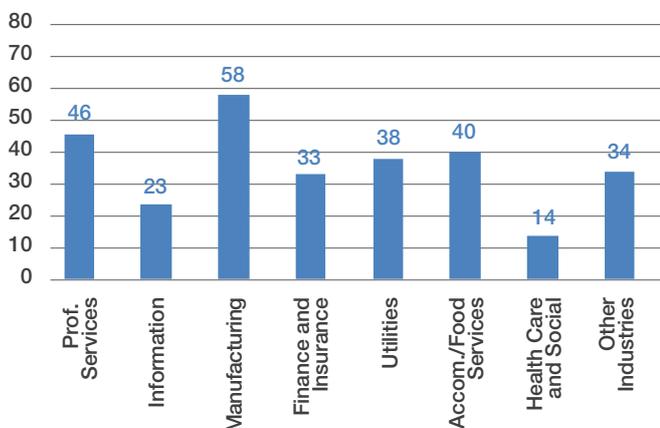
**Government Regulatory**



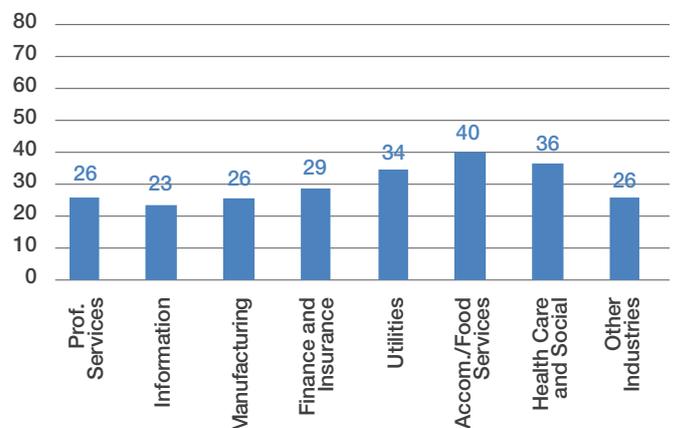
**Market Opportunity**



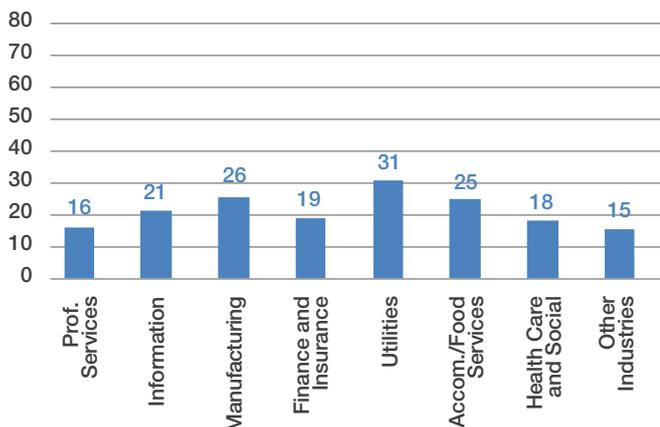
**Human Capital**



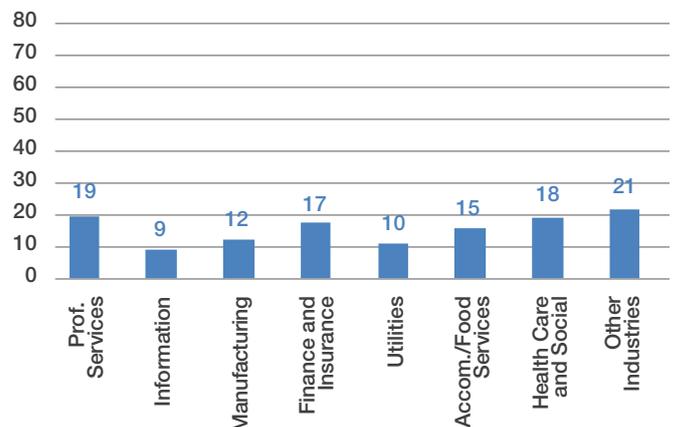
**Operations Management**



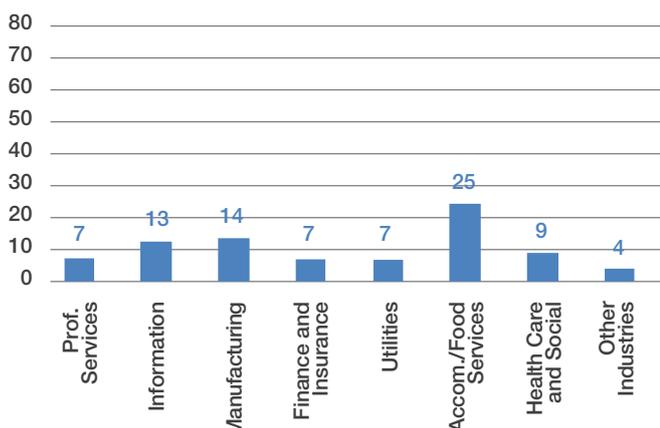
**Strategy**



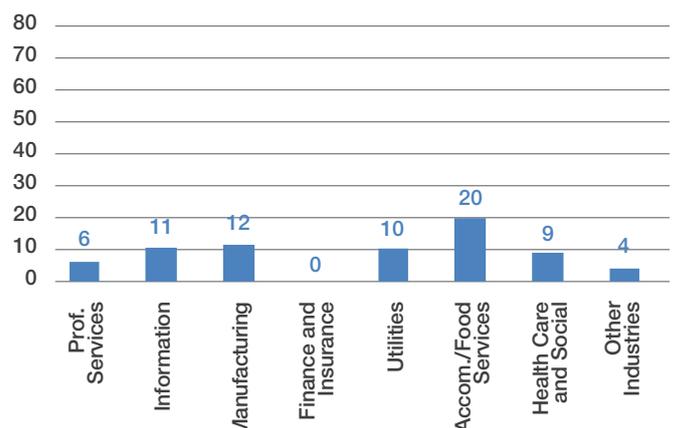
**Funding and Finance**



**Top Management**



**Services and After-Sales**







# Section 5: Large Companies as Scaling Leverage for Early-Stage Companies: Navigating through the Pitfalls

## Executive Summary

Large companies are an important part of early-stage companies' ecosystems. While large companies can be and often are growth accelerators, they can be important inhibitors as well. This section covers the findings of the relationship between large and early-stage companies. The survey highlights the important role of large companies in the entrepreneurial ecosystem, and seven areas where large companies play a supporting role. Their roles as customers and licensors of technologies provide significant revenues to start scaling early-stage companies. Large companies provide credibility when most needed in the early stages. In addition, they can become strategic investors – their decisions have important consequences for the cash needs of early-stage companies, and they act as mentors and provide learning that can help identify new aspects of the business model. Large companies also offer go-to-market support and can speed initiatives for operational effectiveness at early-stage companies.

However, large companies can also inhibit growth. The survey data indicates seven potential pitfalls that can trap early-stage companies. Large companies can demand too much attention and divert an early-stage company, which compromises the best use of latter's limited resources. Due to their processes and structures, large companies are slower to act and respond, and relationships can become frustrating. Excessive value appropriation can occur when large companies use their often extremely strong bargaining power, and they can impose transaction and litigation costs that could bring down early-stage companies. Finally, large companies often have impact on governments and regulators, and shape regulatory-influenced value capture to the detriment of an early-stage company.

## 5.1 Illustrating the Multiple Roles of Large Companies in the Entrepreneurial Ecosystem<sup>9</sup>

Large companies can have a crucial role in entrepreneurial ecosystems. The upside of an effective working relationship between an early-stage and a large company is potentially sizeable and can occur in multiple areas. Exhibit 5-1 illustrates how the partnership between the Mexican start-up and paint-applicator company, Brochas y Productos (BYP), and its large retail partner, The Home Depot, was instrumental to the start-up's growth.

Exhibits 5-2 and 5-3 present the results from the entrepreneurial ecosystem survey summarized in Sections 2 and 3. Exhibit 5-2 shows the percentage of respondents for the accessible markets pillar indicating the ready availability of its component customer groups. On average across the six continents, 69% of respondents cited the ready availability in their domestic markets of large-company customers to early-stage companies, while 78% indicated ready availability of small to medium-sized company customers. For foreign markets, 43% of respondents saw large company customers and 36% indicated small to medium-sized company customers as readily available.

Exhibit 5-3 shows the relative importance attributed by entrepreneurs to the customer components of the accessible markets pillar. An average of 55% of respondents across the six continents considered large company customers as most important to early-stage company growth for the domestic market, while 65% on average indicated small to medium-sized company customers as most important. For foreign markets, large company customers average 24% in importance, with small to medium-sized company customers averaging 25%.

Clearly both large and small to medium-sized companies are important customer groups to early-stage companies. This section highlights how large companies, in addition to their role as customers, can bring a broader set of benefits to an early-stage company. However, the relationship between the two can be relatively complex, with potential and sizeable upsides and downsides.

## 5.2 Opportunities for Early-stage Companies Working with Large Companies

Large companies can play various roles in the development of early-stage companies. Seven categories of roles have been developed based on analysis of the survey's qualitative responses, quotations from the executive case studies in this report's Appendix, and prior research:

### Categories of Roles: Opportunities for Productive Early-stage Company – Large Company Relationships

1. **Customer engagement** – early customers to accelerate growth
2. **Credibility enhancement** – “lighthouse”/“tentpole” customers, brand display, references
3. **Strategic investors and financing partners** – an increase in financial resource capacity
4. **Mentorship and advice** – eye-opener to new markets and industry structure
5. **Go-to-market partners** – distributors and resellers, access to outlets, logistics
6. **Operating capability enhancement** – manufacturing, software, technology, know-how
7. **Licensing leverage** – licensing of start-up technology to enter a new market

### 5.2.1 The upside from customer engagement

The survey identified large companies as playing significant roles as customers in both domestic and foreign markets – see Exhibits 5-2 and 5-3. A large customer provides important revenues for an early-stage company, as well as credibility when seeking out other customers such as Small and Medium-sized Enterprises (SMEs) and governments. Large companies can also enhance their revenue bases by collaborating with start-ups, for example by incorporating the start-up's product into their own product portfolios. This in turn will broaden and scale up the start-up's customer reach. These activities demonstrate how the large company's marketing prowess promotes the start-up's sales. Large companies can also provide customer financing through attractive payment deals and, although being customers of start-ups, they can even acquire them. Exhibit 5-4 provides quotations from the survey illustrating some of these diverse customer-engagement roles.

### 5.2.2 The upside from credibility enhancement

Start-ups can suffer from negative perceptions of being new – a lack of history can mean a lack of credibility. To correct this, they can take initiatives that include bringing in investors, advisers and board members highly regarded in the industry, as well as hiring people with backgrounds legitimizing the company. Often an effective way to gain credibility is to be associated with large, visible companies that are either highly respected or have well-recognized brands. Often labelled “lighthouse” or “tentpole” customers, these companies create associations for potential customers, suppliers, investors, partners and hires to develop trust in the start-up. The risk that other companies see in working with a start-up decreases substantially if a large lighthouse company is willing to collaborate with it. Exhibit 5-5 has quotations from the survey illustrating this point. The executive case studies have multiple examples of large companies fulfilling this role:

- **Galaxy Desserts (USA)** – producer of baked goods and all-natural desserts:

“Building our croissant business with Williams-Sonoma has been great for both sides. We certainly couldn't have done it without them. They found the best croissants in the US, and we gained access to their millions of loyal customers. In fact, Oprah [Winfrey] discovered our croissants in the Williams-Sonoma catalogue. We were fortunate that the orders resulting from our Oprah [TV] appearances all came through the Williams-Sonoma infrastructure (call centre, website, order processing system, etc.). We would have had an incredibly hard time trying to handle that type of volume ourselves.”

- **9F Group (China)** – financial services company:

“Most of our clients are large State-owned Enterprises (SOEs) – the Chinese banks. Our very first client was the Agricultural Bank of China (ABC). It was our lighthouse customer. Landing that contract had a monumental impact on company growth because we were able to subsequently attract many more businesses by capitalizing on ABC's brand name. Large companies are typically very cautious in choosing small companies as their business partners because small companies typically lack credibility, lack a proven track record and have high exposure to bankruptcy risk.”

### 5.2.3 The upside from large companies as strategic investors and financing partners

Large companies are becoming increasingly aware of start-ups in their innovation process, taking an active role working with early-stage companies, becoming active investors and providing important value added services to start-ups. The role of corporate venture capital is not restricted to getting financial returns from start-up investments. For example, large companies can stimulate ecosystem development for the start-up's products and take real options in new emerging innovations. While a start-up investment may not pay off on its own, it could enhance the overall market for the company's products and be a profitable investment in this broader context. As investors, large companies can contribute access to knowledge, commercial channels, R&D, manufacturing and other assets of potentially significant value to an early-stage company. Exhibit 5-6 provides survey quotations that illustrate large companies as strategic investors and the benefits often associated with them.

### 5.2.4 The upside from large-company mentorship and advice

Insightful advice can be valuable to an early-stage company. Employees of large companies often have a broader and deeper perspective on their industry than others; entrepreneurs can gain important insights from this, identifying new opportunities, new applications for their products or new ways to build their business model. Exhibit 5-7 provides quotations illustrating how entrepreneurs have found such positive new insights from interaction with large companies.

### 5.2.5 The upside from large companies as go-to-market partners

Check Point Software Technologies Ltd (Check Point), a major Israeli success story in the security business, had a major breakthrough in revenues and stature when Sun Microsystems, in its early years, incorporated the company's software into its product sales. Sun Microsystems became an important go-to-market partner and gave Check Point access to a global market well beyond its own capacity as a small Israeli start-up. In the first three years, Sun Microsystems contributed over 50% of Check Point's total revenues.

Reaching the market is one of the most expensive undertakings for a new company. Large companies already have market presence, a large number of customers and traffic to their distribution channels. They also have efficient logistics and people on the ground offering technical support and after-sales service. Start-ups can scale very quickly if they are able to offer such large companies a win-win deal. Exhibit 5-8 highlights this role through several quotations from the survey, and executive case studies help to illustrate this further.

- **TaKaDu (Israel)** — provider of software promoting efficient water usage:

"A different channel that helps us address those challenges is our global network of partners. TaKaDu partners with a range of well-recognized resellers (from local professional companies to large international corporates) that represent us internationally, reducing the level of reluctance from the customer side. The most significant partnership is with TaKaDu's strategic partner ABB, which also led a US\$ 6 million funding round in TaKaDu in April 2012. The partnership with ABB, as well as other resellers of TaKaDu selling network measurement instrumentation, brings prospects to the level where they are technically ready for TaKaDu, therefore increasing the company's addressable market."

- **Wildfire (USA)** — social media marketing platform:

"We were somewhat lucky and were able to benefit from the Facebook and social media wave. Initially, our sales were predominantly from the United States and, when Facebook took off internationally, our sales followed. We were also able to leverage the strong relationships we had at Facebook. When their sales team would sell ads, their clients would often ask, 'What can we do beyond ads?', and Facebook would respond with, 'Use Wildfire'. We received a lot of business through this avenue."

- **ViiCare (China)** — provider of information technology solutions for hospitals:

"We have established partnerships with large companies in the area of marketing and sales. These partners, including Accenture, Digital China and Enjoyor, have helped us land large hospital contracts. In addition, some of our clients are large hospitals, including Shanghai Xinhua Hospital and the General Hospital of Armed Police Forces."

### 5.2.6 The upside from large companies enhancing operational capability

By working with large companies, start-ups have access to assets that would otherwise be too expensive, including commercial support, credibility and knowledge (intangible assets). Additional examples include access to R&D, manufacturing and technical support. Exhibit 5-9 provides some examples from the survey.

Large companies typically have very stringent supplier requirements; the consequences of any mistakes can run as high as the value of the company. Large companies are often more careful in managing risks than many early-stage companies and, as a result, are much more demanding in their processes and systems. Start-ups can learn from such demanding requirements and quickly demonstrate how they offer as just as much in quality and efficiency. Exhibit 5-9 illustrates this role using quotations from the survey.

### 5.2.7 The upside from licensing leverage with large companies

"Licensing out" and "licensing in" are two aspects of dealing with large companies. Licensing out to large companies is often an efficient way to access large-scale testing, manufacturing and distribution, for example of pharmaceutical or biotechnological products. Licensing in allows start-ups to access technology that has already been developed, belongs to a large company and is often the basis for technology under development at the start-up. Exhibit 5-10 shows the use of licensing through quotations from the survey.

### 5.2.8. The upside from broad-based leveraging with large companies

While the seven-part categorization is used to show the roles large companies play in creating productive relationships with early-stage companies during their development, in many cases two or more of these roles can occur simultaneously. Exhibit 5-11 provides a vivid example from the early-stage company Octel Communications and its highly productive relationship with much larger General Electric (GE). This example reinforces the multifaceted benefits outlined in Exhibit 5-1 for BYP and its partnership with The Home Depot.

## 5.3 Large-company Pitfalls: Having “Eyes Wide Open” to the Challenges and Drawbacks of Start-ups Working with Large Companies

Start-ups face important challenges when working with large companies. Importantly, start-ups should have an “eyes wide open” mindset when faced with some of the large-company pitfalls, not the least of which is that large companies are for-profit businesses and often seek to maximize their own returns (sometimes short-sightedly). They can push their partnership with an early-stage company to the limit and beyond.

This part of Section 5 describes seven challenges that start-up managers and managers in large companies should take into account when negotiating a partnership and executing on it:

### Challenges in Early-stage Company – Large Company Relationships

1. **Attracting attention** – getting noticed by large companies
2. **Productively working together** – maintaining coordination with and commitment from the large company
3. **Value appropriation** – dealing with challenges associated with value creation and value capture
4. **Maintaining focus** – start-up companies losing focus, having their attention and skills diverted
5. **Imposed not-so-hidden costs** – imposing direct and opportunity costs on start-ups
6. **Predatory contracting and litigation** – lawyers/lawsuits undermining a start-up’s progress
7. **Regulatory capture by large companies** – creating an uneven playing field

#### 5.3.1 Attracting attention – the challenge of getting on the large-company radar

The first hurdle for start-ups working with large companies is attracting their attention. Among the thousands of employees at large companies, it can be difficult to find those with interest in a start-up and the power to introduce and support one. Most large companies do not have a department focused on working with start-ups; to establish a relationship, finding the right person is often the first challenge. Even when a key person is identified and convinced, this person may have neither the right network nor the power to create the right win-win situation internally. Moreover, that person may change position or leave the company. Survey evidence in Exhibit 5-12 illustrates some early-stage company frustrations and downsides in this area.

#### 5.3.2 Productively working together – the challenge of maintaining effective coordination and commitment

Relationships between start-ups and large companies can be difficult, especially as the two types of organizations work with different priorities and models. Start-ups are often characterized by speed and focus, while large companies are more known for minimizing risk (often at the expense of speed) and managing a complex network of people, processes, products and markets. The relationship between these two often starkly contrasting types of companies is not

simple and can be easily derailed. To adapt a frequently used expression, “large companies are from Mars, start-ups are from Venus”. A clear value proposition from the start-up is often not enough to attract large companies; in fact, a champion within the large company is often required to support the start-up and mobilize resources internally that will leverage the relationship. Exhibit 5-13 covers examples of early-stage and large companies facing such relationship support and commitment challenges.

#### 5.3.3 Value appropriation – challenges associated with value creation and capture

Collaboration between early-stage and large companies typically occurs because both partners benefit from the relationship. While significant value is often created, the majority of it is frequently captured by the large company, thanks to its experienced negotiators and greater bargaining power. A contract that can make or break a start-up typically will not have such consequences for a large company, and closing a deal is invariably more urgent for the start-up. An extreme form of value capture can occur when the large company adopts predatory behaviour to acquire the early-stage company at a below-market or even “fire-sale” price. Early-stage company frustrations in this area are illustrated in Exhibit 5-14 and in executive case studies in this report’s Appendix. Interesting examples include:

- **Aemetis (USA, India)** — renewable fuels and biochemical company:  
“The key missing component of the ecosystem was a lack of access to markets without interference by oil companies, who have direct conflicts of interest with renewable fuel producers. Since oil companies own oil fields and refine oil into gasoline, and often provide fuel distribution and retail sales, oil companies control the sales channel for fuels. The resulting inability of biofuel companies to sell on an even playing field with oil-based gasoline resulted in low margins and reduced market size.”
- **ViiCare (China)** — provider of information technology solutions for hospitals:  
“It is not easy to establish partnerships with large companies. They would typically require a lengthy and intensive due diligence process before signing the MOU [memorandum of understanding] with us. Also, they would require a proven track record to ensure that we are a reliable partner. Moreover, large companies typically possess greater bargaining power. We have come across situations where potential partners ask us to share the source code and other intellectual property with them for free. The decision process at large companies sometimes is too long, and we may have already missed the market opportunity when the consensus is finally reached.”

### 5.3.4 Maintaining focus – the challenge for start-ups with diverted attention and skills

Large companies often require a start-up to tailor a product or service to meet their own demanding requirements. What starts out as a series of small, “required adaptations” from the large company can take excessive resources and time from the start-up’s product design and engineering teams, among others. When several large companies simultaneously demand “unique adaptations”, a start-up can quickly find itself stretched in too many directions and focus is lost on developing the right, general product for a much larger market. Start-ups can also lose focus when large company negotiations become lengthy and lack closure with outcomes. While the potential upside may warrant sizeable investment of time, resources and mindshare, often the small company overcommits and is unwilling to pull the plug when the situation warrants. When no contract is agreed after long negotiations, serious loss of morale and loss of focus at the start-up can result.

At large companies, lack of expertise and understanding in how to work with start-ups can lead to frustrations surfacing at early-stage companies. In part, this can arise from large-company policies born out of negative experiences (in some cases systematic, and in others anecdotal). For example, large companies may require potential vendors to have a minimum number of years’ experience or a minimum size, with companies not meeting requirements being excluded from partnerships. In fact, very young and excluded early-stage companies may have a product or service of high relevance to the larger company that would keep its product line at a competitive edge. Corporate rules including minimum number of years’ existence and size make it administratively easy to narrow down the list of qualified candidates. The downside, however, is that the large company never gets to build its expertise in identifying and working effectively with those start-ups that don’t necessarily meet its eligibility criteria.

The diverse aspects of this challenge are reflected in survey examples shown in Exhibit 5-15. The executive case studies include discussions from executives about this area, as well as steps taken to reduce its potentially negative impact:

- **Wildfire (USA)** — social media marketing platform:

“We had some difficulty pushing away large companies. When it comes to product engineering, these companies pay you a lot of money and expect you to cater your product to their specific needs. We have always had the philosophy that we are building a platform of products where all customers can benefit from the same set of features. It was tough having to tell large companies, ‘we cannot do that’, or ‘we will not do this’. We have had to push away a good amount of business because of this philosophy. This proved especially challenging when we developed an enterprise sales force. Enterprise salespeople tend to want to sell the deal, and if product engineering says that they cannot, or will not, do something then it sometimes can create tension... Even when we were really small, we said no to several large companies who approached us to provide them with specially tailored products. Because of this philosophy, we won some deals and lost some deals. Ultimately, we were fortunate to have enough deals in the pipeline that turning down certain companies was not too devastating to our financials. Our discipline also made us less reliant on a

small group of large clients. We had a very large customer base with no one customer representing a huge percentage of our revenue. This provided us with a tremendous amount of freedom and flexibility to build the product the way we felt best.”

- **Cupola (UAE)** — credit-card processing company:

“Our biggest disappointment was the collapse of a potential joint venture in Saudi Arabia. We spent over 18 months (2010–2011) identifying, nurturing and negotiating with a potential partner to set up an integrated card personalization centre and a contact centre. The failure was caused by two factors. The JV [joint venture] partner had promised to provide business from their own businesses and their clout in the market. This value added was never quantified or agreed upon explicitly. The second factor was the restriction on visas for foreign workers imposed by the authorities for our type of service industry.”

### 5.3.5 Imposed not-so-hidden costs – the challenge of facing imposed direct and opportunity costs

Large companies can impose costs on start-ups that threaten their survival. These costs are often opportunity costs. One example is a large company not making payments to the start-up on the agreed-upon timing, forcing the start-up to incur bridging finance costs. Start-ups do not always recognize that other companies may not make investments in them because those companies consider other, large companies with pre-existing stakes in the start-ups as competitors. And, fewer investors are willing to bid on subsequent rounds of financing, resulting in higher financing costs and lower valuations in those rounds. Companies that consider a thinly resourced start-up as a competitive threat can adopt an aggressive pricing strategy to try slowing the start-up’s progress or, in some cases, putting it out of business (predatory pricing laws notwithstanding). Another not-so-hidden cost is lethargy among a start-up’s employees and in its organization, associated with frustrations in dealing with large-company bureaucracies. Exhibit 5-16 presents examples illustrating this challenge.

### 5.3.6 Predatory contracting and litigation – legal challenges undermining a start-up’s progress

Predatory use of lawsuits by a large company can impose a number of costs on a start-up, which may not have the capacity to engage in an extended legal fight with the larger, well-resourced company. Allegations of intellectual property theft, patent violation and violations of employee non-compete agreements are three frequently observed examples. Exhibit 5-17 illustrates this challenge. An example from the executive case studies is:

- **OpenDNS (USA)** — leading provider of cloud-delivered Web security services:

“We’ve rarely found large companies to be helpful to our growth, but they often get in the way. Large companies can distract you with competitive offerings that are fast followers backed by more financial resources, and they can distract you with legal challenges in the form of patent assertions and lawsuits.”

### 5.3.7 Regulatory capture by large companies – the challenge of an uneven playing field

Government regulations can play an important role in how level the playing field is among competitors. In some cases, regulators will prefer to support domestic companies, creating problems for foreign entrants. Examples include high-tariff barriers on imports and preferred support for government-related companies.

In some countries, large companies can have preferred access to government officials and regulatory bodies. This is often based on multiple factors such as: personal relationships; prior support of an election campaign; payments to well-connected lobbyists; and implied lucrative job opportunities for influential officials leaving government service. Regulations may be written to favour large companies; as a result, early-stage companies face challenges as competitors, or when negotiating a partnership with a large company. This has been called “regulatory capture”. Exhibit 5-18 provides quotations from the survey relating to such challenges.

## 5.4 Conclusion

Large companies often play an important role in the growth of early-stage companies. Yet, working with the former can be challenging for start-ups, and the level of maturity across geographies in how to structure these relationships varies significantly. This section has identified seven opportunities and seven challenges that early-stage companies may experience in such relationships. As the landscape is varied, start-ups should always adopt an “eyes wide open” approach when negotiating with large companies. At one extreme, there are highly productive partnerships characterized by mutual success. At the other, “scorched-earth” outcomes result when early-stage companies end up in markedly worse positions from their engagements with the large companies.

### Exhibit 5-1: BYP Rides the Wave of The Home Depot’s Growth in the Mexican Market

**BYP (Mexico)** — paint applicator company:

“One of the most important factors that fuelled BYP’s growth was the relationship with some key customers. One of our first clients was Sherwin-Williams (the US-headquartered Fortune 500 company that sells paints and general building materials), and we also started receiving orders from several major distributors early in the company’s history. We understood the significance of securing the key clients in the market including, of course, The Home Depot (THD), the largest US retailer of home improvement and construction products. We had been trying to sell to THD since they started operating in Mexico. After many attempts, we finally got a chance when their then supplier failed to deliver orders on time. The acquisition of a big customer like this is a game changer for a small company like ours.

Of course, sales growth is the great benefit of having a big company as a client. In our case, The Home Depot is one clear example of these key customers. We have grown with them, as the number of their stores has almost tripled during the years we have been serving them. In some aspects, we have structured the company around their needs and we were proud to receive a “Vendor of the Year” award in 2009, a recognition given to only one supplier each year.

But there are also other great benefits of having a large client. Higher requirements in product quality (both level and consistency), image and packaging, logistics and service force us to become a better company. It raises the bar for all our operations at every level. For new products, having a certain guaranteed volume allows us to introduce a new product line with a lower risk, and then offer it to other customers.

Surely, it also poses some challenges and problems. Big companies have strict policies and mistakes are not easily forgiven. Moreover, there is a risk in having a large share of sales in one client, as investments are made over the years to serve it better, and the health of the company – at least in the short run – could be at risk if we were to lose the client for some reason.”

### Exhibit 5-2: Ready Availability of Accessible Market Pillar Components (Percentage of Responses by Continent/Region)

Component	US – Silicon Valley/ Bay Area	US – Other Cities	North America	Europe	Australia/ New Zealand	Asia	Africa/ Middle East	South/ Central America with Mexico	Average
For domestic market:									
Large companies as customers	77%	71%	75%	66%	72%	51%	85%	64%	69%
Small/medium-sized companies as customers	84%	77%	81%	71%	94%	73%	62%	88%	78%
Governments as customers	50%	50%	50%	41%	39%	19%	62%	30%	40%
For foreign market:									
Large companies as customers	42%	33%	41%	58%	33%	44%	54%	27%	43%
Small/medium-sized companies as customers	33%	31%	33%	51%	50%	40%	15%	27%	36%
Governments as customers	22%	18%	21%	24%	22%	5%	8%	12%	15%

### Exhibit 5-3: Most Important Accessible Market Pillar Components (Percentage of Responses by Continent/Region)

Component	US – Silicon Valley/Bay Area	US – Other Cities	North America	Europe	Australia/ New Zealand	Asia	Africa/ Middle East	South/ Central America with Mexico	Average
For domestic market:									
Large companies as customers	55%	59%	57%	46%	60%	41%	62%	63%	55%
Small/medium-sized companies as customers	67%	61%	61%	56%	80%	61%	62%	67%	65%
Governments as customers	10%	20%	17%	18%	15%	17%	31%	10%	18%
For foreign market:									
Large companies as customers	14%	12%	18%	38%	30%	32%	15%	13%	24%
Small/medium-sized companies as customers	11%	14%	15%	31%	35%	39%	15%	17%	25%
Governments as customers	0%	5%	3%	12%	5%	6%	0%	0%	4%

### Exhibit 5-4: The Upside from Customer Engagement

- “We were able to secure a contract with a US\$ 50 billion chemical company that needed access to capacity in short order. We had the only equipment that could successfully meet their needs. This resulted in a substantial contract (greater than 50% of our initial business) during the first year of our operation. We were able to negotiate favourable payment terms. As they wanted to enhance their throughput, the chemical company entered into an agreement to help finance the new equipment for us. It allowed us to approach banks with a guarantee from the chemical company. Good for the bank, good for us.”
- “We were one of the first aluminium can manufacturers in sub-Saharan Africa. When we came on stream with our first plant, our growth was greatly facilitated by large companies as our customers. Heineken, Diageo, SABMiller and Coca-Cola were all enthusiastic early supporters. Their interest was in having domestic supply to simplify their supply chain and reduce their supply risk, even with pricing at import parity.”
- “A large European telco (largest in its original geography and active in other geographies) adopted our solution and concept so deeply that it forced all its affiliates and then its roaming partners to use it to interface effectively with their systems. Needless to say, this was great for the growth of our company.”
- “A huge high-tech company integrated our solution into their suite of solutions. While this involved some integration and development from our technical group, which took a while, the result was that our sales really took off.”

### Exhibit 5-5: The Upside from Credibility Enhancement (with Lighthouse/Tentpole Customers)

- “As small companies often lack brand power and credibility, it is quite helpful to be able to use the actual sales history relating to an existing reputable large customer.”
- “Cisco will help showcase young companies with leading-edge technology. Its CEO, John Chambers, had a group that would look for innovative technologies that used VoIP [Voice over Internet Protocol]. He even incorporated our company into his speeches.”
- “When Nordstrom started to carry our products in stores, it gave instant credibility to our company with other retailers, investors, customers and the press.”
- “Getting this deal done with Disney was not easy, but was important for two main reasons. First, we were creating a marketplace for art. It was like having the world’s best customer testimonial when speaking to independent artists and designers when we could show them Disney on our site. Second, it was a huge boon when we needed to raise money. We had bootstrapped the company up to this point and it helped tremendously when we sat down with VCs [venture capitalists]. Ironically, revenue and profit were not the biggest reasons for the Disney deal. We first and foremost wanted their brand’s halo effect.”

### Exhibit 5-6: The Upside from Large Companies as Strategic Investors and Financing Partners

- “Seven Energy is one of Nigeria’s leading indigenous oil & gas companies. ABC Contract Services, the UK-listed oilfield-services company, has been a minority investor and technical partner at Seven for the last several years. ABC seconded many professional staff to the Niger Delta to support the construction of Seven’s gas-pipeline infrastructure, which was extremely helpful. ABC also supplied strategic and commercial guidance in other parts of the business system.”
- “Company XYZ (disguised name) saw its vendors, like us, as business partners. They offered us very favourable transaction terms, such as closing trades on the 15th of the month and making the month’s payment at the month end. These transaction terms helped solve one of our weakest points of cash flow.”
- “We were a cosmetics e-commerce company in Germany with a large addressable market but relatively low margins. A major growth point was leveraging one of the largest media groups in the country. The agreement enabled our e-commerce company to use the media group’s unsold media space. This became an in-kind form of equity investment. The media group capitalized our media spend (at very low prices) as an equity investment at the last-round valuation. We were able to have access to over US\$ 5 million in media in our first 18 months and were able to scale the business to over US\$ 2 million per month in sales (with a 28% gross margin).”
- “Company RST (disguised name) was a good partner for my start-up. Not only did it make an equity investment, it also provided some technical expertise and business introductions which led to various customer and partner relationships.”

### Exhibit 5-7: The Upside from Large-Company Mentorship and Advice

- “Before even launching my start-up, while I was still at the early stage of researching the market, I was able to contact a senior officer at the largest company in the industry. She was very helpful in giving me a broad understanding of the industry. She also directed me to people in her company and in regulatory bodies who were able to answer more specific questions.”
- “My Internet company was focusing on attracting a consumer audience. We were approached by a large corporate travel agency who thought our product could be relevant to its customer/user base. This broadened our thinking about the relevant market for our products and helped us grow into business applications in addition to our original consumer target. The line of business-focused features and partnerships that we eventually developed as a result of this revelation ultimately attracted a large player in the corporate travel business who offered to acquire us. We accepted the offer, which was a very successful financial outcome for the founders and our investors.”

### Exhibit 5-8: The Upside from Large Companies as Go-to-Market Partners

- “A large company offered its commercial network to my start-up: logistics and technical assistance through its own sales force worldwide, in particular in the after-sales and service areas. This was a game changer for us.”
- “The bank did a great job of bringing in other value-chain partners including an early-stage company that had a desktop software product with growing market share. The bank enabled the product to be fast-tracked to a larger set of customers. The sponsoring manager within the bank had the sense to act more like a venture capitalist than an operator, whose large-firm policies and procedures normally would have stifled innovation/speed to market.”
- “Our company worked with a very large retail pharmacy chain to launch private-label frozen meals. We were able to pair our ability to move very quickly as a small company with their many outlets. This resulted in a relationship that grew to over US\$ 3 million of annual revenue in four months. Payment terms were arranged to allow for a limited working capital impact. The overhead costs and transportation charges that we would have had to incur to do this on our own would have made the business either unprofitable or too expensive to the customer.”
- “Our beverages are distributed in the mass-market channels by a large player in the category. It sees our products as a great complement to its portfolio. Parallel to that, the large company has taken some equity in our company.”

### Exhibit 5-9: The Upside from Large Companies Enhancing Operational Capability

- “An area where working with a large company helped was information security. We entered into a partnership with a large, well-known financial services company to offer my start-up’s products to its customer base. To get the deal done, we had to comply with the larger company’s very stringent requirements around data protection and technical security. While that was a hassle for a small company like ours, I do believe it ultimately helped our business. As a result of the partnership, we had very strong data protection and technical security that protected our entire user base. This enhancement helped us get new deals with other large companies with similar security requirements. It even helped us deal with the press when they made some inquiries about our security practices – and perhaps helped us avoid any bad publicity had those journalists found gaps in our security measures.”
- “In my first company, I got a partnership with a large company that was not going to play in our domain and marketplace. We were developing a microprocessor for a market different from that of the large company that was in graphics – consumer electronics. We licensed our technology to them for a limited field of use. In return, we got a manufacturing partnership and an investment. This was mutually beneficial. We were able to quickly hire and to avoid needing any VC [venture capital] money for our start-up. The large company not only got access to leading-edge technology; they also got access to our methodology and start-up speed-of-working that they implemented in a couple of their design groups.”

### Exhibit 5-10: The Upside from Licensing Leverage with Large Companies

- “A Japanese early-stage company’s growth was accelerated by a large Korean conglomerate negotiating a licence to develop the drug for the Korean market. It provided upfront money and generated clinical data that could also be used in Japan. Another large Japanese pharmaceutical company also licensed from the start-up to develop a drug for the Japanese market, paying upfront fees and developing both preclinical and clinical data.”
- “Some of our customers weigh creating their own internal software tools versus licensing commercial products like the ones we produce. In rare instances, these customers choose a hybrid product approach – they select our commercial product and then have it customized to meet their specific needs. After a period of time, our licensing agreements allow us to sell that customized product on the commercial market. In all of these scenarios, the customers that drive this customized product development and subsequent marketing are large companies or government entities.”

### Exhibit 5-11: The Upside from Broad-based Leveraging with Large Companies – Octel Communications Gets Leverage from General Electric (GE)

“The product is voicemail systems in the mid-80s. When Octel Communications started, only a small handful of companies were using voicemail. E-mail did not exist. We made a huge effort to get a few large companies as key accounts. The first was GE which was difficult because they were already using a competitive product. Multiple benefits accrued to Octel. First, we had GE as a customer because they believed we had a superior product. Second, we were able to get GE Ventures as an investor. Third, we set up a national accounts sales force with professionals for selling to major accounts like GE. Fourth, with GE’s help, we got Jack Welch interested in the product and were able to show him how much voicemail would help GE. The latter was used carefully because getting someone too high up can cause antibodies to form at lower levels. In the end, our product became the standard at GE and one of our largest accounts. It was enormous work for Octel to build the capability across GE, which would have normally discouraged many small companies. However, GE’s endorsement of the product so widely in their company was very helpful in encouraging other large accounts to purchase our product. GE was the start of what became a huge market-share success. When we were acquired, Octel had a 66% share of major accounts in the free world.”

### Exhibit 5-12: The Challenge of Attracting Attention – Getting Noticed by Large Companies

- “Without specific large joint-customer opportunities, small companies waste astounding amounts of energy trying to gain their attention.”
- “I believe large companies are indifferent to start-ups, even to the point of not recognizing them as potential market competitors, and therefore, have little or no role in early-stage firms. The reason is simple: working with or against a start-up simply cannot move the quarterly EPS [earnings per share] needle.”

- “Early-stage companies are not part of the core business of the large company, and therefore, not first priority. Large companies introduce very bureaucratic procedures and processes that are going to slow down the early-stage company development. You can end up with a situation of almost zero interest and focus.”
- “Some large construction companies/homebuilders are hesitant or very slow to start a business relationship with a new mortgage company. Some think that banks may remove funding lines from them for future projects if they work with us. Also, it is just easier for homebuilders to work with the banks as they have always done, and it seems hard to show them how a new loan origination approach can add value to them and provide them with better business options in the future.”
- “As a start-up, even though we were able to develop a product that was attractive to the large company, we could not qualify as a vendor because we had not been in business three years and did not meet their minimum revenue requirements.”

### Exhibit 5-13: The Challenge of Productively Working Together – Maintaining Coordination with and Commitment from the Large Company

- “The relationship started off well, but as the larger company got more involved and started to deploy its sales resources in place of the start-up’s sales efforts, a codependence resulted, and like a game of doubles tennis where the ball lands between two players, each depended on the other to hit the ball and unfortunately neither did, and they lost a few points.”
- “We were about to undertake a significant subsurface mapping project in Colorado as a partner with a large Houston-based resources company. Unfortunately, a group of PhD Gatekeepers who sit in Houston thousands of miles from the asset to be imaged, intervened at the eleventh hour. They claimed to have ‘technical concerns’. We believed the real reason was a perceived threat to their authority and the career vitality of these gatekeepers should a new, software-enabled technology platform from us be widely used by the Houston company.”
- “For all the good that came out of the (large company) relationship, they were incredibly slow to move on contracts (87 drafts!). Their poor marketing relationship with another company ultimately became an impediment to distribution and expansion of the product we produced for them.”
- “I have had many bad experiences with big companies when it comes to technically implementing a partnership. My small start-up with 10 engineers can run circles around the over 500 engineers at most big companies. We tend to have higher-quality people who can get things done efficiently, whereas the big company has bloated processes, inefficient project administration, too many cooks in the kitchen, sometimes conflicting corporate policies and ridiculous requirements. We’ve seen integrations that should take one to two months drag on for a year when working with big companies. And sometimes the integrations completely fall apart because, in that year of effort, the company reorganizes and there’s now a new leader overseeing our project, and that person chooses to kill it or redeploy resources to some other pet project, etc.”

#### **Exhibit 5-14: The Challenge of Value Appropriation – Dealing with Value Creation and Value Capture**

- “I was headhunted to join a two-year-old plant sciences biotech company as the VP of Marketing and a board member with the view to becoming CEO. We aimed at significantly reducing the traditional means of product development while significantly improving yields. We were having considerable success with this. We had support from a Fortune 500 company through two rounds of financing as well as support of our R&D projects. This support was positive and enabled the company to develop to the point where we needed a third round of financing. We started looking for partners who were traditional commercial producers to provide major field trials and be candidates for acquisition. At this point it became apparent that our prime investor was interested in us failing so it could take us over. They wanted our technology! This was made clear by their refusing to renew and expand our R&D projects unless we gave them complete access to our laboratory notebooks, and by their not providing more than lip service to our third-round financing efforts. They orchestrated the removal of our young, inexperienced president, gave me the title of Chairman of the Executive Committee, and shortly after eased me out. They then appointed their own person as CEO, who engineered a complete buyout in favour of the prime investor, and the financing round was dropped. The other minor investors were paid out for the cost of their initial shares.”
- “I watched a large company almost bankrupt a small fabless semiconductor company. The small company had the only solution to a very big problem of the company. The large company wanted to dramatically reduce the margin that the small company earned on the contract. The large company acted as if it had huge negotiating power. Unfortunately the smaller company wasn’t good at walking away from the deal, in part due to a weak sales organization. The larger company was using the naivety of the smaller company to its advantage. The growth potential of the smaller company was negatively affected.”
- “Some large companies think they provide so much value that the start-up should pay them well beyond what an established company would pay. Also, sometimes after taking their cut (as the channel), they hold on to the money for months before passing it to the start-up. This can kill the start-up’s cash flow. In the telco/mobile infrastructure sector, there are some vendors like that.”

#### **Exhibit 5-15: The Challenge of Maintaining Focus – Start-up Companies Having Their Attention and Skills Diverted**

- “While there may be cases where individuals within a large company have been agents of good or evil for start-ups, the large companies naturally focus on running their beast with too little understanding of their smaller-firm partners.”
- “Company X [disguised name] is a very demanding customer. It frequently requires start-ups to do ‘custom development’ which diverts resources and attention away from core projects.”
- “We spent over two years dancing around with one of the world’s largest commercial banks. They wanted our flagship product customized/tailored just for them. But their never-ending requirements and lack of agreement on who would pay for this product customization resulted in no sale. Lots of marketing dollars and effort down the toilet.”

- “A small start-up software company struck a partnership with a large software company to jointly develop a product that would carry the large company brand. The demands of the large company during the development process absorbed nearly 100% of the resources of the small company. It effectively killed the small company when the large company delayed the implementation of the new product.”

#### **Exhibit 5-16: The Challenge of Imposed Not-So-Hidden Costs – Direct and Opportunity Costs Imposed on Start-ups**

- “Large companies in different sectors push payment terms far beyond what may be reasonable. Regardless of what they agree on, such as 30 days, it is very typical they will pay 90 to 120 days. Apart from the obvious stress on cash, the amount of extra management time and controls needed for cash-flow management are significant, especially when management is thin. You waste valuable time that could have been used to develop new products, focus on efficiency, motivate and coach your team and so on.”
- “In a company that we were large investors in, we decided to bring an investment in from a strategic player. Having the strategic investor early on was valuable from the point of view of getting knowledge. But due to the governance and priority-rights demanded by them, it scared any other investor away. No other company was willing to finance the business unless some of these rights were waived. The company (being capital intensive) was therefore not able to access capital to grow. Our investment was strongly damaged by not getting the right funding at the right time.”
- “A large direct-to-consumer marketing company partnered with us to deliver products. They agreed to provide an advance of receivables to fund a CAPEX [capital expenditure] project that would boost efficiency and lower costs. The bureaucracy of the marketing company (a very large public company) put the project off schedule and invalidated a large amount of the assumptions that drove the agreement. Further, to run the CAPEX project, they imposed a third-party project manager who did a poor (in some cases illegal) job. In the end, the arrangement was based on assumptions that were far too aggressive.”
- “A large company was to partner with a financial-planning-related start-up with excellent technology capability. The discussions, due to the company’s bureaucracy, lasted for six to nine months. The start-up attended dozens of meetings with dozens of people and even started to build specific features into the software for the company. But at the eleventh hour, the large company pulled out and left the start-up in a terrible state. An important part of the deal was a significant equity investment (disguised as software subscription revenue) that did not eventuate.”
- “An early-stage company licensed out drugs in Phase-1 testing to a large company. Everyone was happy but then internal politics and a ‘not-invented-here’ obstructive culture prevented the development of the drug. Under pressure from senior management, development began but at a snail’s pace. The large company wanted more data. This went on for a long time, thus demoralizing the start-up.”

### Exhibit 5-17: The Challenge of Predatory Contracting and Litigation – Lawyers/Lawsuits Undermining a Start-up’s Progress

- “Legal bullying. When you are an early-stage company, big companies will impose all their terms. In some cases it is absurd liabilities and indemnities, or enormous guarantees, or asymmetric clauses (they can terminate anytime, you cannot terminate it early; they can reduce scope anytime and you can’t; they can add any additional environmental or safety requirement, you can’t charge them for it; or they can work with any of your competitors, but you should give them exclusivity). Almost always their legal department will come with the ‘worldwide standard contract’ line and not even read your comments to their proposed abusive contracts.”
- “Some larger companies have teams of lawyers who seem to have nothing better to do than add endless appendices of obscure requirements that bog down the whole process. They have onerous terms that are very one-sided simply because they assume the larger company gets to call the shots. They have onerous terms that are very one-sided simply because they assume the larger company gets to call the shots. I believe that 99% of the ‘big-company contractual fluff’ they introduce is of no value for either party, but just serves to significantly lengthen the time it takes to get a deal done, and runs up our legal bills.”
- “In general, the issue is that intellectual property [IP] protections are useless for small early-stage companies. At a cost of US\$ 1 million and several years of time to even start litigation on IP issues, a start-up will be dead or gone if it attempts to pursue it.”
- “I had more than one company start due diligence on my start-up, extract all the information about the product and technology, and then say they were going to go build it themselves instead. The process of due diligence was a huge distraction for the start-up, very costly in terms of time and resources, and, in the end, only produced a stronger competitor to our product as our technology became more easily copied with the information extracted. These were clearly IP violations, both of our pending patents and of our mutual legal agreements between companies. The problem is that pursuing a legal case against a large and well-funded company was impossible.”
- “A resource-rich division of a large company has sued every competitor making significant progress in this field in an apparent effort to divert critical resources, both financial and managerial, from investment in the business to supporting the litigation effort. The litigation has generally been of the unfair competition-fishing-expedition variety and has driven most competitors out of business.”

### Exhibit 5-18: The Challenge of Regulatory Capture by Large Companies – The Creation of an Uneven Playing Field

- “In Country A [disguised country], the state-owned airline X [disguised name] has competed predatorily with low-cost domestic competitors, driving several of them out of business down through the years. X’s operating losses are heavily funded by the government, and it cross-subsidizes its low-cost domestic competitor whenever necessary from its monopoly long-haul routes. The pricing pattern is well established: have a price war on the competed domestic routes until the lowest-cost recent entrant folds, and then significantly increase prices with the reduced supply.”
- “In Country B [disguised company], certain companies (cement, sugar, until recently flour) have sought and received significant government protection from imports. This protection has come in the form of tariff and non-tariff barriers (e.g. technical specifications on sugar). This behaviour clearly impedes competition from new and young entrants.”
- “Three years into our promising start in a new Country C [disguised market], we had a tax investigation by Country C tax authorities. This lasted a year. While we “won” (no extra taxes to be paid), the cost in time, stress, management and lawyers was high.”
- “Our creative industry has been growing really fast in recent years. But now we have the elected public representatives threatening the government regulatory officials. These elected representatives are using implied threats to cut or redirect government departmental budgets to force the officials to give resources and opportunities to those organizations controlled by, or related to, those elected public representatives. Those elected public representatives are using public resources to enable the established players to monopolize the market. This is a very ironic situation. The same elected representatives who are preaching the need for innovation and entrepreneurship in their country are targeting the very young companies that have great potential to deliver on innovation and entrepreneurship. “



# Section 6: The Growth of Entrepreneurial Ecosystems: Lessons from Buenos Aires, Amman and Istanbul

## Executive Summary

Entrepreneurs can play multiple important roles in an ecosystem. Endeavor, a non-profit organization, has much experience in promoting these roles in many parts of the world. Starting in New York in 1997, Endeavor then opened its first regional offices in Argentina and Chile (1998), followed by Brazil and Uruguay (2000). Subsequently, it expanded into South Africa (2003), Colombia and Turkey (2006), Egypt, Jordan and India (2008), Lebanon and Dubai (2011), and Indonesia, Saudi Arabia and Greece (2012). “High-impact entrepreneurs” have five important roles that Endeavor Insight, the organization’s internal research team, has tracked and helped facilitate for entrepreneurs starting and scaling an early-stage company. Illustrated in case studies of ecosystems from Buenos Aires, Argentina; Amman, Jordan; and Istanbul, Turkey, these roles are:

1. **Inspiration** – inspiring other individuals to become entrepreneurs
2. **Founder crucible** – attracting and developing employees who subsequently found other companies
3. **Employee crucible** – attracting and developing employees who subsequently become employees of early-stage companies
4. **Investment source** – using acquired wealth to invest in subsequent new entrepreneurial ventures
5. **Mentor** – providing key support such as advice, encouragement and access to a network

## 6.1 Longitudinal Endeavor Methodology Applied to Buenos Aires

Most policy-makers believe that entrepreneurship is an effective way to create employment and economic growth, and have included building entrepreneurial ecosystems as one of their most important agenda items. The most successful ecosystem is Silicon Valley, but despite being the benchmark to which so many aspire, its vibrancy defies easy explanation. The Valley’s thriving ecosystem has evolved over fifty years. Although it shares much with several other top entrepreneurial ecosystems, such as Boston’s Route 128 (US) of top universities, research-oriented firms and a culture of disruptive innovation, the Valley and other regions are unique due to their attributes and the key events that have marked their rising global prominence.

To better understand how entrepreneurial ecosystems grow, Endeavor Insight has developed a methodology combining longitudinal data on the firms it supports, supplemented by surveys of other key firms in the countries where it operates. This approach allows it to analyse the unique features of each ecosystem and the broad trends that they share. After opening its office in Buenos Aires, Endeavor began collecting data on the city’s entrepreneurial firms. In 2011, Endeavor Insight decided to leverage this data and study the extent to which networks of people, firms and support organizations underpin the development of entrepreneurial ecosystems. Focusing on the Buenos Aires technology sector, Endeavor combined the data from its firms with a survey of other technology entrepreneurs involved in local entrepreneurial organizations, incubators and accelerators, or who received venture-capital investments. The resulting data set contained more than 200 interviews and covered 21 years (1990–2011). Endeavor asked each entrepreneur five questions: (1) Who inspired you to become an entrepreneur?, (2) Where were you employed before becoming an entrepreneur?, (3) Who invested in your company?, (4) Who mentored you as you built your company?, and (5) Have you founded any additional companies?

### 6.1.1 Buenos Aires: A challenging place to succeed as an entrepreneur

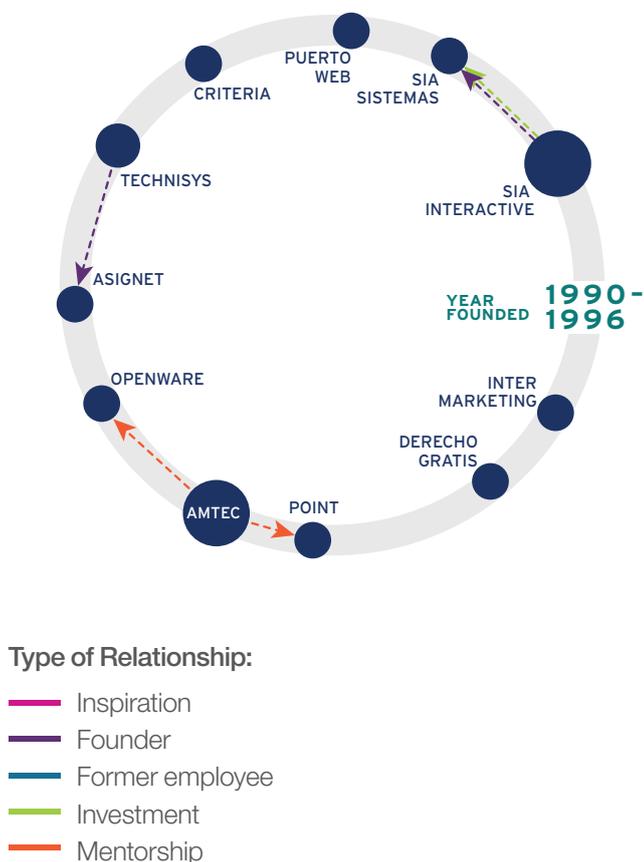
One-quarter of Argentina’s population lives in the capital Buenos Aires and its metropolitan area. In recent decades, the country has experienced large economic swings, with periods of exuberant growth followed by deep economic crises. Since its return to democracy in the late 1980s, Argentina has gone through hyperinflation in the early 1990s, a period of rapid growth in the mid-1990s, a sovereign-debt default in 2001 and commodity-fuelled growth in the early 2000s. The five presidents who tried to rule the country during the 2001 default exemplify the frenetic trajectory of Argentina’s politics. The country’s economy continues to experience problems, including high inflation, infrastructure deficits, government intervention in business and a weak legal system.

Despite this challenging environment, an entrepreneurial ecosystem is thriving. Hundreds of high-tech firms have launched in recent years, with several achieving exits of over US\$ 100 million (such as a trade sale to a large corporation or an initial public offering [IPO]). Office openings by Google and Yahoo! capped two decades of strong growth in the technology sector. Government intervention does not seem to explain this dynamic environment. If anything, the government has been focused on Argentina's broader macroeconomic problems. The Buenos Aires ecosystem, having produced world-class technology firms and developed the talent to sustain them, is a product of connections among entrepreneurs, mentors and sources of finance.

### 6.1.2 The evolution of the Buenos Aires network

Using the entrepreneurial community's responses to its surveys, Endeavor Insight mapped the evolution of the Buenos Aires entrepreneurial ecosystem as a function of those connections. The state of the ecosystem is shown for 1996, when the Internet started to become an important source of entrepreneurial activity. Figure 1 depicts the "first-generation" network of companies founded in 1990-1996. Each circle in the network represents a specific company, with the circle's size reflecting the number of interactions coming into and moving out from the entrepreneurs at that company. Figure 1 also relates to the five research questions by identifying five types of relationships: inspiration, founder, former employee, investment and mentorship.

**Figure 1: Buenos Aires Technology Entrepreneurial Ecosystem – 1996**



The ecosystem was originally sparse, comprising 11 technology companies, most of which were isolated. Only three – Amtec, Technisys and SIA Interactive – had relationships with other companies.

Figure 2 shows the network in 1999, including the 15 companies founded in the second generation (1997–1999) that moved the entrepreneurial ecosystem from a nascent to an emerging stage. While still defined by companies working predominantly in isolation, the ecosystem began to exhibit an increasing number and variety of relationships among local firms. More importantly, this period included the founding of several companies that played significant roles in the ecosystem's development over the next decade. Two of these companies, MercadoLibre and DeRemate, brought e-commerce to Latin America. MercadoLibre's founder attended Stanford Graduate School of Business and came to the nascent ecosystem with a blueprint drawn from companies such as Silicon Valley's eBay. The founder of DeRemate came from Harvard University with a similar profile. Another company that emerged in the late-1990s was Patagon, an Internet banking firm founded by an entrepreneur seeking to disrupt Argentina's banking industry by using a model similar to that of E\*TRADE Financial Corporation. A fourth company, Officenet, sought to transform the office-supply business. Founded in 1997 with the support of four local angels, it brought Staples' distribution model to Argentina and was so successful that Staples ultimately acquired it in 2004. While not a pure Internet company, Officenet leveraged angel investment to receive venture funding, built an Internet-centric distribution channel and exited successfully within a decade – a model of entrepreneurship more commonly seen in the US than in South America.

**Figure 2: Buenos Aires Technology Entrepreneurial Ecosystem – 1999**

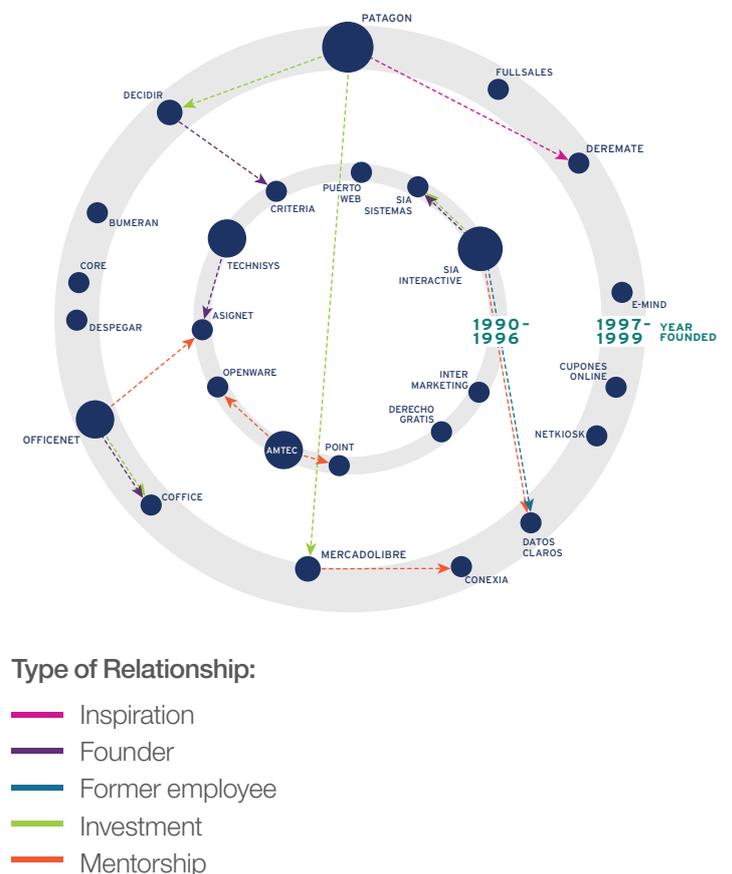
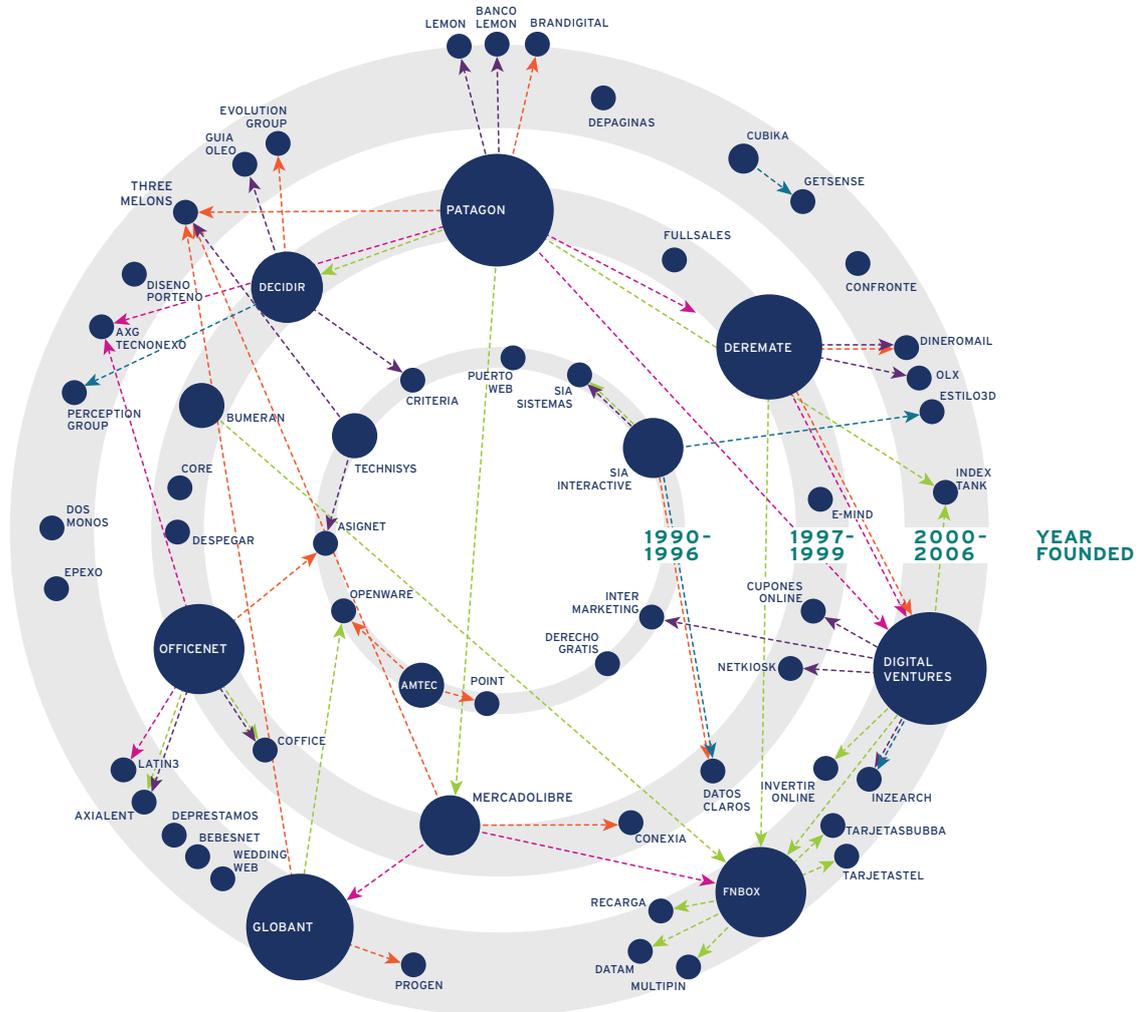


Figure 3 depicts the Buenos Aires ecosystem as of 2006, including companies founded in 2000–2006. It matured over these seven years, with a dense set of connections linking the 35 companies. Officenet and Patagon became important nodes in the ecosystem’s network, supporting an increasing number of start-ups through inspiration, mentorship, investment and human capital development (both founder crucible and employee crucible). Other companies complemented these nodes, creating connections noted for their depth and breadth. Compared to 1999, start-ups in 2006 were no longer isolated, and many had at least one connection to an existing ecosystem participant.

As the ecosystem moved into this third generation, its participants began to benefit from spillovers and network effects, initiating a “virtuous cycle” effect on entrepreneurs in Buenos Aires. When the Spanish-based Banco Santander bought 75% of Patagon for US\$ 750 million in 2000, it was

one of the first major liquidity events for Argentina’s technology sector. Reinforcing the impact of the Patagon acquisition, Officenet was acquired by US-based Staples in 2004. Taken together, these two events represented a seminal moment in the development of the Buenos Aires ecosystem. After eBay acquired a 19% stake in MercadoLibre in 2001, the latter quickly expanded; it gained market share on DeRemate and ultimately acquired it in 2005, setting the stage for an IPO in the latter half of the decade. The Buenos Aires ecosystem now had hundreds of millions of dollars of additional smart capital and a new set of norms defining success for entrepreneurs. Patagon, Officenet and MercadoLibre became central players in the ecosystem from 2000 to 2006. Interestingly, they are not from the first-generation “founders”, but have inherited the initial impetus from the early entrepreneurs.

**Figure 3: Buenos Aires Technology Entrepreneurial Ecosystem – 2006**



**Type of Relationship:**

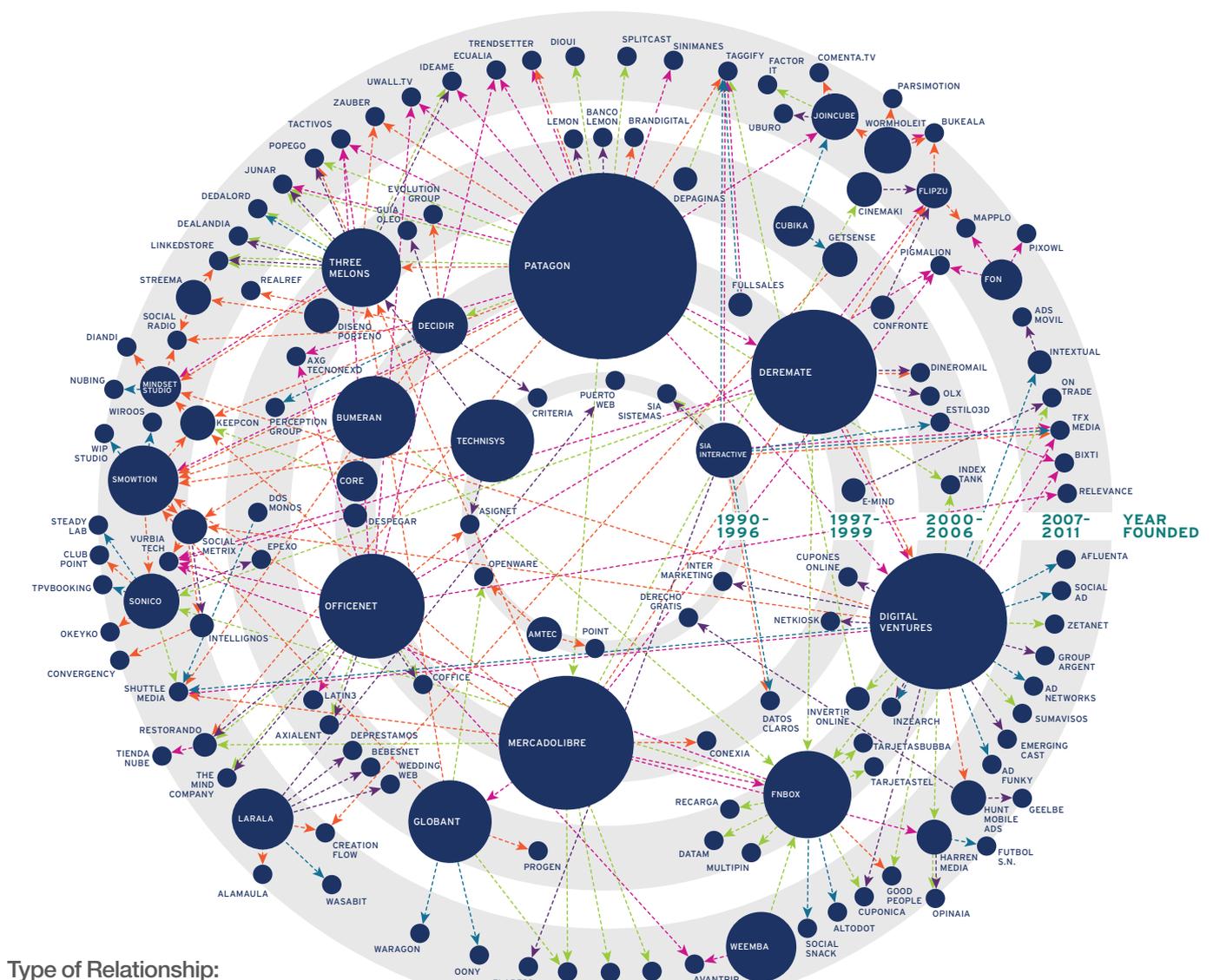
- Inspiration
- Founder
- Former employee
- Investment
- Mentorship

Figure 4 plots the network through the fourth generation from 2007 up to July 2011. The ecosystem was well established with nearly 100 companies founded in the 2007–2011 period. In 2007, MercadoLibre’s IPO on the NASDAQ stock exchange was valued at US\$ 1.6 billion. In 2007, and adding to the growing list of acquisitions and other liquidity events, Fox Entertainment purchased Digital Ventures, an online advertising company founded in 2003.

The entrepreneurs from Patagon (sold to Banco Santander), MercadoLibre (sold to eBay) and Digital Ventures (sold to Fox Entertainment) had become the biggest players in the ecosystem. Other successful companies such as Officenet and DeRemate played a significant role in the ecosystem, and Globant, a third-generation company like Digital Ventures, was a relevant player and successful entrepreneurial story.

By 2011 the network had a high density, a hallmark of a dynamic ecosystem. In 15 years, the Buenos Aires technology entrepreneurial ecosystem had managed to succeed as a network generating successful companies, doing so in the midst of a challenging socio-economic environment. Company founders from the 1990–1996 period did not manage to have large exits, but they started to create the social dynamics that would help start important companies and, more relevantly, important entrepreneurs to feed the network. The second and third generations produced enough winners, and their leaders committed themselves to the region. The fourth generation, larger in number of companies and connections, will likely continue to create corporate winners and new jobs.

**Figure 4: Buenos Aires Technology Entrepreneurial Ecosystem – 2011**



- Type of Relationship:**
- Inspiration
  - Founder
  - Former employee
  - Investment
  - Mentorship

Figure 5 illustrates the important role of a few entrepreneurs in creating the dynamics of the Buenos Aires ecosystem. Their three companies – Patagon, Digital Ventures and MercadoLibre – are in orange and their networks in lighter shades of the same colour. These successful, high-impact entrepreneurs reach over 80% of the ecosystem via their networks and are willing to influence other entrepreneurs through their investments, mentoring and advice. Rich connections among them create a solid foundation for the ecosystem to thrive. Some of their “heirs” from the third and fourth generation have become influential in their own right, as their connections create a promising framework for future growth. A handful of network players are critical to the success of the ecosystem; they are not only successful in business, but also in building bridges between people and companies throughout the ecosystem, devoting time to the network and inspiring new entrepreneurs as a result.

Figure 6 plots the growth in number of start-ups by year in the Buenos Aires technology entrepreneurial ecosystem. The trend is clear: their growth in number is exponential, punctuated and accelerated by successful exits that in turn lead to growing awareness about entrepreneurship. Two years after Patagon’s acquisition, the first support organizations emerged, the density of connections increased and the ecosystem expanded. As it enters into its self-sustaining stage, the ecosystem forges ahead in the face of Argentina’s broader economic problems.

**Figure 5: Buenos Aires Technology Entrepreneurial Ecosystem – The Influence of High-Impact Entrepreneurs**

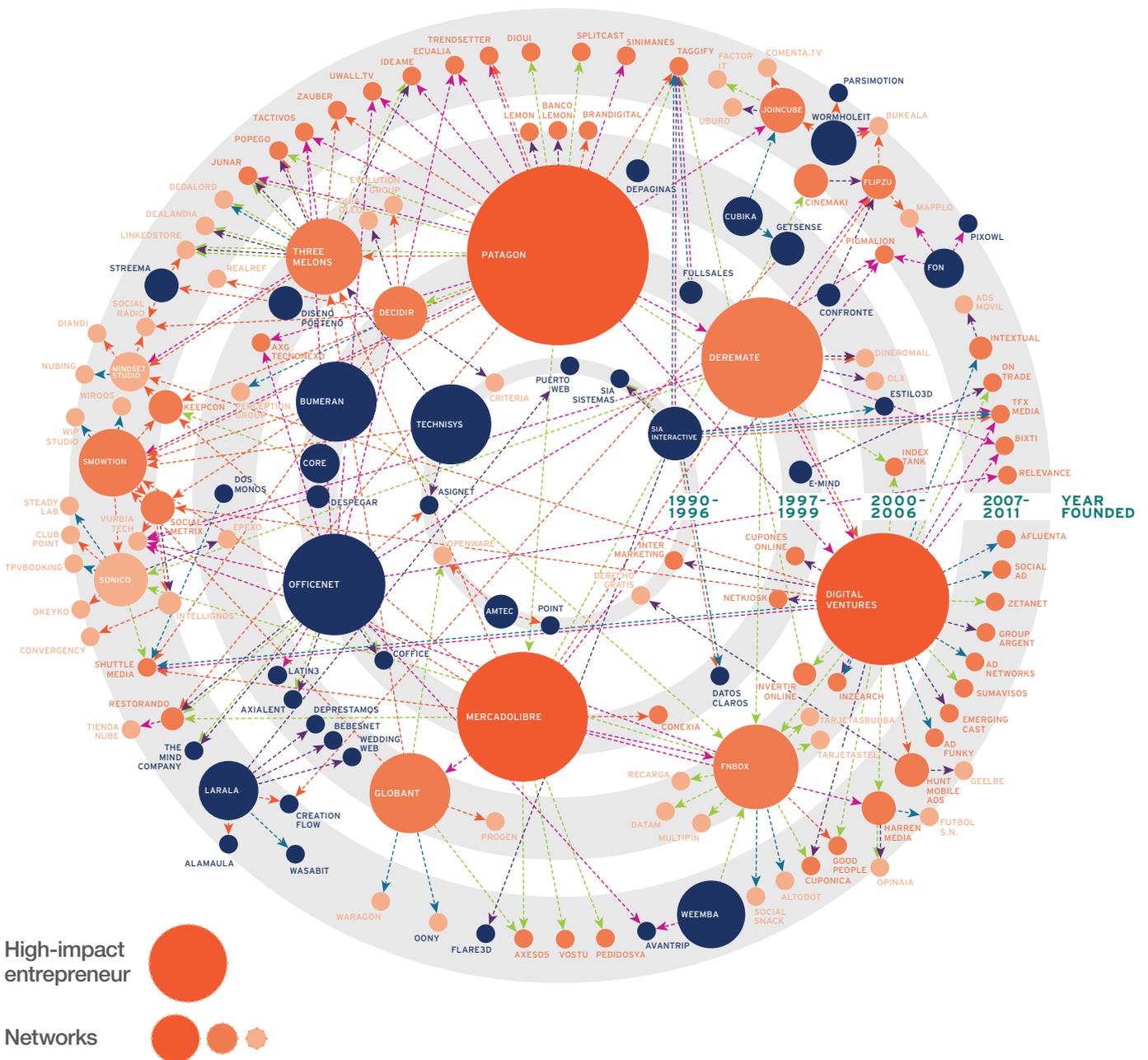
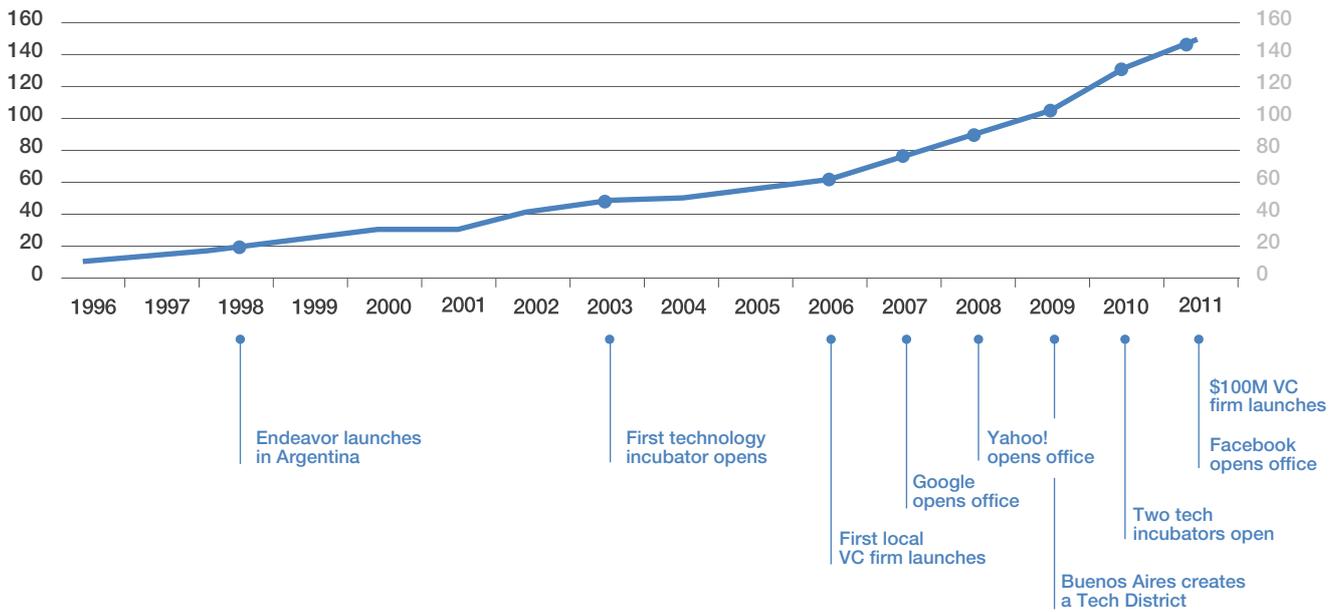


Figure 6: Growth of the Buenos Aires Technology Entrepreneurial Ecosystem

Number of companies

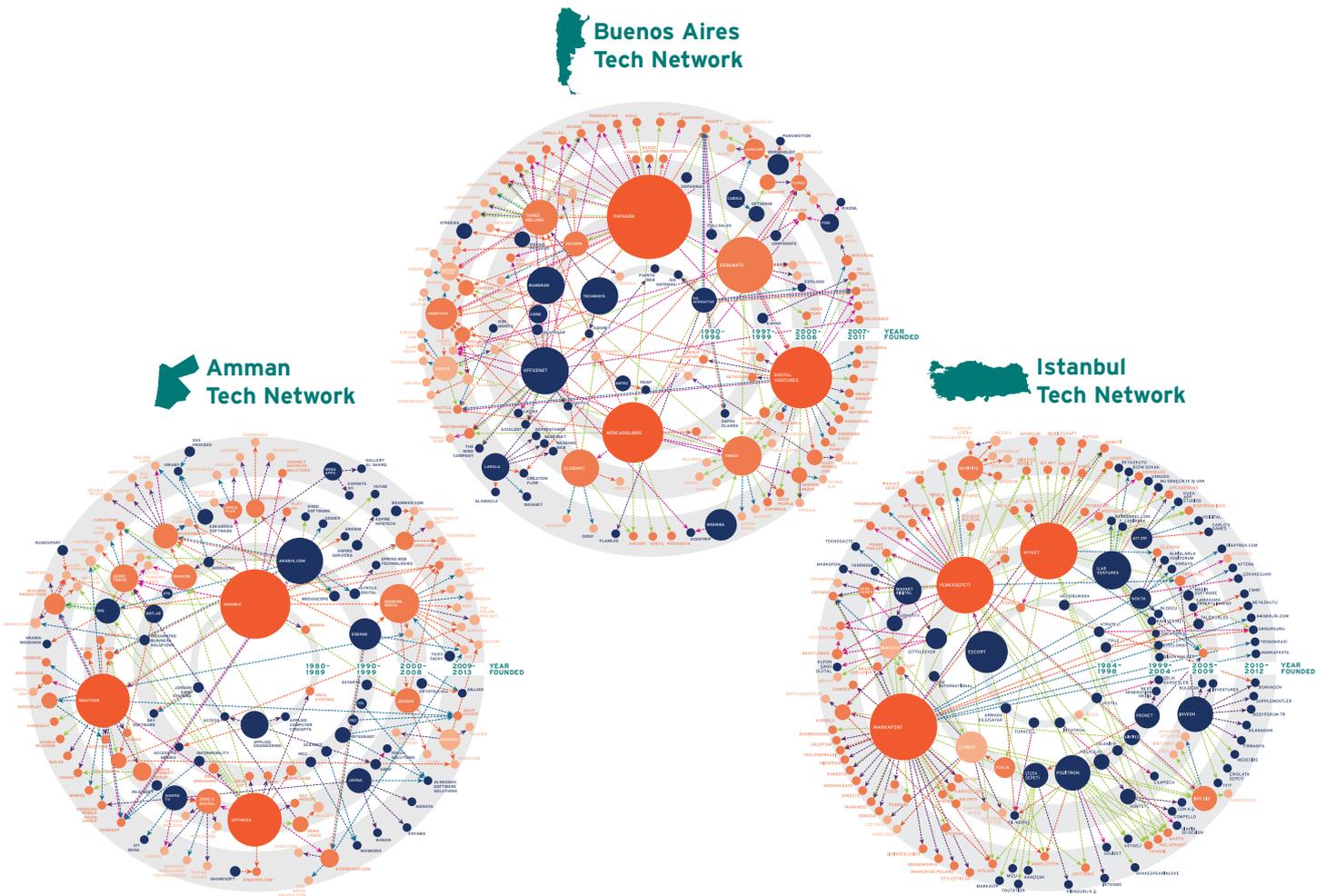


## 6.2 The Amman and Istanbul Entrepreneurial Ecosystems

To further document the importance of high-impact entrepreneurs, Endeavor Insight collected similar data in two other cities in emerging markets, studying the technology-sector entrepreneurial ecosystems of Amman, Jordan and Istanbul, Turkey. According to Bloomberg, a global business and financial information company, while Jordan is a small country with little oil and, much like Buenos Aires, with an unfortunate tradition of top-talent brain drain to other places, it is ranked among the top ten cities for launching a technology start-up. Maktoob, an Internet services company and the most important exit from the Middle East and North Africa (MENA) region, came from this ecosystem, and 50% of all start-ups in Amman are in the technology sector. Istanbul also has an important entrepreneurial ecosystem, attracting the attention of top venture capital firms such as Kleiner Perkins Caufield & Byers and General Atlantic. With incubators and accelerators, and with multiple companies selling for US\$ 100 million or more, Istanbul has demonstrated its potential as a serious destination for entrepreneurship.

Figure 7 compares the three entrepreneurial ecosystems. The structure of the Buenos Aires ecosystem is not unique; the pattern of those in Amman and Istanbul is similar, with a small number of high-impact entrepreneurs creating the majority of the network that underpins the ecosystems.

**Figure 7: High-Impact Entrepreneurs and Networks in Buenos Aires, Amman and Istanbul**



### 6.3 Lessons for Creating an Entrepreneurial Network

The Buenos Aires experience, in concert with those in Amman and Istanbul, provides several key points for better understanding the growth of ecosystems:

1. Entrepreneurial ecosystems are not created overnight. The Buenos Aires technology entrepreneurial ecosystem took its first steps in the mid-1990s, and it was only 15 years later that a rich network emerged. This observation is consistent with other regions; for example, Silicon Valley evolved over a number of decades.
2. A few people play a central role. Networks require a few nodes that activate and connect to the rest of its players. In the case of the Buenos Aires network, entrepreneurs from three companies account for a significant share of the network activity. Often, these people build successful companies themselves and are then willing to provide resources and time to support other entrepreneurs. Their importance speaks both to the need for creating pathways to activate the network, and to their roles as crucial intermediaries. Such high-impact entrepreneurs advise, inspire, support and even fund the next generation of entrepreneurs.
3. Infrastructure initiatives such as incubators, accelerators, large companies, investment funds and service suppliers are complementary. They will not create a network on their own but will provide the mechanisms for high-impact entrepreneurs to realize their importance, activate the ecosystem and multiply their impact. These entrepreneurs should be encouraged to become investors, mentors and board members to leverage the human capital accumulated through their experience and networks.
4. Governments should design policies that facilitate the growth of entrepreneurial ecosystems by empowering private- rather than public-sector actors. Government-run incubators and venture funds have a mixed track record, and typically do no better than those from the private sector in picking winners and losers. Governments can support opportunities for international studies, rational investment, bankruptcy regulations and fundamental scientific research (along with the pathways to commercialization). These policies, more than direct intervention, make it more likely that the most important nodes will realize their entrepreneurial visions, find business success and stay engaged in the ecosystem as mentors, advisers and investors.



# Section 7: Government and Regulatory Policies in Entrepreneurial Ecosystems: Growth Accelerators or Growth Inhibitors?

## Executive Summary

Entrepreneurs in Section 3 identified three areas as most important to the growth/success of their companies — accessible markets, human capital/workforce and funding & finance. Government and regulatory policies in each of these three areas can play either positive (accelerator) or negative (inhibitor) roles. Section 7 provides examples of each, illustrating the many opportunities and challenges that government and regulatory policy can play in the growth path of early-stage companies. Additional quotations provided by entrepreneurs highlight the potential gap between their perspectives and the perspectives or decisions of government and regulatory policy-makers.

## 7.1 Overview of Entrepreneurs' Perspectives on Government Policy and the Regulatory Environment

Governments can play important roles in accelerating or inhibiting the growth of many companies. This section illustrates and examines many of the diverse aspects of the relationship between the different arms of government and early-stage companies. The survey respondents (see Section 1 for a description) provided input on two questions about the accelerator/inhibitor role of governments and regulatory bodies:

- **Accelerator question:** What aspects of the government policy/regulatory environment in your country/region were most beneficial to the growth of your company?
- **Inhibitor question:** What aspects of the government policy/regulatory environment in your country/region were most detrimental to the growth of your company?

The responses were open-ended, in that respondents used their own words to describe their chosen aspects.

Exhibit 7-1 presents a word cloud for the top 40 words cited in response to the accelerator question. The top 12 words and their percentage of the top 40 words cited are: tax (11.0%), companies (7.2%), regulation (6.8%), ease (6.2%), business (4.6%), government (3.8%), market (3.8%), incentives (3.3%), support (3.1%), policy (3.1%), capital (2.7%) and law (2.7%).

Exhibit 7-2 shows a comparable word cloud for the inhibitor question. The top 12 words and their percentage of the top 40 words cited are: tax (15.9%), regulation (11.6%), policy (4.1%), companies (4.0%), business (3.8%), government (3.8%), laws (3.2%), cost (2.8%), complexity (2.7%), capital (2.2%), requirements (2.2%) and high (2.2%).

The fact that eight words (tax, companies, regulation, business, government, policy, capital and law/laws) appear in both lists highlights the potential for key aspects of government policy and regulation to play different roles for different companies and in different countries. The four words appearing only in the accelerator list are ease, market, incentives and support, while those words appearing only in the inhibitor list are cost, complexity, requirements and high.

Sections 7.2, 7.3 and 7.4 examine the interface between government policy/regulatory framework and each of the three pillars of entrepreneurial ecosystems found to be most important to the growth of early-stage companies.

## 7.2 The Accessible Markets Ecosystem Pillar and Government Bodies/Policies

Governments can play multiple important roles in broadening and deepening accessible markets for early-stage companies. However, governments can also play multiple inhibiting roles. Exhibit 7-3 provides quotations from respondents pertaining to the accessible markets pillar. Specific examples drawn from the executive case studies are now discussed.

### 7.2.1 Government policy/regulatory environment as growth accelerator for accessible markets

An important growth accelerator for early-stage companies can be governments as customers. For those respondents indicating the accessible markets pillar as one of the “most important to the growth/success of your company”, the following percentages chose “government as a customer” as a key component:

Accessible Markets Pillar: Percentage of Respondents Selecting Component		
Continent/Region	Government as a Customer in Domestic Market	Government as a Customer in Foreign Market
US – Silicon Valley/Bay Area	10%	0%
US – Other Cities	29 %	5%
North America	17%	3%
Europe	18%	12%
Australia/New Zealand	15%	5%
Asia	17%	6%
Africa/Middle East	27%	0%
South/Central America with Mexico	10%	0%

While these percentages are less than those for both large and small to medium-sized companies, they still highlight the potential of government-related revenues to contribute to the growth of some early-stage companies. Government contracts played a pivotal role in Silicon Valley’s private-sector growth during the 1950s and 1960s, when the region’s ecosystem began to emerge.

Several of the China-based executive case studies illustrate this component:

- **ViiCare (China)** — provider of information technology solutions for hospitals:
 

“The healthcare industry in China has much room for growth. Most hospitals in China are owned or controlled by the government, including central and local health authorities, state-owned enterprises and the military. In 2009, the Ministry of Finance initiated a long-term health reform to achieve the objective of “everyone can have access to the essential healthcare service”. Significant investments were made to develop the healthcare system in China, creating substantial market opportunities for ViiCare.”
- **Hangzhou Goudian Dam Safety Engineering (China)** — provider of high-tech products for hydropower dams:
 

“According to the China Electricity Council, hydroelectric power is currently the largest source of renewable energy in China. It is estimated that China’s installed capacity has exceeded that of Brazil, the US and Canada combined.

More importantly, this sector is expected to be on a continued trajectory of increased growth as investment in hydropower is one of China’s key areas of focus. By 2015, China’s hydropower installations are targeted to reach around 325 gigawatts (GW), creating significant market opportunities for our company.”

As highlighted in Section 5, having large entities as a major customer can enhance a company’s credibility with its potential customers. Often described as a “lighthouse” or “tentpole” customer-credibility enhancement, it can be a very significant growth accelerator for an early-stage company.

#### Government Policy Providing a Platform for Increased Demand

– By increasing the quality of infrastructure, governments can facilitate sizeable increases in the accessible market. Classic examples include improvements in physical infrastructure such as power transmission and roads. In recent years, government investments in Internet/broadband have greatly enhanced the potential customer base of many companies. For example:

- **Interpark (South Korea)** — online auction and shopping mall:

“Our growth started to speed up in earnest from 1999. The essential factor for this growth was an improvement of the Internet speed. [The data communications technology] ADSL had spread very fast under the government’s intentional drive. The government and incumbent carriers focused on Internet business and invested big capital. As a result, our confidence that the Internet would be the common network became true, even though it was a little bit later than our expectation. Such a spread of the Internet led to an expansion of market size, and Interpark could benefit as a pioneer of this market.”

#### Government Subsidies Promoting Market Activity

– Subsidies have been an important tool for governments to promote desired resource shifts in an economy. The executive case studies have multiple examples of this, including:

- **Victoria Seeds (Uganda)** — full-line seed company:

“A key accelerator was the government, which at the time of our founding (in 2004) had just launched a very effective policy called the Plan for the Modernization of Agriculture. Mechanisms to encourage smallholder farmers – which amounted to over 90% of Uganda’s farmers – to adopt improved agricultural inputs were embedded in that policy, and so the use of improved seed represented an important way to increase agricultural production. A government body was formed – the National Agricultural Advisory Services (NAAS) – to facilitate members of the private sector, such as ourselves, to go out and distribute inputs to small farmers. It provided subsidies to farmers to allow them to demonstrate proof of concept and subsequently generate enough income to sustain themselves on their own. So it was very exciting because the demand was there for really growing improved seed and incentivizing the private sector to participate, and farmers were sensitized enough to encourage adoption of hybrid maize at levels that we didn’t have before and to incentivize the private sector to participate. Demand grew from just 100 metric tonnes per annum in 2004 to over 2,000 metric tonnes in 2011. It was huge and the policy environment was right.”

- **Aemetis (USA, India)** — renewable fuels and biochemical company:

“The major growth accelerator for Aemetis in its early years was strong investor interest in the replacement of crude oil in the production of fuels. Crude oil rose from approximately US\$ 20 a barrel in 2003 to what is now nearly US\$ 100 a barrel. In support of this goal, President George Bush signed a set of mandates into law in mid-2005 and in late 2007 that were important in establishing a market for biofuels and reducing the power of incumbent oil companies that controlled fuel distribution. In December 2007, the expansion of the biofuel mandates allowed visibility until 2022 into the size of the biofuels market in the US. Favourable regulatory frameworks have been critical to the establishment of the entire biofuels industry.”

A major challenge with government support programmes as growth accelerators arises when the companies and industries receiving those subsidies already have questionable economic foundations. Many solar-related companies experienced rapid growth in the 2000s with government subsidies. However, rapid revenue declines occurred once those subsidies were withdrawn. For example, Suntech Power, a Chinese-based manufacturer of photovoltaic (PV) cells, had the following revenue evolution in 2005–2009 from its Spanish subsidiary:<sup>10</sup>

Suntech Power's Spanish Subsidiary: Revenue Evolution and Effect of 2009 Cap					
Year	2005	2006	2007	2008	2009
Revenue in US\$ millions	18	124	466	719	61

Suntech Power reported that revenue increases from Spain were “largely due to government policies that set feed-in tariff terms at attractive rates.” However, the Spanish government put a cap on the subsidy in 2009, which resulted in “limiting demand in the grid-connected market in Spain.”

**Intergovernmental Agreements Expanding the Trading Market** – International trade often has frictions from tariffs, barriers, and financial conveyances, among others. However, by being in countries that are part of a larger “free trade zone”, early-stage companies can benefit greatly from an enlarged accessible market. Examples include:

- **AMC Juices (Spain)** — processor of chilled, fresh juices:  
“The fact of being inside the European Union, with no commercial barriers and a common currency, has indeed been an extremely favourable framework for the expansion of the business.”
- **BYP (Mexico)** — paint applicator company:  
“Probably the most important aspect has been the open market. A border open for trade has definitely been crucial to the success of BYP.”

Trade areas such as the European Economic Community (EEC) and the North American Free Trade Agreement (NAFTA) can potentially help companies expand into a broader market with fewer trading frictions. However, fewer intra-market restrictions in a larger trading market can lead to greater ease-of-entry for competitive companies, which is a downside for start-ups.

## 7.2.2 Government policy/regulatory environment as growth inhibitor for accessible markets

Government and regulatory policies can act as growth inhibitors when they prevent or place barriers to market entry, such as when companies attempt to build revenues in foreign markets.

**Government Policies Limiting Market Entry** – Foreign companies trying to enter the Chinese market face some challenges. In some cases, market entry was first restricted, and then subsequently opened up:

- **SinoCare Group (China)** — hospital management company:  
“China’s healthcare industry is subject to strong government regulation. Prior to 2007, foreign capital had only limited access to its healthcare industry, which was a major challenge for us given our foreign background. As a result, SinoCare did not experience a strong growth momentum in the early days. The situation was changed after 2009 when the State Council launched a new policy to encourage greater private and foreign capital involvement in the nation’s hospitals and clinics as part of a health-system reform programme that aims to make affordable healthcare available to the general public. Under the new policy, foreign investors can now take up the majority shareholding of a hospital, which enabled us to tap into more hospitals and subsequently accelerated our growth.”

In other cases, government regulations can change what was once a relatively easy market to enter into one with sizeable barriers-to-entry. Multiple countries have adopted very restrictive policies against social-media-related companies entering their domestic markets. As a result, many early-stage social media companies now consider fewer markets as feasible to enter.

**Government Policies Favouring Certain Market Segments** – Early-stage companies often have products that challenge established companies, some of which have entrenched positions supported by government regulations. Not surprisingly, the new entrants can face an uneven playing field. For example:

- **d.light design (USA)** – manufacturer and distributor of solar light and power products in developing markets:  
“It helped that some of our markets, like India, have a more developed distribution infrastructure, but creating an entirely new market still requires establishing new channels of distribution. The presence in many markets of subsidized fossil-fuel products (kerosene and diesel) and tax or tariff barriers puts renewable energy alternatives like ours at a substantial disadvantage, and continues to impede growth.”

**Government Policies Creating Uncertainty of Demand and Instability** – Government agendas can change quickly over time. In some cases this is due to a change in the elected government or its leaders. In other cases, changes in the political or economic situation can lead to cutbacks in planned government programmes. Poorly executed government policies can result in political backlashes and the cancellation of previously heralded programmes. For example, Australia’s Labour-led government introduced subsidies in 2009 for installing home insulation to promote energy conservation. Many companies entered the market, hoping to build scale to service the presumably large demand. However, the programme very quickly ran into

executorial challenges, including deaths attributed by a coroner's report to poor training of people installing the fiberglass insulation (so-called 'pink batts').

### Political Naivety Affecting Early-stage Companies –

Government policies are often the result of vested interests lobbying politicians for legislation and regulations that favour their own constituencies. Section 5 describes the potential for "regulatory capture" by large companies. Early-stage companies often do not have the resources or the mindset to do effective lobbying. Some argue that many entrepreneurial sectors have been very slow to invest resources in lobbying. The result has been that the markets they attempt to disrupt have regulatory barriers more related to the effectiveness of incumbent lobbying than to the interests of consumers. For example:

- **Reputation.com (USA)** – online provider of reputation and privacy products:

"Silicon Valley does not think enough about Washington DC. It appears you have to get to behemoth size to afford putting your hand in there. We have seen no interest from DC in getting input or advice from us on the reputation or privacy area that we have built up as an expertise. We haven't been good at influencing regulators and policy-makers. We have had this notion that we are somehow above it, beyond it. That's a big mistake."

## 7.3 The Human Capital/Workforce Ecosystem Pillar and Government Bodies/Policies

While consistently ranked as pivotal to early-stage company growth, the human capital/workforce pillar brings with it a diverse set of challenges from a government policy perspective. The accelerator and inhibitor aspects of this pillar are reflected in quotations of surveyed entrepreneurs shown in Exhibit 7-4.

### 7.3.1 Government policy/regulatory environment as growth accelerator for human capital/workforce

Two key human-capital challenges facing early-stage companies are (i) the availability of talent, and (ii) the capacity to expand the talent base should the company be able to rapidly scale. Several executive case studies illustrate the role of government and political bodies in promoting the human capital/workforce pillar as a growth accelerator:

- **Bubbly (Singapore)** – provider of mobile social networks and messaging:

"Other aspects that really helped us included the super-efficient Singapore government – where I could literally call any MP and get right to the top to get an answer or discuss how the system should work. They gave us a US\$ 1 million grant early on to subsidize our engineering hiring and then another US\$ 1 million equity investment to keep our incentives aligned longer-term. They have also made it possible for us to recruit from all over the world – not just in the small labour market of Singapore. We have nearly unlimited visas, as long as we're hiring ultra-high-calibre engineers. We now have an engineering team from over 20 different countries and it's literally the best, by far, in Southeast Asia. "

Silicon Valley is widely viewed as having a very deep pool of available talent; however, it is a highly competitive market. One innovative attempt to supplement the available talent was led by LoopUp, one of the executive case studies:

- **LoopUp (UK)** – provider of cloud-based solutions for business conference calling and online meetings:

"We founded the 'Silicon Valley Internship Programme' (SVIP), which offers UK software engineering graduates a year's experience in Silicon Valley. Participants work full-time with sponsoring technology companies, with the aim of inspiring them to return to the UK with the skills and confidence to do a start-up or work in an early-stage tech company. LoopUp is one of nine companies taking a total of 15 UK college graduating students in the programme's inaugural year. The support provided by the British Consulate and the British American Business Council to secure J1 visas for the programme participants has also been essential for the viability of the project."

Government policy regarding the entrepreneurial ecosystem's education & training pillar provides an important foundation for the human capital/workforce pillar. As noted below, one major concern in many countries is the limited quality of vocational training in educational programmes.

### 7.3.2 Government policy/regulatory environment as growth inhibitor for human capital/workforce

Labour shortages can arise in numerous areas of the early-stage company sector. These shortages include management talent, technical talent and employees with entrepreneurial company experience. In various countries there is much debate on two different objectives for increasing visa quotas: to import talent from other countries; or, to allow resident non-citizens to extend their stays. For example, many US-based technology companies have stepped up lobbying efforts with the US government to greatly increase the supply of H-1B visas for foreign workers wishing to enter the country. A common argument is that constraints on increasing visa quotas are inhibiting US-based early-stage companies from scaling to capacity. Current restrictions, it is argued, have forced individuals and companies to seek growth outside the country.

Specific examples in the executive case studies of labour-related policies as growth inhibitors include:

- **AMC Juices (Spain)** – processor of chilled, fresh juices:

"Another great challenge has been the old Spanish labour laws forcing the company to enter 'collective agreements' negotiated for all of the country's industry in Madrid. Typically, they reward years of service in the job, not productivity."

- **Taste Holdings (South Africa)** – vertically integrated franchiser with strong brand focus:

"South Africa is one of the hardest parts in the world to start a business. The framework doesn't foster entrepreneurship. A key problem is the cost of running a business. The worst thing I hear people say to me is that I want to start a business with two employees. This is impossible because you've got such a rigid structure. If you want to fire somebody you may as well give him the company."

- **Galaxy Desserts (USA)** — producer of baked goods and all-natural desserts:

“Regulation has also been a challenge. The California workers’ compensation system, as one example, is an extraordinarily expensive, inefficient and misused system, which puts us at a cost disadvantage vs. our out-of-state competitors.”

### Challenges in Countries with Large-Company

**Employment Biases** – Early-stage companies in many countries compete with larger companies to attract talent. Several executive case studies highlight this area as an important challenge:

- **Arteris (France)** — semiconductor chips provider, including network-on-chip (NoC) solutions:

“The French government policy was to support national champions, which were invariably large companies like Airbus, STMicroelectronics and Bull. There are relatively few successful start-ups coming out of France so the entrepreneurial culture is not very strong. This is particularly evident in the area of middle management, where we had trouble finding people experienced with the global sales and marketing issues facing emerging companies.”

- **Interpark (South Korea)** – online auction and shopping mall:

“We also had a tough issue about resourcing talented people. Most university graduates wanted to work for large companies as a soft landing into society, and working for start-up companies was regarded as risky for the graduates. This is probably linked to Korean culture, with stable jobs preferred to ones considered uncertain. Yes, finding and securing the right people were key absent factors for Interpark.”

These comments illustrate the complex cultural aspects that underlie public- or private-sector attempts to attract more people to early-stage companies and to employ them.

## 7.4 The Funding & Finance Ecosystem Pillar and Government Bodies/Policies

The funding & finance pillar is one where government policy includes viewpoints from entrepreneurs all along a spectrum, from an important growth accelerator to an important growth inhibitor. This includes taxation policy, as more or fewer financial resources can be available to a company depending on favourable or unfavourable policies respectively.

### 7.4.1 Government policy/regulatory environment as growth accelerator for funding & finance

Government financing programmes can play a direct role in funding early-stage company growth. The executive case studies illustrate several of these, including where government assistance to companies in other countries has played a key role:

- **Arteris (France)** — semiconductor chips provider, including network-on-chip (NoC) solutions:

“Funding in Europe was available but limited in deal size. We did obtain interest-free loans from the French government’s Agence Nationale de Valorisation de la Recherche (ANVAR) and [French Innovation Agency]

OSEO programmes and were beneficiaries of the generous R&D [Research and Development] tax credits available in France.”

- **AMC Juices (Spain)** — processor of chilled, fresh juices:

“The new juice team, aware of the technological challenges, engaged in negotiations with one of the most knowledgeable world players in the fruit-juice-processing industry, Gat Foods of Israel. Gat Foods was interested in the abundant supply of fresh fruit from Spain and its closeness and membership in the European Union market. We formed a new company, with a 50/50% ownership, called AMGAT (Citrus Products SA). The new project got approval for a project finance facility from local banks to build the factory. We also got some additional funding from the European Union as a Eureka project (a Eureka project is described in the EU as a joint venture between a European and a non-European company where new technology, not existing previously in Europe, is contributed by the non-European to the European partner).”

- **Victoria Seeds (Uganda)** – full-line seed company:

“Agribusiness was seen as risky by most commercial banks. I was an excited entrepreneur, ready to mortgage my house to pursue the opportunity. I went to a commercial bank for start-up capital. And they said, ‘No way. Even if you have a house or collateral, we aren’t in the business of reselling houses, my dear. You have no credit history and may just disappear.’ And of course, that was really an obstacle, but I still believed in myself. Back then, there was a USAID [United States Agency for International Development] agriculture productivity enhancement programme. I approached the head of the programme, presented him with my business plan, and told him how I was stuck. After speaking, he decided to write the bank and offered a guarantee on the loan. I think that without that intervention, Victoria Seeds wouldn’t even exist.”

### The Diversity of Government Funding Assistance Around the Globe

– Some of the diverse government programmes identified by survey respondents as important growth accelerators are shown in Exhibit 7-5 (Panel A). These programmes include direct loans, equity investments and targeted funds for specific areas such as R&D, renewable energy and export programmes. Taxation-related initiatives include lower income tax rates, increased income deductions and reductions in other taxation areas (such as sales, city and employment taxes).

#### 7.4.2 Government policy/regulatory environment as growth inhibitor for funding & finance

The executive case studies provide several examples where government regulations constrained early-stage companies or imposed higher financing costs on them:

- **Aemetis (USA, India)** — renewable fuels and biochemical company:

“There were a series of low moments in our India business, beginning with the state bank failing to fund US\$ 2 million of the US\$ 6 million loan, and then failing to fund any of the US\$ 10 million working capital line of credit in 2008. Without this financing, we were sunk. We were able to arrange very expensive financing with an industry partner.”

- **Pronto Promo (Pakistan)** — promotional products company:

“Pronto Promo’s biggest challenge has been the lack of funding. There are very limited financing options available to entrepreneurs in Pakistan. There is no cash-flow-based lending in this economy. Here, you have to be born into money to make money. There was never enough running finance (R/F) available to support our operations. The government regulations fuelled the problem. Prudential regulations of the State Bank of Pakistan (SBP) do not allow cash-flow-based lending. There can be no clean line of credits. The only time SBP allows companies to export against purchase order (PO) is when the payment is made against documents. No multinational is interested in taking this headache.”

According to entrepreneurs, various funding and finance aspects of government/regulatory policy inhibit growth (Exhibit 7-5, Panel B). These include high tax rates, absence of tax incentives, tax treatment of stock options, international investor hurdles and uncertainty/unreliability of government financing.

## 7.5 Government Policy/Regulatory Environment and the World of “Red Code Words” for Growth Inhibitors

The survey responses and multiple executive case studies provide many instances where government and regulatory policies and actions were perceived by entrepreneurs to be inhibiting the growth of their early-stage companies. In the government/regulatory arena, many of them felt they had spent resources on low-to-non-productive activities while potential opportunities were denied, constrained or explicitly given to larger or more establishment-based companies. Exhibit 7-6 provides a subset of survey quotations that use “red code words” related to themes such as big company capture, bureaucracy, complexity, entrepreneurial naivety, inconsistent enforcement, lack of clarity, litigation swamp, non-growth mindset, redistribution mindset, regulatory burden, time delays and uncertainty. The same appear in multiple executive case studies. Examples include:

- **Aemetis (USA, India)** — renewable fuels and biochemical company:

“Contributing to the lack of financing is an uncertain regulatory environment at both the state and national level. Investors are uncertain about the level of national commitment to the replacement of crude oil products in the US, despite ready availability of less expensive and renewable alternative fuels. The most frustrating part of operating in India is the inability to achieve logical, beneficial and productive goals due to bureaucratic delays and inefficiency. These delays are often deliberate, with the intention of receiving payment from us before issuing a needed licence or approval. The international finance community should understand that systemic failure to enforce the rule of law against government bureaucrats is the primary reason for the inability of India and other under-developed countries to achieve economic progress.”

- **MoVile (Brazil)** – mobile content company:

“The entrepreneurial ecosystem for Internet companies in Brazil evolved only from 2011 – before this it was very difficult to start business due to great difficulties with bureaucracy, difficult access to capital, high taxes and lack of government incentives. The bureaucracy to run a business in Brazil (was) among the worst of the world, with too many taxes, too many reports, too complex law(s), a slow legal system and a 70-year-old labour law that reduces competitiveness in a globalized Internet era. Fortunately, since 2011 the Brazilian tech scene is much more connected to the world and we see today some changes in most of those aspects.”

- **Digitouch Media Group (Turkey)** — digital marketing agency/affiliate marketing network:

“There is no incentive for entrepreneurship in this country. I think that they are doing everything so that you don’t become an entrepreneur. I am a company that pays so much tax – I have the same conditions as Fortune 500 companies in Turkey since day one! Looking at Germany, there is so much incentive for people that want to build companies. I think Turkey is very bad at that.”

- **ZheJiang HuiFeng Warp Knitting Co. (China)** — producer of tricot fabrics:

“One challenge is low government operating efficiency and lack of transparency. The government approval process usually takes a very long time and involves multiple departments, sometimes with conflicting instructions and/or policies. And sometimes, you need to have the right connection in order to obtain or expedite government approval.”

Government policy is often developed in challenging environments, with a potential mismatch of time horizons used by entrepreneurs and politicians. There is increasing recognition that various policies differ greatly in the level of analysis underlying their formation and in how well they are executed.<sup>11</sup> This report’s analysis hopefully provides policy-makers with a richer understanding of the world of early-stage companies, as viewed by entrepreneurs who have founded or are associated with them.



## Exhibit 7-3: Accessible Markets Ecosystem Pillar – Survey Quotations for Government Policy/Regulatory Environment as Growth Accelerator or Inhibitor

### Panel A: Growth Accelerator (source of quotation)

- "Export grants" (Australia – education content and software)
- "The signing of free trade agreements" (Columbia – management consulting)
- "Openness of government to market-based solutions" (Canada – energy)
- "Inclusion of our technology as a standard for new housing developments" (Mexico – in-home purified water distribution)
- "Reform of pension-system regulations gave individuals freedom to allocate funds from their state pensions to a broader set of products" (Sweden – financial investment products)
- "Government-to-government relationships to promote our services to officials in other countries" (Singapore – engineering services for port facilities)

### Panel B: Growth Inhibitor (source of quotation)

- "Government policies are biased towards big companies with financial strengths" (France – digital consulting services)
- "Most of the government policy/regulation is beneficial to big companies" (South Korea – online commerce)
- "Anti-business attitude, incompetence and corruption in government" (African country – mining)
- "Dumping of products by companies from Country A [disguised country] in our addressable market" (USA – paint products)
- "Subsidizing food crop ethanol to the detriment of all other innovation in more sustainable/scalable biofuel technologies" (USA – industrial enzymes)

## Exhibit 7-4: Human Capital/Workforce Ecosystem Pillar – Survey Quotations for Government Policy/Regulatory Environment as Growth Accelerator or Inhibitor

### Panel A: Growth Accelerator (source of quotation)

- "Supply of well-educated workforce" (France – Web-based services)
- "Availability of strong technical talent in Monterrey" (Mexico – Internet travel services)
- "Investors available with specific industry knowledge and experience" (Sweden – transport)
- "Easy to bring in anyone from anywhere in the world on a visa" (UAE – retail fashion)
- "Limits in California on employee non-compete clauses facilitates labour mobility" (USA – venture capital)
- "Ability to get top-notch accountants and lawyers who will provide services at big discounts for anticipated future relationships" (USA – investments)
- "Government reimbursement for training in growing organizations" (USA – Web hosting)

### Panel B: Growth Inhibitor (source of quotation)

- "The grant of share options is treated as income to employee at the time the option is granted" (Australia – electricity storage)
- "Immigration laws are a hurdle to recruiting foreign talent" (Austria – medical devices)
- "Archaic tax and labour structures" (Brazil – IT sales-force management)
- "Rigid employment laws make it very difficult, costly and way too long to implement the necessary staff turn" (France – consulting services)
- "Employment law does allow us to freely hire and fire" (France – electronics)
- "The difficulty of providing employees with stock options given the current regulatory framework" (Mexico – retail consumer products)
- "Some aspects of social insurance are cumbersome for HR" (Switzerland – software)
- "Immigration policies prevent free movement of qualified people" (UK – financial advisory)
- "Difficulty in getting work visas (H1-B) for foreign engineers" (USA – utilities)
- "Visa limitations on allowing foreign talent to stay in the US" (USA – venture capital)
- "So many rules and regulations. Not explained clearly enough. Not stable enough. Immigration policies – we cannot hire the people when we want them and bring them here." (USA – mobile technology company)
- "It's sometimes scary to hire employees because of all the laws you have to comply with. Just one employee lawsuit in our early years could have killed the company." (USA – travel services)
- "Willingness to tolerate frivolous lawsuits around discrimination – if I hired someone and then fired them six months later, how can that be discrimination?" (USA – enterprise software)

## Exhibit 7-5: Funding & Finance Ecosystem Pillar – Survey Quotations for Government Policy/Regulatory Environment as Growth Accelerator or Inhibitor

### Panel A: Growth Accelerator by Type of Government Programme (source of quotation)

#### R&D assistance programmes

- "Government-assisted financing of our R&D projects" (Italy – telecom)
- "Access to government research grants" (USA – biotechnology)

#### Debt and equity financing assistance

- "Cheap loans from government helped fund our growth" (Belgium – waste recycling)
- "Subsidized loans from the government were important" (Brazil – animal feed)
- "The Start-Up Chile programme provided incredible resources including seed funding of US\$ 40,000 and simple stream-lined immigration into the nation. This helped us focus on building the product." (Chile – mobile applications and communications software)

- "We were able to obtain greater funding due to matching policies by government institutions" (Japan – information technology)

#### Reduced taxation rates

- "Regulatory reduction of corporate tax rates" (Austria – utilities)
- "Low corporate income tax rates" (Singapore – shipping)

#### Increased taxation deductions

- "Tax credit for research – provides significant reimbursement of R&D expenditures, even for companies with negative net income" (France – consulting services)
- "One-year accelerated depreciation of capital expenditures" (Mexico – utilities)

#### Favourable tax treatment of options and long-term capital gains

- "Tax relief for employee options" (UK – financial services)
- "Long-term capital gains and favourable tax treatment of stock options creates additional incentives for investors and employees" (USA – information technology)

#### Export, payroll and sales tax exemptions or reductions

- "Exemptions from sales taxes on exports" (Australia – education content and software)
- "No sales tax" (USA – software)
- "The city of San Francisco exempted us from payroll taxes for new hires to encourage us to remain located in the city" (USA – social media)

### Panel B: Growth Inhibitor by Type of Government Programme (source of quotation)

#### High tax rates/reduced investment incentives

- "Extremely high tax rates makes risk-willing capital and entrepreneurial mindset hard to find" (Denmark – retail trade)
- "Attack on capital gains tax rates and carried interest" (USA – financial services)

#### Absence of tax incentives

- "Absence of tax incentives to stimulate early stage investment" (Italy – online travel)
- "No tax incentives" (USA – software)

#### Tax treatment of stock options

- "Australia's refusal to amend the taxation of options. The company has to record the notional value of the option granted as an expense. Grant of share options is treated as income to the employee at the time the option is granted via Black-Scholes valuation." (Australia – electricity storage)

#### International investor hurdles

- "Tax treaties are nebulous and under revision. Reserve Bank of India and Competitive Commission of India have various other laws that also make foreign investment challenging." (India – private equity)
- "Tax regime and repatriation of cash complexities" (Mexico – Internet travel services)
- "Lack of laws supporting availability of foreign investment" (Spain – industrial technology)
- "Difficulty in repatriating profits from China" (USA – travel)

#### Uncertainty/unreliability of government financing

- "Delays and then failures of government commitments under signed loan agreements with government agencies due to political concerns" (USA – renewable energy)

## Exhibit 7-6: Government Policy/Regulatory Environment as a Growth Inhibitor – Survey Quotations for Living in the “World of Red Code Words”

### Big company capture

“Government purchasing policies are biased towards big companies with financial strengths in their selection criteria, bid bonds and performance bonds” (France – consulting services)

“Cash flow management is difficult with a regulation defined to fit large and stable companies’ needs” (Spain – engineering services)

“Policies favouring the market incumbent that has a monopoly of the market and close ties to the government” (UK – port logistics)

### Bureaucracy/red tape

“Red tape in Greece is impossible. Forming a company that was a subsidiary of a company with US investors was a nightmare. It imposed impossible red-tape deadlocks in the early stage.” (Greece – travel and vacation packages)

### Collateral damage

“Anti-crime laws affect legitimate business” (Mexico – real estate)

### Complexity

“Complexity and cost of creating a business” (Italy – online travel agency)

“Complex, costly tax regimes” (Spain – basic telecom services)

“The myriad of state-level filing requirements... this is an unimaginable amount of non-value added work for a start-up. I'd be happy to pay 20% of my profits to a 'state-fund' that got divided between everyone as long as I could avoid the insane overhead of 50 different requirements.” (USA – solar)

### Entrepreneurial company naivety or ignorance

“Regulators do not have an entrepreneurial mindset. They are more oriented towards big business.” (Japan – pharmaceuticals)

“General ignorance about the entrepreneurial process” (USA – private equity)

### Entrepreneurial company naivety or ignorance

“Regulators do not have an entrepreneurial mindset. They are more oriented towards big business.” (Japan – pharmaceuticals)

“General ignorance about the entrepreneurial process” (USA – private equity)

### Inconsistent enforcement

“No consistent enforcement of laws creating a non-level playing field” (Singapore – venture capital)

### Lack of clarity/opaque/confusing

“Lack of clarity on taxation of income earned by foreign companies in India” (India – private equity)

“Difficulty and consuming sales tax regimes” (USA – merchant card processing)

### Lack of transparency

“The government absolutely must do more to promote transparency and competition in the real estate industry.” (USA – real estate)

### Litigation swamp

“There is no penalty for filing a losing lawsuit. Lawyers always have an incentive to file and force a company to settle over everything, no matter how small. If we were in a legal climate in which the loser was forced to pay all costs, and a regulatory climate that did not penalize small to medium-sized companies that cannot afford batteries of compliance attorneys, we would be able to grow twice as fast.” (USA – finance and investment)

### Non-growth mindset

“There is an anti-oil & gas posture. Our senior government officials are a bunch of ‘brake-tappers’ who seem to do everything they can to detract from growth rather than help to accelerate it.” (USA – oil and gas exploration)

### Redistribution mindset

“Operating in France is like operating in a place where the inmates are running the asylum. The marginal tax rate is now 75%. No great surprise that wealthy entrepreneurs start to leave the country.” (UK – luxury vacation rentals)

### Regulatory burden/overkill

“Sarbanes-Oxley killed the IPO market. It's too expensive to keep up with the big guys. Too much regulation. It has grown to obscene levels. On a recent DARPA [Defense Advanced Research Projects Agency] proposal we had to, among other things, certify that we weren't doing business in Sudan. Really!” (USA – communications networks)

“The regulatory climate has put the burden of proof of innocence on financial institutions. Rules issued by FINRA [Financial Industry Regulatory Authority] and SEC [Securities and Exchange Commission] have caused us to create dozens of compliance and legal roles.” (USA – investment advice)

### Time delays/lengthy approval processes

“Environmental licences are very slow to get. No centralized bureaucracy – have to deal at federal, state, city and union level.” (Brazil – animal feed)

“IRS [Internal Revenue Service] regulations were not settled for several years.” (USA – professional services)

### Regulatory uncertainty/changing regulations

“Uncertainty in future revenue incentives and support” (UK – renewable energy)

“The constant changing of federal tax regulations and the inability to predict the future” (US – electricity services)

“Uncertainty in future policies, sometimes even retroactive adjustments” (US – solar power)



# Section 8: About the Authors and Acknowledgements

## World Economic Forum Team:

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Michael Drexler is a Senior Director at the World Economic Forum based in New York, where he oversees the community of institutional and private investors. He joined the Forum after nine years at Barclays, where he most recently was Managing Director and Global Head of Strategy, Commercial/Investment Banking and Wealth Management. At Barclays, he also held positions in Principal Investments and Finance as well as Chief of Staff to the Chairman. He joined Barclays Capital in 2002 from McKinsey & Company. Prior to that, Drexler was an academic researcher at Stanford University. He holds a PhD in Mathematics from the University of Oxford and an MSc in Electronic Engineering from the Technical University at Munich.

## Stanford University Team:

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George Foster is the Konosuke Matsushita Professor of Management at the Graduate School of Business and a 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 and the Stanford-Endeavor Leadership Program. Foster was the Director of the Enterprise Ireland/Stanford University Leadership for Growth one-year executive programme for Irish CEOs and their management teams. Over 100 Irish CEO's and their companies participated on this program. Foster is the author of many books and reports, over 50 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 Abu Dhabi and Dubai. He has Chaired and is currently a member of the Global Agenda Council on Fostering Entrepreneurship. He also led the 2011 World Economic Forum report on Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies.

Carlos Shimizu (Project Co-Leader)

Carlos Shimizu is an instructor at the Stanford University Graduate School of Business. He has provided course assistance on the Stanford-NFL Player's Career Transition Program and lectured on the Stanford-Endeavor Leadership Program. In addition to teaching at the Business School, Shimizu is also a researcher, co-author, and project manager for publications in Global Entrepreneurship, Sports Management, and Sports Marketing. He was a member of the research team for the 2011 World Economic Forum report on *Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies*. He is also a Senior Analyst and Account Manager with the Education Marketing team at Quinstreet - a public, performance-based marketing firm in the San Francisco Bay Area. He holds an undergraduate degree in Management Science & Engineering from Stanford University and is a Master's candidate in Financial Analysis at the University of San Francisco.

Steve Ciesinski

Steve Ciesinski is a vice president and general manager with SRI International, responsible for the company's commercial and international business development. His team leads SRI's popular Innovation Programs, which teaches SRI's Five Disciplines of Innovation best practices to leaders of government, university, and corporate groups throughout the world. He is also a faculty member at Stanford University's Graduate School of Business, where he teaches courses on entrepreneurship and management. Ciesinski has developed a special interest in innovation and entrepreneurship in developing countries as well as mature economies. Previously, Ciesinski held senior positions at successful venture capital-funded companies, Applied Materials, Octel Communications, and Resumix. He has also held positions at Procter & Gamble; Booz, Allen & Hamilton; and Earlybird Ventures. He has served as a board member and advisor to numerous early-stage companies. Ciesinski is a trustee and past Chairman of the Board of Trustees of Union College. He is also past Chairman of The President's Cabinet at California Polytechnic State University. He is a graduate of Union College with a double major in Electrical Engineering and Modern Languages, and received an MBA from Stanford University.

### Professor Antonio Davila

Professor Antonio Davila heads the Entrepreneurship department as well as the Entrepreneurship and Innovation Center at IESE Business School. He is also a professor in the accounting and control department. He teaches courses in innovation management, entrepreneurship, management accounting and control, and sports management at the master, doctoral, and executive education levels. Before coming to IESE, he was a faculty member at the Graduate School of Business, Stanford University after receiving his doctorate from the Harvard Business School. He has taught innovation and entrepreneurship around the world including Oxford University in England, HEC Lausanne in Switzerland, and CEIBS in China. His work has been published in journals such as Harvard Business Review, California Management Review, Journal of Business Venturing, and Research Policy. He has received IESE's research award three times and his dissertation was distinguished by the American Accounting Association. His latest article in California Management Review received the Accenture Best Paper Award, 2010. The Spanish government awarded him the Ramon y Cajal scholarship that recognizes his work. He was also finalist for the McKinsey Best Paper Award from the Strategic Management Society. He was a member of the research team for the 2011 World Economic Forum report on Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies.

### Professor Syed Zahoor Hassan

Professor Syed Zahoor Hassan is a Professor at Suleman Dawood School of Business (SDSB) at Lahore University of Management Sciences (LUMS). He has served as the Dean of SDSB and also Vice Chancellor of LUMS. He has also served as Associate Dean of Executive Education and Director Accreditation. His current areas of teaching and research are Management of Technology and Innovation, Entrepreneurship, Operations Management and Family Business. He has published in international journals and also contributed book chapters. Professor Hassan has also published several cases on innovations in emerging economies. He has also developed and successfully delivered customized programs for senior executives, especially in the telecom sector. Over the years, he has mentored and guided many successful startups. As a founding charter member of TiE chapter in Lahore, Pakistan, he has played a key role in promoting entrepreneurship and innovation. Hassan holds two masters and a PhD degree from Stanford University.

### Professor Ning Jia

Professor Ning Jia is an associate professor of accounting and associate director of the business case center 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 several 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 was a member of the research team for the 2011 World Economic Forum report on Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies, and has written a number of cases on management practices of Chinese and Non-Chinese companies that are distributed through Harvard Business Publishing. Jia holds an undergraduate degree from the University of Minnesota and a doctorate from the Graduate School of Business, Stanford University.

### Sandy Plunkett

Sandy Plunkett is a thought leader in entrepreneurship and innovation ecosystems. She has more than 20 years experience in the international technology sector as a commentator, consultant, venture capitalist and startup company professional. She is an Industry Fellow, Entrepreneurship at the University of Technology Sydney (UTS) Business School; an Investment Committee Member of Australian Venture Fund, Tank Stream Ventures; and an advisor to the Silicon Valley VC firm, Bullpen Capital, a leading micro-VC fund focused on Internet-driven startup companies.

Plunkett has written extensively on digital transformation and entrepreneurship issues for media and was a contributing author to the 2011 World Economic Forum report: Global Entrepreneurship and the Successful Growth Strategies of Early Stage Companies. She is an advisor to startups, corporations and governments on innovation-driven strategies and disruptive technologies and markets. Plunkett has extensive experience in both Australia and Silicon Valley. Her early Australian experience includes business journalism in transformative ICT industries which she then broadened to include interviews and coverage of leading CEO 's and the strategies of global technology companies. She has led teams in both the investment side of venture capital in Australia and Silicon Valley and on the investee company level (Intertrust).

## Ernst & Young Team

### Maria Pinelli

Maria Pinelli is the Global Vice Chair of Strategic Growth Markets for EY Global. She oversees EY's business unit that is the world leader in advising, guiding and recognizing entrepreneurs and high-growth companies. She advises clients who are focused on accelerating growth and achieving market leadership. Having more than 25 years of experience providing professional services to both private and public companies, Maria has led more than 20 IPOs in three continents. Maria has briefed members of the G20 the World Economic Forum, the London Stock Exchange, the US Senate Banking Committee and the US Securities and Exchange Commission, as well as European Union and African governments, on the trends that are driving global activity in the IPO market, entrepreneurship and innovation, and economic growth. Maria is truly passionate about supporting entrepreneurs and is heavily involved in creating a support network for such business enterprises and founded the Strategic Growth Forum which convenes high-growth companies to share insight and expertise of the market. She also supervises EY's renowned Entrepreneur Of The Year® program worldwide and founded EY's Entrepreneurial Winning Women™ program in 2008, designed to accelerate the growth of high-potential female entrepreneurs. Maria has a degree in Commerce and French (Hons) from McMaster University and has participated in the Executive Education programs at Harvard and the Kellogg School of Management. Maria is a Fellow, Chartered Accountant, CPA, ACA, CA, Chair of the Network for Teaching Entrepreneurship (NFTE) and Member of the Steering Committee for the World Economic Forum.

### John Cunningham

John has over 15 years of business leadership, professional services and business start-up experience. John is currently a Manager at Ernst & Young, LLP in its Strategic Growth Markets group where he is leading entrepreneurship initiatives in partnership with the World Economic Forum. While at Ernst & Young, John also worked on several global merger integration projects. Prior to joining EY, John has successfully built and led several entrepreneurial ventures including BragStats, Best of Our Town, USA, and Velocity Sports Performance. John was selected as a finalist for the Technology Entrepreneur of the Year by the HR Technology Council. John has an MBA from the Darden Graduate School of Business at the University of Virginia and a BS in Commerce from the McIntire School of Business from the University of Virginia.

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Linda Rottenberg is Co-founder and CEO of Endeavor, a nonprofit organization that is transforming economies around the globe through high-impact entrepreneurship. With offices in twenty countries, Endeavor supports over 500 entrepreneurial firms that collectively command US\$ 6 billion in annual revenue and provide over 225,000 people with high-quality jobs. Rottenberg is considered one of the world's most dynamic experts on entrepreneurship and emerging markets, having appeared on TIME's 100 "Innovators for the 21st century" and Forbes' "Impact 30." She currently serves as an advisor to ABRAAJ Capital, a leading private equity investor in global growth markets. Rottenberg is a graduate of Harvard College and Yale Law School. She lives in Brooklyn, NY, with her husband and identical twin daughters.

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Diane Lee is a Technical Resource Analyst at the Stanford University Graduate School of Business. She explores ways in which faculty can use technology to improve their teaching and research. She was the Project Administrator for the 2011 World Economic Forum Report on Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies. Lee holds a bachelor's degree from the University of California, Berkeley.

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# 9F Group

## China

Prepared by Ning Jia and George Foster

### Overview

Founded in 2006, 9F Group is a leading financial services company in China. The company provides high-touch, customized consulting services to Chinese banks. Over the years, the company has expanded its product and service offerings to two new areas: microfinancing and wealth management.

9F Group now has more than 10 branch offices in China with more than 800 full-time employees and more than 27,000 bank managers as registered members. Annual sales revenue has exceeded RMB 100 million. As of December 2012, 9F Group has provided consulting services for more than nine national banks (including the Agricultural Bank, Bank of China and China Minsheng Bank), 10 regional banks (including Huishang Bank, Bank of Dalian, Bank of Jiangsu and Baoshang Bank) and 262 city-level bank branch offices in the areas of retail banking and microfinance. 9F Group also built a unique “cloud consulting” platform, which enables real-time consulting for its bank clients. The top management of 9F Group all have extensive work experience in China’s financial and banking sector. 98% of the company’s employees have at least a Bachelor’s degree, and 20% are graduates from top-tier universities in China.

### Timeline/Key Events



### Quotations

Lei Sun, founder, President and CEO of the company, has more than 10 years of experience in China’s financial services sector. Prior to founding 9F Group, Sun worked as the general manager of the finance department of Hong Kong Hi Sun Technology Limited (0818.HK), senior manager of China Minsheng Bank’s (1988.HK) wealth management centre and senior consultant of DigitalChina’s financial business unit. He holds a Bachelor’s degree in Finance and an EMBA from Peking University’s Guanghua School of Management, as well as an RFP (Registered Financial Planners) Professional Diploma.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Sun: “Prior to founding 9F, I worked as the general manager of Hong Kong Hi Sun Technology Limited’s financial service unit, which provides various consulting services to Chinese commercial banks. After leaving Hi Sun, I joined the wealth management centre of China Minsheng Bank, where I was responsible for the overall operation of the centre. Throughout years of work experience in China’s financial sector and particularly the wealth management area, what I have come to realize is that there is a significant information asymmetry problem between banks

and their clients, and as a result, banks have been able to take advantage of their superior information and knowledge about various financial products to construct portfolios for clients that are biased towards high-commission products they sell. In other words, given the conflict of interest between banks and clients, it has been virtually impossible for banks to remain objective and independent when providing wealth management consultancy for their clients. Banks would put together product portfolios that maximize their gains while compromising the clients’ best interests. So in 2006, when

China's financial market was booming, I decided to establish a company that provided third-party, independent financial services to individual customers in the area of wealth management. The idea was that we would help clients shop around various financial products and help them construct and maintain an optimal portfolio, for which we would receive consulting fees in return. However, we soon realized that individual Chinese customers at the time were not used to the idea of paying for such consulting services so our business model did not work as well as we had hoped. So we continued to look for new opportunities. In 2007-2008, we invented and started to sell our F-Touch wealth diagnosis software that helped banks (especially wealth management centres) enhance the quality of their customer service and optimize resource allocation. This business worked well initially, but because different banks in China have different policies and a varied quality and structure of client databases, selling standard financial diagnostic tools was hard to scale. So we again were searching for new ideas and opportunities. During our interactions with the Agricultural Bank of China (ABC) when selling F-Touch software, ABC expressed demand for consulting services. At the time, ABC was going through a transformation in an effort to enhance its operating efficiency and service quality, and was looking for a consulting firm to help design and implement a package solution. We capitalized on this opportunity and the project was hugely successful. So we decided to change our business model to providing high-touch, customized consulting services to Chinese banks. Over time, we have also expanded our service offerings to include microfinancing and wealth management."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Sun: "As we were going through several rounds of trial and error and trying out different business models in the early days, as do most entrepreneurial companies, we were not exactly experiencing a smooth growth trajectory. In retrospect, the problem we encountered in the early days was that there was a significant misalignment between what we wanted to accomplish and the amount of resources available to us, and the marketing timing was not exactly in favour of our business idea. But luckily our early investor was very supportive and provided us with working capital and other resources that we needed. Our management team was also very persistent and did not give up, which is another major accelerator that helped 9F get to where we are today."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Sun: "Our company's headquarters are located right at the heart of the business district of Beijing. Beijing is home to many top-tier universities including Peking University and Tsinghua University. To maintain sustainable growth, we pay very close attention to our talent pipeline, making sure we develop and maintain a steady stream of people to turn to when it's time to hire. We build channels with major universities in Beijing and in other provinces to create a viable candidate pool and actively recruit via campus interviews, etc. Currently, 98% of our company's employees have at least a Bachelor's degree, and 20% are graduates from top-tier universities in China. We have a particularly good relationship with Peking University as most of our top management are alumni of this institute. Alumni culture is particularly important in that, despite our modest size,

especially in the early days, we are still able to compete with Fortune 500 companies and have successfully recruited many top-performing students from Peking University because they share the same educational background, culture and values as our management team. We work with Peking University to organize academic seminars and forums on microfinancing and retail banking. This is not only a channel for us to identify potential clients, but also to enhance our brand value.

In addition, Beijing, as the capital of China, has traditionally had a large financial sector that drives much of the region's economy. Most banks and other financial institutions have their headquarters set up here. Being physically close to our clients certainly facilitates business communication and lowers our marketing costs. More importantly, establishing relationships with bank managers at the headquarter level and landing business contracts with bank headquarters may open up doors to regional branch offices."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

Sun: "Compared with Shanghai and Shenzhen, building and growing a start-up company in Beijing is generally more challenging given the limited policy support (such as tax benefits, special treatment or favourable policies for small and medium-sized companies) and relatively low government administrative efficiency. In addition, private companies in China generally have less bargaining power when doing business with state-owned enterprises (SOEs). They have a natural advantage because of government backing and access to a wider pool of resources. Although the probability of not getting paid is low, the time to collect service fees can sometimes be much longer when dealing with SOEs. This puts pressure on our cash flows."

**Q5: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Sun: "Most of our clients are large SOEs, i.e., Chinese banks. Our very first client was the Agricultural Bank of China (ABC). It was our lighthouse customer and landing that contract had a monumental impact on company growth because we were able to subsequently attract many more businesses by capitalizing on ABC's brand. Large companies are typically very cautious in choosing small companies as their business partners because small companies typically lack credibility and a proven track record, and have high exposure to bankruptcy risk. Seeing ABC on our client list and knowing that we successfully completed the project for ABC significantly helped us to land contracts with other large banks, many of which are direct competitors of ABC and are of similar size. Another benefit of working with large clients is that it forces us to continuously improve our service quality and internal management in order to live up to higher customer expectation and standards."

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Sun: “Guanxi, which means relationships and network, is key to achieving business success in China. Unlike western countries which run on a free market economy, China’s business environment is still very much relationship-based. The ability to land large accounts often depends on your personal relationship or friendship with people holding key positions in the client company. Such a business model is highly risky in the sense that the sustainability of business relationships hinges critically on the sustainability of personal relationships, and if the people you have established a relationship with resign from their current positions or are replaced by new managers, you are likely to lose the entire contract. This is particularly problematic when the client is an SOE because major decisions are generally made at the top by the CEO or at least VP-level managers. That means you need to establish good relationships with top management. But when that person leaves, the new manager typically brings in new ideas and implements changes, in which case previously signed contracts may be terminated or not renewed.

In addition, large clients have greater bargaining power and more stringent requirements that limit our profit potential. In the early days of company development, we relied heavily on business with large banks, and they did accelerate our growth in many ways. But now we are gradually increasing our share of business with smaller clients and rebalancing the weight of large clients in our portfolio in order to diversify the customer concentration risk.”

**Q6: Your current revenue growth to date had been predominantly focused on your own domestic market. What are the major reasons for this major revenue focus to date on domestic markets?**

Sun: “Despite rapid development in recent years, China’s banking sector is still underdeveloped compared with banking in western markets. The China Banking Regulatory Commission (CBRC) has urged commercial banks to establish scientific capital management frameworks and effective corporate governance structures and operating mechanisms, as well as to accelerate transformation of the development pattern from being scale-driven to capital-constrained, and to continue to enhance internal controls and managerial expertise by optimizing policies, procedures, risk measurement, data collection and IT management. The CBRC also encourages innovation in products and services, especially high value-added products in fields such as trade finance, small and micro-enterprise financial services, rural financial services and wealth management. As Chinese banks are constantly expanding their product/service offerings and escalating their operational efficiency, there is significant demand for our consulting services. Our service is highly localized and tailored towards the special needs of Chinese banks in a transition economy and we have no intention of expanding into foreign markets in the foreseeable future.”

**Q7: What would you view as the greatest challenges in growing a sizable revenue presence in markets beyond your own domestic country or region? In deciding when and where to seek growth in international markets, what characteristics of a country’s ecosystem would be most important in attracting you to invest significant resources in that non-domestic country or region?**

Sun: “The greatest challenge is the lack of talent with global vision and experience. Almost all of our employees are local hires with extensive knowledge about China’s banking sector, but very little overseas experience. Consulting is a high-touch business in which customers must place trust in and partnership with the firm with which they work, and the firm must stay close to the clients to allow close collaboration. This would require us to build a local team in countries we tap into, which is challenging at this point in time given our limited management bandwidth and lack of talent with international experience.

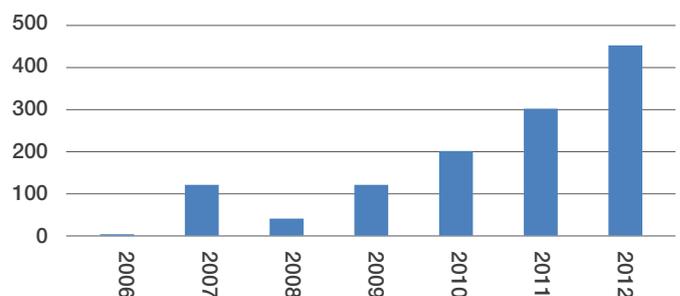
The three most important characteristics of a country’s ecosystem in attracting our firm to enter are: market accessibility; the availability of high-quality talent; and favourable government policies.”

**Q8: Building a company that aims to have sustainable high growth inevitably will have both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in your entrepreneurial journey.**

Sun: “A high moment was when we landed the consulting contract with the Agricultural Bank of China (ABC). As I mentioned, ABC was our lighthouse customer and winning this project significantly enhanced our brand name. More importantly, this project was an ‘exemplar project’ that set the quality standards of our service and enabled us to standardize the process of our service. We were able to modularize the complicated consulting service process and replicate it quickly in our other bank consulting projects.

A low moment was the arrival of the global financial crisis when we had just started to enter the wealth management business. It had a significant adverse effect on our business and we had to lay off a sizable number of our workforce. Fortunately, we were able to rebound quickly after the crisis subsided.”

**Headcount**



# Abacus

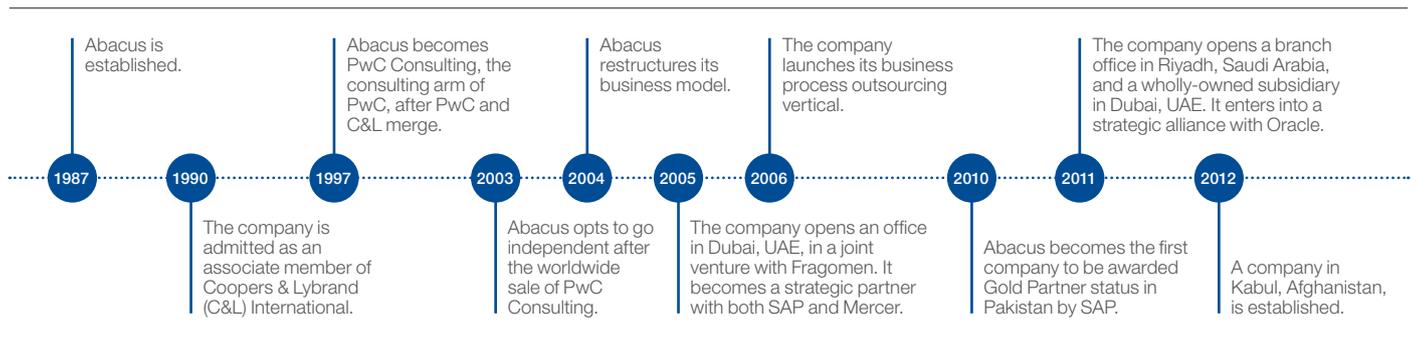
## Pakistan

Prepared by Syed Zahoor Hassan and George Foster

### Overview

Abacus is a professional services firm providing management consulting, technology and outsourcing services. Based in Pakistan, Abacus is the largest firm of its kind in the country, both in terms of revenue and staff numbers, and one of the largest in South Asia. Founded in 1987 in a small two-room facility with two employees, Abacus has experienced exponential growth since. Today, the company has over 2,300 employees and 12 offices in Pakistan and in the Middle East, North Africa and South Asia. It serves clients on three continents spanning 22 countries. Abacus serves 23 out of 35 Fortune 100 companies operating in Pakistan, with 150 to 300 clients serviced each year. Abacus has over 400 subject area specialist consultants active in multiple fields, and a track record of more than 1,200 successfully completed projects to date. Administratively, it comprises four business verticals: information technology solutions, business transformation solutions, human capital solutions and strategy, and corporate finance and strategy. Abacus has had to adapt and survive in a tough and unfavourable economic environment. Having had to deal with some rather unique challenges, it has moulded itself to develop an “immune system” based on strategic diversification. The diversified business portfolio of Abacus has consistently comprised a wide range of integrated business areas that could be depended on at different cycles of economy or political climate.

### Timeline/Key Events



### Quotations

**Asad Ali Khan** is the founder and President of Abacus. He has been associated with PricewaterhouseCoopers (and its legacy firms) for a large part of his career in Australia, the Middle East and Pakistan. He has been involved in top-level consultancy at the board level and has acted as an adviser to or as a professional board member on corporate boards of several multinational companies in Pakistan and the Middle East. Khan features among the 100 most influential business leaders of Pakistan in the recently published book 100 Business Leaders of Pakistan by Manager Today, and is the recipient of the Australian Alumni Award for Business Leadership by the Australian Trade Commission. He is a fellow chartered accountant from Australia and an alumnus of Hailey College where he did his B.Com with honours, and of the University of New South Wales where he completed his post-graduate studies.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Khan: “Since my student days, I had always nurtured a dream of creating my own organization where I could advise and help people to run their businesses successfully. I had even decided on the name ‘Abacus’ long ago when I witnessed an abacus in use at a travellers’ check counter, making complex calculations in a matter of seconds.

“In the early 1980s, I had a well settled and established life in the Middle East, where I was acting as an adviser to several multinational companies and performing as a professional board member on corporate boards of many others. But personal and patriotic reasons compelled me to move back to Pakistan – a decision which was made easy for me because of the opportunity I could see in Pakistan to realize my childhood dream. While colleagues advised me against going back to Pakistan, I knew that a huge gap existed between local and international business standards in Pakistan, which, if bridged, could unleash immense value for local businesses, entrepreneurs and the economy at large. Business decisions were being taken on whims; every other person was jumping on the textile-boom bandwagon inspired

by those who had struck it rich. Business acumen was getting rusty and outdated as practices were becoming run of the mill. So, even though the environment was challenging, the potential was huge, and I had to be there to capture it.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Khan: “Following the decision to go independent in 2003, the key leaders of Abacus reviewed its business model and put into action a new strategic plan. The new Abacus model was based on five fundamental principles that have underpinned Abacus’s rapid growth over the past decade:

“a) Firstly, building diversity in our business model and portfolio of service offerings based on ‘one-stop-shop’, with end-to-end solutions across the value chain that are compatible with the local market environment and commercially viable for us as well as the client.

“b) Secondly, equipping each business vertical with cutting-edge business solutions in an integrated fashion to ensure seamless service delivery to our clients. We offer a value proposition that has a deep scale, is industry focused and technology driven with a world-class delivery capability.

“c) Thirdly, having on board people of high integrity in key positions who are visionary, bold, open and accountable, who are able to focus on the future, lead, shape and inspire, and, last but not the least, who are compliant with our value system. This allows an efficient, high-quality delivery of our service offerings.

“d) Fourthly, remaining in close touch with our clients post-delivery. This demonstrates our commitment to be long-term partners for our clients.

“e) Fifthly, establishing strategic alliances and partnerships with leading global technology vendors (e.g. SAP, Sybase, Mercer, Fragomen and Oracle), which has elevated Abacus to a unique standing within Pakistan. This has enabled us to work for some of the most discerning clients on some of the most complex projects, and also paved the way for geographical expansion.

“It took us about three years to fully implement the model, and we began to realize the dividends from 2006 onwards. Some of the most rapid growth years were witnessed during this period, with 2008 demonstrating an annual growth of 286% (in PKR terms).”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Khan: “I believe the biggest entrepreneurial aspect that worked in our favour was the first mover’s advantage. At the time of Abacus’s establishment, there was no organized management consulting company present in Pakistan. The services we were offering in the first few years included corporate finance, financial management, business planning and HR services – which were either offered as an inadequately planned side service by accounting firms or not offered at all in the corporate sector. So, while it was initially challenging to develop the market and educate the client, once developed, a large proportion of the market opportunities came our way. These included projects for local as well as foreign clients, enabling us to establish a goodwill and positive repute in the market that stays with us to date.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Khan: “Over the past five or six years, lack of investment in the region has been the greatest challenge that we have had to face. An absence of investor interest means no new commercial or industrial projects and hence no business, which has led to many an entrepreneur’s economic demise. In my opinion, there are three key reasons for the lack of investment in Pakistan. Firstly, the endemic lack of security and law and order that began with the invasion of Afghanistan post-11 September 2001 and has grown deeper and more severe with time. Secondly, the political environment that has historically remained uncertain, with extended periods of martial law and rapidly changing civil governments resulting in frequently amended policy frameworks and a lack of investment predictability. And lastly, the persistent shortage of energy that has crippled the economy as it prevents entrepreneurs from running industry, meeting production orders and deadlines, and maintaining their bottom lines. Low interest in investment and diluted profits translate into a lower demand for business advisory. For a company less diversified and strategically secure than Abacus, this situation could be very dangerous.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Khan: “Up until 2003, as a member firm of PwC Consulting, Abacus was operationally integrated into the sub-theatre called MEP (Middle East-Pakistan), an integral part of the EMEA theatre comprising Europe, the Middle East and Africa. Thus, when Abacus went independent and we decided to extend our geographical boundaries and go international, it was only natural that we begin with the region we were already well acquainted with, had ground knowledge and experience of operating in. We used that knowledge to set up our first international joint venture in Dubai, United Arab Emirates.

“The next spurt of geographical expansion came after 2009. An office was established in Riyadh, Saudi Arabia, followed by a wholly-owned subsidiary in Dubai in 2011 and in Kabul, Afghanistan, in 2012. Efforts to open up for opportunities in Iraq also began in 2011. The impetus for this expansion came from the deep recession in Pakistan during the time begging the need to diversify and reduce dependence on the local market. Saudi Arabia was among the very few countries that had not been significantly hurt by the global meltdown, hence the choice. The selection of these other market destinations stemmed from the extensive demand for a wide range of technology services by multilateral and bilateral financial institutions working in these war-torn countries, and the competitive edge Abacus enjoyed in the area.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Khan: "Mobility has emerged as one of the biggest challenges in building international growth. Earlier, nationals of other countries had travel advisories against coming to Pakistan, which has had an extremely adverse impact on the country's investment and tourism climate. However, of late, Pakistanis have also had to suffer because of problems in travelling to other countries. Immigration laws have been made harsh and visa policies more stringent in several countries in the Middle East – generally due to the aggravating global security environment, but in some cases especially targeting Pakistani nationals. This has made mobility a real challenge.

"Rather than going for a quick fix, we took the long but sure and correct route to resolve this issue. Establishing a legal entity in the country (or in the region, as the case may be) has alleviated the problem considerably, and ensuring regulatory compliance has helped the matter further by establishing trust with the authorities. This has been time-consuming and costly, but over the long run, we have found it to be more reliable, cost effective and efficient.

"The other big challenge in developing international markets is the need for a well-known and established brand name. While Abacus is a well-recognized and respected name in Pakistan, it requires greater selling abroad. We have countered this problem by leveraging our track record and our legacy, and, of course, through our performance, service quality, delivery and commitment to the client."

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Khan: "Abacus has demonstrated positive growth in revenue over the years of its existence – with the post-2005 phase being a high-growth period. We passed the billion rupee mark in 2009 and our revenue for 2013 is estimated at PKR 2.3 billion. Even during periods of recession or difficult times for Abacus, business has generally experienced expansion. Interestingly, it was the company's phenomenal growth during the global meltdown of 2007 to 2009 that won Abacus a place on Pakistan 25, AllWorld Network's Fast Growth programme for emerging markets. Abacus has also won a place on Arabia 500 for all subsequent years to date.

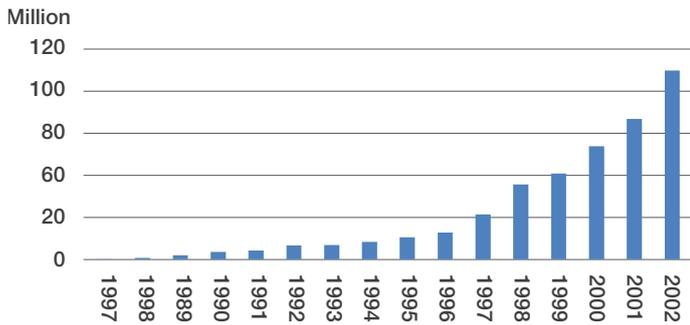
"Strategic diversification is the key lesson that can be taken from Abacus's evolution, and the recipe of our successful growth and development. Abacus's growth strategy has been to constantly reinvent itself to adapt to the ever-changing business environment. The well-diversified business portfolio of Abacus has consistently comprised business units that could be depended on at different cycles of the economy or political climate. There have been times when one business vertical has subsidized the development of another to subsequently become dormant, and the previously inactive vertical waking up and booming due to a change in market dynamics."

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

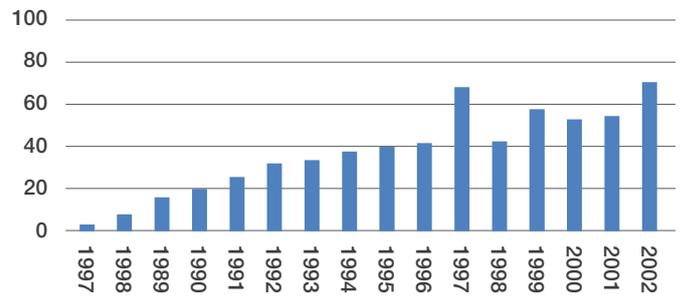
Khan: "In hindsight, I would not deem it a negative phase or a dark moment, but I believe there was a defining moment in Abacus's history. Stressful as it was, it is due to this episode that we stand where we stand today. Following the Sarbanes-Oxley Act in 2002, most global accounting firms, including PwC, separated their consulting arms from their audit divisions in an attempt to restore confidence in their audit product. PwC Consulting was to be sold to IBM, which implied Abacus's sale as well. However, Pakistan was one of the few countries within the PwC network where the stocks were still held by the local equity partners. Hence, Abacus had a choice of going with IBM or going independent. We chose the latter. This decision was not an easy one because of fears that Abacus might not be able to sustain itself if it did not go with the sale. We lost clients and some of our key resources because of this decision. However, we proved our detractors wrong, and have witnessed exponential growth since then. It may have been a dark moment for Abacus at that time, but today I think it was one of the best decisions we made for Abacus."

**Panel A: 1997-2002. Abacus as a Member of International Accounting Firm (Coopers & Lybrand, later PwC) Network**

**Gross Revenue (PKR)**

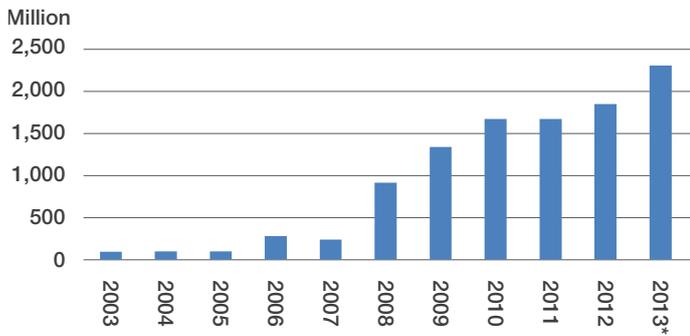


**Headcount**

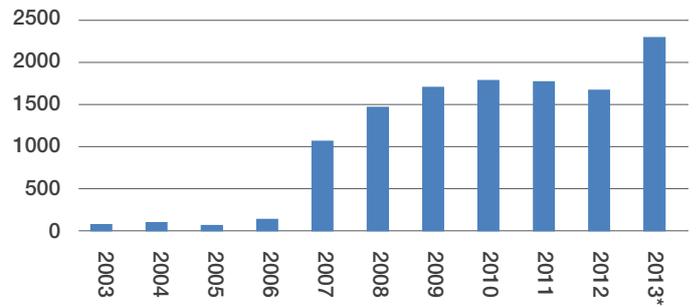


**Panel B: 2003-2013. Abacus as Independent Firm Era**

**Gross Revenue (PKR)**



**Headcount**



# Aemetis

## USA & India

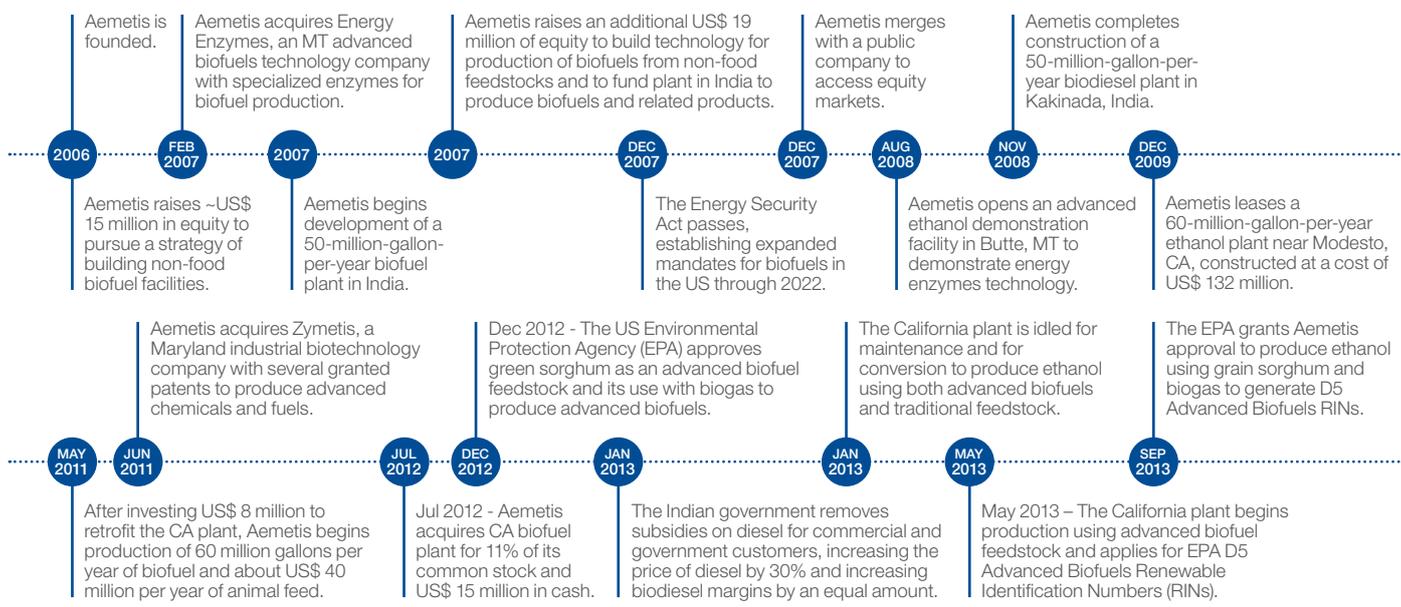
Prepared by George Foster

### Overview

Aemetis is an international renewable fuels and biochemicals company focused on the development, acquisition and commercialization of innovative technologies that replace traditional petroleum-based products by the conversion of first generation ethanol and biodiesel plants into advanced biorefineries. Worldwide revenues for 2012 were US\$ 190 million.

Founded in 2006, Aemetis owns and operates renewable fuel and chemicals facilities in the US and India. Aemetis acquired and operates a 60-million-gallon-per-year (MGY) ethanol plant in Keyes, California, and built and operates a 50 MGY advanced biofuel plant in Kakinada, India. The company also acquired Zymetis Inc. and its patented aerobic, marine microbe that exhibits unique and powerful degradative abilities on a broad-spectrum of feedstocks for the production of renewable chemicals and fuels.

### Timeline/Key Events



### Quotations

**Eric McAfee** is Chairman/CEO and Founder of Aemetis Inc. He is a Silicon Valley entrepreneur and venture capitalist with a lifelong commitment to agriculture and renewable energy. He was a founding shareholder of US\$ 900 million revenues Pacific Ethanol and founding shareholder of several publicly-held energy companies, including Evolution Petroleum (NYSE: EPM). McAfee has funded more than 25 companies as a principal investor and has founded seven public companies with a combined high market value of more than US\$ 4 billion.

McAfee graduated as the Dean's Medallist from the Fresno State University business school. He is an alumnus of the Stanford Graduate School of Business (1993 Executive Program) and is a 2004 graduate of the Harvard Business School Private Equity and Venture Capital Program. He served as a 2007 Entrepreneur in Residence at the Wharton School MBA Program. McAfee is a Congressional Award medal recipient for his volunteer work. He and his wife

received the first Founders Award from Opportunity International, the largest microfinance organization in the world, for the creation of initiatives for the financing of renewable fuel feedstock production in developing countries.

**Todd Waltz** is Chief Financial Officer at Aemetis. Waltz, a Certified Public Accountant, formerly served 12 years with Apple in finance and accounting operational roles. He served for five years with Litton Industries and worked for five years with audit firm Ernst & Young. Waltz joined Aemetis in 2007 from his position as financial controller of the software division of Apple.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

**McAfee:** “In 2003, I had co-founded an ethanol company called Pacific Ethanol which had been very successful in raising US\$ 570 million of equity and debt capital, including US\$ 85 million equity funding by Bill Gates’ Cascade Investments. By 2006, Pacific Ethanol had a market valuation of more than US\$ 1 billion. However, the feedstock for Pacific Ethanol’s four biofuel plants was corn, which at the time was receiving significant criticism due to the food vs fuel debate.

“I founded Aemetis in 2006 with the plan that we could: 1) invest in new technologies to enable non-food feedstocks to be used in the production of renewable fuels and chemicals, and 2) reduce capital expenditures and time-to-market by converting existing first-generation corn ethanol plants to these new feedstocks using new technologies.

“Though we had two name changes in the last seven years, the name Aemetis means ‘The One Prudent Wisdom’. By combining the Scottish word ‘Ae’, meaning ‘the one’, and the Greek word ‘Metis’, meaning ‘prudent wisdom’ (Metis is the mother of Athena the goddess of wisdom), ‘Aemetis’ refers to the one prudent wisdom of replacing crude oil with renewable sources of fuels and chemicals.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

**McAfee:** “The major growth accelerator for Aemetis in its early years was strong investor interest in the replacement of crude oil in the production of fuels. Crude oil rose from approximately US\$ 20 a barrel in 2003 to what is now (2013) nearly US\$ 100 a barrel. In support of this goal, President George Bush signed a set of mandates into law in mid-2005 and in late 2007 that were important in establishing a market for biofuels and reducing the power of incumbent oil companies that controlled fuel distribution. In December 2007, the expansion of the biofuel mandates allowed visibility until 2022 into the size of the biofuels market in the US.

“We made our decision to construct our first biofuels plant in India as we analysed the world’s lowest cost feedstock was a by-product of palm oil that is extracted in the production of edible palm oil. India is located close to the palm production areas in Malaysia and Indonesia, and in 2007 India adopted favourable tax rules, tariff rates and biodiesel blending targets for biodiesel.

“At the time, the Indian market was attracting foreign investment and the Indian stock market was doing well. We were especially interested in the ability to construct and operate a non-food biofuel plant with the world’s lowest production costs, located in a growing market that is not correlated with the US regulatory and political system.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

**McAfee:** “The ecosystem surrounding our company played a key role in our growth. In both the US and India, the governments provided markets for our products that had not existed previously and may not have been allowed to develop by existing oil-based fuel suppliers. The specialized workforce necessary to produce advanced biofuels was available in California and available from the edible oil industry in India in the east coast region surrounding our Kakinada plant. Initially

in 2006, equity investors and commercial banks had a high level of interest in biofuels, but the appetite for traditional and advanced biofuel investments declined dramatically in 2007 and 2008 due to volatile corn ethanol margins and the Great Recession in the US.

“We found that using debt financing from Canada starting in 2008 was an available source of capital for capital intensive biofuel projects, although there were only a small number of potential lenders. Canada did not experience a mortgage crisis and banking difficulties during 2008, and the biofuel industry has received consistent government support in Canada.

“Mentors and advisers played an important role in the growth of Aemetis, with advisers from the diverse industries that are impacted by or support the biofuels industry. Our board members and mentors include executives from oil refining, chemicals, agriculture, government and military backgrounds, in addition to finance, engineering and international trade.

“Favourable regulatory frameworks have been critical to the establishment of the entire biofuel industry. US federal and California state biofuel mandates have been challenged constantly by the oil industry, but the benefits of a non-subsidized, domestic, renewable, low carbon, high octane and cleaner-burning fuel have maintained government policies that expand biofuel use.

“The high level of education and depth of accounting, finance and regulatory experience in Silicon Valley supported our rapid growth. Our CFO and vice-president of finance each worked at Apple for more than 10 years, and the chairman of our audit committee is a veteran CFO of five companies that each generated more than US\$ 1 billion of revenues.

“Our 2011 acquisition of Zymetis was a direct result of the impact of the Maryland Biotech Center on biofuel technologies. The availability of scientists and specialized capital equipment enabled the launch of Zymetis by a professor from the university.

“The Silicon Valley support infrastructure for entrepreneurs includes acceptance of the high risks and uncertainty involved with launching new companies. This cultural support allowed Aemetis to quickly move forward on transforming the entire biofuel industry, potentially altering the dynamics of the oil and gas industry, without facing criticism of potential failure in our local area.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

**McAfee:** “The key missing component of the ecosystem was a lack of access to markets without interference from oil companies, who have direct conflicts of interest with renewable fuel producers. Since oil companies own oil fields and refine oil into gasoline, and often provide fuel distribution and retail sales, oil companies control the sales channel for fuels. The resulting inability of biofuel companies to sell on an even playing field with oil-based gasoline resulted in low margins and reduced market size. Biofuel prices do not reflect the value to the end-user; instead, biofuel prices usually reflect the pricing power of fuel blenders. Even today, ethanol sells at a US\$ 0.60 per gallon discount to gasoline, without any federal subsidies to ethanol producers.

“The lack of the availability of financing from equity investors, government loans or commercial banking sources has been an impediment to the growth of biofuels since mid-2006.

“Contributing to the lack of financing is an uncertain regulatory environment at both the state and national levels. Investors are uncertain about the level of national commitment to the replacement of crude oil products in the US, despite ready availability of less expensive, renewable, alternative fuels.

“We have managed through these uncertainties by maintaining a commitment to the simple reality that the cost of producing and refining crude oil is increasing and will continue do so for the foreseeable future. Today, the crude oil industry receives enormous direct and indirect subsidies, including tax-free Master Limited Partnership status (not allowed for biofuel facilities) and large military costs related to wars for the protection of foreign oil fields and shipping lanes.

“Since Aemetis profitably produces fuel that, without federal subsidies, is already less expensive than crude oil, time will work in our favour as we continue to reduce costs and achieve higher margins by the adoption of new technologies and lower-cost feedstocks and processes.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

McAfee: “We began to invest internationally within one year after founding the company. Our goals were to achieve the use of the lowest cost feedstock from a non-food source and to be able to sell into a large domestic and out to international marketplaces. We found the country of India is close to the lowest-cost edible oil in the world, which is palm oil from Malaysia and Indonesia. The waste product from producing edible palm oil is a non-food feedstock called stearine. Since India is close to the source of palm oil production and is the world’s second-largest consumer of palm oil, it has significant stearine supply available for the production of biodiesel, refined glycerine and other products.

“India’s adoption of a 5% biodiesel blending target, a tariff and a favourable tax rate for biodiesel were significant factors in our decision to construct a biodiesel plant in India. The lower costs of construction and operation of the 50-million-gallon-per-year plant has enabled us to be competitive in supplying Europe with biofuels from our India plant.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Waltz: “In India, two of our largest challenges were access to working capital and national policies subsidizing the price of diesel (while not supporting biodiesel).

“We initially sought a term and working capital credit facility with a large bank in India to fund a portion of our India plant construction and operations. We funded a total of about US\$ 18 million in equity to the project, and relied upon a US\$ 6 million term loan and a US\$ 10 million working capital line of credit from a government-owned bank in India. About US\$ 4 million of the funding was provided under the term loan when the 2008 financial crisis caused funding to cease. We were able to complete only one of the four planned production units within the plant. With one functioning production unit

(biodiesel processing), we were unable to refine natural oils, pre-treat the feedstock or refine the key by-product, glycerine. We were fortunate in having a business partner who had both access to capital and the willingness to extend that capital to us. The agreement involved paying the business partner interest on the funds (approximately 15%), plus an amount equal to 30% of the gross margin from product sales. Our business partner also provided access to a trading platform and guidance on the purchase of feedstock. We were able to leverage our expertise of marketing the production from the plant to achieve positive cash flow in 2009, despite the lack of bank financing.

“India is highly dependent on the use of diesel for transportation, to the extent that the Government saw a need to subsidize the price of diesel, along with food, as a key economic policy. To support political favour with the population, the Government of India provided significant subsidies of about 30% during a time when oil prices were increasing. This subsidy was so large that we were unable to economically sell our product in the domestic market in India and, due to international dumping policies, we were unable to sell our biodiesel product in the international markets in Europe or the US.

“We were in the position of having to wait for petroleum prices to fall or for the Indian Government to lessen or lift the diesel subsidy. While in this waiting period, we sought alternative markets for biodiesel. Initially, we believed a market existed for sales to companies operating large generators as a clean alternative to diesel, but soon learned that the lower price of diesel was a compelling factor against these customers changing their purchase patterns. We then pursued industrial applications, including steel plants and large bakeries looking for a clean burning fuel for their ovens. We found a market supplying biodiesel as a specialty chemical, including lubricants.

“After the rise in the price of crude oil to almost US\$ 100 per barrel, we developed a production process that upgrades our biodiesel to meet stringent European market requirements. In 2009, we began shipments to Europe from India and have expanded sales significantly as the less expensive products from our plant replace more expensive, imported, soy-based biodiesel.”

McAfee: “To our knowledge, Aemetis is the only US company that operates any biofuel production facility anywhere in Asia. This unique position allows us to apply US-quality management, accounting, production and engineering systems to meet EU and US standards, while our Asian competitors are plagued with operational and product quality challenges.

“The most frustrating part of operating in India is the inability to achieve logical, beneficial, productive goals due to bureaucratic delays and inefficiency. These delays are often deliberate, with the intention of receiving payment from us before issuing a needed license or approval. The international finance community should understand that systemic failure to enforce the rule of law against government bureaucrats is the primary reason for the inability of India and other under-developed countries to achieve economic progress.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country(countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

**McAfee:** “The attractive tax rate of 4% for biodiesel in India, combined with a 5% biodiesel blending target and a 50% biodiesel import tariff, provided a desirable market for investment into India. However, after building the plant, we found that the 4% tax rate was acknowledged by the state in which our plant operated, but they charged a 22.5% tax on our biofuel anyway, ignoring federal tax policies. Due to this heavy tax and an inability to sell in India at a price that paid our costs, we began to export biodiesel to Europe in order to operate our plant. In January 2013, the diesel subsidy of approximately 25% was finally eliminated for government and commercial customers in India, making biodiesel a less expensive alternative. The irrational subsidy of diesel while not supporting biodiesel is now being rationalized.

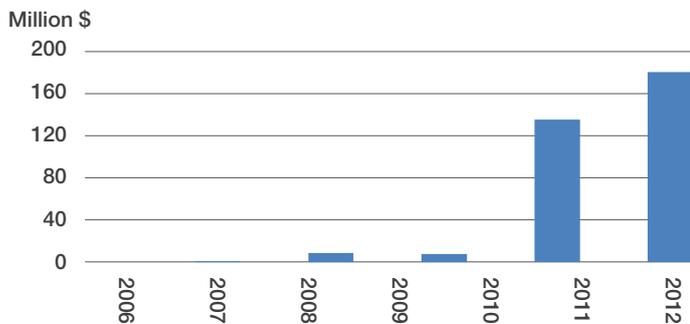
“The illogical subsidy of high-carbon, expensive, crude oil fuels in India and the US, while simultaneously cancelling or preventing the financial support of biofuels, causes a lack of investor and commercial lending interest in the biofuel market. If a “level playing field” were established between fuels (biofuels are already lower cost, lower carbon and renewable), biofuels would quickly comprise more than 50% of the diesel market in India and 30% of the gasoline market in the US. Only by benefiting from a non-level playing field does crude oil gasoline maintain its 90% market share in the US, while crude oil diesel holds nearly a 100% market share in India.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

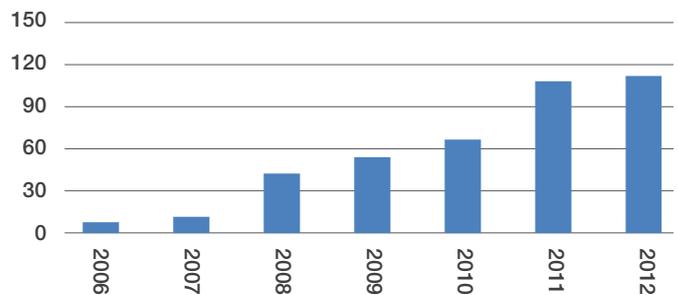
**McAfee:** “A high moment in India was experienced in January 2013 when the government finally terminated most of the subsidy of our competitive product, diesel, allowing us to sell biodiesel domestically. The full removal of the subsidy will gradually occur over the next year, but the mere prospect of competing in a non-subsidized market has opened new channels and brought new customers for our India plant.

“Frankly, there were a series of low moments in our India business, beginning with the state bank failing to fund US\$ 2 million of the US\$ 6 million loan, and then failing to fund any of the US\$ 10 million working capital line of credit in 2008. Without this financing, we were sunk. We were able to arrange very expensive financing with an industry partner and now, five years later, the state bank is in the process of approving US\$ 10 million working capital financing. With this financing, our India plant will be able to operate at full capacity and sell to both domestic and international customers.”

## Revenue



## Headcount



# AMC Juices

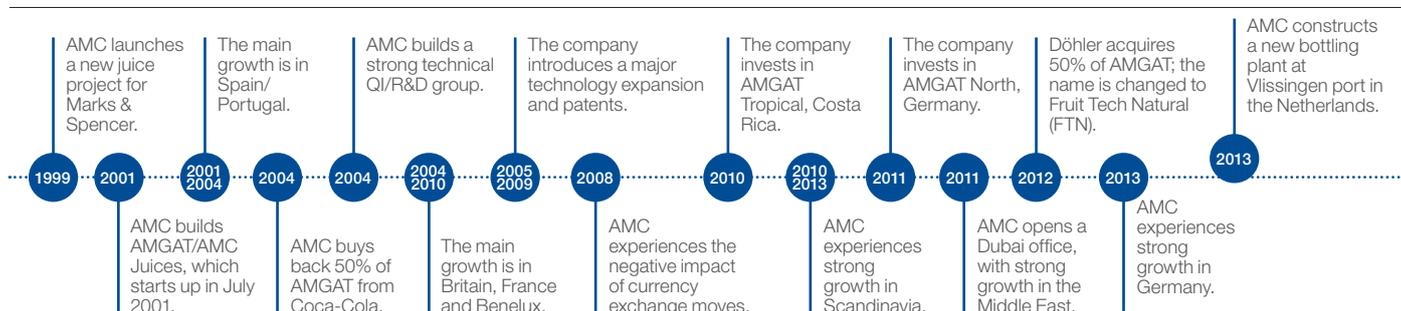
## Spain

Prepared by Antonio Davila and George Foster

### Overview

AMC Group is a Spanish family-owned group (consolidated sales US\$ 780 million). Its core activity is global growing, packing and selling of fresh fruits. In the late 1990s, AMC's board decided to set up a separate unit to pursue the production of high-quality, innovative chilled fruit juices, a new emerging market in Europe. In 2001, the new juice task force created AMGAT, a 50%-50% joint venture with GAT Foods (an Israeli company) to squeeze fresh fruits. A second company, AMC Juices (100% owned by AMC) was set up to bottle and market high value-added consumer goods fruit juices, fruit drinks and smoothies, targeting private-label European retailers. In 2004, the joint venture ended when GAT's acquirer (Coca-Cola) decided to exit the joint venture. AMC then acquired 100% equity. Since then, sales have grown at a pace above 20% year on year, reaching US\$ 277 million in juice sales in 2012. Growth has been driven by strong product innovation and quality improvement programmes. In 2010, a new joint venture was set up in Costa Rica covering tropical fruit juices (such as pineapple or mango). The same model was followed in Germany, in the apple production area of the Alps, to squeeze cold-climate fruits (such as apples, pears or berries). In 2011, a commercial office was opened in Dubai, to serve the emerging markets (The Emirates, Saudi Arabia and India), with very strong sales growth. In December 2012, the German group Döhler (world leader in natural ingredients, US\$ 2 billion, 23 factories worldwide and 300 highly qualified technologists in R&D) acquired 50% of AMGAT, reinforcing the innovation potential of a joint venture. The name of the company was changed from AMGAT to Fruit Tech Natural (FTN). Presently, the AMC Juices group is undertaking a major investment in a new state-of-the-art bottling plant at the port of Vlissingen in the Netherlands, reducing CO2 emissions and improving the competitive cost location for Central European customers.

### Timeline/Key Events



### Quotations

Antonio Muñoz holds a degree in Economics from the University of Deusto (Spain), and graduated with an MBA from Stanford Business School (1982). After a brief job experience in McKinsey Spain, he joined the family company dedicated to fresh fruits, the AMC Group. Initially a small minority shareholder, he and his brother acquired the majority of the shares in 1989, and became joint Group CEOs since that date. In 2001, he founded AMC Juices, AMGAT (Fruit Tech Natural), and later AMC Innova.

María García is a board member of AMC Juices and General Manager of AMC Innova. A graduate of the University of Murcia in chemistry, she joined AMC Juices straight out of university and became head of QI/R&D three years later. She has increased the technical team of highly qualified staff from six employees to 98 in the past seven years, building a strong and knowledgeable group within the European juice industry. In 2013, the QI/R&D team was moved to a separate company, AMC Innova, of which García has been nominated General Manager.

Arturo Cantero is a board member of AMC Juices and General Manager of Fruit Tech Natural (FTN, formerly AMGAT), a joint venture between AMC Juices and Döhler Group. He graduated from the University of Murcia in food technology, and joined AMC straight after university. In charge of the quality and blends team during his first years, he became General Manager of FTN in 2010. After three years under his management, the company has more than doubled its sales. From a commercial office in Dubai, Cantero is leading the expansion into emerging markets.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?**

Muñoz: “In the late 1990s, Marks & Spencer (the British retailer) to whom we supplied fresh fruit asked us to squeeze some of our quality mandarins into fresh juice. We responded positively. This product launch turned out to be a success and an eye-opening exercise for AMC: there was a hungry market waiting for high-value chilled fruit juices in Europe. I proposed to the board to set up a new, independent unit to evaluate and eventually exploit the new opportunity.

“The new juice team, aware of the technological challenges, engaged in negotiations with one of the most knowledgeable world players in the fruit juice processing industry, GAT Foods of Israel. GAT was interested in the abundant supply of fresh fruit from Spain and its closeness to and membership in the European Union market. We formed a new company with a 50%-50% ownership, called AMGAT. The new project got approval from local banks to build a factory. We also got some additional funding from the European Union as a Eureka project (a Eureka project in the EU is a joint venture between a European and a non-European company in which new technology, not existing in Europe, is contributed by the non-European company to the European partner). The factory started operating in Spain in July 2001. AMC Juices – a new company with its own factory that would bottle consumer goods juices from AMGAT – started at the same time. We combined the best fruit supply and the best processing technology to attack a new fast-growing market.

“Three years later, AMC’s partner in the venture, GAT, was sold to Coca-Cola Israel. The new owner was focusing on the Israeli business, and was not interested in the Spanish venture. AMC agreed to buy back the 50% share of Coca-Cola, and AMGAT became a 100% Spanish-owned company. By then, the technology transfer from Israel to Spain had been almost completed. Three senior Israeli managers/technologists chose to stay in Spain. AMGAT kept its name as an industrial juice squeezer, and AMC Juices continued bottling and selling final consumer goods to European private-label retailers.

“It was 2004. We were ready on our own to go after a new, promising market. We had the strategic fruit supply, the best processing technology at the time, an incipient, highly motivated team, and the intuition that there was a hungry, unsatisfied European consumer base with needs that we were able to fulfil. While it was scary to continue alone without the key technology partner, everyone on the board backed up the decision to continue pushing the initiative forward.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Muñoz: “There was clearly an emerging, growing demand for high-quality chilled juices by the European consumer. AMC Juices was located, as a member of the European Union, inside a very affluent and large, accessible market. European consumers wished and could afford to trade up in their choice of fruit juices. This desire was clearly embedded in a general trend in a significant segment of the European consumer base to change personal habits into a more healthy living style including convenient, innovative and great-tasting fruit juices, smoothies and fruit drinks.

“At the same time, there was the strategic drive by many major retailers to enhance the value and image of their private-label offers, as a magnet to bring new consumers to their shops. Innovative chilled fruit juices, drinks and smoothies were an ideal category to achieve that strategic aim. Branded products do not differentiate retailers; they are identical in a discount shop or in a luxury convenience store. Private-label ranges can be designed to be exclusive to each retailer, differentiating and helping to build the equity of each retailer’s private-label brand.

“We were ready to exploit these market opportunities in the early 2000s: with the best fruit from Spain, our location within the European Union, the latest technologies contributed by GAT at the time, and a clear drive for innovation in all the members of the initial small group of people.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Muñoz: “Firstly, the availability of a great local food science university: AMC’s head office was historically situated in the middle of a large plantation, relatively close to the city of Murcia. More than 30 years ago, the company donated 80 hectares from the original plantation to the University of Murcia. Today, the university has 15,000 students, mainly in food science, biology, agricultural and food engineering, and chemistry. In food technology, Murcia is probably one of the best schools to graduate from in the country.

“In 2004, when GAT left the AMGAT joint venture, we were lucky to keep three Israeli top technologists to lead the team. Though on a tight budget, we decided to build up the R&D team with bright, young food science graduates. One of the first to be hired was María García, today General Manager of AMC Innova, and a member of the board of AMC Juices.”

García: “I was recruited into the R&D team in 2003, straight out of college. My direct boss was an Israeli technologist, a very good teacher. Very soon, I was heading the NPD team, with instructions from the board to strengthen the team. Ever since, I have been recruiting non-stop young, new food technologists (from an initial team of six to 98 today, in seven years). We are today one of the main recruiters from the university. We have taken advantage of government programmes, partially subsidizing through scholarships the first year of the contracts made with ‘first job’ graduate applications. As a consequence, 80% of the new hired staff was hired for their first job.

“The young technical team has great drive and passion to excel in quality and innovation, and positively surprises the final consumer, winning loyalty to our products. Only last year, we were awarded ‘the most innovative range’ by Tesco for our ‘Juice Bar’. We won awards from the BBC as the ‘best cherry juice drink’ and ‘the best non-alcoholic mulled drink’ by The Independent. In major consumer magazines, we were voted ‘the best smoothie of the year in Belgium’ and ‘the best smoothie of the year in Norway’, and ‘the best initiative for health’ and ‘the most innovative range’ by Waitrose. We were voted ‘the best gazpacho soup in France’ by French magazines, and ‘the most sustainable supplier’ by M&S. We won The Grocer’s ‘Food and Drink award’ for two new Morrison’s Coolers, and we were voted the ‘Best supplier of the year’ by Bama, Norway.”

Muñoz: “The second entrepreneurial ecosystem that helped our growth has probably been the existence of many private and public food research centres in Europe looking for a way to exploit their ideas and innovations commercially. We are the perfect partner for them: our technical juice team is dealing daily with over 50 retail chains, with which we are launching over 200 new SKUs a year. Big brand companies (such as Coca-Cola or Pepsi) might launch two or three new juice products a year, naturally in much bigger volumes. But our teaming up with ‘external research’ centres has a much higher probability of a commercial launch, returning good royalties to the innovators. Big brands have few – though gigantic – volume launches. We have a great numbers of small, but still very successful launches.”

García: “We have at the moment more than 14 ongoing R&D joint ventures with third-party R&D groups, with AMC investing with them. Matching European Union funding for R&D leverages this financial effort, multiplying its effect. The external cooperation, combined with our internal R&D work, translates into a rich offer of innovations and ‘unique selling points’ to our retailers. We innovate in the area of fruit variety genetics with fruit breeders (looking for new fruits with special taste, colour or health characteristics), new proprietary squeezing processes for difficult fruits to yield better quality and taste, new proprietary ultra-short heating systems to maintain freshness (ITT), and new proprietary peel extraction processes to obtain new revolutionary natural health ingredients to add to our juices (i.e. macro antioxidants). The FTN joint venture facilitates the R&D cooperation with Döhler, increasing our R&D potential together.”

Muñoz: “The third element making our international growth possible is the existence of a strong IP legal protection system in Europe, our core area of operations. Our growth is based on differentiated value-added innovation, and this drive is only sustainable if adequately protectable.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Muñoz: “We are very free-market oriented, but have to recognize that we have benefited from intelligent R&D-related funding programmes originated in Brussels (European Union) and also in Madrid (Central Government). But at the regional level, we suffer an excessively over-bureaucratic government, harming our speed to respond to market and capacity to grow.

“Another great challenge has been the old Spanish labour laws forcing the company to enter collective agreements negotiated in Madrid for all of the country’s industry. Typically, they reward years of service in the job, not productivity. Fortunately, by pressure from Brussels, some of these labour laws have been changed. We are about to negotiate at the company level a labour agreement between our company and our workers. We are negotiating significantly higher salaries than in the general food industry, but based on individually measured productivity, not years of service.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Muñoz: “The final juice destination market was international from the beginning. Our initial model was to squeeze fruit from Spain (in AMGAT) and bottle it into a final product (AMC Juices). Both AMGAT and AMC Juices factories were located in Murcia, Spain. The international sales expansion could be described in phases: the original idea started in Britain, with core initial volumes mostly in Spain and Portugal. The United Kingdom and France were the next countries to contribute to core growth. Then followed Belgium and the Netherlands. At the end of the decade, we grew very strongly in Scandinavia, especially in Norway. Now 2013 is becoming the year for the German market, where we are entering a lot of retail chains and expect to grow very strongly.”

Cantero: “By 2008-2009, we had accumulated many new, differentiating proprietary technologies to process fruit with higher quality and freshness in AMGAT, enabling AMC Juices to bottle higher quality, fresher juice from Mediterranean fruits. Realizing that we were limited to excelling and differentiating only with fruits that can grow in Spain with a Mediterranean climate (citrus, stone fruits, strawberries and pomegranates), we decided to look at expanding into complementary climate countries. We spent two years visiting potential joint-venture partners. Finally, in 2010, a new joint venture was set up in Costa Rica to invest in special equipment to improve the quality of tropical fruit juices such as pineapple or mango at the squeezing stage: AMGAT Tropical SL. At the same time, AMGAT North GmbH was created in the south of Germany for the squeezing of cold climate fruits such as apples, pears and berries. The whole range became the best quality option available in Europe, and immediately boosted growth.

“During the past decade, we have also been progressively active at AMGAT, selling our products not only to AMC Juices, but to many other industry bottlers, including major brand companies (Coke, Pepsi and Britvic). Special areas of potential were the emerging markets in the Middle East and Asia. To introduce ourselves in line with local culture, we had to be present physically in the region. In 2011, we opened a new commercial office in Dubai, covering the Emirates, Saudi Arabia and India. In only two years, the Dubai office has generated annual sales of US\$ 34 million. I am convinced we will go into exponential growth now. Negotiations with local investors are underway to invest in a new factory and frame a master license for the use of our proprietary technology.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Muñoz: “When we started serving Northern European retailers with private labels, we faced strong and well-established local competition. We achieved our first market share by excelling in juices originated from Spanish fruits, coupled with strong new product development. Soon, we were requested to innovate in juices from geographical areas other than Spain: Brazil, Central America, Germany/Poland, etc. These non-Spanish juices are 80% of our portfolio today.

“All those overseas fruit juices arrive in Europe through the port of Rotterdam in the Netherlands, for economy-of-scale reasons. Authorities of the port of Vlissingen (the Netherlands) offered us 60,000 square meters to build a new bottling plant. We decided to go ahead with this expansion abroad. The arrival of the vessels from overseas is 150 meters away from the reception tanks in the new factory. From Vlissingen, we will be more competitive than French bottlers in France, than British bottlers in Britain and also than German bottlers in Germany. We expect very strong growth from this position. We conquered the market initially through innovation and quality. From now on, our growth will be based on relative cost position, too.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Muñoz: “The fact of being inside the European Union, with no commercial barriers, and a common currency has, indeed, been an extremely favourable framework for the expansion of the business. The fact that Great Britain is in the EU but not in the eurozone has played against us: swings in the currency exchange made the process of international sales more risky and expensive (hedging), and caught us uncovered a couple of times. The extremely positive attitude of the Dutch authorities and local banks favouring local investment and creation of jobs made a difference when taking the decision to invest in a major bottling facility in the Netherlands. The new growth in the Middle East has been facilitated by Dubai’s flexible rules as an entry point. On the opposite side, the swings in the commercial policies of the final destination markets in the Middle East and Asia are a concern, and so is weak IP protection.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

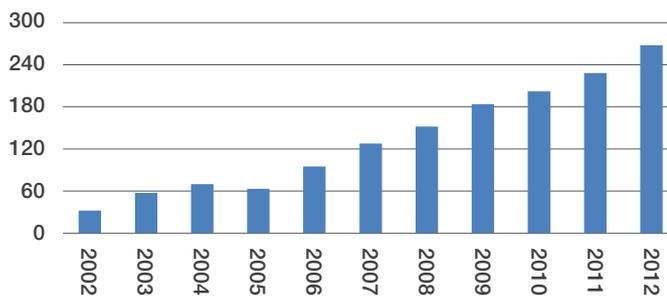
Muñoz: “Our most complicated moment was the departure of GAT from our venture three years after embarking on a new project, where they were playing the role of technological partner. This was very bad news for us. It took from us a key differentiating element of our strategy just three years after take-off, and left us exposed. We were faced with few good choices. Probably, we took the only path which we could choose at the time: develop internally the resource that we had just lost, technological excellence.”

Cantero: “The biggest satisfaction took place in December 2012. Döhler GmbH, a leading natural ingredients high-tech group, invested in 50% of AMGAT, which was then renamed Fruit Tech Natural (FTN). The cooperation is excellent, and the potential synergies very strong. We are now hiring R&D graduates from the local university to be sent to Döhler’s labs in Germany.”

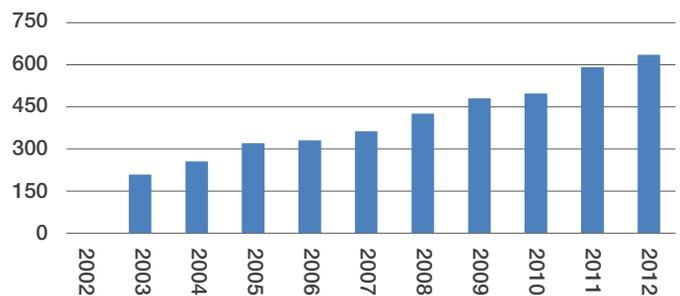
Muñoz: “The main reasons for selling 50% of AMGAT have been strategic. For one, we get a world-class ally in R&D and innovation. And financially, the operation helps balance our investment effort in the new plant in Vlissingen.

“Personally, my greatest satisfaction has been to realize that we have built an excellent, unbeatable team of people who work together effectively in production, logistics, innovation, marketing and sales, and who enjoy the daily challenges of their work.”

**Revenue/Turnover (\$)**



**Headcount**



# Arteris

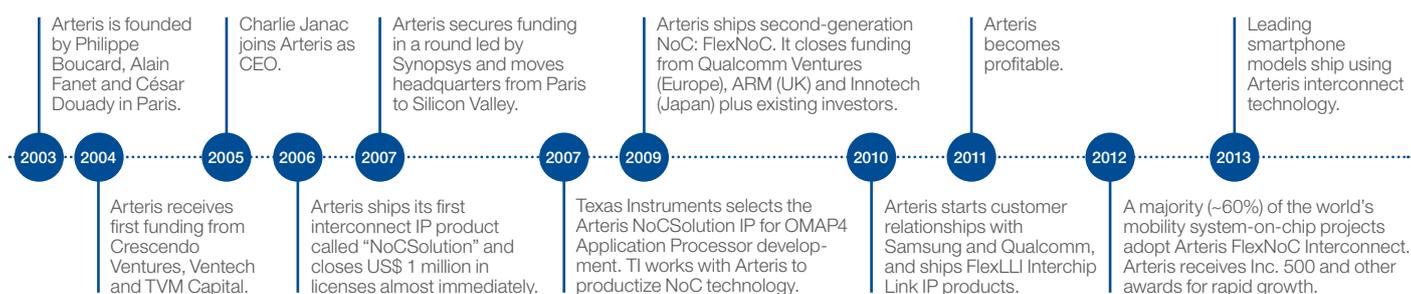
## France

Prepared by George Foster

### Overview

In 2003, three French engineers founded Arteris to develop the first commercial network-on-chip (NoC) technology for use on chips by the semiconductor industry. NoCs are used to link the various IP cores on a system on a chip (SoC) in a somewhat similar way as the Internet connects computers. The founders, Philippe Boucard, Alain Fanet and César Douady, first worked together at Matra and then founded T.Square, a developer of network “edge” processors. When T.Square was closed in 2002, the three decided to apply network processor technology to packetized on-chip communication, founding Arteris in 2003. In 2006, Arteris shipped its first product, NoCSolution, which was licensed by Texas Instruments for its OMAP processor line in 2007. In 2009, Arteris released its second-generation product called FlexNoC, which made it easier for makers of semiconductors to adopt NoC technology. Starting in 2010, Samsung and Qualcomm licensed FlexNoC for use in the majority of their mobile and wireless chips. Arteris became profitable in 2011 and, by 2012, its products were being used in the majority of the world’s mobile and wireless SoC designs.

### Timeline/Key Events



### Quotations

K. Charles (Charlie) Janac is President and Chief Executive Officer of Arteris. A graduate of Tufts University and the Stanford Graduate School of Business, he joined Arteris in 2005. Prior to Arteris, Janac was a member of the initial management team at SDA, later Cadence Design Systems (NYSE: CDN), was president of HLD Systems and formed Smart Machines, a manufacturer of semiconductor automation equipment that was acquired by Brooks Automation (NASDAQ: BRKS). After a year as entrepreneur-in-residence at Infinity Capital, he joined Nanomix as President and CEO, helping to pioneer nano-electronic sensor technology.

Kurt Shuler is Vice-President of Marketing at Arteris. Prior to Arteris, he held senior marketing and product management roles at Intel, Texas Instruments, ARC International and two start-ups. Before working in high technology, Shuler flew as an air commando in the United States Air Force’s Special Operations. He is a graduate of the United States Air Force Academy and the MIT Sloan School of Management.

Wayne Cantwell is a partner at Crescendo Ventures, a key venture capital investor in Arteris. Prior to joining Crescendo in 2003, he held operating roles in software and semiconductor companies. He previously served as president and CEO of Soisic SA (a French start-up in the semiconductor intellectual property licensing business that was sold to ARM Holdings) and president of inSilicon Corporation. Cantwell has been involved in over 20 early-stage companies in Board of Directors and Advisory Board roles over the past 25 years.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Janac: “Arteris was formed to pioneer the idea of using packet transport networking techniques for moving information inside SoC-type semiconductors. This idea was based on technologies delivered in network processor chips designed by a predecessor company called T.Square. T. Square was acquired by GlobeSpan/Virata, which in turn was acquired by Conexant. Conexant shut down T.Square as part of the communication/internet meltdown of 2001. The founders of Arteris then sought to apply network processor technology to on-chip communications within semiconductor chips. While the company considered using this technology to build new types of chips or new types of field-programmable gate arrays, Arteris decided to pursue what

was at the time a newer business model by becoming an IP licensing company to the world's semiconductor manufacturers. While NoC technology has broad applicability, Arteris chose to focus on SoCs for the booming smartphone market in order to focus our engineering, sales and marketing efforts on major global mobility SoC-makers such as Qualcomm, Samsung and Texas Instruments."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Janac: "The primary accelerator was the increase in SoC complexity, making internal interconnect R&D more expensive. The industry was putting the functionality of what used to be on two to three chips into one large chip, and customers were in pain. Successful use of the Arteris NoCSolution interconnect IP by Texas Instruments in their OMAP4 application processors gave the industry the confidence that our technology worked and that our company could deliver. Growth accelerated in 2009 with the delivery of Arteris' second-generation NoC interconnect IP product with improved latency and ease of use. Finally, competition that failed to adapt to the technology changes in the semiconductor industry provided a vacuum for Arteris to fill."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Janac: "The market for on-chip networking technology was small in France and not large enough across Europe to support the heavy R&D required to build NoC technology. Therefore, we either had to accept being a small company with a limited product capability, or go global by entering the US and Asian markets in order to be able to fund the considerable investment required for a broad technical solution. Within France, workforce availability was and is quite good. French engineers are well trained in maths, they are taught to work in teams and they are taught to think through complex problems. Arteris needed all three capabilities. A number of our key employees came from the Ecole Polytechnique and the Laboratoire d'Informatique de Paris 6 (LIP6), universities which produce very well-trained graduates with the uncommon mix of network, hardware and software engineering skills required by Arteris. We were also able to get early adoption of our products from several European research organizations such as Ecole Nationale Supérieure de Techniques Avancées (ENSTA) and the Interuniversity Microelectronics Centre (IMEC) because NoC was a favourite research topic in these universities. Funding in Europe was available but limited in size. We did obtain interest-free loans from the French government's Agence Nationale de Valorisation de la Recherche (ANVAR) and [French Innovation Agency] OSEO programmes and were beneficiaries of the generous R&D tax credits available in France. At the same time, French social charges are so high that these costs and benefits approximately offset each other. There are a number of experienced European semiconductor executives advising Arteris, and we particularly benefited from the advice of Philippe Geyres, one of our board members, who originally ran about half of STMicroelectronics."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Janac: "The French government policy was to support national champions, which were invariably large companies like Airbus, STMicroelectronics and Bull. There are relatively few successful start-ups coming out of France so the entrepreneurial culture is not very strong. This is particularly evident in the area of middle management, where we had trouble finding people experienced with the global sales and marketing issues facing emerging companies. We also faced a limited domestic market, scepticism about whether there was a market for NoC technology in semiconductors, and difficulty in raising capital once Arteris became larger. Our solution was to keep engineering in France, where we have an excellent workforce, and put in a global sales and marketing structure that would look 'European to the Europeans, American to the Americans, Chinese to the Chinese and Korean to the Koreans.' Another aspect of Arteris' international expansion was to attract investors from target international markets such as the USA and Japan."

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Shuler: "2009 was the big year when we decided we needed to focus on international growth and add local employees in our target regions. Our primary market was the mobile and wireless chip market and, by 2009, American and Korean companies had evolved to become the market leaders. In addition, the Chinese government started funding domestic companies whose charters were to quickly grow to become national champions. All these companies needed our technology, but would prefer to license from or accept product support from domestic sales and support people."

Cantwell: "We hired Janac to put a global face on the company. We knew that we had development operations in France, customers throughout the world and we needed an experienced executive that had the ability to be a global citizen and provide the customers with the confidence to do business with Arteris. This single point created an inflection point in the customers' and employees' worldly view. We soon followed by shifting the company's headquarters to Silicon Valley, which provided even more comfort for US customers."

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Shuler: "The biggest challenge was how to balance the use of country representatives and distributors versus permanent employees within non-US and non-French countries. Our products are highly technical and require a lot of communication with and support to our customers after the sale. We found that although distributors in our target countries were well connected, it was difficult for them to provide the amount of post-sales resources to each customer that we wanted. What emerged is a strategy where we initially used local distributors to learn about a target market within a country. As we gained more knowledge about country-specific norms and who were the great salespeople and application engineers in that country, we then switched to a direct sales model staffed by Arteris employees. We followed this approach in Japan, Taiwan, Korea and China."

“Building local offices in these countries created a lot of operational challenges for us. It is very difficult for a small company to manage various foreign legal entities, employment laws, tax laws and financial reporting requirements. Although there are consultants that can help, we found that only we had the information required to formulate and manage this complexity. We hired an experienced general counsel and a VP of finance with lots of international accounting experience to help manage this complexity.”

Cantwell: “There were cultural challenges with having most of our technical resources in France. The French development team was very capable but nervous that development and primary architecture would shift from France to the USA. Janac was able to overcome this issue and created an environment where architecture development was led from the USA, engineering stayed in France and customers were supported globally. He realized it was critical to support customers both where they are geographically and culturally.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Janac: “The US ecosystem is not particularly kind to emerging European-based companies trying to penetrate the domestic market, and we had to make several attempts before we succeeded in the USA. In Asia, we initially started with distributors in Japan, Korea, Taiwan and China but the product proved too complex and engineering support-oriented, so we had to build direct organizations in these markets. We had challenges understanding the significant differences between Chinese, Japanese and Korean cultures. As an example, you really do not want a Korean country manager running Taiwanese sales no matter how well he is doing in Korea. Even large corporations prefer to deal with suppliers who are culturally compatible with them. Today, Asia represents almost 60% of our revenue.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

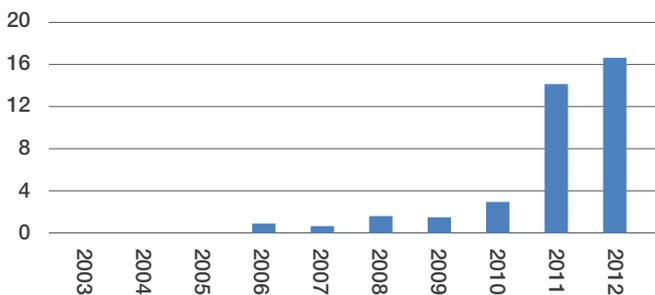
Janac: “A high point was when Texas Instruments successfully delivered the OMAP4 application processor to the market. A more recent high point was this year (2013) when the Samsung Galaxy S4 smartphone shipped with an Arteris-connected application processor SoC (the main chip in a smart phone), designed by Samsung’s System LSI Division.

“Low point: It is often difficult for European companies to penetrate the US market. Arteris went through three generations of sales people over three years before we hired the right personnel, delivered the right product features and developed a customer track record so that large US customers felt comfortable licensing our NoC IP technology. To accomplish this we had to ‘look American to the Americans’. At that point, the fact that we had all of our engineering in Paris became a non-issue.”

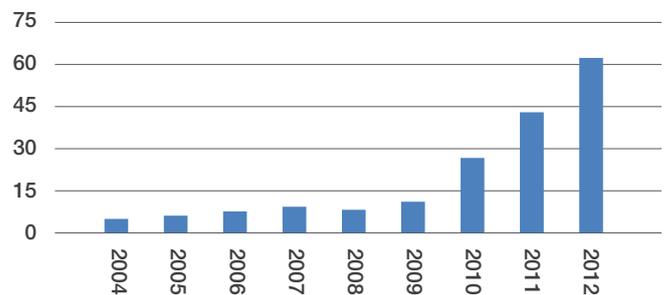
Cantwell: “There was a point when it became clear that we needed to hire a global sales force as the revenue was just too lumpy to build a business with. After putting in place a sales force that was culturally compatible with local customers, the business really began to take off. Janac continued to be customer focused, but mainly as a resource for ‘executive’ sales.”

**Revenue**

Millions \$



**Headcount**



# BYP

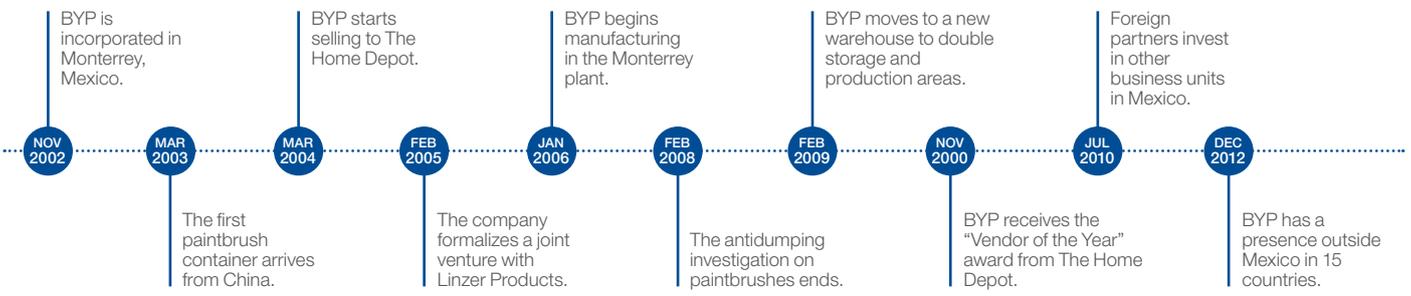
## Mexico

Prepared by George Foster

### Overview

Brochas y Productos (BYP) is a paint applicators company founded in Monterrey, Mexico, in 2002. In a market controlled for decades by a duopoly and characterized by high prices and shortages, BYP emerged as a fresh alternative offering competitive pricing, innovation, higher quality products, attractive packaging and superior customer service. Between 2004 and 2008, BYP sales increased at a 58% compound annual growth rate, building a strong brand and becoming the market leader through its three main distribution channels: 1) traditional hardware distributors; 2) supermarkets and do-it-yourself stores; and 3) paint factories. In 2005, through a joint venture, BYP became part of a global group with operations in Asia, Europe and North America. Today, it has customers in 15 countries in Central and South America and offers the widest range of products for paint application.

### Timeline/Key Events



### Quotations

Mauricio Schwarz is a co-Founder and President of Brochas y Productos as well as of eight other import companies specializing in sourcing products from Asia for the Latin American market. Schwarz received a BS/BA from Washington University and an MBA from Stanford University. He is a member of the Young Presidents' Organization, and sits on three boards for non-profit organizations in Mexico.

Javier Ortiz is Chief Financial Officer and Chief Operating Officer of Brochas y Productos, and Co-Founder of the new business units of the group. Previously, Ortiz was an investment banker and worked as a consultant for McKinsey & Co. He holds an MBA from Stanford University.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Schwarz: "For decades, my family had been successfully involved in the manufacturing and processing of vegetable and animal fibres for the production of brushes and other industrial and commercial applications. One day, one of our clients, a large paintbrush manufacturer, decided to enter the fibre industry and compete with us. So, we learned about their business, too, and made a great discovery: the paintbrush market in Mexico was shaped by a strong concentration with two major players, and as a result consumers faced extremely high prices, low service levels and very little product innovation. I realized there was a great opportunity to start a company to serve this market better. This is how Brochas y Productos was born."

#### Q2: What were the major growth accelerators for your company in the early years of high growth?

Schwarz: "One of the most important factors that fuelled BYP's growth was the relationship with some key customers. One of our first clients was Sherwin Williams, and we also started receiving orders from several major distributors early in the company's history. We understood the significance of securing key clients in the market, including, of course, The Home Depot. We had been trying to sell to The Home Depot since it started operating in Mexico, and after many attempts, we finally got a chance when its supplier failed to deliver orders on time. The acquisition of a big customer like this is a game changer for a small company."

“Another key development in the history of BYP was the joint venture with Linzer Products, a leader company in the paint applicators market in the US and part of a large global group with operations in Japan, Europe, China, USA and Canada. They had been selling to The Home Depot in the US for many years and they were looking for a partner in Mexico. BYP was the perfect match. The joint venture provided technology, working capital and synergies to BYP.

“I view the foundation of BYP as a family strategic investment. During the first years of operation, things were made easier by having direct access to capital. Rather than raising funds, I could concentrate entirely on sourcing and sales. Only after a couple of years did we have to start talking to banks for working capital.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Ortiz: “Probably the most important aspect has been the open market. A border open for trade has definitely been crucial to the success of BYP. In the beginning, 100% of our products were imported, and even today we rely heavily on our manufacturing capacity in China. Since 2005, we manufacture and assemble some products in our Monterrey facility. We are continually increasing the product categories for which we can fabricate locally, but we still manufacture and purchase in China and buy raw materials in Asia, the Middle East and the US.

“We are based in Monterrey, the second largest city in Mexico, and human capital is widely available here. In BYP, we pride ourselves in having a strong culture of meritocracy. We believe in performance reviews and adequate feedback, an open door policy and promotions and compensation based on results. This is much easier to accomplish when you are in a city with some of the best universities and there is a supply of highly qualified professionals with an entrepreneurial attitude. On the manufacturing and warehousing front, availability of hard-working people at competitive labour rates has never been an issue for us.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Ortiz: “Our legal framework is a challenge since we sell with credit to most of our clients. It is extremely hard to collect in Mexico, even for banks. Our government is trying to change this with new laws, but the fact today remains that in order to keep our bad accounts at a minimum, we must invest a lot of resources in credit screening and in collection efforts. It is always a huge competitive advantage to know who and where the customers are, but it is even more important here to know who pays well and who does not.

“Lack of funding for small and medium-sized companies is a major barrier for growth. Even with a successful track record and great future projections, it is difficult to secure debt without some collateral or backing. Fortunately, BYP did not have to limit its growth rate to its cash flow generation, and after the company had reached a certain size and a stronger balance sheet, it became easier.

“Another challenge comes from infrastructure. As we ship from our warehouse to every state in the country, we experience first-hand the great disparity in infrastructure in our country. It takes some shipments less than 24 hours to be delivered, but more than five days for others going to the most remote places. Therefore, customer service is critical to manage our logistics and post-sales process. Recently, security has also been an issue, as crime increases the cost of doing business and we must invest in security measures and insurance premiums skyrocket.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Schwarz: “Of course, sales growth is the great benefit of having a big company as a client. In our case, The Home Depot is one clear example of these key customers. We have grown with The Home Depot, as the number of its stores has almost tripled during the years we have been serving them. In some aspects, we have structured the company around their needs and we were proud to receive the “Vendor of the Year” award in 2009, a recognition given to only one supplier each year.

“But there are also other great benefits of having a large client. Higher requirements in product quality (both level and consistency), image and packaging, logistics and service force us to become a better company. It raises the bar for all our operations at every level. For new products, having a certain guaranteed volume allows us to introduce a new product line with a lower risk, and then offer it to other customers.

“Surely, it also poses some challenges and problems. Big companies have strict policies and mistakes are not easily forgiven. Moreover, there is a risk in having a large share of sales in one client, as investments are made over the years to serve it better and the health of the company – at least in the short run – could be at risk if we were to lose the client for some reason.

“As mentioned before, our joint venture with a much larger and established partner also made us a stronger player in Mexico.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Schwarz: “With a population of more than 110 million, the Mexican market represented a sizable opportunity for BYP. Before aggressively pursuing other geographic markets, we found it more important to become strong and profitable within our region. We had developed a strong customer base and we decided to leverage it to increase our product offering and sales. Ten years ago, we were selling only paintbrushes, but today we have a catalogue of more than 1,000 SKUs, with everything a painter needs for a job including aluminium ladders, compressors, spray guns, etc.

“And in addition to our growth with paint applicators in BYP, we – the founders – have started several separate companies to serve the same hardware market, including a company of lighting and electrical products and another dedicated to faucets and plumbing. Our focus has been in developing the knowhow and expertise to quickly and efficiently develop new product categories, source them in China and use our existing distribution network to sell. Of course, we must know about the products, but we really concentrate our efforts in continually improving the process of purchasing, quality control assurance, logistics and packaging. This is how, as a group, we are now selling more than US\$ 100 million a year. And given the size of the market we are in, we see the potential to double or triple this in the next few years. We employ over 300 young professionals in Mexico, and have developed a system that enables us to compete with direct global offices from companies such as Wal-Mart, and are still able to sell them here and in South America as we have the ability to move and source faster.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Schwarz: “Our natural expansion strategy is Central and South America. Even though it was not our initial focus, today we have an important presence in some markets and we are growing fast. One of the most important challenges for going after the markets in these countries faster is credit risk.

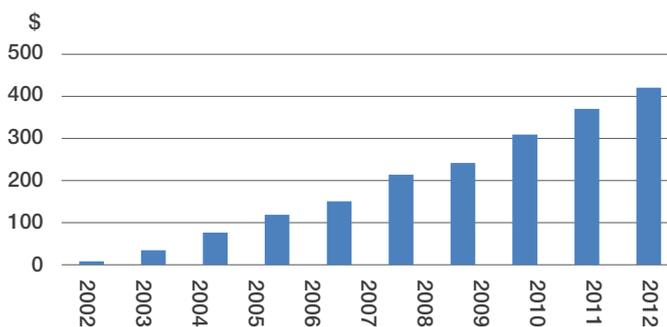
“Another problem is the regulatory framework in terms of trade barriers. In some countries (e.g. Argentina), we cannot sell our products made in Mexico or in China because of tariffs. This means that in order to enter the market we would have to set up a manufacturing operation there.

“In 2013, we got our first major opportunity for the US market. This is a big challenge, but one that we will be able to conquer, without a doubt.”

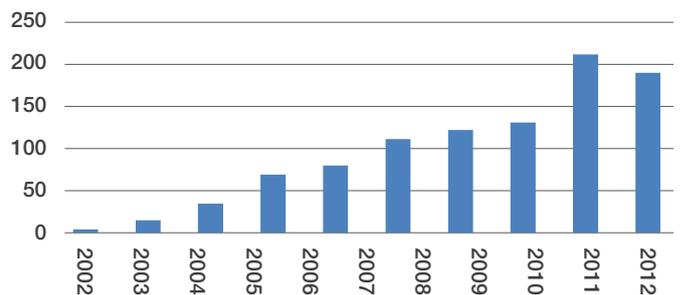
**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Ortiz: “One of the biggest threats we have faced in the past few years was a regulatory situation related to a trade investigation by the Mexican government. It started after a complaint by one competitor, the former market leader. After several years of a steady market share decline, and because they could not compete in price, service and quality, they turned to this kind of legal action (among others) to try to stop us. They filed for an antidumping investigation for paintbrushes imported from China. There was absolutely no basis for this accusation as they provided false information, but the risk made us very uncomfortable, as a change in import tariffs would have transformed the entire industry. Over the course of two years, we fought this process and, in the end, we came out stronger as we had deepened our ties with some clients (i.e. The Home Depot) who shared our side of the battle.”

**Revenue**



**Headcount**



# Bubbly

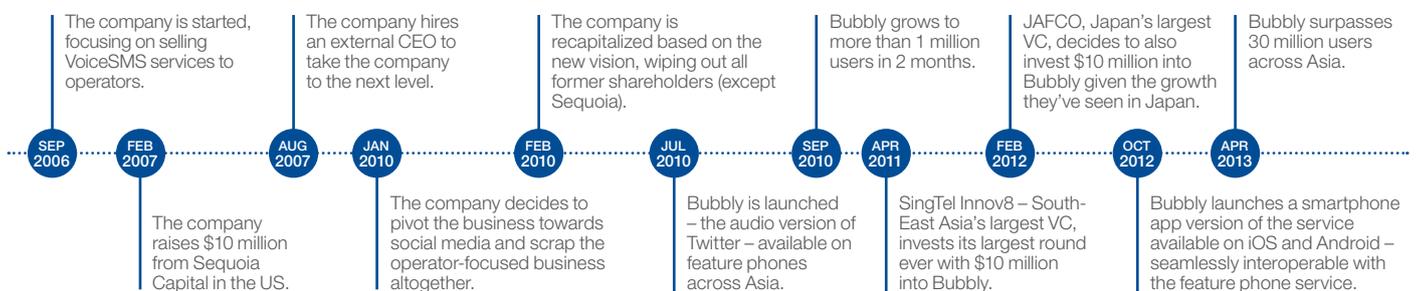
## Singapore

Prepared by George Foster, Sandy Plunkett and Yinglan Tan

### Overview

Headquartered in Singapore, Bubbly (FKA Bubble Motion) is pioneering mobile social communication for the masses as the only social media service that works across feature phones and smartphones, available across 2.4B+ phones throughout Asia and the Middle East. The social voice-centric service lets users easily record and share short voice updates with friends, family, fans and followers. The company has raised more than \$60M+ from some of the largest venture capital (VC) firms globally, including Sequoia Capital in the United States, JAFCO (Japan's largest VC), SingTel Innov8 (South-East Asia's largest VC) and Westbridge Capital (India's most successful VC).

### Timeline/Key Events



### Quotations

Tom Clayton is Chief Executive Officer of Bubbly, the Singapore-based company backed by Sequoia Capital, JAFCO, SingTel Innov8 and other prominent investors. He has led Bubbly to become a leader in mobile social media across Asia. Prior to running Bubbly, Clayton was General Manager of the Mobile Business at BEA Systems, an infrastructure software company acquired by Oracle for \$8.5 billion. Before BEA, Clayton helped start five different companies. At his most recent start-up, Bang Networks, another Sequoia Capital, Goldman Sachs, Marc Andreessen and Ron Conway backed networking software company, he helped build out the business development and sales-force organizations. Clayton's other start-ups ranged from an e-commerce-focused systems integrator to a high-end audio manufacturer. He also worked as an economic policy consultant to the US White House, where he drafted the US High-Tech Economic Stimulus Policy for building out nationwide ubiquitous broadband access. Clayton holds an MBA from Harvard Business School, where he was a Baker Scholar, and a BS from the University of California, Berkeley. Clayton was a boxer before his professional career; he won a bronze medal at the US National Championships.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Clayton: "The initial company was started under the premise there was no voicemail penetration in emerging markets in Asia. However, that turned out to be a pretty crappy business. After I spent some time doing due diligence on Twitter for Sequoia, I realized the potential of one-to-many messaging and bringing that to the masses across emerging markets via voice (rather than text) over simple feature phones. Once we launched it, we quickly gained more than 1 million users in a couple of months – and 80% of them were paying for the premium version of the service, so we immediately knew we had a viable business."

#### Q2: What were the major growth accelerators for your company in the early years of high growth?

Clayton: "In the first two years, growth was driven by the reach of the service. The more operators who could deploy the service and make it available, the faster it could grow. It also had to have geographic/country concentration (i.e. it was much more powerful to deploy across three major operators in the same country vs three large operators in three different countries) – due to the strong network effect of the service. Thus, we focused our deployment efforts on a few countries at a time. Celebrities were the other factor that really drove growth – the more big-name local celebrities we got live on the service in a given country, the faster the service grew there."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Clayton: “There was a bit of an advantage to being a ‘big fish in a small pond’, as it made it easier to attract and retain talent and lure top notch VC investors from across Asia. Other aspects that really helped us included the super efficient Singapore government – where I could literally call any MP and get right to the top to get an answer or discuss how the system should work. They gave us a \$1 million grant early on to subsidize our engineering hiring and then another \$1 million equity investment to keep our incentives aligned longer term. They have also made it possible for us to recruit from all over the world – not just in the small labour market of Singapore. We have nearly unlimited visas, as long as we’re hiring ultra-high calibre engineers. We now have an engineering team from more than 20 different countries and it’s literally the best, by far, in South-East Asia. Lastly, Singapore is a great logistical hub to cover Asia. We can get to most South-East Asian countries via a day-trip and all other Asian countries are easily accessible via red-eyes; thus, one never actually has to stay in a hotel to visit any country in Asia when flying from Singapore.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Clayton: “One of the issues most entrepreneurs in Singapore complain about is the shortage of engineering talent locally. This is definitely an issue. However, if you expand your net and recruiting search beyond Singapore to the rest of Asia, if not the rest of the world, then it is not really an issue. Currently, visas are starting to become an issue though for foreign workers. There is negative political sentiment against the increased foreign population, thus the government has significantly increased the requirements for visas, making it challenging to grow your workforce as fast as some companies need to. Lastly, there is a broader cultural issue in Singapore and most of Asia, where everyone values working for a large multinational corporation (MNC) over a start-up. Many employees see it as far more prestigious to work for HP, Yahoo! or Microsoft rather than for the next Facebook or Google. Thus, it is difficult to sell them on joining a start-up, even if it has the most prestigious VC investors and is growing like a rocket ship. Moreover, they also attribute very little (if any) value to stock options, which really minimizes a start-up’s biggest recruiting tool relative to large MNCs.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Clayton: “Given that Singapore is a very small domestic market and not a target emerging market of ours, we focused internationally from Day 1. Singapore is a great hub for the rest of Asia, so we initially focused on India, Indonesia and the Philippines, then expanded to the rest of Asia from there.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Clayton: “The biggest challenge and key to success was finding the absolute best first employee on the ground. This person would ultimately be responsible for working out the deals to deploy with all of the mobile operators, recruit all of the big name celebs and build the community of users locally on Bubbly. Moreover, they were a team of one; thus, they had to be scrappy and extremely self-sufficient in order to thrive and succeed in our start-up culture.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country(countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Clayton: “Emerging markets in Asia have both significant advantages and disadvantages. On the plus side, everyone moves a lot faster. For example, deploying a service with a major mobile operator could happen in less than a month; it would easily take a year in the US or other Western markets. Moreover, these are massive markets that have a lot of low-hanging fruit for opportunity. Thus, building out a business that exploits these opportunities is extremely lucrative.

“However, there are a ton of risks and issues when going into these markets. First, it is extremely difficult to monetize mobile services in these markets, as credit card penetration is below 5% and there are very few options for electronic payments – integrating with mobile operators to deduct directly from users prepaid cards is really the only option – and that takes a long time to do. Digital advertising is still in its infancy and is dismal in size, so that’s really not a viable alternative business model at this stage. The second issue we faced in all of these countries is the unbelievable bureaucracy – everything from setting up a local entity, to paying taxes, getting audited and selling into large local mobile operators. The paperwork, time process and lack of any sense of urgency, definitely leaves a lot to be desired. Last, is corruption. It has gotten much better across all of these markets over the past decade, but it is still there and creates a hindrance many times. Local players are often not bound by or care about the international laws governing corruption, whereas Western companies have serious consequences if they go down that path. Thus, it often puts you at a disadvantage if a local player decides to copy exactly what you’re doing and offer the same service. This is where creativity is an absolute must. One needs to think about how to create serious barriers to entry to prevent this from happening upfront. Our first business, VoiceSMS, fell victim to this, so we made sure to think carefully before launching Bubbly and ways that we could limit these copycats from hurting our business.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Clayton: “Well, first let me say that this is true for entrepreneurship in general. Outsiders often think that starting a company is all sexy and fun; however, after my sixth company now, I can say for certain that there are always a lot more down/dark days than there are high/up days. As entrepreneurs, we live for those high days and learn to deal with the much more frequent down days. Many first-time entrepreneurs quit rather quickly, because they had no idea how many down days there were – in even building the most successful companies.

“For bubbly, my biggest ‘high’ day so far was when I was on a business trip to India. I flew in on the red-eye and asked for a wake-up call at 9 AM. In India, it is common for a guy to bring you coffee to your room for your wake-up call. I woke up to the sound of my doorbell, not realizing where I was at first. I answered the door to the bell guy bringing in my coffee and the morning paper. He handed me the newspaper (The Economic Times – India’s version of The Wall Street Journal). On the cover was a drawing that looked like me and the cover story read, ‘Bubbly crosses 1 million users in less than 2 months’! I turned to the door guy and asked, ‘How did you know this was me?’ He said, ‘What? That’s just the paper from your door, Sir.’ I had no idea the news had leaked and it made the front page in India. At that point, the service was only live on one mobile operator in India. However, that day, the four largest operators that I was meeting with all agreed to launch ASAP. Moreover, within the next 48 hours, we had 20 of Bollywood’s top celebs join the service. Everyone had seen the article and it clearly changed the trajectory of the company.

“My ‘lowest’ moment at Bubbly isn’t necessarily tied to international expansion per se, but it is tightly coupled with doing business abroad. In Singapore, we recruit our employees from all over the world and have engineers from more than 20 countries. One Monday morning, I came to work around 8 AM with the police standing at the front door. They asked if I was ‘Thomas Clayton.’ I said ‘yes’ and they asked if they could speak to me inside. Once we sat down in my office, they informed me that one of my employees had committed suicide over the weekend. I was shocked. I had no idea she was depressed. She was always smiling and working 24/7. However, it seems she was in an arranged marriage (via her parents in India) and was extremely frustrated with it. Her parents wouldn’t listen to her. She worked so hard in the office so she wouldn’t have to go home. We were her outlet. It was extremely sad. The toughest part was that both her best friend and her husband’s best friend also worked at Bubbly and I had to tell them the unfortunate news once they came in that morning. Then I had to inform her parents and the rest of the company. It was a tough day to say the least. No case study that I had read in business school could have prepared me for that day. A different sort of emotion comes out and that is where you just learn to become a true leader and be there for others. Your sole goal is suddenly caring for everyone else and making sure everyone is going to be okay. I definitely learned a lot about life that day. One of the toughest days I’ve had as a CEO.”

# Capillary Technologies

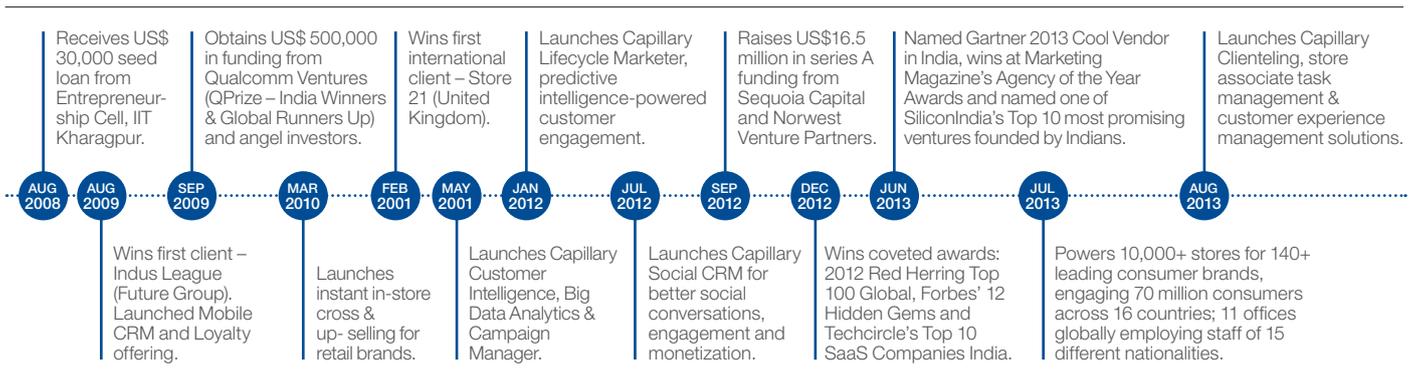
## India & Singapore

Prepared by and George Foster and Sandy Plunkett

### Overview

Capillary provides easy-to-use, high-ROI cloud software solutions that empower retail businesses to engage intelligently with their customers in real time through mobile, social, online and in-store channels. With a vision to build the first billion-dollar product company out of India and to become a major player in the booming mobile and retail sectors, the company got its start by providing businesses in emerging economies (mainly India and South-East Asia) affordable access to state-of-the-art customer relationship and loyalty management technology. By emphasizing paperless mobile technology, real-time analytics and consumer engagement, marketing life cycle automation and sophisticated, innovative analytics that surpass capabilities of much larger, more expensive and complex customer relationship management (CRM) solutions, Capillary quickly attracted the attention of large global retail brands growth in same-store sales to Capillary's solutions. Capillary has received numerous awards, including the Gartner 2013 Cool Vendor award and Marketing Magazine's CRM & Loyalty Silver Agency of the Year Award 2013, and was also named one of Forbes' 12 Hidden Gems. Capillary is backed by prominent institutional investors Sequoia Capital, Norwest Venture Partners and Qualcomm Ventures.

### Timeline/Key Events



### Quotations

Aneesh Reddy is co-founder and CEO of Capillary Technologies. A visionary who believes that advances in technology lead to significant advances in business value and ROI, Reddy works with enterprise consumer businesses to help them put the right communications for the right products into the hands of the right customers at the right time. He is a featured entrepreneur in leading publications such as Forbes, Harvard Business Review and The Economic Times. Reddy is a frequently featured expert at global retail, marketing and technology forums and premier educational institutes such as Wharton and the Indian School of Business.

He participates in discussions around entrepreneurship and major technology trends such as cloud, mobile, social and big data. He is also an early-stage investor in various ventures including Tynker, Studypad Inc., ANTFarm and Verious Inc. Reddy holds a Bachelor's degree in Manufacturing Engineering from the Indian Institute of Technology, Kharagpur (IIT KGP).

Krishna Mehra is co-founder and CTO of Capillary Technologies, where he drives product vision and strategy for the company. As a technology evangelist, Mehra believes that true innovation happens at the confluence of technology and business. At Capillary, he has created powerful products that address large gaps in retail customer engagement and enable hundreds of consumer-facing businesses worldwide to embrace cutting-edge paradigms— including customer engagement technologies based on real-time analytics integrated mobile and social media.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Reddy: "Capillary was founded during the global economic recession (2008-2009) in the belief it could help emerging economy retailers engage with customers better using CRM technologies comparable in sophistication to those used in more developed economies but made both simpler to use and less expensive through cloud hosting. Unlike many first-time entrepreneurs who wait to validate their million-dollar ideas, we picked two areas – mobile and retail – which were both 'next big things' in India at the time.

We spoke to many Indian retailers about their critical business problems and identified that even large retail chains had minimal understanding of why customers were not returning to stores to make additional purchases. E-commerce firms have the advantage of knowing their customers well and we wanted to bridge the knowledge gap for traditional bricks and mortar retailers. This turned out to be a game changer for our early-stage customers and was a key growth driver for Capillary.

Two aspects of the company stood out:

1. We carefully selected angel investors who could add value as the company grew, bringing on board as many as 17 angels over a period of three years, who were all experts in their own fields, including Rajan Anandan, Head of Google India; Venkat Tadanki, CEO of Secova; and Harminder Sahni, MD at Technopark (previously KSA Technopark).
2. We focused assiduously on both client and investor acquisitions by selling assertively through relationships and demonstrating our ability to win large companies as clients.

As Capillary began delivering amazing results in tough economic conditions, our Indian clients such as Pizza Hut, Puma and so forth began referring us to their counterparts in other markets such as Singapore, Malaysia and the UK, enabling us to scale up globally. The key to Capillary's success has been our ability to keep delivering new products that increase our customers' sales revenues and their marketing ROI, and to ensure the continued usefulness of our product suite to customers."

**Mehra:** "We started on this journey with a consumer-focused product search and coupon idea. We wanted to do something that combined mobile with retail. Mobile was growing rapidly in India, and retail was beginning to happen. Our first idea was to launch an SMS-, location-based discount search business. However, our early client prospects told us that, while discounts are fine to attract consumers, retailers really wanted more capabilities for understanding, retaining, nurturing and engaging personally with their customers. We shifted our focus drastically, from building technology for consumers to building technology for businesses that would help them to extract more value from consumers using a cloud computing model. Over time there have been many changes to our technology – we have added major product streams, including social, big data and instant engagement."

### **Q2: What were the major growth accelerators for your company in the early years of high growth?**

**Reddy:** "Market focus: We started Capillary not with a 'Big Idea', but rather with a vision of creating the first billion-dollar SaaS solution company out of India with an extraordinary passion for being leaders in an entrepreneurial ecosystem. That helped us enormously because, instead of fixating on a single idea, we took our direction from market forces and found a unique focus in results achieved with early-stage clients. We were acutely aware of the exponential growth potential in India's yet-to-be-organized or technology-enabled retail sector. Our vision evolved to accelerating retail growth via personalized and targeted customer engagement.

Availability of clients: Since our value proposition was built on the core problem of driving sales during an economic recession, we were able to quickly convince top Indian retailers such as Pizza Hut, Puma, Madura Garments, Raymond and so forth to come on board as EAA customers.

Our 'land and expand' strategy – opening accounts with three-month proof-of-concept trials – worked tremendously well. Also, our well connected investors and advisers delivered some of our best long-term customers.

Business model: Within months of launch, our clients were seeing good success with Capillary, which enabled us to build a fairly straightforward business model – a hosted SaaS, pay-as-you-go solution, requiring no upfront investment and placing a minimal burden on resources. A retailer, for example, might agree to pay US\$ 300-500 per point of sale per month based on solutions chosen, without any prohibitive hardware or other resource costs. We empower clients to experiment with our platform

in a few stores for a three-month pilot engagement and then extend use of the software to more stores and for longer durations, depending on outcomes.

Funding & client references: We received the QPrize recognition from Qualcomm Ventures and US\$ 500,000 from angel investors at the right time. This helped us to invest substantially in our initial product offering while the Qualcomm brand association made us a household name. Our international expansion started quite rapidly as domestic clientele referred us to their offshore counterparts. For example, Pizza Hut India led us to Pizza Hut accounts in Singapore, Hong Kong, Thailand and the Middle East; Puma India connected us to Puma businesses in Singapore and Malaysia; Robinsons Singapore got us into their Malaysia business; and Alok Industries in India took us to the UK and helped us to obtain Store Twenty One as our first international client."

**Mehra:** "The Capillary team: From the very beginning we focused on building a strong, empowered organization.

We deliver exceptionally high-quality work, which differentiates us from our competition and fuels our growth.

Most of our early hires were people we knew personally either from previous workplaces or through collaboration in robotics, entrepreneurship and other IIT KGP clubs. Hence, we knew the passionate performers on our team even before we hired them. Today, we employ over 150 highly capable technology, R&D and analytics professionals holding degrees from premier technology and business institutions across India. This has helped us lay an extremely strong foundation for our technology, R&D and analytics functions: a highly capable team, which has expanded without the need for big budgets and through personal connections alone, which has always been our key strength. With almost 400 employees in total, we have virtually zero attrition, especially among staff at the mid-senior level and above. Capillary's core team has always believed in giving complete freedom to its team members; this keeps our talent engaged and focused on innovating at all times."

### **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

**Mehra:** "The tactical shift in operations: We started the company in Kolkata, a Tier 2 city in India that was in the early stages of becoming an IT destination. We quickly realized, however, that Bangalore – India's Tier 1 IT hub city – would provide a better ecosystem in which to build our company. Indeed, moving to Bangalore turned out to be an important strategic move for our company since it gave us access to the right investors and advisers. It was in Bangalore that we

learned of Qualcomm's Q prize at an open coffee club and later went on to win the prize, providing a major boost for our nascent company. We also made connections with Qualcomm Ventures, which later invested in Capillary.

**Availability of talent:** India has one of the strongest technology talent pools in the world, and since Bangalore is home to most of the country's R&D centres, there was an abundance of talent available to help build our product suite. We built a strong technology and R&D team by acquiring top talent from noted companies such as IBM, Microsoft, Oracle, Salesforce, Dunhumby, Fair Isaac, Box.net, Infor and Dell, while also attracting fresh talent from the world famous IIT and IIM educational institutions."

**Reddy:** "The Great Recession: 2008 was quite an eventful year for Capillary. Just as Lehman Brothers was filing for bankruptcy, we were busy procuring a US\$ 30,000 loan from our alma

mater IIT KGP to start our company. The recession came as an unexpected boon for us – we did not have to pay premium wages to attract outstanding talent and we got great discounts on major upfront investments. We were also able to position our solutions as a good recession strategy: increase share of wallet, sell more high-margin items, cross- and up-sell more assertively, identify and win back lapsed customers, convert new customers to repeat business and so forth. We had a winning value proposition amidst difficult economic conditions.

**Largest series A round:** With all we had going for us, Capillary was able to raise the largest series A funding for Indian product start-ups (US\$ 16.5 million) from leading institutional investors Sequoia Capital, Norwest Venture Partners and Qualcomm Ventures. These firms provide great advisory services and have helped our leadership team to acquire amazing confidence, to build ambitious growth plans for international geographies and to fund accelerated product development.

**Moving HQ to Singapore:** Singapore is becoming the Silicon Valley of Asia; start-ups are popping up all over, attracting substantial investment wealth. Investors, shareholders and entrepreneurs are all realizing Singapore's advantages, experiencing fast growth and gaining entry to Asia's untapped developing market economies. Favourable regulations and extensive government support for start-ups made Singapore a very attractive choice for our new corporate HQ location in early 2012."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

**Reddy:** "In 2008, India and the rest of the world were experiencing economic recession – not a very encouraging environment in which to start a business. However, we saw this as an opportunity rather than a hurdle. We bootstrapped for the first three years and functioned with very little funding because the investors were cooperating and customers were willing to pay. In the early years, one of India's largest venture capital firms wanted to invest in Capillary, but they also wanted to change our business model to focus on consumers. Our core team believed firmly in our vision and the direction in which Capillary was moving. We turned down the investment offer and, despite limited funding, grew rapidly over a very short time span by sticking to our focus areas.

Another prohibiting factor was friends and family and the societal mindset in general. The start-up scene in India was very young; most people were willing to work only for large corporations that offered stable careers with job security, which made it difficult early on to attract the right people. Even when our top candidates were convinced to join Capillary, peer and family pressures to settle down and avoid risks caused many to back away from the opportunities we offered. The solution we found was to nurture talent rather than acquire it. Instead of focusing on job descriptions, we focused on people, which led to outstanding early results. Now, as we scale up, we are bringing on board senior leaders across all departments to drive the next phase of growth for Capillary. We intend to invest significantly in the professional and personal development of the people who work for us."

**Mehra:** "In the early stages, we faced a lot of infrastructure and regulatory challenges as is the case for most entrepreneurs. But our focus on cloud technology helped us to grow easily and to offer substantial value to customers, while also maintaining great operating margins. But we did spend a lot of our time doing things that were not adding value, as we were part of the first wave of young first-time entrepreneurs in a country still bound by legacy corporate environments and no successful history of product technology companies."

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

**Mehra:** "After successfully rolling out our solutions for Indian clients, stabilizing our client base and increasingly carving out niche leadership positions domestically, we decided to investigate neighbouring markets. We observed that retailers in regions such as South-East Asia, the Middle East and Western Europe were facing similar problems and using solutions and technologies that were far behind best in class. We knew our solutions could help these businesses and were able to make strong business cases around potential revenue opportunities. Early successes in international markets inspired us to dramatically accelerate our offshore market explorations."

**Reddy:** "After our series A funding round, we decided to invest significantly in international markets. For some of the early markets into which we ventured, for example the United Arab Emirates and the UK, it took a long time to deliver results and cost our company millions. Investing in those markets was a very bold move for us, but we stood by our decision and, by the time Capillary started operations in Singapore, our international businesses had begun generating significant revenues and looked extremely promising. In the early stages, much of our R&D investment went to preparing our products for global markets. We started slowly receiving proactive inquiries from international accounts and understood there was a strong market for our products globally. Our first few international clients came as references from existing successful clients in India. Those early experiences gave us the confidence to quickly scale offshore operations."

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

**Mehra:** “We initially found it difficult to build sales presence in international markets. For a specialized industry like ours, it is essential to attract sales talent that can build the company’s brand with their existing know-how and business networks, and are passionate about how entrepreneurial workplaces thrive. Since we were looking at three large potential markets – South-East Asia, Western Europe and the United States – we had to be careful not to spread our resources too thinly. What has worked well for us is the three markets approach – every year we decide to open three new territories. First we stabilize the territories, put our teams in place and acquire at least five early-stage clients rapidly, and, in parallel, invest aggressively in the three markets we opened the previous year and that have now stabilized. Markets like Singapore, the United Kingdom and United States are showing great results for us with such a focused expansion.”

**Reddy:** “One of the biggest challenges Capillary faced was a lack of brand awareness outside India, which made it difficult to generate new business leads. And while our Indian clients helped us move to international locations through word of mouth, this was not a model for fast growth. We solved the problem by creating an inside sales team for lead generation and a powerful outbound sales team operating out of India. While we had always used a push sales format in India, we found this did not work well in western countries. We realised western retailers were looking for more consultative approaches. We also found a large market gap; there were plenty of very expensive CRM solutions aimed at the Walmarts and Tescos of the world, but far fewer serving lower enterprise and mid-market retailers. We positioned our Intelligent Customer Engagement™ suite, which combines CRM, big data analytics and campaign automation, to serve these neglected markets in a cost- effective, value-driven manner.

Another obstacle was hesitancy among large retail brands to work with a very young, seemingly inexperienced team. We overcame this hesitancy with a highly effective ‘land and expand’ approach, initiating engagements via small, high- ROI pilot projects to prove the efficacy of our products and to close increasingly large deals with world-famous brands. Over time, as we have worked with more than 140 retail brands around the world, we have developed deep retail trade expertise and extensive intellectual property, which has become a unique selling proposition for us with larger accounts.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

**Reddy:** “Expanding to international markets had a great impact on how our company functioned and made decisions. As a young start-up, we followed the Jugaad (frugal) innovation style, making short-term fixes under tight deadlines driven primarily by clients’ whims and priorities. That made it difficult for us to stay focused on our long-term product development vision and may have cost us some growth. As we became more internationally driven, we had to drastically change our development and service delivery style, aligning with our longer-term business strategy and making a strong commitment to long-term planning, effective project management and reflective decision-making – taking time but delivering high-quality work by agreed dates.

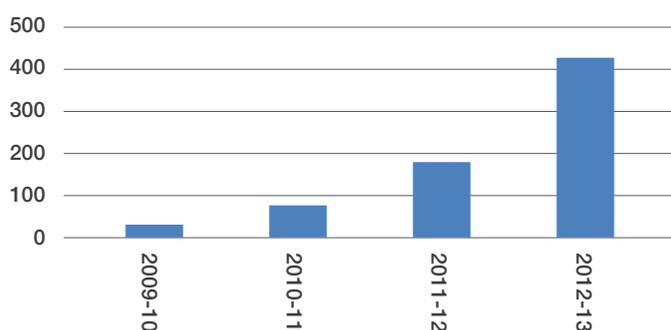
Our international expansion has also enabled us to bring on board industry veterans from the CRM, analytics and consumer loyalty domains, a group of experts to which we did not have access in our domestic market and who have made our corporate portfolio quite strong. Now we have the right capacity to tackle large accounts and win massive deals all around the world.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

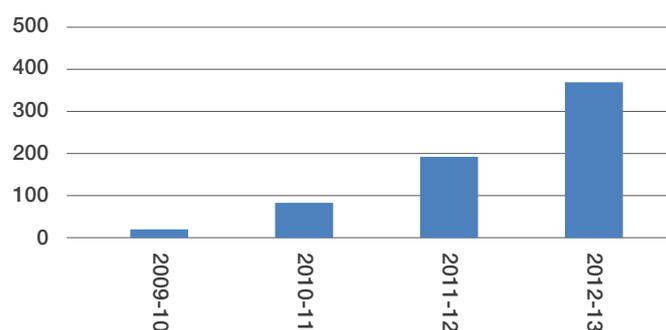
**Reddy:** “High moment: The highest moment for us, so far, was winning our first international client, Store Twenty One in the UK. It was an important milestone in our history and we look upon the accomplishment with great pride. It had a dramatic impact on the way we run our company and completely transformed our long-term business plans. What followed Store Twenty One was a series of early international wins. I still remember one of the deals we won, which was at five times the market pricing and one of our first engagements in a new region and taught us a great deal about how to compete with established competitors without compromising on price. Today, we are not less expensive than contemporary competitors but we do deliver much greater value, faster and with less effort.

Low moment: We have experienced great learning on our journey into international markets. For example, sales cycle times were much longer than we had expected in early UAE and UK market ventures. We spent millions and waited months for decisions to be made. It took time for us to figure out that we needed a combination of stable lead generation, steady filling and strong management of our opportunity pipelines and dedicated brand building to establish our credibility in new markets. Patience and how to make decisive, smart manoeuvres in complex sales processes are two things we have learned along the way.”

**Revenue Rue Rate in Million INR**



**Global Headcount**



# Cupola Group MEA

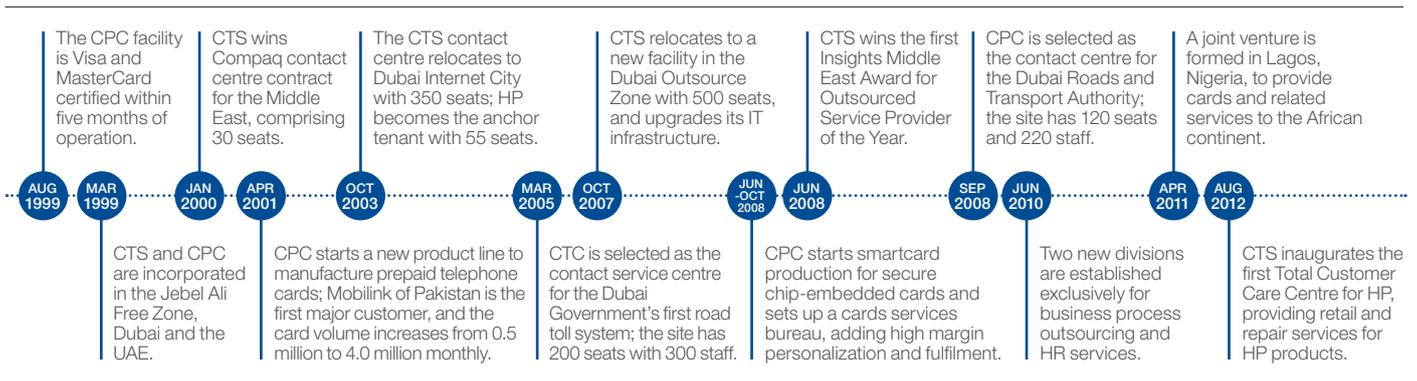
## United Arab Emirates (UAE)

Prepared by Antonio Davila and George Foster

### Overview

Cupola Group MEA consists of two businesses, Cupola Teleservices (CTS) and Cupola Plastic Cards (CPC). The businesses were established in the United Arab Emirates in 1999. They share ownership and are operated by the same senior management. CTS is the first outsourced contact centre and business process outsourcer (BPO) in the Middle East. Over the past 14 years, headquartered in Dubai, CTS has acquired a client base that covers major international and regional banks, IT companies, public sector entities and large retailers. Services include setting up and operating contact centres, offering outsourced customer relationship management (CRM), providing high-quality personnel, managing human resource functions, and providing document management and logistics support. CPC is a Visa and MasterCard accredited facility catering to financial institutions and telecoms in the Middle East and Africa. The main products are branded plastic cards. In addition, CPC provides value-added services including personalization and fulfilment. CPC is a supplier to almost all the international and regional banks and some of the telecoms. With close to 800 staff from 31 countries and conducting business transactions in more than 10 countries, Cupola Group MEA is a service provider and product supplier to a large number of multinationals and regional businesses.

### Timeline/Key Events



### Quotations

Kazim Raza Awan is the Chief Executive Officer of the Cupola Group MEA. He played a leading role in establishing and growing a number of Cupola Group businesses, including CTS and CPC. He has extensive experience in strategic planning, project development and business operations. He has served as a member of the Board of Directors for the International Card Manufacturers Association (ICMA) for three years, since 2009. His career also includes stints at the Islamic Development Bank and the London School of Economics. In 2011, he was recognized for his contribution to the business process outsourcing industry by being voted "Market Pioneer in the UAE".

Humaira Majid is the Chief Operating Officer of CTS. She has over 14 years of experience in client relationship management, contact centre services, project management, change management and business process outsourcing. Her career includes working with British Telecom as Business Manager ICT for the EMEA region. As Chief Operating Officer, she is focused on delivering operational excellence. Her key responsibilities include exceeding industry operational benchmarks, delivering clients' Key Performance Indicators, and working closely with the sales team to increase revenue from existing clients and prospects. She has been recognized for her contribution to the industry, having won several awards for contact centre and customer relationship management.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?**

**Awan:** “CTS and CPC were part of a handful of green field projects that were initiated by Cupola Group to exploit the rapidly expanding IT sector in the 1990s.

“The buzz initiated by the ‘Millennium Bug’, or the Y2K issue, was focusing minds on outsourcing IT services to India. We saw Dubai as a better alternative to the Indian sub-continent for various reasons, including the fantastic infrastructure being developed in the UAE, the location of multinational companies’ regional headquarters in Dubai and a multilingual expatriate labour force. CTS started as a dedicated call centre offering outsourced customer support to businesses in the Middle East and the developed English-speaking economies in the West, mainly the US and the UK. Our original concept was to combine the advantages that Dubai offered with the labour arbitrage possible by locating the majority of agents in India/Pakistan. However, due mainly to political and some technical barriers, this model never came to pass. The testing of nuclear bombs and the resulting tensions between India and Pakistan meant that we could not locate facilities on the sub-continent. The ban on VoIP (which continues today) ensured that the distant markets would not be accessed cheaply by us. It was no surprise that the volume business went to India and we struggled to find a niche.

“The genesis of CPC was the fact that the region was dominated by European card manufacturers and service providers with significant lead times and relatively high prices. We saw the opportunity to establish a local presence with an emphasis on quality, short delivery times and exceptional customer service. The other major consideration was the possibility of moving up the value chain from manufacturing to becoming a service provider in the card industry. Our ultimate target was to provide a full suite of services: printing cards, personalizing them and delivering to our clients, and finally to provide a platform for processing financial transactions for small to medium-sized banks.

“The growth of the financial market for cards turned out to be far smaller than we had estimated. Competition also came rapidly from local start-ups. Our saviour was the explosion in prepaid telephone cards in the region, fuelled by deregulation of the telecom industry and the phenomenal growth of mobile telephony. From producing hundreds of thousands of cards monthly, we began producing cards in the millions. The second factor that helped us grow was the push by central banks to improve security by mandating chip cards instead of using credit/debit cards with magnetic stripes. Adding card-related services was a significant milestone, as was the decision to go west to Africa.”

**Majid:** “Customer relationship management and call centres had started to become a buzzword in the West and we could see a great potential as there was no such business in this region. Initially, there was immense apprehension in the market towards outsourcing due to the fear of lack of control, sharing information and data security. It needed a lot of hard work, extensive awareness creation and marketing, but the change did come through and the rest is history.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

**Awan:** “The two single most important factors that aided our growth were our location and rapid advances in the adoption of new technology in the region. Dubai, apart from driving its own phenomenal growth in the early to late 2000s, gave us access to the markets of the entire Middle East, South Asia and North Africa. Financial institutions and telecoms, two of our main customer segments, were reinventing themselves.

“Neither business grew the way we had planned. In retrospect, our biggest asset was the ability to read the changes in the market as they were happening and making quick decisions to benefit from them.

“The fact that CTS/CPC survived and eventually grew can also be traced to a few critical internal factors: a generous parent company that provided financial aid to cover a two-year budget deficit (hence, no pressure of debt financing); a dedicated management team that is incentivized with profit-sharing; tenacity and a belief that we will succeed; and we experimented and learned on the job.”

**Majid:** “Key accelerators for our growth and sustainability include the following:

- **Flexibility:** The willingness to never say no. We have always implemented projects in extremely aggressive timeframes, while taking on board most of the client’s wishes and requirements.
- **The will to learn:** Everything has a first and we admit it but always learn and give it our best shot. Some experiments have failed but others have been huge successes.
- **Customers come first:** Our unrelenting commitment to customers and the focus on offering a complete customer experience. There have been painful encounters and misunderstood expectations, but the key lies in managing the customer well.
- **Diversification:** Our management philosophy is to acknowledge that unless we reinvent ourselves regularly, we will not survive. We constantly need to be creative, and to identify needs and opportunities.
- **Effective use of technology to increase productivity and operational efficiency:** From the start, we invested in technology to enhance reliability, showcase ourselves as a leader and reduce costs.
- **Retention and motivational policy:** Attracting the right profile of employees and retaining and keeping them engaged and motivated in the initial growth years gave us a stable base to work with.
- **The Cupola values and culture:** We devised our simple core values, which were easy to understand and relate to and were easily adopted by the young and energetic team. These include: **ownership** (complete ownership and accountability for our work), **excellence** (outstanding service delivery in all areas), **trustworthy** (we do what we say we will), **helpful** (we work as one team), **inspiring** (we create new possibilities), **straight-forward** (we make things clear) and **passion** (we believe in what we do).”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

**Awan:** “**Availability of accessible markets:** Given the small domestic market, access to overseas markets was critical. Fortunately, the GCC (Saudi Arabia, Bahrain, UAE, Qatar and Oman) has almost no import tariffs – an added bonus for us. However, significant non-tariff barriers hamper access. Africa is a bigger challenge, primarily due to our lack of local knowledge, but establishing relationships with local partners has provided access to growing markets in Nigeria and Ghana.

“**Availability of workforce:** This was a major consideration for CTS, which currently employs about 700 people and growing. Salaries are the major cost of business, and acquisition of outsourcing business starts with cost savings for the clients. We compete with India in the outsourcing space, which puts a limit on our pricing. Three factors helped us in this regard. Indian salaries have been on an upward trajectory; we provide bilingual support to at least 60% of our clientele; and Dubai as a destination attracts young people from all over the Middle East. At a managerial level, Dubai has attracted the best human capital from all around the globe.

“**Availability of funding/finance:** Bank finance for SMEs anywhere in the world is difficult. Dubai is no exception. We managed to attract venture capital. Past the first couple of years, cash generated by the businesses funded our growth. In this region, good performance can provide access to non-bank equity or mezzanine financing.

“**Availability of mentors and advisers:** Given the fact that some of the senior managers of the Cupola Group came from a financial and project development background, there was not much need for outside support. We tried to hire senior managers from the industry to kick-start our various businesses.

“**Favourable regulatory framework and infrastructure:** There are no taxes in the UAE, which was a major consideration for being located in Dubai. Setting up businesses in the Free Zones in the UAE is another bonus, allowing for 100% foreign ownership. The infrastructure is probably the best anywhere. This has reduced costs of doing business, especially in providing 24/7 services.

“**Cultural and societal support and respect for entrepreneurship:** The UAE is the best example of a free market in practice. The private sector and entrepreneurs are celebrated – definitely a major reason why we came to this country. However, differentiation on a local/non-local basis is a challenge.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

**Awan:** “We faced three key challenges: As foreigners, we cannot own majority equity in any business outside the free zones in the UAE. Similar restrictions apply in other Gulf countries. Second, there are significant restrictions (conditions) that apply to free-zone businesses, mainly in access to the public sector, which limits our access to a major segment of our target market. Third, there are limits on the number of work visas that we can get.

“To win public sector projects (such as our Build, Operate and Transfers with the road toll authority and the Dubai Metro) we partnered with well-known multinational corporations (MNCs). The latter negotiated the contracts with the public entity and we have back-to-back agreements with them (namely, Avaya and Transcom) to provide our services.”

**Majid:** “In the BPO space, we faced a number of challenges, not all of which we have successfully overcome:

- (a) “**Availability of accessible markets:** In the case of CTS, telecom services are regulated and this has hampered our growth in terms of using VoIP to make and receive calls from all the target countries. In addition, our telecom costs are very high relative to our competition’s costs, hence the danger of losing clients to less restrictive countries like Egypt, Tunisia or India. We have not been able to completely overcome this challenge. Sometimes we offer clients add-on services, or create value in proximity by offering additional services for free like daily reporting, frequent face-to-face reviews, etc. Dubai, being a safe and stable emirate, also helps in comparison to other cities in the region.
- (b) “**Availability of workforce/human capital:** Although human resources are available, challenges are encountered in English language proficiency, various accents, dialects, attrition and competition. The part-time work rules are quite stringent and students are not allowed to work part-time. Contrary to our early years, our staff turnover is now high. Our staff is highly employable and well trained in customer service. It is increasingly difficult to match the remuneration packages that some financial institutions, MNCs and airlines have to offer for similar profiles.
- (c) “**Work environment:** Retention and motivational techniques are less effective because of a growing labour market. Employees change jobs very quickly and we feel that we are constantly recruiting and training, which comes at a high cost. There is no permanent fix for this.
- (d) “**Availability of mentors and advisers:** Although individuals and consultants are available, it is difficult to set up a formal, registered trade body. We have been trying to set up a BPO association, but have not been successful. This has hampered the overall growth of the industry.
- (e) “**The level of education and training in the region:** One disappointment and challenge is that, because of their status, students are not allowed to work part-time in this region. We participate in career fairs and wait for students to complete their studies. Internship programmes are allowed, and Cupola engages students in these.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Awan: "Right from the inception of our businesses, we had an agenda to take market share in the region and beyond. This was necessary given the small domestic market. CPC was always an export-oriented business. However, we were not financially capable of setting up sales offices in the target countries. The solution was to have a mobile sales team, with monthly visits to overseas customers and resellers. When we set up our services bureau at CPC, we were also able to start managing personalization centres for banks in Oman and Qatar in 2009. Our investments were not more than US\$ 100,000 in each case. The most significant investment we made was to establish a joint venture in Nigeria in 2010. Even in this case, we mostly converted sweat into equity while setting up a services bureau in Lagos.

"CTS, physically, is a UAE-based business. However, we service a large number of countries from our base in Dubai. Despite the telecom restrictions on VoIP, we have negotiated favourable rates with one of the telecoms and manage to provide services to countries in North and West Africa and the Gulf region. Attempts to acquire a call centre in Jordan (in 2009) did not work out. A lot of effort was and is being made to enter the nascent outsourcing market in Saudi Arabia. The laws and restrictions on hiring foreigners in Saudi Arabia have limited our progress.

"Our focus on foreign markets is dictated by existing business relationships, the need to operate in countries where operating margins are not shrinking and where regulatory requirements are not daunting. Because of our familiarity with banking clients, West Africa is our target. We are currently using our relationships with banks to implement CRM strategies and provide training. Our costs are limited to sales and marketing trips. We eventually hope to set up physically in this region.

"Overall, the post-2008 economic climate has reinforced the need to continuously seek additional markets."

Majid: "We were always keen to expand internationally in terms of physical presence, either through an acquisition or by setting up an entity from scratch. The driving factor came in 2008-2009 due to the economic recession. We lost some good contracts on pricing. This was the time when we realized that diversification is the key to survival and growth, and that could come from exploring other business lines internationally. Considerable time and investment was made in senior resources to work on identifying, sourcing and evaluating potential business in Jordan, Saudi Arabia, South Africa and India. We have recently started work in Nigeria related to our call centre business through the CPC joint venture."

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Awan: "The biggest challenge was not to burn money chasing the unknown. Getting to know a new market is a long and painful process. You build on the reputation you have established in your home market. We have managed to identify resellers in at least four important markets: Morocco, Kuwait, Nigeria and Ghana. Regular visits to prospects are of paramount importance. Finally, like the Indian outsourcing vendors (e.g. Wipro) did in the US, you promise more than your competitors and then actually deliver on those promises.

"With regard to setting up a legally incorporated business in new territories, we have been extremely cautious. Our main requirement has been to find reliable local partners who have skin in the game. Our only success has been Nigeria. We failed to do so in Jordan and Saudi Arabia for different reasons.

"The most novel idea that worked for us was to offer to manage facilities and operations of potential customers in new territories. We run the financial cards personalization bureaus for Oman Bank in Muscat and International Bank of Qatar. In Saudi Arabia, we rented call centre space with human resources from an existing call centre in Jeddah to service a multinational client of ours. In none of these situations did we need to incorporate a legal entity in these countries."

Majid: "Interestingly, the challenges were different in different countries, some due to the difference in culture and others in rules and regulations. For example in South Africa, our business partner company could not win the tender for which we had established a company there and were supposed to have a set up for. Business ethics issues that were more of a cultural practice there got in the way. We decided to continue trying and working remotely with our clients there, the way we currently do.

"In Jordan, in a potential acquisition, we faced challenges in trying to convince all 18 shareholders to sell. The management was for it, whereas the passive shareholders were not. It was quite an experience. We retracted the offer when it started looking like a hostile takeover.

"In Saudi Arabia, it took an extremely long time to incorporate an entity. We got tired of waiting and losing potential business opportunities. We then went ahead and formed an alliance with an existing company by renting space and resources in their facility. Currently this partnership is doing well."

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Awan: "The two most relevant aspects of the ecosystem that hindered our growth were the regulatory environment in various countries in the region, and access to markets.

"The requirements to set up businesses in most countries in the Middle East and Africa can be daunting. Our biggest failure has been the inability to develop a sizeable business in Saudi Arabia (the largest market in the Gulf countries) mainly because of legal hurdles.

"Although the Gulf region is a low-tariff area, which is a significant plus point, market access is not entirely easy. The main hurdles are non-tariff barriers, for instance unfavourable treatment of foreign entities in requests for proposals and tenders. Unethical practices are another significant barrier."

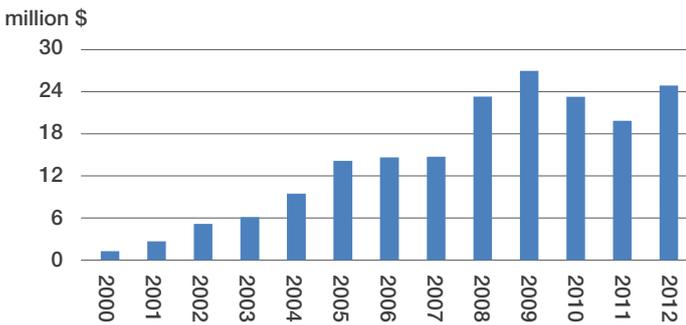
**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

**Awan:** “One high point was winning a contract for supplying financial cards and personalization services to ECO Bank in Ghana in 2011. The contract was worth US\$ 5 million. ECO is an African bank covering about 32 countries. We won the contract by working through a well-connected Ghanaian reseller. The best part was that we won against the giants of the industry (Oberthur, G&D and Gemalto).

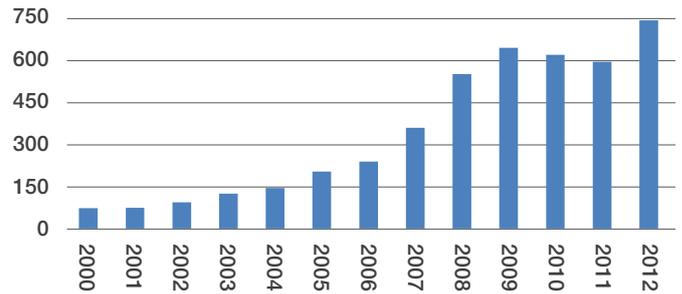
“Our biggest disappointment was the collapse of a potential joint venture in Saudi Arabia. We spent over 18 months (in 2010-2011) identifying, nurturing and negotiating with a potential partner to set up an integrated card personalization centre and a contact centre. The failure was caused by two factors. The joint venture partner had promised to provide business from its own businesses and its clout in the market. This value-add was never quantified or agreed upon explicitly. The second factor was the restriction on visas for foreign workers imposed by the authorities for our type of service industry.”

**Majid:** “My high moment definitely was being a key member of the due diligence team for our Jordan acquisition venture. It was an enlightening, engaging and wonderful experience. The highlight was when we felt we were very close to wrapping up the deal. I had planned for my entire operations handover, key resources to be relocated there, change management and the works. It was an exhilarating feeling. The low moment, obviously, was when the joint venture deal did not go through.”

**Revenue**



**Headcount**



# Delicious Bakery

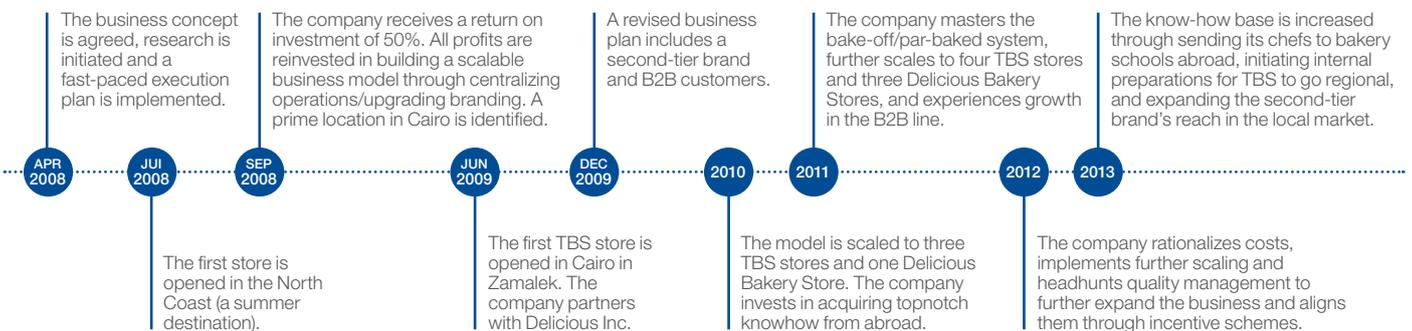
## Egypt

Prepared by Juliet Bailin, Maya Dadoo Gonzalez, Rhett Morris and George Foster

### Overview

Delicious Bakery was founded in 2008 by three graduates of the American University in Cairo – Basel Mashhour, Tarek El Nazer and Sameh El Sadat. Delicious Bakery is the first high-end, artisan bakery to target Egypt's upper class with fresh bread, croissants, pastries and sandwiches – goods usually associated with Europe. To build a more scalable company, the entrepreneurs expanded in the first three years to have three sales channels: retail stores branded as The Bakery Shop (TBS), serving a full range of products and drinks; "Delicious Bakery" corners in supermarkets; and a business-to-business (B2B) service, which provides bread to Subway and other restaurants.

### Timeline/Key Events



### Quotations

Sameh El Sadat is a co-founder and board member of Delicious Bakery. A natural strategist, he graduated in 2005 from the American University in Cairo with a degree in political science and established his financial credentials while working at EFG Hermes and Abraaj Capital. He is a board member of the Wadi Trade Corporation and Sakarra for Real Estate Development and Tourism Promotion.

Basel Mashhour is a co-founder and Business Development Director of Delicious Bakery. He played on Egypt's water polo team in the 2004 Olympics, and then graduated from the American University in Cairo in 2005 with a degree in political economy. Post-graduation, he worked in Henkel's marketing department for four years.

Tarek El Nazer is a co-founder and Managing Director of Delicious Bakery. In early 2007 and prior to establishing Delicious Bakery, he gained his operational experience through turning around a family-owned medical insurance company, which now has profitable operations and a wide client base across different governorates in Egypt. Upon graduation from the American University in Cairo in 2005, he spent two years working for CITIGROUP's corporate banking division, where he gained extensive knowledge in the field of banking and operations of small and medium-sized enterprises.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

El Sadat: "We were born and live in Cairo. All of us went to the American University in Cairo, located in the heart of the city, Tahrir square. That area is close to where we live and is surrounded by many nice neighbourhoods such as Zamalek and Mohandseen. Most of the families in those areas send their children to international schools and work for multinational companies. We know the consumer preferences within that area. They have liberal spending habits and are more open to spending on Western products. There are a lot of cafés and cultural corners. It is not like the rest of Cairo, where people have less spending habits.

"The three of us had been bouncing ideas around for years. In February 2008, we decided to open an upscale bakery shop – a business with low entry cost and high margins. This specific segment was chosen after we identified a need in the market. Initial success was defined by us as proving the concept, achieving growth and seeing the products selling well. The concept was still new – there were some random bakery places – but our concept was offering fresh products out of the oven. Would consumers appreciate the value added and pay a premium for it?

“A key challenge was not knowing the bakery business. We set about learning the business from scratch and spent five days living at El Sadat’s family hotel learning the baking process from the kitchen’s professional bakers. By the end of February 2008, bread-making machinery had been purchased and a head baker hired. We visited a bakery exhibition in Paris in March 2008. As we could not afford to rent a high-end location in Cairo, we opened a seasonal shop during the summer in the North Coast, a popular vacation spot for Egypt’s upper class. Featuring a kitchen visible from the street and fragrant bread coming out of the oven, the shop was an instant success. We preached: ‘Fresh-baked products... baked in front of you.’ It served 200 customers per day and earning US\$ 50,000 in just three months. The three of us returned to Cairo at the end of the season determined to open a shop in the city.

“We realized once we started that our key threshold was to scale successfully and to ensure that our operational model worked in a scalable format. When we started the business, we thought the gap in the market would allow about 20-30 ‘The Bakery Shop’ stores in Egypt. So far, we have nine shops (all in Cairo). However, we were most likely targeting less than 2% of the population. After one year of operation, we created a second brand (Delicious Bakery) that targeted the bigger middle-income market. The two main sales channels for this brand were: a) in supermarkets, as they outsource bakery operations; and b) standalone shops that are opened in middle-income districts. By mid-2013, we had successfully opened seven Delicious Bakery shops all over Cairo with a plan to roll out up to 40 stores over the coming 3-5 years. In the second year, we also broadened to add a third target market – the B2B market that supplies bakeries to cafés, restaurants and hotels. After five years of operation, we are now looking at adding a semi-industrialized bakery production activity that could cater for the three current revenue streams – TBS, Delicious Bakery and B2B.”

## Q2: What were the major growth accelerators for your company in the early years of high growth?

El Sadat: “Major growth accelerators have been identifying prime locations, maintaining a high quality of ingredients, hiring, training, retaining and incentivizing our people and, last but not least, our partnership with Delicious Inc. (a different company than our Delicious Bakery). The three of us had no background in the baked products field. We spotted an opportunity in the market, jumped in, worked hard and put our best efforts on the table. But we have benefited greatly by hiring employees fresh out of school, and ensuring they get the right training to cater for the target customer we look to serve.

“The three of us debated a lot about whether to partner with Delicious Inc. Delicious Inc. is still the owner of the biggest coffee shop chain in Egypt, Cilantro. They have been operating in the market for the past 10 years and have expanded the business reach to having more than 60 coffee shops last year. Many people advised against the partnership. But it has worked very well. We have been able to leverage Delicious Inc.’s operational platform. We have been able to leverage their existing platform to supply bakery products, leverage their real estate muscles, and benefit from synergies gained from sharing all their back office operations (such as the finance department, IT, HR, etc.). They were a huge added value with regard to those areas.”

Mashhour: “One major growth accelerator was introducing the second-tier brand in the second year of operation. After fully understanding the TBS concept/brand, we (the three partners) realized that TBS, being a premium brand serving the upper segment of Egypt, had limited growth; hitting a critical mass could only be through Delicious Bakery. Delicious Bakery took the company from niche to mass, from high margin-based operations to a healthy margin/volume mix. Had Delicious Bakery not been introduced, the company’s potential in terms of annual revenues and, more importantly, the number of employees would have been limited.”

## Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?

El Sadat:

- **“The promising consumer story in Egypt.** We recognized a niche market – the need was there. Over time, we expanded into a broader set of areas to expand our accessible markets.
- **Availability of workforce/human capital.** The people with expertise we hired, as well as the managers at Delicious Inc., were crucial to early growth.
- **Availability of funding/finance.** We received an equity investment of US\$ 500,000 from Delicious Inc. This was used in part to build out our first permanent TBS in Zamalek and invest in a well-equipped facility to produce consistent quality products.
- **Availability of mentors and advisers.** Delicious Inc. provided advice through us working with their multiple departments, from IT to HR to finance. We have also gained from mentorship organizations such as Endeavor. Our mentors have also helped us refine our business model.
- **Level of education and training in the region.** Private university graduates are generally looking for white collar jobs (accountants, etc.) rather than to work as salespeople in our shops. Egyptian public universities are the main source of our employment. While this means less quality education, those students are the ones looking for jobs such as cashier at a shop. It is challenging to find well-trained employees; we have had to do a lot of internal training.
- **Cultural and societal support and respect for entrepreneurship.** This is a challenge in Egypt. People are afraid to start their own businesses because they are afraid to fail. It is a matter of mentality. Entrepreneurs are the only people that will remove the stigma of failure in this region.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

El Sadat: "Availability of market intelligence and data points to support decision-making – access to market intelligence and coverage of sectors is something that is missing in terms of research material and availability of data points that can help us build decisions on.

"Availability of financing – even though banks have been promoting small and medium-sized enterprises, their internal credit approvals are still very restrictive for small companies to get access to funds."

**Q5: Large companies can play an important role in scaling up early-stage companies with high growth aspirations. This role can include being a customer, supplier, marketing partner, joint venture partner and so on. (a) Describe the key areas where interaction with larger companies helped promote your growth path.**

El Sadat: "In October 2008, we decided that the American University of Cairo would be the ideal first location. However, we encountered a road block. Delicious Inc. owned the food and beverage rights at the university. Delicious Inc. was the largest coffee shop operator in Egypt. Rather than walking away, we sought to partner with them. In February 2009, Delicious Inc. signed a deal to provide capital, operational knowhow, business development expertise and human resource support in return for 51% of our nascent business. In October 2009, this investment helped us to open in prime locations that were not as profitable under the Cilantro brand.

"Delicious Inc. helped us on various fronts, but most important is that they shortened the timeline of our learning curve. We were able to get access to their platform of more than 60 coffee shops to roll out our products, and access to real estate locations. We were also able to acquire some Cilantro coffee shop locations and turn them into profit-making TBS shops."

El Nazer: "In our case, our partnership with Delicious Inc., the larger company, was highly productive. They played multiple roles to scale the business, starting from customers, having shops that we supplied all bakery goods to from day one of operation, to suppliers by benefiting from all synergies in warehouse and long-term contracts."

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

El Sadat: "One challenging aspect of negotiating with a larger company was getting agreement from both sides on the terms of any exit by us as shareholders from the business. There is a cycle to brands in Egypt (as well as everywhere in the world). We wanted to get the right formula for us to exit at the right time. Given our current growth potential, this matter is still far from where we are today. But we did manage to include exit terms in our agreement with our partner to allow us both to exit the business at the right time."

**Q6: Your revenue growth to date has been focused predominantly on the domestic market. What are the main reasons for this focus?**

El Sadat: "In 2008, the market in Egypt was underserved and we had a first-mover advantage. We grew to 15 stores and there is still room for growth. Egypt has a population of 90 million. There is a growing urbanization trend and people consume a lot of food outside of their homes. Disposable income is rising, with high income earners looking to spend it on quality products, which are rarely found in Egypt. We focused in our early days on the local market to serve this need. By expanding to three product areas, we increased the ability of our domestic market to provide continued growth.

"We are now looking to establish our presence in other markets. We see similar gaps that can be filled. Recently, we started preparing our internal processes to expand outside of Egypt on a franchise model basis. I am now based in Dubai. We are in talks with potential partners in Saudi Arabia, Tunisia, Libya, Turkey, Qatar and the UAE. Most of our potential partners in these markets have retail experience and they see a demand for bakery products in their countries."

**Q7: What would you view as the greatest challenges in growing a sizable revenue presence in markets beyond your own domestic country or region? In deciding when and where to seek growth in international markets, what characteristics of a country's ecosystem would be most important in attracting you to invest significant resources in that non-domestic country or region?**

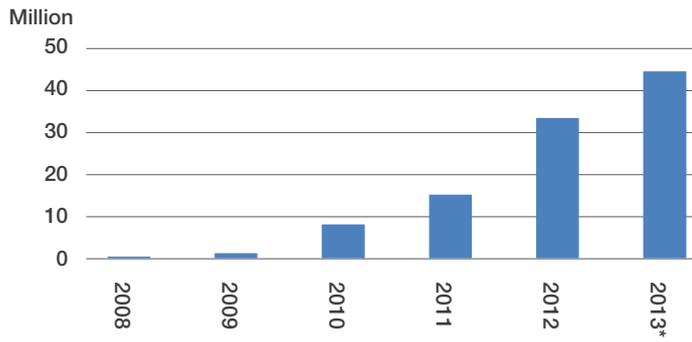
El Sadat: "We are building relationships with different people in different countries. We need 3-6 months to be ready to roll out a plan outside of Egypt and to ensure that the model would work in those countries. We do not want to rush. We want brand recognition. There are at least three key challenges to entering new markets: 1) finding the right partner and having leverage on the operation through a strong quality control team; 2) preparing the company with the right scalable model that would allow it to be a simple plug-and-play model that offers the required returns for the partners; and 3) upgrading the offering of products to adapt to the locality of the markets we are planning to penetrate."

**Q8: Building a company that aims to have sustainable high growth inevitably will have both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in your entrepreneurial journey.**

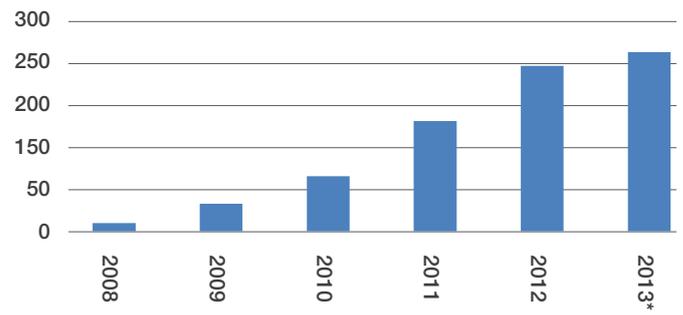
El Sadat: "A low moment was during the first year after we sold a 51% interest to Delicious Inc. We had a lot of people tell us that we shouldn't have done it. We were only 23 years old and had limited experience on ways to maximize the benefits of the relationship. It took us two years to fully digest that we had a partner on board that we could leverage in multiple ways.

"A high moment was when we approached potential partners on a regional level with our track record, and we realized that we have a brand that has all the ingredients and track record to move from being a leader in the local market to becoming a regional champion."

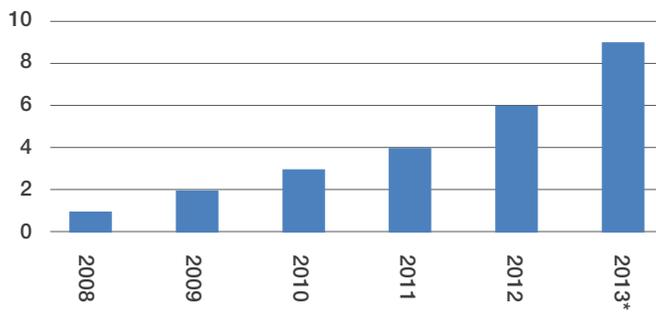
Revenue (\$)



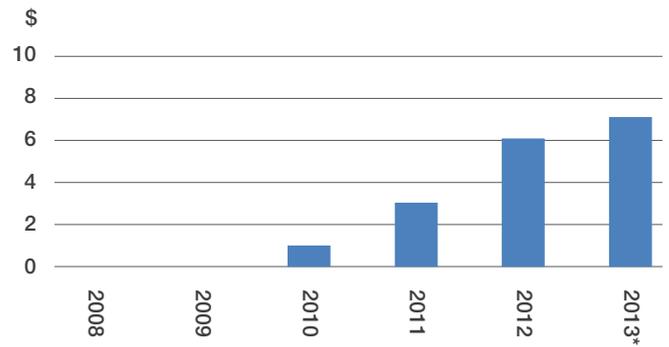
Headcount



Number of TBS shops



Number of Delicious Bakery shops



# Digitouch

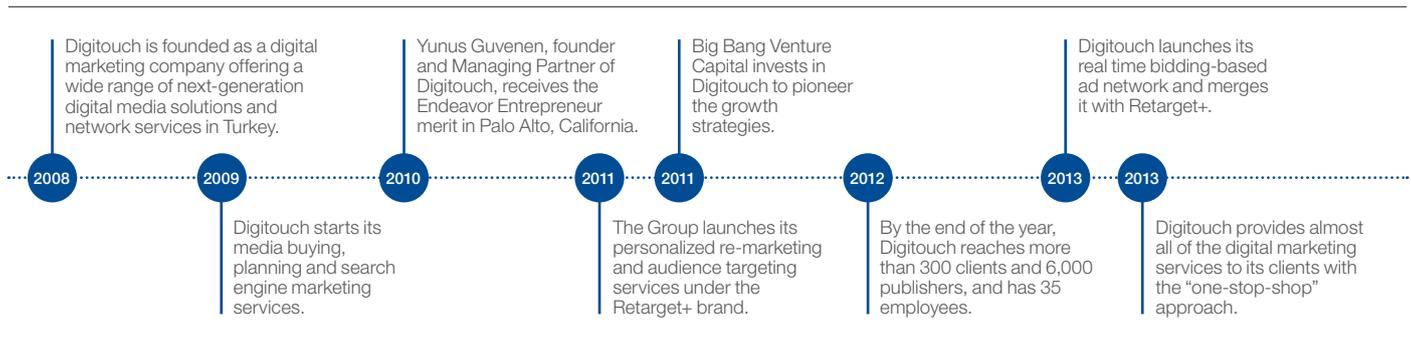
## Turkey

Prepared by Juliet Bailin, Maya Dadoo Gonzalez, Rhett Morris and George Foster

### Overview

In January 2008, with a US\$ 15,000 bonus check from his last job, Yunus Guvenen launched Digitouch as a digital marketing agency. The company began in a rented office staffed by two recent college graduates. Its mainstay was (and still is) digital ad campaigns, which it launched through two channels, display advertising and search engine marketing. The agency created strategic partnerships with large media agencies to secure clients like Coca-Cola. And in 2009, Digitouch achieved two big milestones: it helped Pegasus Airlines save US\$ 1.2 million by lowering its cost per acquisition by 80%; and it obtained US\$ 580,000 in seed funding. Meanwhile, Guvenen began building the GelirOrtaklari Affiliate Network, to which he now devotes 70% of his time. GelirOrtaklari – “revenue partners” in Turkish – is Turkey’s first affiliate marketing network. It is comprised of 1) merchants who want to place advertisements with affiliates; 2) affiliates who want to sell ad space; and 3) the backend structure for integrating merchants and affiliates, distributing and tracking ads, and processing affiliate payments. GelirOrtaklari operates on a performance-based revenue share model: the Network receives 5%-30% of each merchant’s gross revenues, and passes on 50-70% of that to affiliates (depending on the industry). GelirOrtaklari’s community now includes more than 30 blue-chip merchants and 300 affiliates.

### Timeline/Key Events



### Quotations

Yunus Guvenen is Chief Executive Officer of Digitouch. He graduated summa cum laude from Tufts University with a degree in electrical engineering and then worked for telecom company Koç.net and computer and electronics retailer Koç Bilişim Group. In 2004, he started at Dream Design Factory and then became the first hire at start-up Buongiorno Turkey. Guvenen launched Digitouch in 2008 and then started the global affiliate network, GelirOrtaklari. He oversees the operations of the Digitouch Performance Media Group, which includes the digital marketing agency, affiliate network, performance agency and recently launched personalized re-marketing network, Retarget+.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Guvenen: “Back in 2008, I was looking at what I could do and the first thing I identified was that the Internet sector in general would be growing in Turkey. You did not have to be a genius to see that. What I chose, however, in this Internet field was the space of digital advertisement. I saw that expenditure on digital compared to the total amount of advertisement was actually extremely small in Turkey, so I saw this as a space that would really grow. Knowing that the market already existed from an advertisement perspective, I thought it would be a good idea. In hindsight, I think choosing the space of the Internet is still an excellent idea because it is still one of the most wide-open spaces and does not require loads of money. But I think there were probably bigger opportunities such as destructing retail, destructing certain services, etc. I’m not at saying I made the wrong decision, but I think that if I went back, I might have picked something that had a bigger market size (e.g. the textile business was US\$ 2 billion, while advertisement was less than US\$ 1 billion).

“I did not have much money, and I did not intend to raise money. At that time, there was an affiliate network business. I was reading about it in the UK and the US, and reading about big evaluations. But when I started digging, I saw that many of the components did not exist in Turkey, and building such a network required a medium- to long-term strategy.

“I think I did something pretty smart that I would advise any entrepreneur to do. I thought, how can I make money fast so that I can invest the money I make to make those medium- to long-term strategy businesses? That is when I identified this agency business. An agency business is one of the businesses that you really do not need a lot of money for to start, and if you do it properly, you can be positive quite fast. So, I said, let’s focus on how to make money and then we will focus on the things that we think are much more exit-able. In terms of an agency, you can always exit, but it is not the most sexy to sell. A network business is a lot more interesting from an investor’s perspective.

“I started at an agency making money and after a year and a half I had made enough revenue. I said, okay, now it’s time to start the network business. At that point, I had a friend raising money. He said, let me help you so that you can create a buffer for starting the business. We raised the money and that was my first experience with working with a venture capitalist and angel investors. We did not raise a lot of money – about US\$ 650,000-680,000 – but still a sizeable amount, and we started building the network business.

“We still have an agency that does what an agency does, except the creative part, and it is still a good cash generator. At the same time, we have built an ad network that has also grown quite substantially. We started just three years ago. But I realize that this specific type of business is going to take a while to grow further because it is one of those businesses that is very much into an ecosystem. Usually, they require a lot of education, and you get traction quite late. It’s quite similar to the listing business, which needs education and understanding before you get good traction.”

## **Q2: What were the major growth accelerators for your company in the early years of high growth?**

Güvenen: “Of course, sales – we are selling a service. One of the things we tried to do is focus on key clients initially. Instead of saying, we are a small company so we are not going to the big guys, we said, we don’t care and we should aim for the big guys. A key account could be a couple of billion dollars, so focusing on that really helped us grow. The second thing was trying to make the proper hires: finding the people who would actually manage the business. That way, everybody can focus on what they are doing.

“I wish I could say that investors accelerated the business, but it really was not strategic, it was equity. It was not like, when they came in, we could fast-forward. We took in seed investors who were quite familiar with the industry, but what happened is that we were remote – far from the Western market – and also, if you are not in the space anymore, you get out of it very fast. If I stopped being in digital marketing today, in a year and a half I probably would be obsolete. It’s very cutting-edge. I think the investors we have had all exited and, honestly, they were not as involved in the digital space anymore. Sometimes it is better to get a strategic partner to bring some knowledge, technology or training that could be a great accelerator. I see a few companies that have done that. I am sure it has its own complexities in terms of shareholder rights, etc., but at the same time, I see that their time to market is faster than ours in certain aspects.

“We quickly identified that this is not a very deep market – you cannot do just one thing and make a lot of money in Turkey, so we realized that we needed to operate in different business verticals. That is something that was quite smart, but very difficult to execute. The way I organized it was initially extremely wrong, and we lost a lot of time, money, effort and motivation, but what we tried to do in principle was very smart. Already in the agency, we started to build expert skill sets that accelerated growth on their own. We created different businesses that were quite synergetic but also generated money separately, and when they were added together, they created something very interesting in terms of profit and revenue.

“I had a friend who had founded a company that did not do quite well, but he was a brilliant guy and he had raised money a couple of times. He had a very strong network and asked if I would mind if he invested a little in my company and if he could help me raise more money. He started talking to some people. I went to London to talk to investors and invited one or two to Turkey to meet us, and they liked the valuation and the idea and they just invested in it. I was not going to actively pitch.”

## **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Güvenen: “One thing I am quite happy about is that I am good at identifying people who have an intellectual capacity that is bigger than mine, and I tend to become quite close with them. It challenges me to be with people like that. Some people who have become my friends in the past few years are a little older than me and have great success stories. I usually try to get some ideas from what they think and what I could do better. Of course, everyone has his own way of managing and mentoring, and I think that is very normal. But that is how I get my mentorship. I always try to find people who are very smart; they do not even have to be from my business. If I identify someone who I think could be important for me, I will make sure that we start becoming better friends.”

## **Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Güvenen: “One of the key problems that we see in any market, but much more in Turkey, is talent. Why? Because the culture of venture capitalism and start-ups of growing your company, selling it and merging it is actually very low in terms of perception. I would say that only in the past two or three years have a lot of smart people seen that, in Turkey, you can acquire venture capital and create a start-up that is aiming towards an exit, or a merger or an IPO. It is very hard to attract talent. In the US, smart university graduates see this as great experience. In that sense, it is quite difficult to attract smart people into this game.

“My business is in some sense a difficult one in terms of skill set. Why? Imagine that I was selling shoes online. In Turkey, you can actually find people who have been sourcing shoes for the past 35 years – from China, from India. That knowledge already exists and you have experienced people who know how to do it. But when it comes to the digital ad business, the most experienced person you can find has

8-10 years of experience, maximum. You need to assume that the person was actually able to reinvent himself all the time, because the knowledge he had 10 years ago is different from the knowledge he needs now. The only thing that we are able to rely on is, does this person have the potential, the will or the intelligence to be able to learn the business? Again, it is not like you can find someone who has been in the market and knows this business inside-out.

“Our top problem in the company is human resources. It’s actually my number one problem. We have a full-time internship programme in which our employees get paid. Within the first two-three months, we try to understand if they are good or not for the start-up business, if they can take responsibility and learn. Then we have managerial-level hiring. If it is a sales profile we need, we hire people who have experience in sales, but not from this industry. We think a smart sales person should be able to jump from vertical to vertical. We actually hire based on attitude. If a position requires a lot of team management, we would require someone with Internet experience who can manage a team. We try to help him understand how it works, so we coach him for the first two months in terms of the business, and then in terms of how he can manage better and how we can challenge him regarding the deliverables.

“We also do another type of hiring. When we decide we want to build a new business within the company, we actually seek a business venture. This is a long process – it can take 4-6 months to find the right person. We often try to find someone from abroad who wants to come back to Turkey, and who is from our space. We try to incentivize him with equity options and give him the opportunity to build this new business on his own. My job is to find the guy who will run that business. The guy who runs the business hires his own people, and I am only there to assist.

“There is no incentive for entrepreneurship in this country. I think that they are doing everything so that you do not become an entrepreneur. My company pays so much tax – since day one, I have had the same conditions as Fortune 500 companies in Turkey. There is no incentive for me to become an entrepreneur through the circumstance of this government. I really don’t understand. Look at Germany – there is so much incentive for people who want to build companies. I think Turkey is very bad at that.

“In the younger population, it is definitely changing. We have hired a few people lately who actually are in the top of their classes, in top universities of Turkey. Even four years ago, it was impossible to hire a number two or number seven in the university entry exams in Turkey. They would never come. It has started to change, but these are very rare examples still.

“Just to give you an idea, it could take us four or five months to convince such a person to join the company. At that age, I was not earning that kind of money. I think the market requires a few more exits and success stories. There have been a few e-commerce companies that have shut down in the past few months – that does not help our businesses. We need a few more success stories so that people understand that there are eventually positive outcomes of these ventures.”

**Q5: Large companies can play an important role in scaling up early-stage companies with high growth aspirations. This role can include being a customer, supplier, marketing partner, joint venture partner and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Güvenen: “I was reading about an American company based in California that is doing a video network business. They sell video ads to many companies, and they are going for an IPO. I was reading their document and I saw that out of US\$ 120 million, 25% goes to one single, very big client, which I assume was one of the top accelerators for their growth. Once you have a client that can generate US\$ 25-30 million, you can cover many of your operational costs and use the cash for additional growth. I think it depends on the type of business that you do. Some businesses are very platform and, in that sense, maybe the importance and difference between a big or small client may not be that big. But if you are doing a service-oriented business, you spend the same amount of man-hours for a big client and 20 small clients but make a lot less money. So, it depends on the type of business. In our business, we were able to make a profit much faster, and we were able to divert this profit into the other business lines that we had.”

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Güvenen: “I think a challenge is that their expectations might be higher. When it is a big client, they have very specific ways of working and you need to adapt to that. Also, the service level they are expecting is quite high.”

**Q6: Your revenue growth to date has been focused predominantly on the domestic market. What are the main reasons for this focus?**

Güvenen: “We actually looked at a few opportunities internationally. What we are doing is very service-oriented. The technology is important, but it is not a platform-based business in which you have customer service and people use it. It requires a lot of manpower and relations and so forth. The Western world has already done this type of business and has done very well. So, going into the West was difficult. We started looking into the Middle East and spent two weeks in Dubai to understand the opportunity. The opportunity exists, but to execute is very different because if you are not selling a product, you have to have offices in every country. We realized it would be very costly for us to do so, and very risky. Even going to Indonesia was easier than to a place that was only two or three hours away. In the end, we did not want to lose focus of the domestic market. The domestic market is still a big one, and if one day we want to be a regional player, we could merge with a company in a different country and consolidate the revenues. That would be much smarter for the type of business we are doing than trying to build the business on our own in different countries.

“We currently work only in Turkey. The business that we are building is what we call an ad exchange model and buyers could be from anywhere in the world. You would end up working on a global scale, although it is from Turkey. Because the mindset is closed to stockbroking, in which you broker inventory, it could be from anywhere in the world. And it is a new business that has been growing fast in the past year. In that sense, we could potentially start that specific business globally, unlike the others.”

**Q7: What would you view as the greatest challenges in growing a sizable revenue presence in markets beyond your own domestic country or region? In deciding when and where to seek growth in international markets, what characteristics of a country's ecosystem would be most important in attracting you to invest significant resources in that non-domestic country or region?**

**Guvenen:** "First of all, you have to look at the market size to understand the ecosystem – how competitive are they, how knowledgeable. Then, understand if it is rational and if acquiring a company can help you do the business or if you can do it on your own. You have to identify the right talent and the talent that is available. I would prioritize the size of the market, the potential of that market, and then I would look into the people I would hire. The right people have relationships, so if it is a relationship-driven business, you also get these relationships. If you give them a roadmap and they are smart enough, they will do it on their own. Because you cannot know the right answer from day one, you can only hire the right people who can take those ideas and adapt them to those countries.

"There are some countries that build entrepreneurs. Like Israel – look at this incredible country. Seven million people. A friend was telling me that there are scores of billion-dollar companies out of Israel. These interesting companies actually have over 1 billion-dollar evaluation and are operating globally out of Israel. I think it shows that the government of Israel has a system to develop them. Entrepreneurs start thinking globally from day one, and the legal infrastructure is built for that. I think the US is also very good, especially from a venture capital and legal perspective, and regarding people's understanding. People know what a start-up is, and they know the potential outcomes of a start-up: great success, failure, IPO. These are not new concepts for people in the US.

"I hear Germany is trying to help entrepreneurs to accelerate their growth. I heard of a great incentive programme of low interest loans with delayed payment schemes.

"I think it is important to have cultural and societal support from an HR perspective.

"Regarding financing, I think we are going to try to accelerate with investors and within the company. We are going to try to accelerate some business and start burning cash. To have less risk, we will probably seek another round, but in this round I am going to try to get someone strategic on board. I am not looking for equity this time."

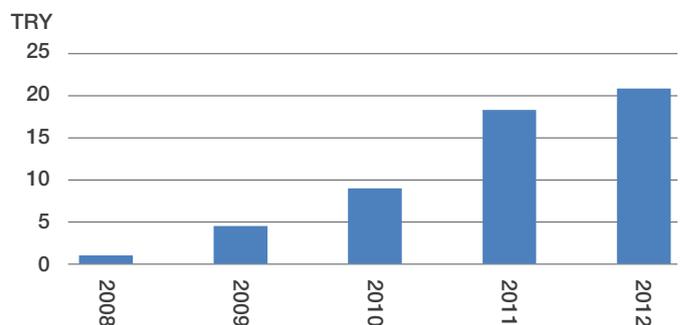
**Q8: Building a company that aims to have sustainable high growth inevitably will have both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in your entrepreneurial journey.**

**Guvenen:** "It is hard for me to say, because my character is an interesting one. Many people would judge what I do as extraordinary, but honestly, I am the type of person who beats himself up. I might have had high moments, but I don't perceive them as high moments. I can tell you a lot of low moments. I focus more on what I did wrong than what I do right, and that is something I need to correct. I need to have a more balanced approach. I have learned several things. One is that if you are going to build several businesses in parallel, you need to create organizations with laser focus on each business. Given the mistakes I have made, I have spent my professional time and the team's time in different businesses and we lost money and time. I think it was for years. It took me 2.5 to 3 years to understand that.

"In the past six or seven months, I have become a lot more exciting because I started really working on parts of my personality that I did not know were powerful. People used to say that I have charisma and the personality of a leader, but honestly, I was not using those traits. I was too much involved in operations. When I realized that I am a good coach and not great at operations, I started becoming better and my team was getting even better. They wanted to see me like that, not swamped in operations. They wanted me to be the person who inspires them to become better managers. Since I changed my motivation, I started to become happier because I understood that is what I am good at.

"What I have done is focus on what I am good at and make it excellent, make it the best. If you start with your weaknesses and make them better, it probably will not work out for the best. Try to find people who make up for your weaknesses and accentuate what you are good at. A good friend and successful businessman told me this. When I started becoming a leader – a coach, a mentor, a support and not a top-down guy – it made me a lot happier and made the company grow again."

**Revenue of Digitouch - TRY millions**



# d.light

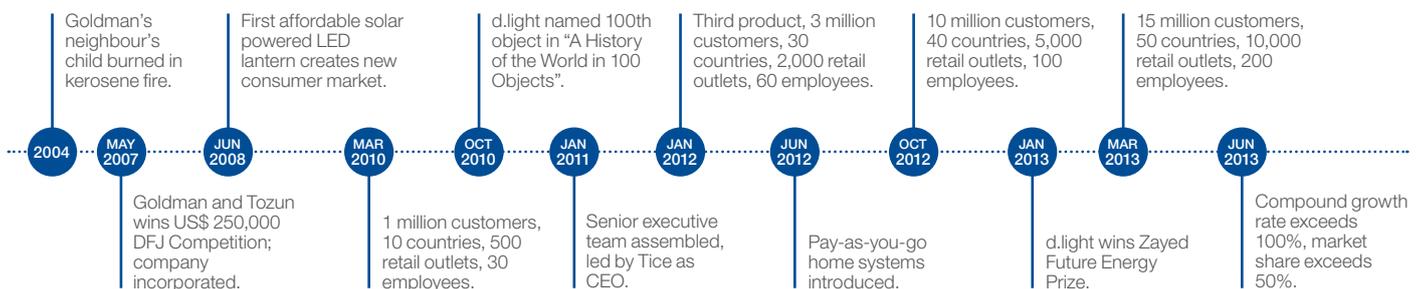
## USA

Prepared by George Foster and Sandy Plunkett

### Overview

d.light's founding inspiration came in 2004 when co-founder Sam Goldman was serving in the Peace Corps in Benin (West Africa) and a neighbour's child was badly burned in a kerosene fire. Sam met Ned Tozun and other co-founders on the "Design For Extreme Affordability" programme run by Stanford Business School and Design School. He graduated in 2007, having won a prestigious business plan competition sponsored by venture capital firm Draper Fisher Jurveston – along with US\$ 250,000 in seed funding. The founders moved to India and China, and in 2008 pioneered a unique combination of the latest in solar panel, LED and battery technology in a well-designed, extremely affordable product form. Donn Tice, who had been an adviser and board member since 2008 and Chairman since 2010, stepped in as CEO in 2011 and recruited an experienced local (in- market) executive team, developing new approaches to distribution and the supply chain that have combined to create rapid growth from 2,000 retail outlets and 3 million customers served to over 10,000 retail outlets and over 15 million customers, a compound sales growth rate of over 100% and a market share exceeding 50%. growth in same-store sales to Capillary's solutions. Capillary has received numerous awards, including the Gartner 2013 Cool Vendor award and Marketing Magazine's CRM & Loyalty Silver Agency of the Year Award 2013, and was also named one of Forbes' 12 Hidden Gems. Capillary is backed by prominent institutional investors Sequoia Capital, Norwest Venture Partners and Qualcomm Ventures.

### Timeline/Key Events



### Quotations

Sam Goldman, Chief Customer Officer, co-founded d.light in 2007 and served as the company's founding CEO.

During his tenure as CEO, he raised over US\$ 11 million in funding, started the India sales and marketing division, and oversaw multiple launches of products, including the award-winning S250 and S10. Goldman has been selected as an Ashoka Fellow and World Economic Forum Young Global Leader; he was also recognized by Forbes as one of the world's top 30 social entrepreneurs. Prior to d.light, he founded and managed multiple ventures in Africa, including improved agriculture and construction businesses, and a for-profit NGO cultivating the miracle tree *Moringa oleifera* and distributing low-cost latrines, cooking stoves and rain water catchment cisterns. Goldman has lived in Cameroon, Mauritania, Pakistan, Peru, India, Rwanda, Canada, Hong Kong SAR and the United States. After graduating with degrees in Biology and Environmental Studies from the University of Victoria, Canada, he earned an MBA from Stanford.

Ned Tozun, President, co-founded d.light in 2007 and has served as its President since then. Tozun partnered with Goldman to secure private investment for the company, built up the manufacturing operations and oversaw the expansion of distribution into over 40 countries. Tozun has been recognized by Forbes as one of the world's top 30 social entrepreneurs and was selected as an Asia 21 Young Leader by the Asia Society. Prior to d.light, Tozun founded several consumer product start-ups in Silicon Valley. His most recent position was as CEO and founder of a media technology company, where he designed and patented technology used to develop several products launched in the mobile content and specialty gift markets in the United States, Europe and Japan. Tozun graduated from Stanford with degrees in Computer Science and Earth Systems, and returned to Stanford to earn his MBA.

Donn Tice, Chairman and CEO, has been a d.light adviser since March 2008, a director since November 2008 and Chairman since 2010. He brings 30 years of experience in consumer products, clean technology and global distribution. He has built global businesses worth US\$ 100+ million and raised US\$ 100 million in capital. Tice's passion for "base-of-the-pyramid consumers" began as a United Nations Fellow, when he was mentored by the late C.K. Prahalad. As founder of Sustainable Solutions (2006-2010), Tice accelerated consumer venture, capital-backed portfolio companies. While CEO of start-up Nano-Tex (2003-2006), his team expanded distribution to 90 brands in 30 countries through 100 distribution partners, creating a 25 times valuation increase. As CEO of Winterland (1997– 2002), Tice grew sales 3.5 times, from US\$ 30 million to US\$ 110 million.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Goldman: "As a Peace Corps volunteer in Benin, West Africa in 2004, a neighbour's 15-year-old child was badly burned in a kerosene fire. I knew this happened thousands of times every year and realized in that moment that 'there had to be a better way' and resolved then to make a difference. Researching this at Stanford with co-founders Ned Tozun, Xianyi-Wu, Gabe Risk and Erica Estrada, we had the insight that the latest LED, solar panel and battery technology could be combined to deliver safe, bright light and power far more affordably. If we could do this, it would create the opportunity to reach a vast market of over 2 billion people who don't have access to reliable, affordable power in the much larger base-of-the-pyramid consumer market."

Tozun: "Early support from angel investors enabled us to win a prestigious US\$ 250,000 Draper Fisher Jurvetson business plan competition, which launched the company and catalyzed series A funding with an ideal mix of venture capital and 'patient capital' impact investors."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Goldman: "Understanding our customers' wants and needs and reflecting their priorities in our products have always been key to our success. Living in our markets and regularly spending time in our customers' homes and businesses has been irreplaceable. Shortly after founding the company, I moved to India to commence market development, and Ned moved to China to develop our product supply chain."

Tozun: "We decided from the start to create a global company; designing our business to be global and large scale has made an enormous difference. This focus on a global, scalable business has been reflected in everything we do, including product design and the choice of partners in every area from investors to the product supply chain and distribution. It extends to accounting and legal professionals."

Tice: "A pivotal change in 2011 was recruiting a team of senior executives with over 20 years of local, in-country experience, in every key area – general management, product design, production, sales, marketing and finance. In less than 18 months, we were able to introduce new products, raise industry quality standards several times and introduce innovative solutions to the decades-old problem of getting innovative products the 'last mile' to reach bottom-of-the-pyramid' customers. This combination quickly produced 5 times growth in retail outlets and customers served, and set us on our current path to continued rapid acceleration."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Tozun: "An entirely new group of 'social impact investors' emerged in response to our focus on deploying for-profit, private sector approaches to solve poverty and economic development problems in the developing world. The early leaders in impact investing – Gray Ghost Ventures, the Acumen Fund and the Omidyar Network – were among d.light's early investors. Established venture capital firms like Nexus and Draper Fisher Jurvetson were attracted to these innovative models. Catalytic philanthropic and grant capital was deployed in certain high-risk or long time frame areas of market formation. The emergence of a 'new generation' of young professionals who want to express their values through their work has created a dynamic pool of educated, talented professionals. d.light is packed with skilled, passionate people attracted by the chance to work with a high calibre team of committed professionals making a transformative difference in our customers' lives – and to create an entirely new market."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

Tice: "Market demand for products like ours is vast and growing rapidly but because our products are new and unlike anything else available there are no established, efficient channels of distribution for which products like ours are 'core business' or even familiar. Although there are informal and some formally organized networks that reach them, consumers in rural villages are notoriously difficult and costly to reach. Compounding market barriers, many developing world governments continue to subsidize low quality, unhealthy and environmentally damaging fossil fuels that power kerosene lanterns and diesel generators, while many also erect trade barriers against renewables like solar power that threaten entrenched energy interests."

Tozun: "The ecosystem for impact investment and social enterprise didn't exist in China when we started out, making it incredibly challenging to hire talent and strike up relationships with vendors and manufacturers. The focus was business, 100%. There was confusion in the Chinese marketplace about the concept of a for-profit social enterprise (perhaps 'social' was code for 'non-profit' or 'unprofitable') and initial disbelief about the ability of a company to 'do well by doing good'."

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Goldman: "We invested to be a global company from the very beginning. We left California for India and China within six months of raising capital."

Tice: "Two major pivot points were the 2009 decision to expand to Africa – by acquiring a local distributor – followed in 2011 by recruiting an experienced, globally dispersed executive team in China, Africa, India and more recently in Latin America."

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Goldman: “We quickly learned that you simply can’t export the entrepreneurial, risk-taking culture of the US to India, China and Africa. In these markets, talented people working for multinational corporations are more risk averse, and less motivated by equity. Convincing the best people to join a start-up at a lower salary but greater ‘upside’ was very difficult, but without the best people, we were unlikely to be able to overcome the obstacles needed to create an entirely new market. We had to adapt to local demands to attract and retain exceptional local teams. We also underestimated the importance of continuous, local engagement. In our markets, partnership and joint effort with locals is essential. Every market is totally different, so you really need local knowledge to succeed.”

Tozun: “In the early days, to preserve capital, we chose not to hire senior, local management – we did everything ourselves, and travelled almost non-stop to develop new markets. We achieved early success, but it was only after we recruited experienced, local management who were continuously engaged with local partners in our markets that we could begin to scale rapidly.”

Tice: “It’s very difficult to convey just how completely global our business is, and the scope of the challenge that creates for everyone. We serve customers in almost every time zone. It is monumentally more difficult to inspire, align and support a leadership team and rapidly growing staff spread across over half a dozen time zones in extremely diverse cultural contexts. You can’t simply walk down the hall for a senior staff meeting at HQ. It takes considerable investment and continuous focus to stay connected to each other and to build a team – and a culture of teamwork and collaboration. Almost every important topic, issue, problem or decision requires communication and collaboration across multiple time zones and offices. Quarterly or more frequent face-to-face executive team meetings mean several people travel at least 12 hours just to be together; monthly calls mean several people are up at 5 am or midnight.

You can’t build a consistent company culture in a global team by phone or e-mail: being truly engaged with our local leadership and staff requires over a quarter of a million miles of annual travel for me, and a very high amount for many.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Goldman: “It helped that some of our markets, like India, have a more developed distribution infrastructure, but creating an entirely new market still requires the establishment of new channels of distribution. The presence in many markets of subsidized fossil fuel products (kerosene and diesel) and tax or tariff barriers puts renewable energy alternatives like ours at a substantial disadvantage and continues to impede growth.”

Tozun: “In China, it helped that there is an established ecosystem of electronics manufacturing, but a very significant impediment is that readily available manufacturing and supply chains are often one of two extremes: (i) high cost, high quality; or (ii) low cost, low quality. Breakthrough innovation in the markets we chose to serve required a hard-to- develop combination of high quality at low cost.”

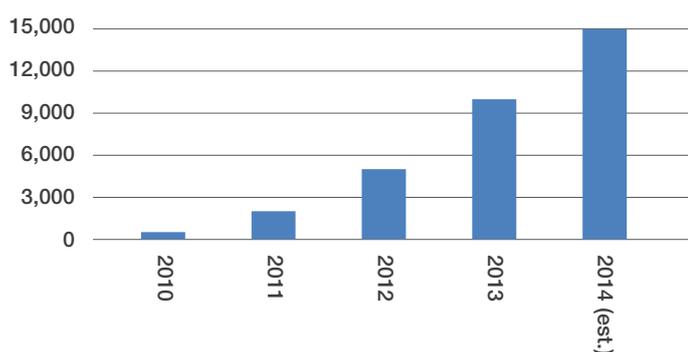
**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Tozun: “The lowest points have been hiring decisions that for one reason or another didn’t work out; unfortunately many of our early hires are not with us today. On the other hand, seeing our products dramatically improving millions of customers’ lives is incredibly satisfying.”

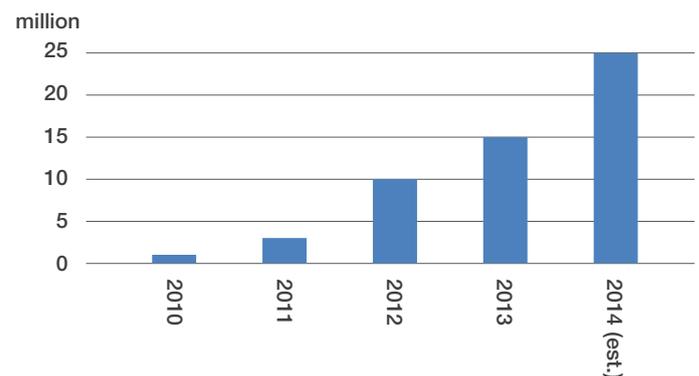
Goldman: “It’s very hard to predict sales in a completely new market. Our schools programme is a real high point: It is amazing to watch an entire generation absorb and enjoy new technology and think of it as ‘the norm’. When kids start using clean, renewable energy, they don’t go back to fossil fuels.”

Tice: “Finding ways to combine breakthrough product design with new approaches to supply chain and distribution to overcome decades-old obstacles and create an entirely new market -- and then actually seeing our theories achieve real scale and impact – has been profoundly satisfying. It also continues to be a profoundly transformative experience to forge a global culture that aligns our customers’ values with those of our team and stakeholders, combining the best of our founding principles with the best of our team’s diverse experiences and perspectives, to drive a material change in one of the world’s most vexing economic development challenges – access to reliable, affordable power.”

**Retail Outlets**



**Customers Empowered**



# Freelancer.com

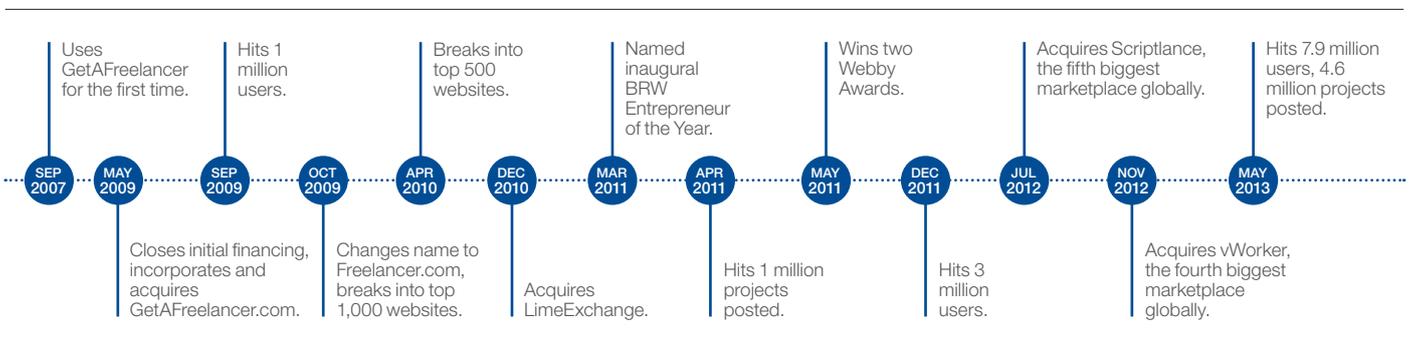
## Australia

Prepared by George Foster and Sandy Plunkett

### Overview

Freelancer.com is the largest outsourcing, crowdsourcing and freelancing marketplace with over 7.9 million professionals from around the world as of June 2013. Winner of three Webby Awards, Freelancer.com allows small businesses, entrepreneurs and individuals to hire a skilled, online and on-demand workforce to get things done. Over 600 categories of work include software, writing, data entry, design, engineering, science, sales and marketing, accounting and legal services. Over 4.6 million jobs have been posted, with an average price of US\$ 200, making Freelancer.com extremely cost-effective for small businesses, which have saved an estimated US\$ 1+ billion by hiring online through the website.

### Timeline/Key Events



### Quotations

Matt Barrie is Chief Executive of Freelancer.com and a technology entrepreneur. He is an Adjunct Associate Professor at the Department of Electrical and Information Engineering at the University of Sydney, where he teaches cryptography and technology entrepreneurship. He is the co-author of over 20 US patent applications. Barrie has spoken at or featured in the Summit Series, The New York Times, Bloomberg TV, The Wall Street Journal, TechCrunch, The Atlantic, Switzer, BRW, The Economist and South by South West in Austin, Texas.

In 2011, Barrie was named inaugural BRW Entrepreneur of the Year and Ernst & Young Technology Entrepreneur of the Year. In 2013, he was named Young Technology Entrepreneur of the Year by News Limited and one of the top 100 most influential engineers by Engineers Australia. He is one of the 100 worldwide LinkedIn "Influencers" alongside Richard Branson, Barack Obama and Deepak Chopra.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Barrie: "Freelancer.com was born out of the need I had to get something done. After running another company for six years, I took some time off and was helping a few web projects get off the ground whilst looking for the next big thing. One of the websites I was working on required a lot of data entry; I basically needed a spreadsheet filled out with a list of companies and contact information. Estimating about US\$ 2,000 worth of work, I thought this would be an ideal way for a little brother or sister of a friend of mine to earn

some extra pocket money. Several months later I was stunned that I couldn't find someone to do it! In frustration I went to the Internet and found a website called GetAFreelancer.

I posted a job and three hours later had 74 e-mails in my inbox from people around the world wanting the job, with quotes significantly cheaper than I expected. I was shocked. A few days later and the job was done perfectly by a team in Vietnam. A light bulb switched on. Here I was, sitting at home by myself, and suddenly I could set up my own virtual multinational corporation on a shoestring budget! As an entrepreneur, this was my dream resource; I could hire someone with any skill set I wanted, quickly, inexpensively and on demand. There was no ongoing "employment obligation" beyond the mutually-agreed assignment.

The second thing I thought was that this space was going to be huge. Why, in 2008, was there no global marketplace for services? We had global marketplaces for products like eBay, Amazon and Alibaba, but no global marketplace for project-based jobs. It was abundantly clear to me that, in time, there was going to be a company with market capitalization on a par with these behemoths. After initially building my own marketplace for services, ironically using freelancers hired from GetAFreelancer to clone GetAFreelancer, I decided that I needed to get to the market more quickly. So I contacted a number of similar, small marketplaces to see if they would sell. After some discussions, I ended up raising some money to buy the original site, GetAFreelancer, in May 2009. Over the next four years, I ended up buying most of the ones I spoke to as our revenue grew.

It's amazing seeing how the vision is getting closer as we continue to build the team and execute, and particularly the response in the developing world where we have some fanatical users. For example, we ran a contest on our Freelancer Contests crowdsourcing platform which involved downloading our company logo, printing it out and promoting it in your local area. The hair stood up on the back of my neck when I saw the entries come in. In Bangladesh, a team assembled 3,000 people, printed 3,000 T-shirts, bandannas and flags and unveiled a 2,400 square foot Freelancer billboard before marching everyone into a stadium to learn about our website on laptops that had been set up. Our community amazes us almost every day."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Barrie: "Probably the primary accelerators came from aligning our business model with several global macro trends:

1. The other 66% of the world's population are about to join the Internet. It's pretty hard to believe, but of the 7 billion people on the planet, only 2 billion are on the Internet. The other 5 billion are coming online at a tremendous rate. The remarkable thing is, the other 5 billion today live on an average wage of US\$ 10 a day or so, or less. So the first thing they want to do when going online is get a job. Freelancer.com sits in the middle of this as the world's largest freelancing marketplace, and allows anyone in the world to go online and work in any field they wish, wherever they want, whenever they want, and at the rate of pay of their choosing.
2. As Marc Andreessen said, software is eating the world. Every industry is rapidly turning into a software business. The corollary of this is that every job function is now rapidly being performed using software.
3. It's never been easier to learn a trade. If you want to learn how to design a corporate logo, you can watch a video on YouTube or read a tutorial somewhere like PSDTuts.com. If you want to learn quantum mechanics, Stanford, Harvard and MIT have all had their course material online, free of charge, for years. Now whole classes are shifting en masse to an online format, thanks to new online universities like Udacity, Coursera and Khan Academy. The wealth of human knowledge available online is starting to have a tremendous impact in the developing world, and on our workforce.

From a direct company perspective:

1. We had to get big, fast. With online marketplaces, the winner takes it all. We rapidly rolled up the mid-market of the space. Companies we acquired included: GetAFreelancer (Sweden), RentACoder/VWorker (USA), LimeExchange (USA), Scriptlance (Canada), Freelancer Booking Center (Germany) and Freelancer UK (United Kingdom), as well as a number of smaller ones.
2. Reputation systems are key for any online marketplace to function effectively – this is something that eBay figured out early on as well. We've spent a lot of time tuning our system so someone in Kansas can know with a high level of surety that this person they have never met in some remote part of India really can deliver their project on time and to a high level of quality.

3. We are uncompromising on hiring. We have around 300 exceptional people organized around three core competencies: (i) growth (analytics-driven marketing); (ii) engineering; and (iii) customer experience. Our growth team, for example, is comprised of university medallists, valedictorians and a Lee Kuan Yew Gold Medallist in computer science, statistics, mathematics, mechatronics, engineering and physics. Our international marketing team is run by a quantum optics expert.
4. We're aggressive on shipping code and innovating on product. We ship perhaps 20 times a day. We measure everything and run statistically relevant tests for everything we do. Our internal dashboard has thousands of graphs. For example, we can tell immediately the impact that a new product might have on someone in Pakistan."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Barrie: "While the number of graduates in STEM (science, technology, engineering and mathematics) in Australia is relatively low, the quality of education is very high. Being an Adjunct Associate Professor in Engineering & IT at the University of Sydney was a significant advantage in the early stages for attracting great talent. Also, while nascent, there are a number of technology entrepreneurs that have exited their businesses successfully and are giving back to the industry by funding early-stage companies, which helped us raise our first (and only) round of funding to acquire GetAFreelancer."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

Barrie: "A significant disadvantage we face in Australia is the low number of graduates with STEM degrees. We are trying to hire computer science graduates by the metric tonne, for example. When we place a job ad, we get perhaps one or two applicants per day. By contrast, I posted a job for an office manager and got 350 applicants in two days. The major problem is that we do not have a robust technology program in K-12. There is a lack of awareness in government, among parents and within the education system of the importance of the technology industry for the future of the country. We need significantly more people entering the industry otherwise companies like us will be forced to set up offices offshore to find talent. Although it is changing, Australia still doesn't embrace failure in entrepreneurs. Early on, the negativity surrounding me leaving my last company – which ironically is still going, but wasn't a knock-the-lights-out success and had a lot of internal conflict – made it a real challenge to raise the first round of capital to get going."

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Barrie: “Freelancer.com is and was inherently born as an international business. We connect small business, entrepreneurs and individuals in the west who need to get things done, with an online, skilled workforce primarily based in the developing world. Also, since Australia is about 4% of our business, we had to focus on international markets. Luckily, as a consumer Internet website, you can run these businesses from anywhere – you do not need a local workforce to grow in a country. For example, we have about 1.5 million users in India and not a single employee in the country.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Barrie: “Building up in international markets can be expensive if you aren’t smart about how you do things. When we think about strategy, we always think about how we can get our user base of 7.5 million users to promote our business. We have a large freelance team all around the world which assists us with that, on demand. Examples of this strategy include getting our user base to refer friends or participating in crowdsourcing competitions to promote our business.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Barrie: “A huge growth factor for us in developing countries is the impact of word of mouth from freelancers going online, using our site and discovering they can now make their normal monthly wage in a few hours, or days. Additionally, a huge wind in the sails was the global financial crisis, which tightened budgets. Small businesses started to increasingly go online looking for lower- cost and easier ways of getting things done.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Barrie: “The highs really come from our community, and the things they do to support us in growing the business. One example is the contest we ran asking our community to promote Freelancer in their local area by downloading and printing out the logo. We made a video of all the entries:

[http://www.youtube.com/watch?v=2HK92DdpX\\_U](http://www.youtube.com/watch?v=2HK92DdpX_U)

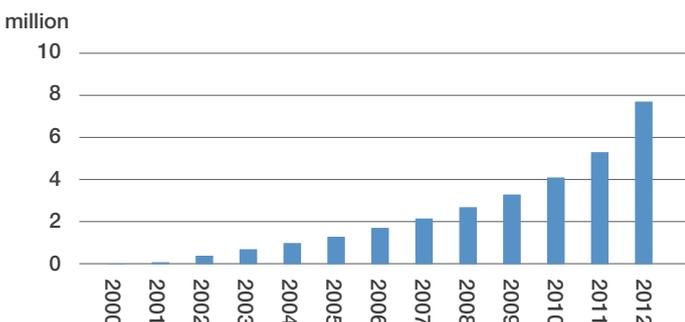
As a founding team of one, trying to close the negotiations to buy the first business, at the same time as raising the initial acquisition financing, was a really dark moment. I had just walked out empty-handed from my last business, which I had built up over six years, after a dispute with our venture capitalists.

We had a world-class team and fantastic technology, but the business had had a number of challenges. One of the unnecessary conflicts within the business revolved around the conflicting ideas among nine venture capitalists on how to run the business, some of whom had what I believed were questionable values. Walking away was one of the hardest things I had ever done, and a few of the investors ensured that my name was toast in the industry. With such a small venture industry in Australia, it would be hard enough normally to raise funds to get going, but with half the doors shut after the last business “failed” (read: failed to set the world on fire) and having left under such acrimonious circumstances, it was especially hard.

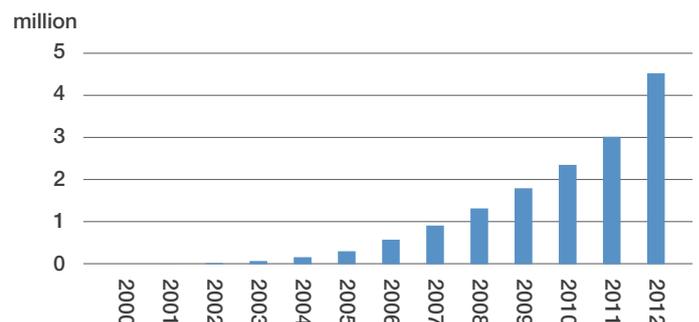
On top of this, back in 2008, the concept that you could hire a skilled freelancer in somewhere like Bangladesh to build a website for you was a completely foreign concept. When I explained what I wanted to do, people thought I was mad. ‘Where is Bangladesh? Do they have computers? Do they speak English? When are you going to get a real job?’ were common questions. Not having a founding team to back me up had me constantly waking up at 4 a.m. questioning myself. But deep inside, I just kept thinking that there’s going to be an eBay of jobs, there has to be – and I am going to build it. Not an easy decision when the bill from the lawyers ran into six figures and I didn’t have a single agreement signed yet.

Being a consumer Internet company, you’re also at the mercy of a small number of very large players to send you traffic. One day early in 2012, we woke up to find that 30% of our global traffic had disappeared overnight in an opaque update that Google had made to its search algorithm. In that year, quite a few companies were wiped out due to these updates. We had to knuckle down twice as hard optimizing the conversion pipeline to make up for it.”

**Users\***



**Projects\***



# Galaxy Desserts

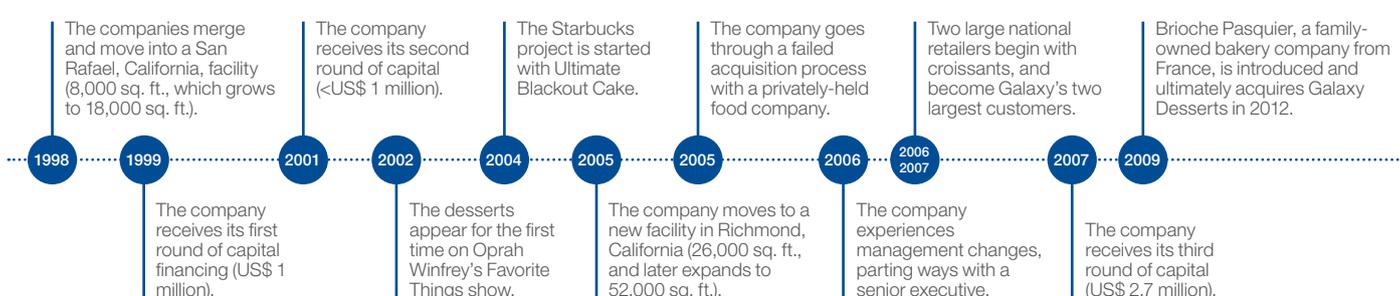
## USA

Prepared by George Foster

### Overview

Galaxy Desserts was created in 1998 when Jean-Yves Charon merged his small bakery, Paris Delights, with Paul Levitan's The Cheesecake Lady, to focus on the emerging trend of high-quality, all natural single-serve desserts and pastries. Best sellers include Triple Mousse Cake, Chocolate Lava Cake, Crème Brulee, Lemon Tarts, and Butter Croissants. Starting out as a local bakery, the dessert duo steadily grew the company to the national level, exceeding the US\$ 20 million revenue level by 2010. Galaxy's desserts were repeatedly honoured with Outstanding Dessert and Outstanding Baked Goods awards by the National Association of Specialty Foods, appeared multiple times on the Food Network, and were included on Oprah Winfrey's Favorite Things shows in 2002, 2003, 2005, 2006 and 2010.

### Timeline/Key Events



### Quotations

Paul Levitan is President and Chief Executive Officer of Galaxy Desserts. A graduate of Wesleyan University and The Graduate School of Business at Stanford University, Paul previously worked at Bain & Co. in Boston. He was named as one of the Bay Area's "Most Admired CEOs" in 2009 by the San Francisco Business Times.

Jean-Yves Charon is the Co-Founder and Pastry Chef of Galaxy Desserts. His previous experience includes Brioche Doree/Paris Croissant, Saralan, and a stint as Executive Pastry Chef at Harris' Restaurant in San Francisco. Jean-Yves is also a member of the Research Chefs Association.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Charon: "My training was as a pastry chef in France, and as I started my first bakery, I noticed that no one in the US was focused on individual desserts and pastries. At the time, US bakeries were mostly producing large cakes, so there was an opportunity to be the leader. At the beginning, getting new customers and distributors was almost like shooting fish in a barrel. My training was also in producing croissants, and this represented a small part of the business. The biggest change in our business has been that we used to produce a lot of desserts with some croissants on the side, and now the croissants represent the majority of our business."

#### Q2: What were the major growth accelerators for your company in the early years of high growth?

Levitan: "First, partnering with great companies was key for us, as was our decision to produce for private label customers. Our rationale was that by becoming a great private label partner for national customers, we could generate the volume and cash to continue to build our brand. That strategy worked.

"Second, we were able to differentiate ourselves from many of our competitors because of Jean-Yves's talent. He is an amazing pastry chef with a great business mind, a rare combination. I love the title that Jean-Yves chose for himself when we started Galaxy: Founder and Pastry Chef.

“Third, our desserts and pastries were truly exceptional. We had that rare combination of desserts that not only looked stunning, but were absolutely delicious. Add the fact that they were all-natural and kosher-dairy certified, and we had a winning combination. After having been chosen five times as a finalist for an industry award recognizing the Outstanding Dessert in the US, we took home the gold in 2003 with our Chocolate Truffle Marquise Mousse Cake.

“Finally, having raised US\$ 1 million in equity financing in our first year, we had some resources to enable us to differentiate ourselves from the “Moms and Pops” of the industry. We designed and built an innovative and memorable trade show booth (which we still use today), and we looked much bigger than we actually were in our early years when interacting with buyers at our trade shows, which included the Fancy Food Shows and International Deli Dairy and Bakery Show.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Levitan: “The key parts of the entrepreneurial ecosystem for us were markets, funding and workforce. With over 36,000 grocery stores in the US, we had a large market to attack, and that was just on the retail side. Funding was always a major issue for us as we grew, especially in years where we were not profitable. We were able to tell our story, find the right partners, and raise money several times without giving up control of the company. It was also important to have a great banking partner for debt financing, and, despite having to sign a myriad of personal guarantees over the years, we feel like we found that partner as well. We moved to Richmond, California, from San Rafael, California, in 2005 with about 90 employees, all of whom moved with us. Richmond’s central location, large labour force, and designation as an Enterprise Zone were key factors in choosing this location.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Levitan: “Capital was always a challenge. With a small, entrepreneurial company, there were always more opportunities to pursue – for business, for expansion, for equipment – than we could afford. We had to pick and choose carefully, and learned over the years that to say ‘no’ was often more important than saying ‘yes’ to a project or customer.

“Regulation has also been a challenge. The California Worker’s Compensation system, as one example, is an extraordinarily expensive, inefficient and misused system, which puts us at a cost disadvantage versus our out-of-state competitors.”

**Q5: Large companies can play an important role in the scaling of early-stage companies with high growth aspirations. Describe the key areas where interaction with larger companies helped promote your company growth.**

Charon: “Building our croissant business with Williams-Sonoma has been great for both sides. We certainly could not have done it without them. They found the best croissants in the US, and we gained access to their millions of loyal customers. In fact, Oprah discovered our croissants in the Williams-Sonoma catalogue, and we were fortunate that the orders resulting from our Oprah appearances all came through the Williams-Sonoma infrastructure (call centre, website, order processing system, etc.). We would have had an incredibly hard time trying to handle that type of volume ourselves.

“In 2006, we began working with two national retailers on private label programmes, each starting with our Butter Croissants. We executed so well, and both launches were so successful, that we expanded to multiple SKUs with both. Like we did with Williams-Sonoma, we were able to collaborate on ideas with these key strategic customers, each of whom genuinely enjoyed working on new ideas with us. The volume which resulted from our private label customers helped us to automate some of our processes, making us a better manufacturer.

“Also, in the early years, we negotiated favourable terms with some of our largest suppliers, which helped us manage our cash flow.

“We sell premium desserts and pastries, and we cannot compete with the large companies on price. We have tried to carve out a niche in the market where we can produce artisan-quality products in volumes that can supply national customers.”

**Q6: Describe any challenges and potential problems that you have faced in interacting with larger companies. How did you address these challenges or potential problems?**

Charon: “We were able to sell one of our most beautiful desserts, our Grand Sequoia Mousse Cake, to a national retailer in 2001 under our own brand, in packaging that we thought was fantastic, and at a price we thought was a ‘can’t miss price point’. As it launched, we had trouble finding it in the stores, and we sent our staff to some of the stores to try and find the desserts, and to encourage the stores to make sure to place them on the shelves.

“The buyer for this chain was, for lack of a better word, tempestuous, and his reaction to our efforts was quick and severe. He called me and said, ‘Get your people out of my stores’. He never ordered again, and we were unable to sell to this retailer again until 2006, when a new buyer took over our category.

“I guess you could say we handled this by being persistent, never giving up and waiting out the ‘bad guy’ until an opportunity arose again. With about 20% of our sales, this is now our biggest customer.”

**Q7: Your revenue growth to date has been focused on domestic growth. What are the main reasons for this focus?**

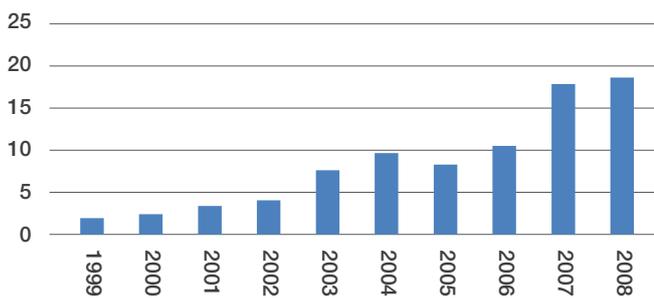
Levitan: “The US market is huge, and we still feel like we have only scraped the tip of the proverbial iceberg. Everything we produce needs to be shipped frozen, so our shipping costs are a barrier to supplying international customers.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

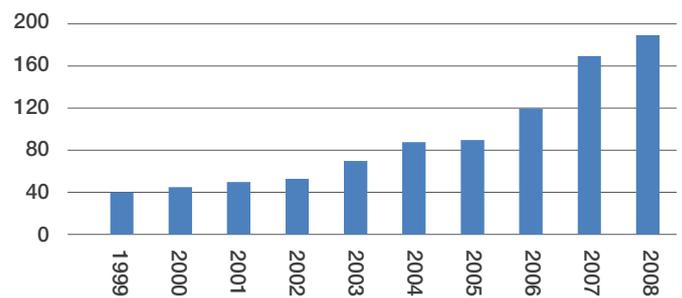
Levitan: “A high moment was when Oprah Winfrey discovered us in 2002. She had ordered our croissants through the Williams-Sonoma catalogue, and subsequently selected them for her ‘Oprah’s Favorite Things’ show to air during Thanksgiving week. We had no idea what to expect, but made a few thousand extra boxes of croissants to prepare for the volume. The onslaught of orders that ensued was exponentially larger than what we had prepared, and we were off to the races. Over the next five years, many of our new customers (retailers and foodservice alike) came from our Williams-Sonoma and Oprah Winfrey connection.

“A low moment was in 2005, when Galaxy went through the acquisition process with a large US food manufacturer, and had an attractive valuation and a signed letter of intent. The due diligence process was very detailed and intense, and at the end of the process, the potential acquirer decided not to proceed with the deal. It was apparent to us that we needed to make significant changes in our management team, as the red flags we had been worried about were exactly what prevented this deal from taking place. It was a dark, stressful time for us, as we admitted that our team was not working. We made the personnel changes in early 2006, and immediately resumed our growth path. In retrospect, the low moment was exactly what we needed to position the company for its subsequent success.”

**Revenue (\$ mm)**



**Headcount**



# Green Biologics LTD

United Kingdom

Prepared by George Foster

## Overview

Founded in 2003 and based in Abingdon, United Kingdom, and Columbus, Ohio, USA, Green Biologics (GBL) is a privately-held industrial biotechnology company focused on manufacturing high-value four-carbon chemicals and advanced biofuels with an emphasis on n-butanol from renewable feedstocks. The company is focused predominantly on the US\$ 5 billion n-butanol market with a competitively priced renewable alternative. GBL is actively commercializing the company's technology in Brazil, China, India and the US. GBL has 42 full-time employees including 12 who hold PhDs.

GBL was formed in 2003 in Oxford, United Kingdom, generating its initial revenue from contract research and grants. In 2008, the company attracted £ 1.6 million of venture capital, which allowed it to build laboratory facilities and hire an executive team. On 31 December 2011, GBL merged with butylfuel™ Inc., an Ohio-based biobutanol company, enhancing its North American commercial and technical presence.

There are two key features of GBL's success. Firstly, it is re-commercializing a microbial fermentation technology that was well established globally up until the 1950s – albeit using life sciences technology to significantly reduce the cost of production. And secondly, since it is able to utilize uneconomic assets around the world and retrofit them to its technology – whether biobutanol plants built in China in 2005 that are uneconomic without GBL technology, or ethanol plants in the US whose economics can be transformed by switching to higher-value butanol chemical production from ethanol production – GBL is able to get to market in a more capital-efficient and low-risk way than many technology start-up companies.

## Timeline/Key Events



## Quotations

Sean Sutcliffe has served as Chief Executive Officer of GBL since 2008. He previously served as Chief Executive of Biofuels Corporation, a UK-based biodiesel producer, and as Chairman of Tidal Generation Limited, a developer of tidal stream devices. He also has 14 years of experience at BG Group PLC, a world leader in natural gas, in a variety of roles spanning operations, business development and strategy. He holds an engineering science degree from Cambridge University, United Kingdom.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?**

**Sutcliffe:** "The idea to revitalize the biobutanol industry came from the research done by Dr Green as the first person to genetically modify one of the clostridial microbes used. This was combined with recognition in the marketplace that butanol was a potential advanced biofuel. With the commercial team on board, it was quickly apparent that while the fuels market could be large in the future, the chemicals market for butanol was much more attractive given higher prices paid.

"A breakthrough came with the discovery that in China, six or so biobutanol plants had been built to a 1950s design, but were uneconomic without advanced technology. This gave a great opportunity to scale up and test technology without investing GBL capital.

“It’s fair to say the journey in China took much longer than expected, even with the usual scepticism. Partly, this was due to commercial factors of doing business – the need to build trust, act cautiously in releasing technology – and partly because the market deteriorated further post the economic difficulties in 2008, such that GBL’s next generation technology was needed to make the plants economic. This added two years to the timeline of getting a plant up and running again.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Sutcliffe: “Certainly, having contract revenues was important. It allowed the company to attract good scientists and build up an IP base. Another accelerator was the discovery of the idle commercial-scale plants in China.

“The merger with a smaller US competitor, butylfuel, at the end of 2011 has provided another acceleration. Not just access to the market, but the scale-up facilities and the complementary engineering, technical and commercial skills have allowed the merged company to innovate much faster. The international connections of Green Biologics were just not open to the more domestic-focused butylfuel, so this has opened up new geographies where their skills can be deployed.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Sutcliffe: “The workforce in GBL is extremely multinational and multicultural. This is perhaps a function of the area around Oxford where we are located being a magnet for scientists, and the UK’s historic openness to scientific researchers from overseas. This has been a real advantage in allowing the company to have a culturally positive approach in the countries where it operates. This has been reinforced by early on having a business development person (hired locally) in each country. It has helped that I and other members of the team have had extensive international experience in the target markets and so are able to draw on our previous networks in these areas.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the eco-system and their resultant challenges.**

Sutcliffe: “The venture capital funding environment in the UK has always been challenging, meaning that GBL has been much less well funded than US venture-backed competitors. However, by utilizing existing plant assets for scale-up, through commercial and academic relationships, and making the correct choices in directing development resources, GBL has been able to reach a leadership position in this market.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Sutcliffe: “The key decision was in 2008 to focus on China. This was because of the plant availability to allow technology deployment at scale. After that, the decision in 2010 to diversify into Brazil and India – based on their accessibility to low-cost feedstocks and existing assets (sugar mills) which could provide capex leverage. And then finally in 2011, recognizing the turn in the US ethanol market giving an opportunity to buy and retrofit ethanol assets to renewable butanol was the spur to the merger with butylfuel.

“In each case, this was driven by access to existing assets and low-cost feedstocks – to drive compelling economics. The UK and Europe simply have none of these attributes, at least until the use of municipal waste is proven technically.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Sutcliffe: “The key challenge is working with existing companies for whom investing in a new technology is risky and not a high priority. A range of issues, often not to do with GBL – financial stress of a customer, a troubled sugar mill expansion, or a poor sugar crop – give reasons for a customer not to go forward or to defer a project for a couple of years. The three ways in which we have overcome this are: a) to not burn cash too quickly, dependent on a fast timescale; b) to have a diverse range of options (geography and feedstock) that are not highly correlated; and c) to continue to invest in technology to drive down the cost yet further to improve the economic case year on year.

“The travel and geography is not so much of an issue – as long as staff members are happy and able to travel long-haul economy class week after week and still function well when they get there!”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Sutcliffe: “The ecosystem in China is based on bringing in Western technology and then adapting it. This does not fit GBL’s model of a long-term partnership. It has taken a long period of working together – and for our partners to realize that we are, in fact, necessary in the long term for their success – to overcome this barrier to a realistic commercial partnership.”

**Q8: What were the main challenges to the growth of your company and how did you manage them?**

Sutcliffe: “One was at the time of the financial crisis in 2008; we recognized that funding was going to be hard to find and investment decisions were going to take much longer. Along with many others in the industry, we acted quickly to trim our costs – in fact, cutting 20% of staff, among other things – to extend our cash-out date and to focus down the number of projects in order to give ourselves the best chance of survival. That worked out fine in giving us the time and opportunity for tangible technology and commercial demonstration by June 2010 for a series B fundraising.

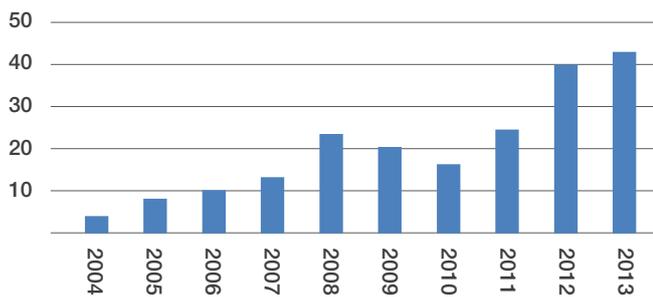
“The second was the time taken in China to get going. Initially, we thought that with a model based on growth in China alone, we could build a profitable business quite quickly. However, it became clear this was unlikely to work, so we invested in the other potential markets in 2010 (Brazil and India) and 2012 (US) to give alternative growth and commercialization routes.”

**Q9: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Sutcliffe: “A low moment was when our potential Indian client, in which I had invested a lot of personal time, decided not to go ahead – perhaps due to internal management reasons as much as anything, even when the economics and market approach were sound.

“A high moment was achieving a breakthrough in technology performance, which is directly attributable to the merger decision, due to highly complementary skills and assets – an example of a strategic choice being absolutely vindicated and exceeded, since the primary driver for the butylfuel merger was a market entry one.”

## Headcount



# Hangzhou Guodian Dam Safety Engineering Co., LTD

China

Prepared by Ning Jia and George Foster

## Overview

Founded in 2007 and based in Hangzhou, China, Hangzhou Guodian Dam Safety Engineering Co. Ltd (Hangzhou Guodian) is a high-tech company that specializes in the research, development and manufacturing of seepage prevention and leakage treatment materials for hydropower dams and other engineering structures. The company has a wide range of product offerings, including L/HW waterborne polyurethane grouting materials, SR plastic sealing materials and oil-soluble polyurethane grouting materials. In addition, the company is a provider of design defect analysis, solution and implementation for various construction projects.

Over the years, Hangzhou Guodian has provided defect solutions for many national construction projects in China, including the Three Gorges Dam, Longtan hydropower station, Xinanjiang hydropower station and Hangzhou Dragen Sports Centre. The company also generates revenues from the South-East Asia region. Hangzhou Guodian has received multiple national and provincial technology awards, is a recipient of the ISO9001:2000 quality management system certification, and is supported by the National Torch Plan Project of China.

## Timeline/Key Events



## Quotations

Jie Zhang is the company's Chief Executive Officer and senior engineer. He has more than 10 years of experience in the research and development of chemical grouting and leakage prevention materials and technologies. He is also a committee member of the Chemical Grouting Branch of the Chinese Hydraulic Engineering Society.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?**

Zhang: "Several of the founding team members had many years of experience in the research and development of seepage prevention and leakage treatment materials. A number of their research outputs were considered leading technologies in the area and were successfully patented. So, it was natural to try to commercialize those research outputs. From day one, the company has positioned itself as a technology leader in the seepage prevention and leakage treatment area. Over the years, we have continued to make substantial investments in R&D activities."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Zhang: "There are two major growth accelerators. The first one is our strong technological capability and product quality. Our products are highly competitive in the market and have gained an excellent reputation among clients. The second growth accelerator is our close association with a large national hydropower research institute, which granted us superior access to state-of-the-art research and industry information."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Zhang: "According to the China Electricity Council, hydroelectric power is currently the largest source of renewable energy in China. It is estimated that China's installed capacity has exceeded that of Brazil, the US and Canada combined. More importantly, this sector is expected to be on a continued trajectory of increased growth as investment in hydropower is one of China's key areas of focus. By 2015, China's hydropower installations are targeted to reach around 325 GW, creating significant market opportunities for our company."

“Our workforce is composed of many top-tier engineers and experts in the field of seepage prevention and leakage treatment materials. They are the key driving force behind the company’s R&D activities. We truly understand the importance of human capital and talents in shaping the future of our company and in enabling us to compete in the global arena, so we contact the best researchers and engineers in the field and are willing to provide highly competitive compensation packages in order to attract and retain them.”

“We have been able to secure bank loans fairly easily, given strong local government support. Timely capital injection has enabled us to expand our production facilities and quickly scale up our productions.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Zhang: “Lack of venture capital support. Most of the venture capital firms in China tend to prefer start-ups in the IT or biotech sectors. Also, not being based in top-tier cities such as Beijing or Shanghai limits our access to external capital and other resources.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Zhang: “The company started to tap into the global market in early 2009. Our primary focus is the South-East Asia region. Given that strong technological capability and product quality are our competitive advantages, as starters, we want to choose the markets where our technologies and products can have a dominant position in terms of quality and specifications. Building a high-quality product brand is particularly important in the early days of foreign activities where we have not been able to build up a strong local sales force and distribution channel.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Zhang: “Overall, we have been doing quite well in foreign markets, especially in South-East Asia. The top management is fully aware of the challenges in building international growth. Therefore, before tapping into foreign markets, the top management team had come up with a detailed globalization strategy and prepared the company well for international sales and activities. For example, we hired managers who had prior experience in foreign sales in the hydropower business. Even though our workforce is still small compared to some other start-ups, we nevertheless revamped our internal control systems to facilitate increasingly complex cross-border coordination and communication.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

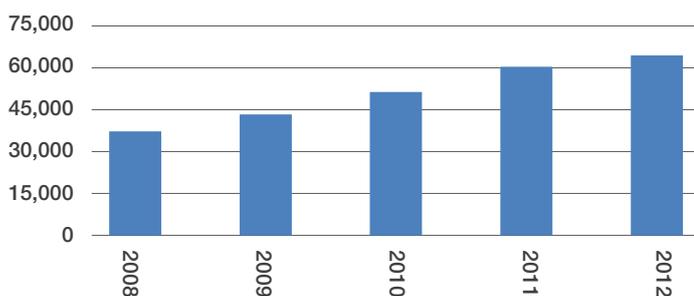
Zhang: “The first foreign country that we entered into was Vietnam. The country has a close trade relationship with China and has a relatively strong reliance on imports from China. Furthermore, Vietnam has good potential for hydropower development. The development strategy of the Vietnamese electricity industry in the period of 2006-2015, with orientation toward 2015, also gives priority to the development of hydropower and encourages investment in small-sized hydropower plants. The expanding industry sector has facilitated our sales growth in Vietnam.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

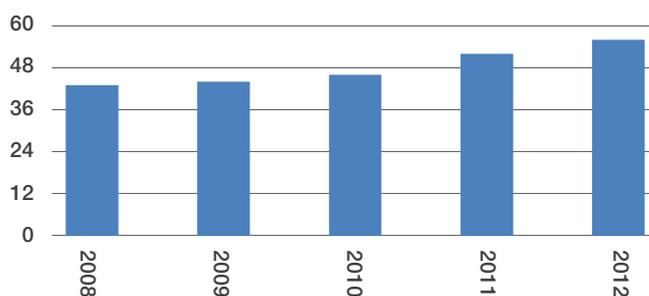
Zhang: “A high moment was when we successfully transported our product standards to Vietnam. Currently, most Vietnamese companies are using our product standards as their design standards.

“A low moment was when we encountered regulatory restrictions from the Vietnamese government. For example, in the bidding process for several procurement contracts, we found out that we had to opt for a joint bidding with a Vietnamese company in order to become eligible.”

**Revenue (in RMB thousands)**



**Headcount**



# Heartland Payment Systems

## USA

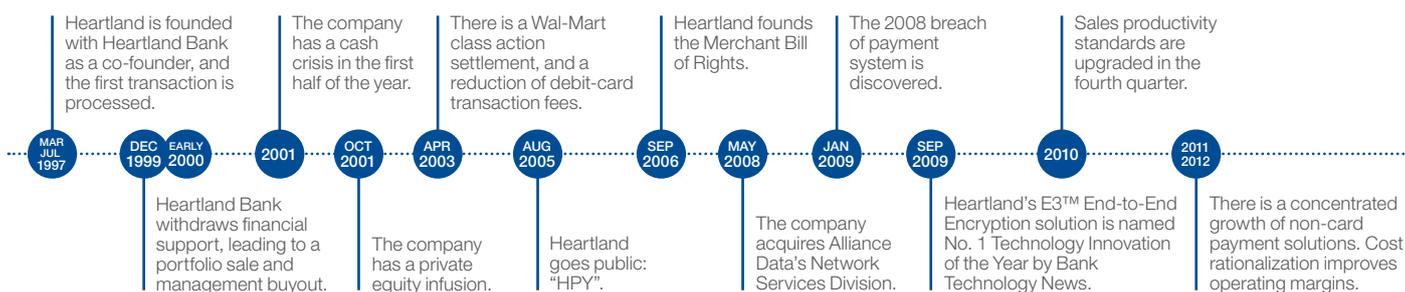
Prepared by George Foster

### Overview

In 1997, Heartland Payment Systems opened its doors with a modest plan: provide fair, honest and fully disclosed card payments solutions to help businesses prosper. In the ensuing 16 years, Chairman and Chief Executive Officer Bob Carr transformed the fledgling credit card processing business operating out of his basement into a national payments leader. Heartland has been named a Fortune 1000 company several years running; climbed the rankings of processors from number 62 to number 5 in the nation, and number 9 in the world; grew from 25 to 3,000 employees, from serving 2,500 to more than 250,000 business locations; and from a portfolio of US\$ 0.4 billion in annual bankcard volume to more than US\$ 80 billion. Today, Heartland processes more than 11 million transactions a day and more than 4 billion payment transactions each year.

Building upon its foundation of credit/debit/prepaid card processing, Heartland's portfolio now includes a full suite of merchant business solutions including mobile commerce, eCommerce, marketing solutions, security technology, payroll solutions and related business solutions. Heartland serves a diversified customer base spanning a broad range of industries including retail, restaurant, lodging and hospitality, and petroleum, as well as convenience stores, campuses, public schools, and laundry and vending businesses, among others.

### Timeline/Key Events



### Quotations

Robert O. Carr is Chairman and Chief Executive Officer of Heartland Payment Systems Inc. He started his career at Parkland College in Champaign, Illinois, at the age of 21. After serving as a professor, president of the college's faculty and director of its computer centre, he moved to the Bank of Illinois and then started a software and consulting business for small and medium-sized businesses.

In 1997, Carr co-founded Heartland Payment Systems with Heartland Bank. On 11 August 2005, it listed on the New York Stock Exchange in the most oversubscribed initial public offering in the payments industry. Carr has been a driving force in an industry collaboration movement to thwart cybercriminals and help protect business owners, consumers, processors and financial institutions. He was active in the formation of the Payments Processor Information Sharing Council and served as chair of its steering committee. Carr also serves as Associate Member Director on the board of the Secure POS Vendor Alliance.

Robert H. B. Baldwin Jr is Vice-Chairman of Heartland Payment Systems Inc. He joined Heartland as Chief Financial Officer in 2000 and was promoted to President in 2007. During that time, he was instrumental in helping the company raise US\$ 40 million of private equity in 2001 and taking the company public on the New York Stock Exchange in 2005. Baldwin serves on the Board of the Electronic Transactions Association. Prior to joining Heartland, he served as Chief Financial Officer at COMFORCE Corporation, a publicly traded staffing company. From 1980 through 1998, he was an investment banker with Citicorp and Smith Barney, where he served as a managing director in Smith Barney's Financial Institutions advisory business. He holds a Bachelor's degree in history from Princeton University and an MBA from Stanford University.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?**

Carr: “With the late 1970s advent of microcomputers, I focused on building some of the first-ever accounting applications for small businesses using these low-cost computing devices. After two or three years developing general ledger, payroll, accounts receivable and accounts payable systems, I began focusing on the vertical market of small oil jobbers and developed the first-ever pay-at-the-pump software to integrate to a microcomputer invoicing and accounts receivable system. One of my clients asked, “If you can capture and bill these private-label trucking transactions, why can’t you handle the credit card payments at the gas pump as well?” This gave me the idea of submitting credit card transactions for settlement to the Visa and MasterCard agencies, and that idea became the genesis of building Heartland Payment Systems.

“I realized soon that this business could be very profitable. Not long after, I learned why it could be so profitable but that the industry had a crooked reputation. Many credit card sales organizations were taking advantage of merchants, realizing windfall profits from deceptive pricing schemes at the expense of unsuspecting business owners. Unwilling to go against what I knew was the right thing to do, I set out on my own, committed to building a business the honest way.

“When I founded the company with Heartland Bank, Heartland was the new kid on the block. In many ways, that worked to our advantage. Business owners were sick and tired of dealing with deceptive companies and highly receptive to a processing model that was based on fairness and transparency. We established Heartland as a merchant advocate, a true business partner. This founding principle continues to fuel Heartland’s growth today.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Carr: “We recognized early on that ‘feet on the street’ would be Heartland’s ticket to growth. We needed a team of serious sales professionals to serve as Heartland’s ambassadors and bring our unique value proposition to merchants in local communities across the country. Offering one of the most compelling compensation models in the industry with portfolio-based equity, signing bonuses and lifetime residual payments, and the satisfaction of representing an ethical company, we aggressively built a national sales force of employees that are accountable and personally invested in Heartland’s success.

“Our decision in 1999 to focus on restaurants enabled us to become vertical experts and penetrate the industry with great success. It lay the groundwork for the portfolio of more than 60,000 restaurants that we serve today and our exclusive endorsements by the National Restaurant Association and 46 state restaurant associations.

“Additionally, the 2003 class action settlement between Visa/MasterCard and Wal-Mart that called for hundreds of millions of dollars in interchange fee reductions elevated awareness of the need for transparency in payments processing and created an environment that was receptive to Heartland’s existing value proposition of fair dealings. Our new merchant installs grew dramatically when we passed through the entirety of the reductions to our merchants.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Carr: “The market was really ready for a different approach. For the most part, sales in the industry were based on deceptive practices and misleading pricing, leaving many merchants disgruntled and looking for a better alternative, which they found in Heartland.

“Our differentiated model was not only attractive to merchants but also to sales professionals who could be proud and feel good about the company they represent, and who had the opportunity to build significant wealth with our attractive, uncapped compensation plan.

“Funding was a bit of a roller-coaster ride. In addition to the US\$ 1 million that Heartland Bank invested to co-found the company, they provided about US\$ 7 million in debt financing to help fund our initial growth. In December 1999, they dropped the bomb that they had to withdraw all advances to non-banking clients before year-end, forcing us to pursue outside sources of capital, fast. We ended up selling one-third of our merchant portfolio to a third party, and repaid the debt on 31 December. Needless to say, our relationship had changed, so we then undertook a management buyout, in which I granted Heartland Bank rights to the cash flow from half of our merchant portfolio in exchange for their 50% ownership in the company. The environment was imperfect, but with complete control over the business, it did enable Heartland to access the private equity ecosystem, which ultimately allowed the company to flourish.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Baldwin: “Funding was one of the most challenging aspects of the business in the early years of the company. Our original partner shared our vision but did not have the wherewithal to support our aggressive growth. With the unexpected withdrawal of our funding source, we found ourselves in extreme circumstances and were forced to struggle daily with short-term survival, even turning to a last-resort, high-rate lender at one point to keep the business alive. The portfolio sale and buyout created complexity in our financial reporting, which substantially delayed the introduction of adequate capital from other third parties. This could only be resolved over time as the owned portion of the portfolio became more significant.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Baldwin: “A number of large organizations influenced Heartland’s predominant domestic growth, including:

“1. Banks. Co-founder Heartland Bank was integral in Heartland’s formation, yet also a source of financial distress and instability when forced to abruptly withdraw funding and loans. Sponsor banks are also important partners that enable Heartland to operate by accessing Visa and MasterCard’s networks.

"2. Competitive processors. Until we developed our proprietary processing engine, Heartland was entirely dependent on outsourcing our processing activity to large, competitive processors. While 'co-opetition' is regularly seen in our industry, reliance on such third parties inevitably limited the solutions we could offer to our clients, and we moved as quickly as was practical to build our own platforms.

"3. Card brands. By charging identical rates for interchange (paid to the issuing banks) and their fees and assessments, Visa and MasterCard set a level playing field for all acquirers and immediately enabled Heartland to compete with larger, more established acquirers. Beyond sponsor bank requirements, the absence of regulatory obstacles as a non-bank offered us the freedom to operate in an entrepreneurial manner and manage the company according to our own plan.

"Ironically, we have found that competing against much larger and more established companies has not represented a major barrier to success. Our major competitors are either large banks, which have powerful brands that attract customers but do not have strong sales cultures, or companies that have outsourced their sales to independent agents who they cannot control. Being vertically integrated, and in particular maintaining control over our sales force, has allowed us to thrive against all of the larger incumbents."

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Carr: "While we have grown the business significantly over the past 16 years, Heartland still only represents approximately 3% of the total US processing market, leaving substantial opportunity for domestic growth. The opportunity to bring our everyday low-price, transparent approach to merchants will only increase as demand for electronic payments continues to grow in today's increasingly cashless society. If and when an opportunity exists for us to garner international expertise, we will consider expanding into other countries."

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Baldwin: "The factors that were most instrumental in fostering an environment that was so conducive to Heartland's successful growth in the US, including an aggressive sales culture that fed our sales organization, are not frequently seen in other countries. Historically, thousands of US banks did not have the capacity or interest in taking care of merchants' card processing needs, which created a vacuum that independent acquirers like Heartland filled. However, in most other countries, there are a handful of large banks that dominate the marketplace and leave little room for smaller, entrepreneurial companies to compete with them. With Visa and MasterCard's requirements that acquirers partner with domestic sponsor banks in each country that they operate, these banks are the gateway to business and can easily prohibit non-bank competitors from playing the game. This very situation happened in the late 1990s when Heartland expanded into the Caribbean and experienced early success. Local banks refused to partner with us and reported us to the card brands, forcing us to cease operations in the region.

"Looking forward, we do think our status as one of the largest transaction processors in the world, with one of the most modern and secure platforms, could allow us to enter into joint ventures with international parties that have good access to the markets but lack the technology to compete effectively."

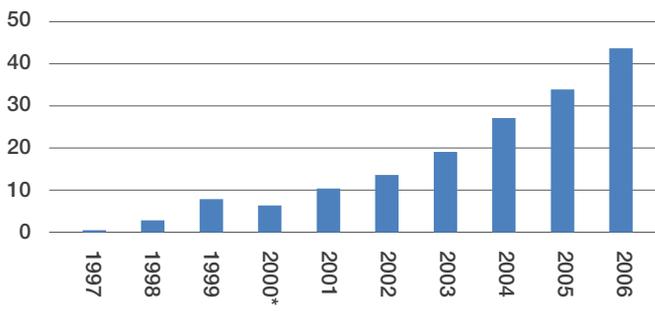
**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Baldwin: "The successful US\$ 40 million funding from two private equity firms in 2001 was clearly a high moment. Our sales model had succeeded, we were just going live with our new processing platform. But the buyout of our former partner left us in a financially weakened position, and had introduced tremendous complexity to our financial statements, which made financing discussions very challenging. Add in the bleak post-dot-com funding environment, and we faced a real risk of having to meaningfully reduce our sales and operations. By mid-2001, though, the complexity began to ease, allowing investors to appreciate the fundamental strengths of the company and model, and we secured commitments for funding in August. Even then we faced a setback: closing was scheduled for mid-September, but the 9/11 tragedy immediately shut down much economic activity and the deal was put on hold. Fortunately, we could demonstrate how business was returning day by day, and two private equity firms stuck with us (Greenhill Capital and LLR Partners). On 11 October we closed on the first significant PE funding following 9/11."

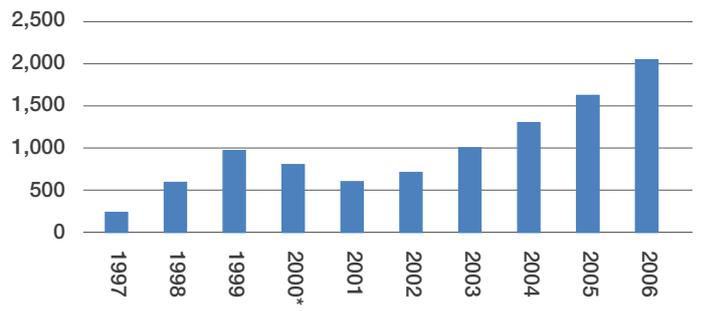
Carr: "The year 2009 was one of the most challenging in Heartland's history. We discovered a criminal breach of our payment system environment, and the company that we had worked so hard to build was in jeopardy. Our stock price plummeted from about US\$ 16 per share to US\$ 3.42. Our business was at risk. Our reputation was at risk. Our merchants and customers were at risk.

"But rather than sweep the news under the rug like other organizations that found themselves in similar situations, we went on the offensive, publicly sharing details of the breach and mobilizing the entire Heartland team to create a strategy that focused on the best interests of our customers, business partners, employees, investors and the company at large. Within three days, Heartland, myself included, contacted the majority of our merchant customers to explain first-hand what happened. Our dedication to transparency, even in the face of adversity, enabled us to emerge from the breach stronger than ever and well positioned for future growth. We also took a leadership position in advocating for increased data security in the face of ever-more-aggressive attempts to steal card data. We drove the formation of the Payments Processor Information Sharing Council to share information on potential threats, and introduced our E3™ End-to-End Encryption solution to the market that allows merchants to render this valuable data unusable by any hacker."

### Visa/MC Volume (Billions \$)



### Headcount



\*2000 reflects forced portfolio sale

# Inspirato

## USA

Prepared by Justin Randolph and George Foster

### Overview

Designed specifically for a new generation of intergenerational luxury travellers, Inspirato is a Denver-based destination club – launched in 2011 – that offers its members access to a portfolio of luxury homes in many of the world’s best global destinations. By leasing rather than owning vacation properties, Inspirato manages to keep membership fees low, offer significantly discounted nightly rates and quickly add homes and destinations as demand increases, which places the company at the forefront of the “luxury for less” movement. Inspirato’s model combines the best of vacation rentals – flexibility and pay-as-you-go structure – with the merits of private vacation clubs – company-controlled luxurious accommodations, custom designed interiors, dedicated on-site concierge service and world-class amenities. Importantly, the Inspirato model does so without the six-figure upfront fee, long-term commitment or restrictive booking policies of legacy destination clubs. In its first year, Inspirato sold more than 1,200 memberships. Today, Inspirato is rapidly growing with over 4,000 members hailing from more than 20 countries.

Inspirato was founded by Brad and Brent Handler who had previously founded, run and sold the successful first-generation destination club, Exclusive Resorts. To have access to the Inspirato destination portfolio, Inspirato charges members a one-time initiation fee, an ongoing annual membership fee and a below-market nightly use fee during members’ property visits. In March 2013, Inspirato announced a partnership with American Express to deliver the club’s unique vacation experiences under the new brand “Inspirato with American Express”.

### Timeline/Key Events



### Quotations

Brad Handler is co-founder and Chairman of Inspirato. Brad started his career at Apple and later served as eBay’s first attorney during a time of tremendous growth in the online world. In 2002, he founded Exclusive Resorts with his brother Brent and served as the company’s Chief Executive Officer and Chairman. Brad continues to bring his passion for entrepreneurship to a number of private companies. He is a lecturer at Stanford Law School. Brad earned a bachelor’s degree from the University of Pennsylvania, a bachelor’s degree from the Wharton School at the University of Pennsylvania, and a juris doctorate from the University of Virginia.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Handler: “My brother and I were the target customers for Inspirato. After all, that’s why we started Exclusive Resorts in the first place – we needed a place where we could take our family and friends. Back then, we had a family house outside of Vail, and we were looking to find one in Hawaii. My brother and I looked at each other and said, ‘This is stupid – let’s figure out a way to make this more efficient.’

“First of all, after leaving Exclusive Resorts, we continued to get feedback from people that were familiar with ER, saying, ‘I wish there was a better way. Can’t you make it more affordable? Can’t you make it easier? Can’t you make it better?’ So that was the first key.

“The second key was realizing that in our old company we had a lot of rules – when you could book, how you could book; the list goes on. There was a lot of structure in place that was frustrating to our members, so we began thinking about how to abandon all the rules. Instead of rules to regulate occupancy, we thought we could go to a market economy and just use dollars to regulate occupancy.

“The third insight was realizing that we didn’t have to own the property assets. We could simply long-term lease these assets the way management companies in luxury hospitality do. After all, the Four Seasons doesn’t own a Four Seasons – someone else does and Four Seasons is just a managing company. So realizing that we didn’t have to own the real estate – in our old company we owned the real estate – was a very big breakthrough. And that came about by trying to figure out how we could dramatically lower the price of entry. We realized our old company was in two separate businesses – the hospitality business and the real estate business. The goals of those businesses are often not aligned. So we decided we didn’t want to be in the real estate appreciation business because trying to time the market often hurts the hospitality business. So we decided to focus solely on the hospitality business. And so that was a big moment.

“We then sought to make the annual fee as small as possible because the recurring revenue that we generate on the annual fee turns out to be one of the most profitable pieces of the business and it ties people into booking. It’s a volume strategy in a sense. We try to get that annual membership fee low enough so as to get as many people in, which allows us to build up the property network and make the experience better. The more destinations we have, the more buying power we have to get better destinations and the more services and amenities we can provide to members there. It all works at scale. The power of the recurring revenue stream is much more powerful than a higher individual renewal rate. So our goal was to make the annual fee low enough that it doesn’t become a discussion every year. It shouldn’t be a conversation between a husband and a wife about paying another US\$ 10,000 this year for the privilege of making reservations. Instead, we wanted it to be seen as, ‘Oh, US\$ 3,000 so that we can experience everything there is to experience in the club.’ And that price for our demographic is generally not a consulted decision – one spouse just decides to write the check and does it. You don’t have to have a team meeting over it. So we knew that people were interested in the idea of multifamily or intergenerational travel, but the question was how to make it more accessible, and our grand vision was, ‘Can you have the same quality or higher than we were able to provide in our last company?’

“So our members not only have a lower price point, but also receive a higher quality experience relative to what’s in the market, and I think that’s unique with this business. Because there’s one big cost we don’t pay. If you net everything else out, the one cost we don’t pay that our competitors pay is property acquisition (the down payment for an asset) and interest on the debt.

“So we felt we had a good idea with our model, and we recruited a core team around it, and we could certainly roll out our idea and fund it ourselves, but we decided to see if we could get a small group of people who believed in our idea and wanted to help fund it. And so we amassed about 40 initial investors in our first round of funding. Those 40 investors, who were all target customers, helped us refine the

idea. And that was important, because I’m a big believer in cross-pollination of everybody else’s ideas to make any idea better. And my brother and I could have just gone out there on our own – deluded in our own self-confidence – but we decided to make sure that what we were going to offer would be welcomed in the market. So making that decision was a critical one that could have easily gone the other way.

“In our first year of operations, we generated just under US\$ 20 million of revenue, which is almost unheard of in the travel sector or in Silicon Valley. We began using those proceeds to help fund our growth. At that time, we were fortunate enough to meet the team at Kleiner Perkins Caufield & Byers and to have a solid-enough business model they were interested in. That really wasn’t part of the plan. But, when institutional capital entered nine months into operations, the capital allowed us to further expand our efforts. It was one thing to announce Inspirato as a company from the founders of Exclusive Resorts. Yet, it was a very different story to represent us as the first and only destination club that has institutional capital behind it. It provided validation and credibility and helped build our brand.

“Getting American Express to buy into the concept was a huge win for us. We’re the only business American Express has licensed its name to that they don’t control, and it really is a reflection of the shared values of both companies. We both refer to our customers as members, and that shared value is what brought our relationship together, which is very unique in the world of both luxury travel and for American Express to have such a unique partnership. There’s nothing else like it. And so that was a very significant deal.

“Finally, our launch of ‘Inspirato for Business’ was another giant achievement for a company like us in figuring out that there are ways to more efficiently use inventory in a way that’s not going to negatively affect retail customers. It’s going to bring in a lot of revenue so that we make more opportunities available for our retail customers that they will love.”

## **Q2: What were the major growth accelerators for your company in the early years of high growth?**

**Handler:** “Our growth aspiration has always been to grow at a sensible rate where we can continue to provide our members with the experience that they deserve. Now that we’re post-institutional capital, we are growing at a faster rate and our success in the market has been greater – which has in turn fuelled additional growth – and we have the capital to sustain that growth; but, we’re adamant to not grow recklessly.

“Our innovative leasing strategy allowed us to launch in the way that we did – we launched with approximately 40 homes. If we were in a ‘build and own’ strategy, such a launch simply wouldn’t have been possible. When we previously launched Exclusive Resorts, the company launched with four properties total. If somebody were to come into the market now, they’d have to have 100 properties to be even credible, so we’re in a unique marketplace of one that has buoyed our growth. At over 4,000 members today, that makes us the largest, most successful destination club ever, and we were able to achieve in two and a half years much greater membership growth than our old company had in ten years.

“Our growth has shown that price matters. Just because you can afford to spend US\$ 300,000 on a club doesn’t mean you want to, and end up doing so. Similarly, in our old club, you’d pay US\$ 300,000 to become a member and then you’d get 75% of it back when and if you left. Yet, what happened in the marketplace was there were more people who wanted to leave than wanted to join, so we weren’t able to give everybody their money back. Today, because Inspirato’s initiation price is relatively small – anywhere between US\$ 7,500 and US\$ 17,500 to join – even though you don’t get any of it back if you don’t like the club, you just don’t pay your dues the next year and you’re done. The initial hurdle is relatively small and insignificant, and there’s no wait for money to be returned.

“What’s more, member referrals have fuelled our growth. Let’s assume that you are in the economic class that could join Exclusive Resorts and you’ve had a great experience. You really love it and you have a friend who is similarly situated to you and you think they might love it, but if they hate it, they’re out US\$ 300,000 and they’re going to have to wait years to get their money back. They’re likely going to be mad at you. In our model, if they spend US\$ 7,500 and hate it, they’ll be mad at you, but after you buy the wine for dinner a couple of times, they’re going to get over it because it’s like a bad stock trade. And so the great help we’ve had from our members as word-of-mouth salesmen – knowing that their friends won’t take it out on them if they dislike the experience – has been instrumental in our growth.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Handler: “Denver has a growing start-up culture and environment. And we’re in hospitality, which is very big in Colorado, so we were definitely able to pull people in from Colorado who had significant hospitality background. What’s more, people like to go to Colorado and people like to live in Colorado, so it helps that we’re there. Further, we draw on the resources of the community around us because we have a lot of entrepreneurs in Denver, and entrepreneurs have been the first people to see the value in what we’re doing. They’ve been our early advocates and members. And then through their companies and their contacts, they’re able to help us in a lot of ways, whether it’s through software they can provide for us, services they can provide, or the like.

“When we were in stealth mode, building out our Web system and our back-end control system, we were one of the largest start-up software developers in the Denver area, and nobody knew what we were up to. But we were able to easily tap into the Denver ecosystem as we had already built Exclusive Resorts from there. Exclusive Resorts quickly became a big employer in Denver that was a brand-new, fun company and an overall bright, shiny object. And so when we started with Inspirato, there were a few hundred alums out of Exclusive Resorts who’d been in the ER system before, had since gone off to other companies, and were interested and excited again to interact with us.

“Lastly, it’s very fortunate I came from eBay and was one of the early employees there, as it allowed us to build a powerful network with strong ties to Silicon Valley. Once word got out that my brother and I were doing something at Inspirato, we were very fortunate to get a lot of inbound calls.

“While we could have launched Inspirato from – name your city – it overall just would have been harder to find the right people with the right skill sets that we could seize upon.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Handler: “I don’t know that there were any that were completely absent. I can’t think of any that were devoid.”

**Q5: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Handler: “Our partnership with American Express serves as a great example of how we’ve leveraged the resources of larger companies to our advantage.

“We also have a lot of locations in our portfolio where we work with key partners that are hotels. We don’t have ‘signature residences’ – whereby we have exclusive access to a property – in these locations, but we rely on our hotel partnerships to provide additional inventory. So we have a very strong relationship with Fairmont as well as the Trump Organization, for example, and being able to launch with help from them has been really valuable. Even at an early stage as a company, through relationships that I built up over a dozen years, we were able to arrange very good corporate partners, such as an early banking relationship with Citibank.”

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Handler: “All larger companies move at slower speeds than start-ups, so there’s an inverse proportion between size and speed, and you learn to plan for that. But we truly haven’t had any major conflict with larger companies out there.”

**Q6: Your current revenue growth to date had been predominantly focused on your own domestic market. What are the major reasons for this major revenue focus to date on domestic markets?**

Handler: “I guess it’s simple – we pick the lowest-hanging fruit first. So the domestic market is where we are; it’s our home base, the biggest market and the biggest opportunity. Our properties are primarily where North Americans like to travel, so the value we provide is clearly geared to the North American market. Our strategy has been to start there and then, as that market gets saturated, to look for the next lowest-hanging fruit and to pick along the way. It just requires more resources because other markets aren’t quite as dense or culturally may not be as familiar with the destination club mechanism.

“Our membership is overwhelmingly from the US and probably 95% from the NAFTA world – the US, Mexico and Canada – though we have members from over 20 countries and clearly have a global property network. So we do have members in other countries, we just haven’t started to market to them directly, but we will be slowly rolling that out country-by-country and region-by-region. We’ve been very successful in Mexico because we have pursued a particularly nuanced Mexican strategy of how to build for that market – for sales we’ve hired people who not only speak Spanish but also who live in Mexico and are intimately familiar with the culture. So as we move from country to country, we need to build up that infrastructure. So we’ll be successful in the markets that we choose to go into as we invest the resources required to know that market.”

**Q7: What would you view as the greatest challenges in growing a sizable revenue presence in markets beyond your own domestic country or region? In deciding when and where to seek growth in international markets, what characteristics of a country’s ecosystem would be most important in attracting you to invest significant resources in that non-domestic country or region?**

Handler: “The biggest challenge for us will be understanding both the regulatory restrictions a particular country may have on the sale of travel – which is a highly-regulated industry in most parts of the world – and making sure that we have people on the ground who understand the culture of those markets. If we’re willing to put in the resources to do that, then I think we can succeed.

“As for thinking about where we are going to expand our property footprint throughout the world, our property team is constantly in communication with our membership base. We’re always polling them and asking them where they want to go, and we use that information with our own knowledge of the market to figure out where we want to go and expand – so that’s an ongoing iterative process that will never end.

“Investing to acquire members in the country involves a coordinated review as to when we have the resources in place so as to understand the cultural and regulatory nuances of the geography. So for example, Brazil is a huge market. After all, it’s the B in BRIC for a reason. Everyone wants Brazil. What’s the single most important thing you need to do to be successful in Brazil? You have to speak Portuguese. So it doesn’t matter how big an opportunity Brazil is until we’ve got a critical mass of trusted people who speak Portuguese and who can go into that country and manage member expectations there.

“In Mexico we had a guy on our senior staff who was fluent in Spanish, had lived in Mexico, liked the culture, wanted to be there and wanted to run it, and he went down and built the organization. We’ll do something similar in every market we enter. It’s just making sure that the individuals we bring on really are a perfect fit with our own organization and the opportunity in those markets. And that’s to ensure that the product we design in those markets is very consistent with the experience that we’ve already created and that has worked to date. Our decision is more about the people we can attract, the size of the market opportunity and the fit of our own product there, and less about the country’s overall ecosystem beyond its macroeconomic characteristics.”

**Q8: Building a company that aims to have sustainable high growth inevitably will have both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in your entrepreneurial journey.**

Handler: “Any potential competitor is always a big deal. At eBay, Yahoo! announced they were going into auctions and all of a sudden we thought, ‘It’s the end of the world – how are we going to survive?’ But at the end of the day, they turned out to be blips on the radar and flashes in the pan, and the threat ultimately went away. At our old company, Exclusive Resorts, we had our fair share of that as a number of copycats sprung up. Even Exclusive Resorts launched a pseudo copycat brand – Portico – to try and compete with Inspirato. While Inspirato is much more competitive towards Exclusive Resorts than Portico, Exclusive Resorts felt they had to launch something. So, they created a travel club that is little more than a volume-booking agent available to members for a small annual fee. Portico is more deal-oriented and takes little or no inventory risk. But we didn’t really know what it was when they first launched, and at the time we thought it was going to be a challenge. However, we stuck with our strategy and the competition didn’t materialize in a significant way. Luckily, there’s very little overlap in the luxury hospitality industry between Inspirato and other companies. There’s very little available from the Ritz Carltons and Four Seasons of the world. Our biggest competitive threat is luxury villa rental and second home ownership.

“We’ve wanted some leases, which at the time seemed like the most important place in the world to be, which we weren’t able to close. But then we ultimately found other places that turned out to be just as good, hardly half a mile away from where we were originally looking, and everything ended up just fine.

“We did have a number of partners who told us that they couldn’t continue a partnership with us because now they identified us as an American Express company and they had a deal with VISA or MasterCard. So we got caught up in those politics, even though it doesn’t seem like it should have affected us. And that was disappointing because we liked working with those partners, but it’s bigger than us or our partners, and we recognize that it’s just about these behemoth companies fighting it out above us.

“We certainly have had our share of ups and downs but, overall, we’ve been very fortunate.

“The best moments we get as a company come every day when we get e-mails from our members who have been on a trip and have had a fabulous experience. There’s no better moment than that. I get e-mails, letters and cards every day from husbands and wives telling me that it was the most fabulous trip they’d ever had and that they never would have vacationed in such a way without our help, thanking us for creating a system where they could have such an experience.

“The lows are again driven by our members – which fortunately doesn’t happen often – but occasionally a member will have a negative experience. They will have taken their vacation time, which is very precious, and invested it in us so that they could have a great experience with their family and, for whatever reason, it didn’t work out – whether because of a failure of one of our staff, or randomly, in a way that was out of our control, such as because of the weather or there were no fish when they ventured out to go fishing. Whatever the issue was, when our members aren’t happy, that is a failure. We have to learn from that and work to make sure it doesn’t happen again.”

# Interpark

## South Korea

Prepared by George Foster and Sandy Plunkett

### Overview

Interpark, one of the first-generation start-up companies in the online shopping mall market, was established in November 1995 as an internal venture company of Dacom.<sup>12</sup> It opened the first online shopping mall in Korea in June 1996. One year later, Interpark was spun off from Dacom and was listed on the KOSDAQ in July 1999. As the first online commerce company in Korea, Interpark has been recording an average compound annual growth rate of 18%. In 2011, Interpark took over iMarketKorea, one of the biggest Korean maintenance, repair and operation (MRO) companies, from the Samsung Group. Following the acquisition of iMarketKorea, Interpark now has two core business portfolios: B2C and B2B businesses. The B2C business is an online shopping mall business targeting individual customers, while the B2B business is an MRO business aimed at companies.

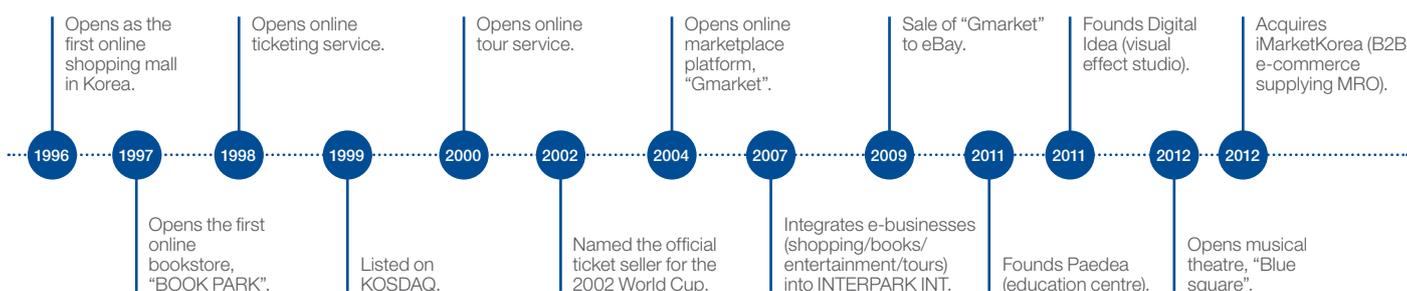
The total sales volume of the B2C business in 2012 was about US\$ 2 billion. The B2C business can be divided into two areas: a general shopping mall which sells products to consumers; and other malls that sell products such as books, performing arts and sports tickets and travel

products. Interpark is the second biggest player in the domestic online book sales market, but in the areas of ticket sales and air flights, it is number one in Korea.

In 2012, iMarketKorea's MRO business registered annual revenue of over US\$ 2 billion. The company has attempted to secure further customers in addition to its existing customers such as the Samsung Group, and to expand to various regions like the People's Republic of China, the United States, Europe and Vietnam.

Interpark has been opening new businesses and taking on new investments in many areas in order to find new opportunities. As a typical example, it started Gmarket (a Korean online open market) as an in-house venture capital company and listed it on NASDAQ. Interpark sold off Gmarket to eBay in 2009. At present, Interpark is a pure holding company, with a total of 22 subsidiaries working on B2C and B2B businesses.

### Timeline/Key Events



### Quotations

Sang-gyu Lee has been CEO of iMarketKorea, a subsidiary of Interpark, since it was acquired. He worked at Dacom (1993-1998) until he co-founded Interpark Corporation. At Interpark, he was Vice-President (1999-2004) and CEO (2005-2010).

Dae-bong Choi joined Interpark in March 2000 and is currently Chief Marketing Officer. Previously, he managed the Strategy Planning Team and the Japan branch, and he also worked as the representative of the Shopping and Book divisions.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Lee: "The initial idea for this business came from Ki-hyung Lee, the founder of Interpark. He and I were working for Dacom, a Korean telecommunications company providing network services and Internet communication services along with the local/international telecom service which was the company's cash cow. Mr Lee and I were convinced that the Internet had big potential as a common network. We chose an online shopping mall business as the best business model that could be realized with low capital and high public

leverage. At first, we focused on books because books are fairly standardized products. And considering the fact that the logistics infrastructure was not yet fully set up then, we also focused on the potential of immaterial products like tickets and travel products as they don't require a heavy logistics system since tickets are light and small. We started this business as an in-house venture capital company by funding and supporting human resources from Dacom. After a year and a half, we were able to stand on our own two feet thanks to the support we had received. Even though we considered being an application service provider or a system integrator for shopping malls, given the financial problems in the early stages, the essential business idea never changed."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Lee: "In fact, our growth was not so fast in the early stages. There were a lot of problems related to online shopping such as the delay in the proliferation of Internet infrastructure, the slow speed of the network and ineffective methods for calculating rates. Businesses connected to the value chain of online shopping malls, such as logistics systems and payments, had difficulties, too. An express delivery service was in its initial phase of growth, and the use of Internet banking, credit cards and security programmes for accounts was minimal. The economic environment was very tough and Korea applied to the International Monetary Fund for a bailout in 1997, the very year we started our business.

Our growth started to speed up in earnest from 1999. The main factor behind this growth was an improvement in the speed of the Internet. ADSL had spread very fast following a drive by the government. The government and carriers focused on Internet business and invested large amounts of capital. As a result, our confidence that the Internet would be the common network proved well founded, even though it came a little bit later than we had expected.

Such a proliferation of the Internet led to an expansion of the market and Interpark was able to benefit as a pioneer of this market. However, it didn't mean we were able to take all of the spoils because other large companies also saw the potential and quickly entered the market."

Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?

Lee: "The most important factor in the surrounding ecosystem was a funding system for start-up companies to secure their operating capital. We went public in 1999 through KOSDAQ, which was started in July 1996. We were able to lighten our financial burden and conduct a sustainable business through the money raised from KOSDAQ, and investors wanted to invest in us because we were listed on KOSDAQ. Nowadays, KOSDAQ emphasizes protecting investors. At that time, it focused on the potential growth of companies, providing them with support. Thanks to that approach, we had the opportunity to grow.

In addition, as I mentioned above, government policy and the development of infrastructure were other important factors. High-speed Internet which started to spread from 1999 was one of the key elements for our business. As a result, the funds from KOSDAQ and the dramatic improvement in Internet infrastructure were the core sources of growth from the ecosystem."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

Lee: "I was disappointed that the government didn't have business-friendly policies for start-up companies. As I mentioned above, we were not able to enjoy the benefits of being the first player to enter the market. Many Korean companies were fascinated by Internet business following the development of Internet infrastructures after 1999. Major companies in particular tried to seize the market by employing large amounts of capital and outstanding personnel. As a result of this competition, the market couldn't guarantee stable profits to companies working in this market. Interpark also lost some growth potential although the total market was bigger than before. That's why I believe the Korean government should set up more rational regulations for large companies when they are entering a market.

We also experienced difficulties resourcing talented people. Most university graduates wanted to work for large companies as a soft landing into society, and working for start-up companies was regarded as something risky. This is probably linked to Korean culture, with stable jobs preferred to ones considered risky. Finding and securing the right people was absolutely one of the key missing factors for Interpark."

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Choi: "We first invested in the global market in the early 2000s. We considered regional expansion to be a valid method for organic growth for three reasons: (i) we wanted to test our business model, which was pretty successful in Korea, in bigger markets; (ii) an Internet business has no borders; and (iii) there were potential advantages as

a first mover given that online shopping markets were in their early stages in most countries. We chose Japan as the first country for our expansion on account of the more developed business environment, market size and cultural similarities. So we opened our subsidiary in Japan in 2001, which we operated for two years."

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Choi: "The biggest challenges as a start-up company were: entering a closely knit distribution system in Japan; communicating with customers, including buyers and sellers using different languages; and overcoming an emotional barrier between Korea and Japan. The most difficult for us was entering Japan's tightly structured distribution system. We were not able to have competitive prices because distributors were reluctant to provide us with products at a good price because of worries over credibility. The only way to cope with this problem was to build up trust with providers, taking a long-term perspective.

However, we had to put our plan to operate our own online shopping mall in Japan on hold because we had trouble assigning the necessary time and resources to Japan given the fierce competition in Korea. For now, we are just following the market trend as one of the sellers of big Internet shopping malls.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

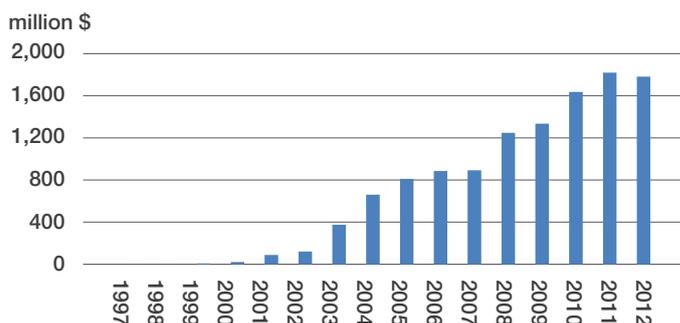
Choi: “The biggest barrier presented by the ecosystem in Japan was the undeveloped Internet infrastructure. The high price of ADSL prevented customers from coming to our website, and the low penetration rate of network was another serious obstacle to our business. In addition, high living costs in Japan made it very difficult to rent offices and to secure basic infrastructures to start a business. Just at the right time, the Korean National IT Industry Promotion Agency rented some centrally-located offices in Japan, and sublet them at half price to Korean companies with the purpose of supporting Korean companies’ global expansion. Interpark was able to set up its subsidiary in Japan thanks to this opportunity. It would have cost us much more in terms of money and time if it had not been for the support provided by this programme.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

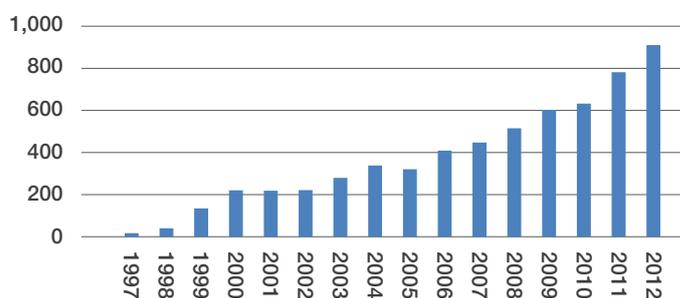
Lee: “Interpark has been seeking opportunities to expand abroad since the early 2000s. We have continued to try to enter global markets as a supplier on the value chain of online shopping malls after entering and retreating from the Japanese market. We found positive possibilities in the distribution of luxury goods, and now we’re sourcing general products as well as luxury goods from many countries including Italy and the People’s Republic of China, and selling them in Korea and Japan. We have also identified some opportunities in the US market. We decided to start our business there with book-selling because we think books are fairly standardized products with little variation. Our target customers are Koreans living in North America. We are now seeking opportunities to expand our business to other items based on this experience in the United States.

In addition, we’ve been looking for chances to go global using overseas branches of iMarketKorea as footholds since we acquired it from the Samsung Group in 2011. We are looking to diversify B2C and B2B business opportunities in many regions including the USA, the People’s Republic of China, Vietnam and Europe, with the mindset of a start-up company.”

## Sales Volume



## Headcount



# LoopUp

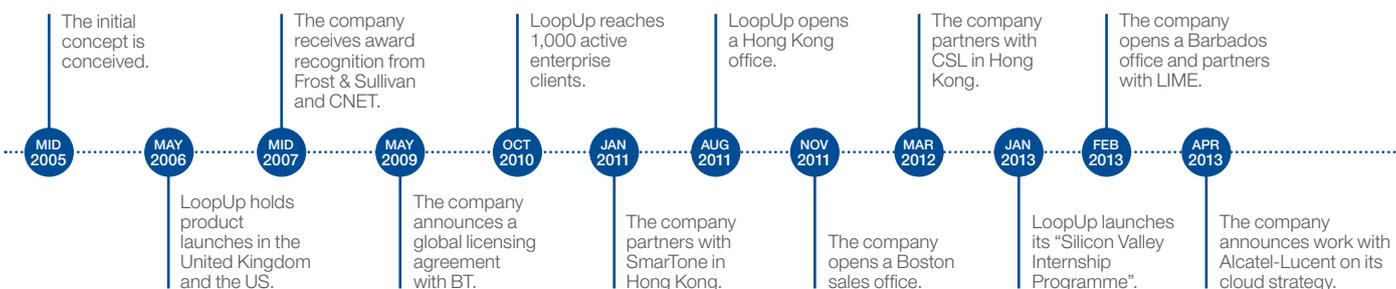
## United Kingdom

Prepared by George Foster and Sandy Plunkett

### Overview

LoopUp is a business conference calling and online meetings company, headquartered in London with offices in San Francisco, Boston, Hong Kong and Barbados. Founded in 2003 as Ring2 by Steve Flavell and Michael Hughes, the company entered the conferencing market in 2006 and now trades as LoopUp. Flavell and Hughes' mission was to apply technology in a user-sensitive way to make remote meetings less painful for mainstream business professionals. LoopUp is a cloud product, with supporting mobile apps, offered as a branded software-as-a-service to enterprise customers and as a white-labelled platform-as-a-service to distribution reseller partners. LoopUp works with thousands of enterprises and has distribution partnerships with BT, Cable & Wireless Communications, SmarTone, CSL and 3 Hong Kong.

### Timeline/Key Events



### Quotations

Steve Flavell, co-founder and co-Chief Executive Officer of LoopUp, is based in London and responsible for the company's commercial activity worldwide. Prior to LoopUp, Flavell held senior leadership roles as main board director and Executive Vice-President at GoIndustry, the online industrial auctioneering platform. As part of its founding team, Flavell played an instrumental role in the company's success, which included six acquisitions, rapid organic growth and public listing on AIM. Previously, Flavell spent five years in strategy consulting with Monitor and Mars & Co., and two years with Mobil Oil. He has an MBA from Stanford University and MEng from St John's College, Cambridge.

Michael Hughes, co-founder and co-Chief Executive Officer of LoopUp, is based in San Francisco and responsible for the company's product development and platform operations worldwide. Prior to joining LoopUp, Hughes was a founding member and early-stage CEO of Pagoo, a pioneering VoIP company. Hughes played a key role in setting strategy, fundraising and building the early-stage team and then went on to spearhead international business development, building a presence in Europe and Asia. Prior to Pagoo, he spent six years in strategy consulting with Monitor, opening new offices in Madrid, Barcelona, Lisbon and Abu Dhabi. He has a Masters in aeronautical engineering from Imperial College and an MBA from Stanford University as an Arjay Miller Scholar, and was awarded a Sainsbury Management Fellowship by the Royal Academy of Engineers in 1995.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Flavell: "We noticed how most business professionals so blatantly disliked conference calls. From our own personal experience, it was not difficult to see why: issues with dial-in numbers and access codes; not knowing who is on the call and who is speaking; late joiners and missing guests; irritating background noise; the list goes on. We decided to do something about it, by building a conference calling product that people would dislike less. We came up with a no-training-required experience, where the host receives an alert to a smartphone and PC as soon as the first guest joins the call, which takes them to a web or mobile app that shows them who is on the call and puts them in control. It worked; the apps were used on over 60% of calls.

"On the back of this, we extended the approach into web conferencing, trying to attract the 80% of the business world who still default to audio-only calls and 'e-mailing out the slides'. Once in our web app, we then enticed the host with a 'big orange button' to share their screen with guests. Here, again, we were guiding the user towards a simple, clear and useful capability, rather than asking them to find it for themselves or attend training, for which most mainstream business professionals have neither the time nor the inclination. So, LoopUp became a seamless meetings product – combining audio and web – providing a less painful way to meet remotely."

## **Q2: What were the major growth accelerators for your company in the early years of high growth?**

Hughes: “Remaining true to the mainstream, non-specialist end user was a key growth factor. We worked – and indeed still work – to a key guiding philosophy that can be summed up as ‘ease of use drives use, and use drives revenue’. We only included features that solved core pain points experienced by the majority of users, and eschewed everything else as it can quickly lead to unwanted complexity that gets in the way of ease of use. It was often tempting to add the marginal feature because a specialist user had asked for it, or because the Gartner Magic Quadrant required it as a criterion for inclusion, but we held firm. Otherwise, the product would have become a ‘feature list’, which would have required training and, in turn, would not have inspired mainstream use. By contrast, the result was a simple, no-training experience that was liked and used.

“I would also highlight the call we made to go international early. From day one, we were in both the UK and the US. This was driven partly out of pragmatism, given we found investment and early customers in the UK, while our engineering talent was based in the US. It made management communication more challenging – fortunately, we had a product to deal with that! – but it was a real business accelerator. It was also so important for our early financial and professional services market sweet spot, which was highly transatlantic by nature and which really valued LoopUp’s security of knowing who is on their conference calls.”

## **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Flavell: “Over the early years, we received investment from over 40 angels, essentially from a network of former classmates, former colleagues and their colleagues. This led to a wealth of experience and expertise to draw on, as well as referred business opportunities to pursue. One such angel investment led to a business opportunity in Spain, where we had dinner with a former colleague, and several months later led to our venture capital investment in 2006. Another angel and former business school classmate has continued investing throughout our venture capital phase, and remains one of our two major shareholders and a board member.

“The ecosystem also really helped our early-stage people strategy. That started with Michael and me, who met at Stanford business school in the mid-1990s, but continued throughout our early-stage growth. Three years in, over 70% of our team were either friends or former colleagues. There was a strong level of loyalty and trust in the team. That helped us move quickly and navigate uncertainties, and also, I think, shone through as we expanded the team through more conventional recruiting methods and channels.”

## **Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Hughes: “We have a great nucleus to our engineering team: team members who have been with us for many years now. However, growing a product development team around them in our San Francisco office has come with challenges. Ironically, the Silicon Valley ecosystem has been as much a hindrance as an enabler in this respect, with its very competitive employment market. Hiring top talent with experience is difficult; even hiring junior talent is expensive.

“We have dealt with the challenge in two ways, both with international components. First, one of our core team has returned to his home country of Indonesia, and we have built an outsourced development strategy around him. He is a critical lynchpin of this remote team to back our core San Francisco development operations, our product and our methods.

“Second, we founded a programme called the ‘Silicon Valley Internship Programme’ (SVIP), which offers UK software engineering graduates a year’s experience in Silicon Valley. Participants work full-time with sponsoring technology companies, with the aim of inspiring them to return to the UK with the skills and confidence to do a start-up or work in an early-stage tech company. LoopUp is one of nine companies that took a total of 15 UK college leavers in the programme’s inaugural year. The support provided by the British Consulate and the British American Business Council to secure J1 visas for the programme participants has also been essential for the viability of the project.”

## **Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Flavell: “We took the unusual step of growing internationally from day one, with operations in both the UK and US. This meant we were effectively working round the clock on initial product development, developing in the US and testing in the UK. The real benefit, though, was that we were better able to win and support international enterprise customers – major conference callers – straight away. This initial UK-US market phase continued through 2009 as we honed the product and, critically, bided our time as we learned the best messaging and processes to sell it ourselves. Direct distribution (field, inside and online) in multiple core country markets remains a key part of our growth strategy.

“However, there was a significant opportunity in markets outside of the UK and US, where conference calling was a more nascent business activity. Penetration in continental Europe was significantly lower than in the UK/US, and in Asia-Pacific was significantly lower still. In 2009, we embarked on a strategy to partner with network operators to distribute our products in international markets. Network operators were increasingly looking for new, adjacent sources of value-added average revenue per user, and we were looking for companies with strong brands and established enterprise customer bases. Our first such partnership was closed with SmarTone in Hong Kong in early 2011, and we have since closed deals with CSL and 3 in Hong Kong, and Cable & Wireless in the Caribbean.

“The next phase of our international development is just around the corner, as we start to work with Alcatel-Lucent to bring our product to a global audience through their extensive channel of approximately 1,500 business partners. This time next year, we expect that our product will be actively marketed in over 20 countries and made available in 15 languages.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Flavell: “Focus was a major challenge in our international expansion with network operator reseller partners. During 2009, we swiftly built a sizable pipeline of potential partners, but we were arguably spread too thin geographically at the time, and a number of very promising discussions failed to materialize. We learned the importance of ‘time on the ground’ to get these large deals over the finish line, which led to a change of approach when we tackled the Hong Kong market.

“Another challenge has been the general corporate components of international expansion such as company formation, tax planning and any regulatory compliance requirements. Entering a new geography has proved non-trivial in terms of the various checks and associated actions we have had to undertake, perhaps more so than for many other expanding companies due to the telecoms component of our product. Fortunately, we have an in-house counsel, who has been with us from the start, and who has been invaluable in helping us navigate these challenges.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Hughes: “The in-country ecosystem actually played a large role in determining which particular country markets we targeted first. Around 2010, it became clear we needed an Asia-Pacific operation to support our increasingly international customer base. Singapore and Hong Kong were prime candidates in terms of regional transport hubs, simplicity of corporate set-up, regulatory clarity and availability of talent. In the end, the decision was made for us by the business development work that we focused on in

these two countries. Leveraging introductions from BlackBerry (as part of their ISV Alliance Program), we met all the major mobile network operators in both countries. We concluded a deal in Hong Kong (and have since closed two more). In August 2011, we opened our Hong Kong office to support our new partners and extend 24/7 live operator support to all our enterprise customers and reseller partners worldwide.”

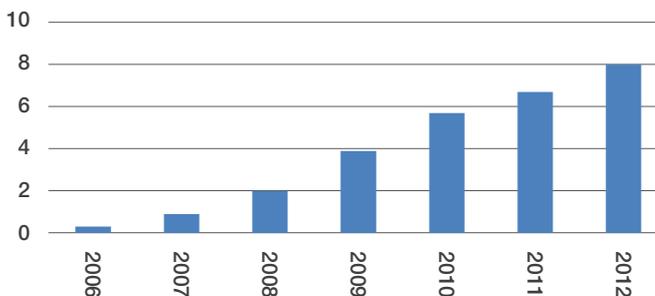
**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Hughes: “Concluding our global licensing agreement with BT (announced in May 2009) was an important moment. As well as pointing to the differentiated value in our product and technology, this deal signified to the wider business world that our operations were fit for secure scale. I am sure this raised the glass ceiling for the company.

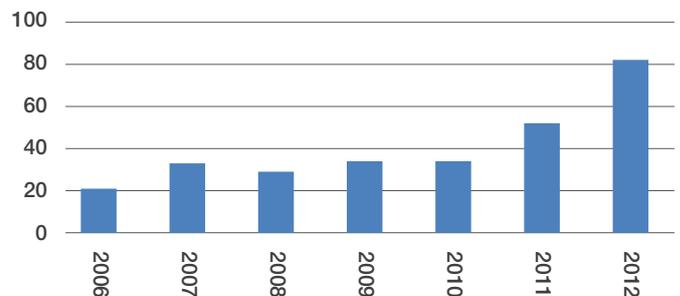
“A dark moment arose just last year, when we realized that our engineering capacity for the subsequent six-month period was almost entirely consumed by partner work. While great from one angle, it meant our having to delay the next phase of core product development. Continued innovation is critical for us and, since then, we have tripled our effective engineering team.

“Highs and lows are undoubtedly part and parcel of early-stage growth; we have had many of each. However, we have built a great team with a clear, common purpose – to make everyday remote meetings a less terrible experience – and this has been key to navigating the course.”

**Revenue (Millions \$)**



**Headcount**



# Movile

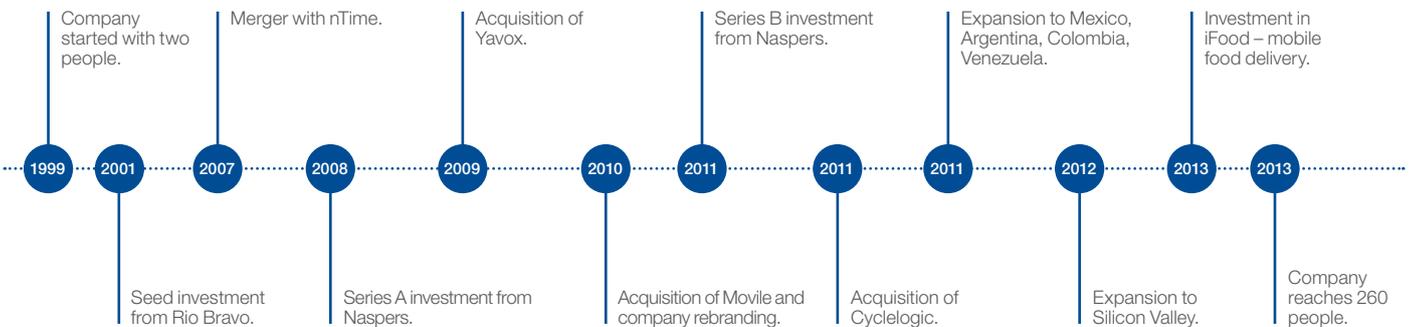
## Brazil

Prepared by George Foster and Rhett Morris

### Overview

Movile is the leading mobile content company in Latin America. Movile's products include mobile content, mobile TV, mobile learning, mobile games, mobile payment, mobile marketing and mobile commerce. Every month, it publishes content and services to more than 20 million mobile costumers. It has grown substantially over the last few years (with a more than 25-fold increase in its revenue over the last five years) both organically and through an aggressive M&A strategy, including five acquisitions in the last five years. Movile is positioning itself as a kind of Silicon Valley company based in Brazil. For the last two years, Movile has been named in the "Great Place to Work" list for technology companies in Brazil. The company shareholders include the founders of the company plus Naspers, a South-African media conglomerate.

### Timeline/Key Events



### Quotations

Fabrício Bloisi holds a Bachelor's degree in Computer Science from UNICAMP (Universidade Estadual de Campinas) and an MSc/MBA from FGV/EAESP (2008), with a thesis about high-growth technology start-ups. Bloisi also attended the Executive Program for Growing Companies at Stanford Business School (2013). After completing his degree in computer science, Bloisi founded Movile and has been CEO since then. Bloisi participates actively on the board of the Mobile Entertainment Forum (an association for the mobile industry) and is Chairman of H2 and Unicamp Ventures (associations with the goal to support entrepreneurship), acting as an angel investor and mentor for many start-ups.

Flávio Stecca holds a Bachelor's degree in Computer Science from PUC-GO (Pontifícia Universidade Católica de Goiás), an MSc in Computer Science from UNICAMP (Universidade Estadual de Campinas) and an MBA from FGV in IT Strategic Management. Stecca joined Movile in 2004 and is currently CTO and VP of Products.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Bloisi: "When I was completing my undergrad degree, I was very interested in the history of Bill Gates, Larry Ellison and Steve Jobs and the way they created very big technology companies starting with almost nothing. We started Movile inspired by them, with the goal of creating a global technology company – even before defining exactly what the focus would be. The idea to focus on mobile technology came during the first year. Europe and Japan were at the centre of mobile innovation – in Europe, SMS was growing very quickly and some companies were developing the first interactive applications for mobile. In Japan the i-Mode was growing very quickly with the first multimedia phones and the first applications using photos,

video and e-mail on mobile phones. Those technologies were years ahead of what we had in Brazil, so we decided to start as a mobile-oriented company and build products that would grow with the connected mobile phone wave that would soon start in Brazil.

We overestimated the speed with which this technology would spread in Brazil. For the first few years, the penetration of multimedia phones and even SMS phones was very limited and we had a very small market. We tried many times, and we failed many times. We tried to develop up to 50 different products and associated business models until we found a combination of product, business model and distribution channel which we could really scale. Within five years, the market started to grow quickly and we started to grow together with the market, leveraging each new technology wave. I believe that the capacity of the company to evolve and keep innovating is much more important than the initial idea, since the technology sector changes dramatically every few years. We started with SMS applications, and later we focused on PDAs, ringtones, WAP, MMS, 3G, mobile TV, 4G, smartphones apps, and so forth. As we overestimated the short-term growth, we underestimated the long-term impact of this wave. We know today that mobile will be bigger than the Internet, and in 2018 5 billion people will be connected to the Internet via their smartphones, using their mobile device as their primary device not only to communicate, but to watch TV, buy products, study, play games, pay for services and much more. We believe, therefore, that the best opportunities to grow come in the next five years.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Bloisi: “The most important accelerators were: a market growing through a technology wave; our M&A strategy; our financial strategy; and a strong culture that values growth, results and innovation.

We were in a market growing owing to the rapid expansion of multimedia phones, so people started to consume much more content on their phones. As the market was growing fast and we were operating efficiently compared with our competitors, we could leverage this growth and expand together with the market. It was critical for us to be very efficient during this growth stage. We managed this by implementing a very strong culture that kept the company aligned with a strong focus on results and growth. A management system complemented this culture through controls and processes and we created incentives as part of our meritocratic/growth-oriented culture.

During this phase, we recognized the importance of having financial resources to explore the growth period of the market. In 2008, we raised capital from Naspers, a South African media group that contributed substantially to our growth with capital that made our M&A strategy viable and with global experience that helped us more quickly mature our operations to support growth. Our M&A strategy was also very important. We have carried out five M&A transactions in the last four years – these transactions have helped us with scale, market reach and talent acquisition, and were critical to support our strong growth.”

Stecca: “Key accelerators for our growth include:

- M&A: Mergers and acquisitions of other companies were key to our rapid growth. The rounds of M&A have allowed us to move quickly into new lines of business and regions. The company has learned to cope well with mergers and to maximize the synergies.
- Focus on results: It was critical that Movable implemented a management model focused on results and growth, always setting aggressive and challenging goals. This generated a great balance between business, marketing, product and technology, allowing us to properly prioritize projects and initiatives in all areas in support of company goals.

- Innovation: We allow ourselves to take risks and move fast. So many times we take on projects with aggressive timelines, new technologies, different channels of media/marketing and new business models. We learned to cope well with the risk, learn from mistakes and continually improve.
- Planning: It was very important to have a good balance between our short- and long-term initiatives. The technology market changes very quickly with the introduction of new technologies. We established a good balance in the growth of current businesses, while exploring, developing and preparing offers for new technologies and markets.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Bloisi: “The entrepreneurial ecosystem in Brazil between 2000 and 2010 was very weak. I believe that things started to improve in 2011. Some signs of improvement have included: an increase in venture capital companies; greater presence of international venture capital companies in the region; an increased number of angel investors; an increased number of exits/M&As; a reduction in labour taxes; and a reduction in taxes for start-up companies. Before 2011, however, the environment in Brazil was not welcoming to technology entrepreneurs.

On the positive side, the active presence of Endeavor in Brazil, supporting Movable with mentoring and networking with established companies, was very important. Endeavor also helped with promotion and developing contacts with local role models – very successful entrepreneurs that inspired our team to reach superior levels of performance. Our strong connections with local technology universities were also very positive, especially with UNICAMP. This relationship helped us recruit the best people, keep in contact with other start-ups and always keep our team connected with the academic environment.”

Stecca: “The entrepreneurial ecosystem for Internet companies in Brazil evolved only from 2011 – before this it was very difficult to start a business on account of great difficulties with bureaucracy, difficulties in accessing capital, high taxes and a lack of government incentives.

Strategically, we keep our product development centre in Campinas surrounded by major universities (Unicamp in particular). We seek to partner with these universities on research and development and to foster entrepreneurship. These partnerships have allowed us to recruit the best people and keep our team in touch with the best universities.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

Bloisi: “The first point was the weak venture capital ecosystem. The venture capital community was not strong enough in Brazil, so we had always to balance short-term products that generate some revenue but lacked growth potential with our investments aimed at creating a scalable business.

A second issue is a lack of culture/ambition to create global business in the region. Most Brazilian businesses focus only on the regional market, making it difficult to learn from other companies, recruit talent or even plan how to create a global technology company from Brazil. It also meant that the technology sector was not used to mergers and acquisitions, so consolidating the sector was not only an economic and strategic challenge, but also a cultural challenge.

A third point was the legal environment. The bureaucracy to run a business in Brazil is among the worst in the world, with too many taxes, too many reports, legislation that is too complex, a slow legal system and a 70-year-old labour law that reduces competitiveness in a globalized Internet era. Fortunately, since 2011, the Brazilian tech scene has become much more connected to the world and we are now seeing some changes in most of those aspects.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Bloisi: “Between 2002 and 2005, we tried for the first time to expand internationally from Brazil to Peru, Mexico and Spain and we failed. During this phase, we were quite a small 20-person company delivering B2B mobile platforms, so we needed to deploy the services personally in each new market. Although we had customers in those countries, we learned some lessons from this failure. The first was that we should have a clear strategy and define the markets into which we want to expand – otherwise we lose focus and disperse our limited investment capacity across many different geographies, reducing our chances of success. Secondly, we learned that expanding a B2B company to a new geography demands much more than just the product. We needed to invest for the medium term, since we have to create trust relationships, develop our brand, offer local support, offer trials and engage in many personal meetings. We learned that we need to define our target markets and create an investment plan that gives the new market enough time to mature.

We began a second phase of internationalization in 2010. The process this time was very different. We were growing quickly in Brazil and we could use this position to finance our expansion, together with resources secured from investors. We had enough cash to invest for two years and we had the capacity to acquire local companies with a local team and contracts. Although we had opportunities to go to Europe, India, Hispanic Latin America and the USA, we decided to focus on one region and be successful in this region before moving forwards. We decided that our goal was to be the leading mobile content company in Latin America. We acquired Cyclelogic, a company with 100 people in four countries, and used the existing presence of Cyclelogic to expand Movile, defining this process as a company priority for two years. The results were very positive. Today, a big part of our revenue and profits come from Hispanic Latin America (Mexico, Argentina, Colombia, Venezuela, etc.) and we have a strong position across the entire region.

In 2013 we are investing to expand our B2C offer globally, but again we defined our priority as the Hispanic population of the United States and then the rest of the United States. We have opened offices in California and we are starting to roll out our new offers in the American market.”

Stecca: “We invested in international growth when the company was already working well and had reached a good size in Brazil. We learned from our experiences a few years before (2000-2003) when we had tried to export some products. We learned that we would need local operations, a deep understanding of the local market and long-term local relationships.

In 2010, we decided to invest heavily in international expansion. The company was already growing quickly in Brazil, with a well-implemented management model, and we had already gone through three M&A processes. We decided to expand into Latin America and knew the importance of local presence. We acquired Cyclelogic, a company in the same industry with presence and business in several countries in Latin America. We spent some time adapting the new acquisition and, after a year, the results were great. We were able to deploy our culture throughout the company, and in late 2012 the revenue coming from outside Brazil was already quite significant.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Bloisi: “The most important challenges were the management of a distributed company, the financing of the expansion and talent acquisition/retention. The first problem was the result of growing from 35 people in two offices in Brazil in 2007 to 200 people in nine offices across six countries in 2011. Having a big part of the organization distributed across six countries made the management system a critical requirement to guarantee the company’s growth. As is the case for many technology start-ups, in 2007 we had lots of informal systems, controlled by personal relationships. We had to implement systems to guarantee that our strategy, priorities, best practices and culture could be communicated and monitored in all offices and countries. We invested not only in computer systems, but in hiring a consulting company which helped us implement a very successful management model that reinforced our values of getting the best people, focusing on the customer, innovation, results, meritocracy and ethics.

The second challenge was to have enough capital to invest in the international expansion and give the new business enough time to mature and develop. We did it by raising capital from our investors, Naspers, to finance an acquisition and by having a mature business in Brazil that could finance the new operations for a reasonable amount of time while the new markets developed and started to generate resources of their own. The last challenge was managing people, since we had to attract and retain talent where we had neither operations nor network. We managed this challenge by acquiring an existing company, developing its talent and exporting our human resources practices from Brazil to the other countries in order to create a great place to work and enable us to hire and keep the best people.”

Stecca: “I can highlight two big challenges that we faced:

1. Culture! We had many difficulties with communication, expectations, management and recruitment. It took us a year to understand all the differences between countries to establish a unique culture in the company and implement the management system and effective processes.
2. Commitment: for me a big challenge was to empower all local businesses. We wanted local entrepreneurs, vibrating with each victory, creating and innovating new business, and not just repeating Brazilian formats.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Bloisi: “Most people internationally see Latin America as one region. In fact, Latin America aggregates many different countries and cultures that are less homogeneous than most people believe. One source of difference is the language: Brazil is the biggest market and speaks Portuguese, while all other countries in the region speak Spanish. We started our expansion by sending people from Brazil to operate in countries of Hispanic Latin America. But there are so many differences not only in language but also in culture which meant the success of our first international expansion was very limited. Hispanic customers preferred to talk, negotiate and make deals with local people that understand the local culture. We changed our strategy and decided to acquire a company operating in Hispanic Latin American countries. The results of the combination of our existing products, business culture and technology leveraging our new Hispanic team were very good and a decisive step that kick-started our strong international growth.

Stecca: “Our expansion into Latin America was successful due to the following factors: local presence, business culture and a scalable technology platform.”

**Q8: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on. (a) Describe the key areas where interaction with larger companies helped promote your growth path. (b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Bloisi: “In 2008, we received investments from Naspers, a South African media group. Naspers contributed substantially to our growth as our biggest shareholder/investor. They helped us to better understand the global scenario and to better plan for global and long-term challenges. They also supplied us with capital – critical in a growth phase – and experience in mergers and acquisitions. Despite all this, the relationship with Naspers did not reduce the entrepreneurial style of the company, which was critical to maintaining our growth-oriented culture.

Mobile is also connected to a wireless carrier group that operates across Latin America, Brazil and Hispanic Latin America. This business partnership helped us to expand into the markets in which they were operating, leveraging the

relationship we already had in Brazil. It definitely accelerated the pace of our expansion in Latin America.”

Stecca: “Having Naspers as a shareholder/investor was very important. Besides the capital, which was critical to finance M&As and other investments, Naspers contributed a lot by bringing a global perspective. They helped us to better understand the global market, supporting us with knowledge, tools and global benchmarks.”

**Q9: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Bloisi: “In 2010, Mobile was basically a Brazilian company. By the end of 2012 and after two years of expanding to Latin America, our high moment was realizing that one third of our revenues now came from outside Brazil, and one third of our team was outside Brazil. This achievement was even better than our initial expectation and reaffirmed our vision that the path to becoming a big technology company requires us to successfully expand our company globally.

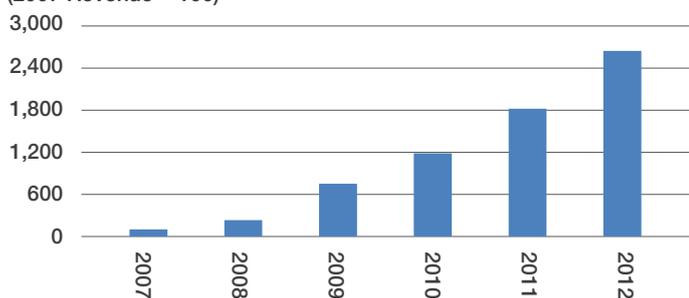
One dark moment was just after our acquisition of Cyclelogic in 2011. We were very confident about our growth after the acquisition, but the results of the first 12 months were much worse than our expectations. Even after adjusting the structure and the leadership, we were still not growing as fast as we believed we could grow, making us question if we had done the right thing by prioritizing the expansion into Latin America. Fortunately, the second year after the acquisition was very good, even better than our original projections. Again we realized that we cannot plan international expansion based on very small time frames, and we needed time to adjust the culture and the management system to really get the maximum results out of the new operations.”

Stecca: “A dark moment for me was during our first M&A process. Our first merger was a disaster, with many significant problems, including a lack of clear responsibility, decision-making taking too much time, power disputes and excessive internal politics. We made many mistakes – but we learned a lot and this phase was very important in our trajectory. After this dark moment, mergers and acquisitions have been critical to our rapid growth and that phase was important to learn how to be efficient in this process. After this first merger, we undertook four others transactions and got very good results.

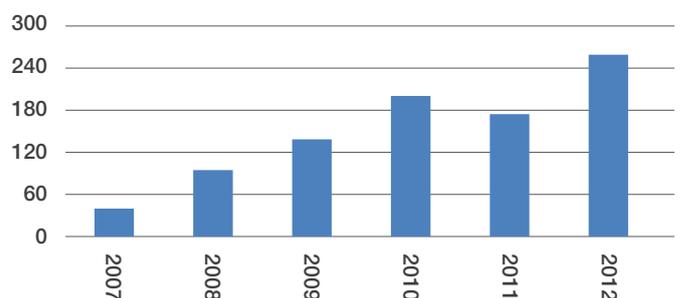
The greatest satisfaction came in late 2012 when we realized that we had become a company with sustainable business throughout Latin America, rather than a domestic-focused Brazilian company.”

**Revenue Compared to 2007**

(2007 Revenue = 100)



**Headcount**

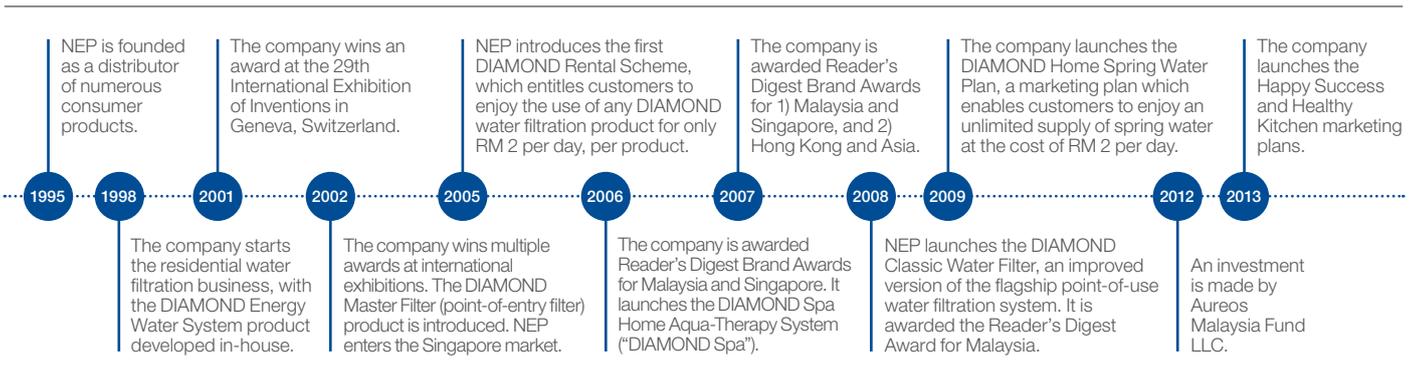


### Overview

NEP is involved in the research, design and development, assembly, distribution and rental of water filtration systems under its DIAMOND brand name. Its indoor filter unit product uses a unique technology to turn normal tap water into good quality mineral water. It is the market leader in the residential water filtration market in Malaysia and also has a presence in Singapore, Hong Kong, Taiwan and Southern China.

The business was founded by Michael Lim and a few of his friends in 1995. During its initial stage of establishment, NEP was involved in the distribution of numerous consumer products. In 1997, Michael chanced upon the Health Water System. In 1998, NEP decided to focus its resources on the sale and marketing of residential water filters. At that time, there was no premium water filtration system or leading brand in the market. Taking advantage of this accidental opportunity was a turning point for NEP and became the catalyst for its eventual success. Over the past 15 years, NEP has successfully introduced a range of point-of-use and point-of-entry water filtration systems, including the shower spa unit under its DIAMOND brand name.

### Timeline/Key Events



### Quotations

Michael Lim Chang Huat is Group President and Founder of NEP. He started working in 1988 at age 19 in marketing. In 1995, with a capital of only RM 100,000, he set up NEP Holdings (Malaysia) Berhad with only a small staff. His lack of experience, capital and resources resulted in limited market traction. In 1998, he chanced upon the Health Water System, a water filtration system that improves the quality of tap water to rival natural mineral water. He saw this as a business opportunity that was overlooked by the market at the time. Within two to three years, the fate of Lim and NEP changed with the launching of this unique product. Since 1999, NEP has built a customer base of more than 1 million, with a cumulative turnover of approximately RM 2 billion. Its flagship product, the DIAMOND Home Spring Water, has garnered numerous international awards.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Lim: "On 1 July 1995, we started NEP with an initial capital of around US\$ 30,000. At the beginning, our core business was just selling personal care products. We started with a product range of 40 low-priced products, selling at US\$ 20 to US\$ 30 per piece. This business was not that profitable.

"In 1997, a salesman from Taiwan introduced us to a water filtration product and told us about its ability to purify and mineralize the water. He referred to it as 'miracle water', since the filtered mineral water had many attributes essential for health and skincare. Filtered water in the Malaysian market also had the potential to serve many other purposes such as for cooking, drinking and even making coffee. However, the selling price of the product was almost US\$ 1,000. We asked ourselves: 'If we were not able at NEP in prior years to sell products valued at US\$ 30, how would we be able to sell a US\$ 1,000 water filtration product?'

“The salesman noticed my hesitation and offered to demonstrate the power of the filtered water. He provided one for free and asked me to use the purified water for three days to wash my hair, assuring me that my dandruff problems would significantly improve. Surprisingly, after three days, I noticed the improvement. Since then, we believed that this product was indeed somehow miraculous.

“We ordered 15 units from the Taiwanese salesman, brought them to Malaysia, and installed them in different villages. We allowed people to try the filtered water for free and asked for feedback on the product. Potential customers who tried the water were really happy with the product and affirmed that the water was really good for cooking, skincare and many other uses. Most of them came back to ask about the price of the filtration system. This strong consumer feedback convinced us that this product had great potential. In fact, the demand grew exponentially. We started distributing the product under new branding – we called it ‘DIAMOND’. In Malaysia, municipality water requires some form of filtering. The filtration system helped improve water quality and was an immediate success.”

### **Q2: What were the major growth accelerators for your company in the early years of high growth?**

Lim: “We used a couple of key strategies that helped us achieve a level of growth. For example, we had a free-trial programme, which consisted of sending free purified water to every potential customer. We had also set up many water stations across the country where customers were invited and given bottles to take the water away for free to try it. After two to three weeks, about 60% of the potential customers came back to buy the water filter. We also introduced the money-back guarantee for a period of time, which greatly increased confidence in the product.

“NEP has consistently won major awards that has reinforced the brand quality of our products. In 2001, we won the International Exhibition of Inventions, New Technology & Products Gold Award and Special Complimentary Award at the 29th International Exhibition of Inventions in Geneva, Switzerland. The year 2002 saw us win two awards: the 3rd Global Golden Rim Awards & Global Quality Assurance Product Golden Rim Award; and the Research & New Technology Award & Jury’s Special Award at the 51st Brussels Eureka World Exhibition of Innovation in Belgium. From 2005 onwards, we have won a sequence of Reader’s Digest Brand Awards for our products in Malaysia and Singapore and later also in Hong Kong and Asia.”

### **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Lim: “When we started the business 15 years ago, there were many players in the market but no market leader. Since the product was commodity-like, we positioned it in the market as a health-focused filtration system, as opposed to a normal filtration system. Also, the trial strategy helped us tremendously to convince our customers of the quality of our product. Moreover, we are the first company in this space that laid importance to branding, in which we heavily invested. Our thinking was to change from being just a trading company to a market leader in the fragmented water filtration industry. Over the years, we have managed to become the leading brand in the water filtration market.”

### **Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Lim: “We wanted to improve and upgrade our product to be the best in the market. So, we collaborated with a Japanese university researcher to differentiate our product, both from a design and from a technology point of view. The second challenge was to raise capital for the initial stage of our branding initiative. The reason was that, in Malaysia, taking a loan from a bank is extremely difficult for start-up companies, unless you have strong collateral. Grants from the government were non-existent because the water filtration industry was not a promoted activity accorded with grants and special incentives. There was also limited venture capital and private equity activity in Malaysia at that time. Instead, we used our own money, as well as borrowed from friends and relatives to grow the business. The third challenge was the limited access to talent in the industry, since the residential water industry is small; we had a hard time convincing people to join a start-up then.

“Since we had limited capital, we could not afford to open a retail shop in Malaysia. We therefore established a dealer network and provided an innovative platform to these dealers/distributors to help them become entrepreneurs in their field. They were paid on a sales commission basis and this helped us to keep our costs competitive. While the required capital to start a business in Malaysia was more than US\$ 30,000, the distributors were asked to invest their own capital of only US\$ 2,000 to US\$ 3,000. The NEP product brand name – DIAMOND – gave them the opportunity to grow with the brand.”

### **Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Lim: “By 2001, our business in Malaysia was profitable. One of our distributors saw the opportunity to sell our product in Hong Kong. However, since it did not sell well, he decided in 2003 to shut down his Hong Kong operations. In contrast, we believed in Hong Kong and decided then to enter the market ourselves. Most importantly, we saw Hong Kong as our gateway to China. If we could build a brand in Hong Kong, then we could do the same in China. Hong Kong spoke the same language and had a similar culture. Thus, we decided to venture into Hong Kong. Subsequently, we have ventured into Taiwan, and to Shenzhen and Shanghai in China.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Lim: “The first challenge we faced was to duplicate our success story in these new markets and adapt to the new territories. The other challenge we faced was that people in Hong Kong did not initially trust NEP. Our company and brand was from Malaysia – an issue we were facing back then. We found it hard to convince them that we were a quality brand that invested in R&D and also provided excellent customer service. To overcome this, we offered a 120-day money-back guarantee in Hong Kong, where customers could return the product after using it and a full refund would be given if they were dissatisfied.

“Since celebrities in Hong Kong have a significant influence on the general public, we used famous Hong Kong artists to endorse and promote our products. We also conducted a lot of customer events such as customer parties and celebrity events. One of our key events was when we booked Ocean Park in Hong Kong in 2006 for our customers for one day and celebrated our 11th anniversary with them. The main idea behind such events is to make the customers our brand ambassadors. Thus, when we launched any new products, the customers would help us introduce them by giving strong product recommendations. Our 120-day money-back guarantee helped tremendously to make our customers feel more comfortable in recommending our brand to their friends.”

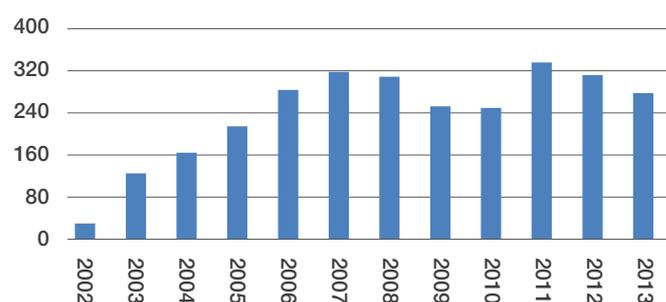
**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Lim: “We entered the residential water filter market, be it in Malaysia or regionally, based on a need for clean, healthy, purified water. As consumers become more affluent, they are increasingly focused on health and concerned about having chemicals and contaminants in their food and water. DIAMOND water filters provide the solution, giving consumers and families clean water that has been enriched with essential minerals for a healthy body. It is based on this need and lifestyle which provided the impetus for our business expansion.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Lim: “Our high moment was in 2005-2006, when we launched the 120-day money-back guarantee in Hong Kong, China and Malaysia. Our sales grew to US\$ 14-15 million per month, which proved that we had managed to establish ourselves in the countries we operate. The low moment was the initial stages, when we were trying to grow the business but were limited by the lack of funding.”

**Headcount**



# NetSol Technologies

## Pakistan

Prepared by Syed Zahoor Hassan and George Foster

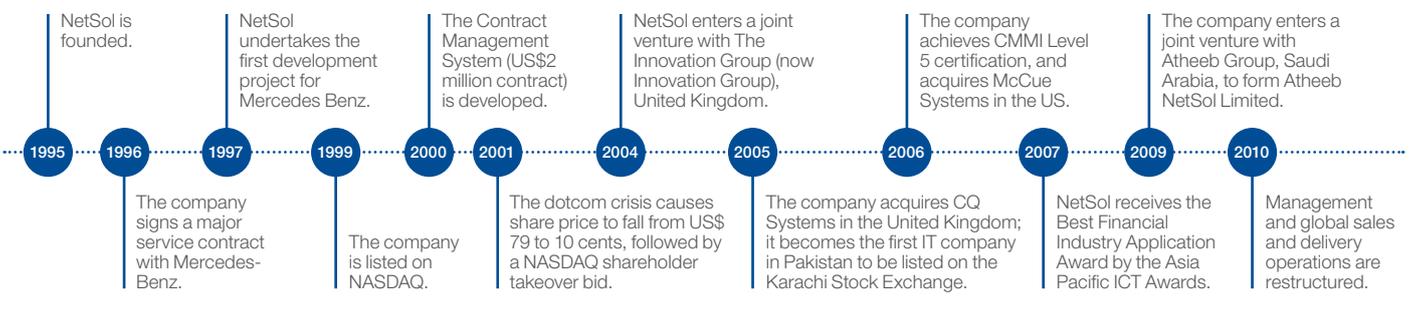
### Overview

NetSol Technologies Inc. is a global provider of enterprise IT solutions, with a core focus on asset finance, wholesale finance and leasing software. NetSol was founded in 1995 by three brothers: Salim Ghauri, Najeeb Ghauri and Naeem Ghauri. Having started with humble beginnings in the city of Lahore, Pakistan, NetSol soon grew to a sizable business with operations in Australia, China, Pakistan, Thailand and the United Kingdom, and headquarters in California, USA.

Automation has become an important means for growth in this industry to deal with increasing volumes. In the more mature markets of the US and Europe, leasing practices and legal requirements are well understood. Accordingly, there are several firms competing in these markets with mature enterprise software to run the leasing operations. In Asia Pacific, on the other hand, the leasing environment is still emerging and requirements vary. In this sense, offering enterprise software in these markets is more complex and challenging.

NetSol is one of several global companies offering leasing enterprise solutions, but it stands out on account of the maturity of its offerings and its vast experience in the Asia Pacific. It has several implementations of its solutions around the globe, with several Fortune 500 clients like Daimler, BMW, Nissan and Toyota. The company has targeted markets in Europe and the Americas as well as in the Asia Pacific (APAC) region. For APAC, NetSol offers the NetSol Financial Suite (NFS). It has successfully launched NFS in China, Japan, Thailand, Taiwan and Singapore.

### Timeline/Key Events



### Quotations

Salim Ghauri, Chief Executive Officer of NetSol Technologies, is one of the best known figures in the Pakistani IT industry. He has been cited as the “Bill Gates of Pakistan”, a reference to his achievements as an IT entrepreneur. Founded by him in 1996, NetSol Technologies developed rapidly to become the leading software company in Pakistan and is today the only CMMI Level 5 organization in the country. It has been the country’s leading software exporter for many years and now caters to an impressive list of global blue chip customers, including some of the biggest names in the auto industry.

NetSol’s philosophy has been to invest in both processes and human capital. Ghauri remains a staunch and vocal supporter of talent development in the country through quality education and innovation. He has been on the board and advisory council of different educational institutions and is passionate about the future of high quality management and technology education in the country.

Ghauri’s leadership role extends to various business and diplomatic spheres. He is the Honorary Consul of Australia for Punjab, President of the American Business Forum, and President of The Indus Entrepreneurs (TIE) Lahore Chapter.

Sajjad Kirmani is the Founder and Chief Executive Officer of INFOGISTIC. He won the CIO of the Year Award in 2010 for his work as Executive Vice-President and Director of IT & Operations at NetSol Technologies. During his 14-year tenure with the company, he was instrumental in carrying out several ground-breaking initiatives, including the company’s achievement of CMMI Level 5.

Prior to joining NetSol, he worked for the Coca-Cola Corporation for six years as Information Systems Manager for their South-West Asia Region, spanning five countries in Asia Pacific.

Kirmani holds a Master’s degree in computer sciences from the University of London, with a specialization in database management and information systems, along with an MBA from IBA, University of Punjab. He is the President of IBA Alumni Association and has been the Vice-President of the Pakistan Software Houses Association (PASHA).

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?**

Ghauri: “Our initial idea was to create an IT services/outsourcing company based on the Indian model. However, we realized that competing in the outsourcing world would not bring the growth we desired. It became clear to us that we would eventually become a software product company. We were fortunate that this opportunity was provided to us by a customer, Mercedes Benz Taiwan in 1997. It took 12 years to evolve from this small product development opportunity to offering our own enterprise lending application.

“NetSol Technologies started out opportunistically by looking at a broader market. We experimented with various domains including healthcare and information security, as well as public sector automation projects. However, over the years, our approach became narrower and more focused. Today, we are a lending enterprise software company. We started out as a service company and then became a product company. We now like to think of ourselves as a solutions provider.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Ghauri: “NetSol’s major growth accelerators can be explained as follows:

“1. Timing: The first four years were very exciting, as it was the peak of the global IT industry and it was much easier to attain IT services contracts.

“2. Narrowing focus: Our company was severely affected by the dotcom crisis in 2001. This downside helped us narrow our focus from offering broad IT services to software. It eventually led to our growth and strong position in the global financial enterprise software industry.

“3. Quality focus: During the lean period (2001 to 2004), we remained focused on quality. NetSol went on to attain the ISO 9001 and ISO 27001 certifications in 1998 and 2008 respectively, and in 2006 we achieved CMMI Level 5 certification, a distinction shared at the time by fewer than 100 companies worldwide.

“4. Entry into China: Our entry into China in 2005 paved the way for several implementations. NetSol has a leading market share in the captive auto-finance segment in the Chinese market.

“5. Human-resource-driven cost advantage: By leveraging the low-cost human resource in Pakistan, NetSol was able to out price international competitors. It helped us win business in the initial years. Eventually, as we became more established and recognized, we were able to position our solutions as premium and mature offerings. NetSol dedicated considerable resources to training and developing its IT professionals. An elaborate training programme was followed to train resources both in the technical aspects of its complex software and the vast business domain that it served.”

Kirmani: “Our first contract in China was an important breakthrough. The customer, Mercedes Benz Finance China, was headed by the same person who oversaw procurement and implementation of our solution at Mercedes Benz Finance Taiwan. He became a champion and a supporter, as the choice for them was either to go with us or develop their in-house system. One of the customer’s concerns was whether our solution could handle the volumes they were

expecting. They decided to invest in us. NetSol gained an important new market entry and our solution became China-ready, compliant with local requirements. More business followed. We soon decided to set up our sales representative office, which was later upgraded to a higher status in accordance with Chinese law, to allow further hiring.

“We have conducted intern development programmes to train fresh engineers to our exact requirements. We also encouraged and incentivized engineers to seek professional certification. The exposure that our professionals gained from working at customer sites helped them acquire a better understanding of different cultures and work environments.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Ghauri: “Founders of NetSol Technologies were entrepreneurial and risk takers. While most IT businesses looked towards the developed Western world, we decided to focus on the APAC market, which was easier to access from our base in Pakistan. Pakistan also provided access to a high-quality resource pool at low cost.

“NetSol benefited from being a publicly listed company, as this gave us the opportunity to raise funding/financing through stock markets. Being a US listed company also gave us access to advisers in US, including those on the company board.

“The company benefited immensely from the favourable regulatory framework and infrastructure in Pakistan, as it allowed tax exemptions on Software exports. NetSol’s location of its global delivery centre at Lahore is an important component of its business model, as the city is a centre of learning and education in the country, with an emerging infrastructure. The cultural and societal support and respect for entrepreneurship in Pakistan has contributed to NetSol’s growth. Pakistanis are very entrepreneurial, as many people chose self-employment in the face of unemployment in the urban areas.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Ghauri: “The key aspects of the entrepreneurial ecosystem that created the greatest challenges were: limited funding, a lack of opportunities in automation, and security challenges. There are very limited funding opportunities available in Pakistan. But public listings in the US and later in Pakistan helped us finance our growth.

“Both the government and the private businesses have been slow in the uptake of information technology. This has affected the growth of the IT sector in the country. Security challenges in Pakistan have affected countrywide business activity. NFS, our enterprise solution for our global financial customers, is mission critical to them. Given such dependence, we often see an initial reluctance to invest in our product. They fear that the country’s security challenges could affect our ability to serve them round the year.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Ghauri: "From 2005 onwards, we started acquiring companies internationally. In 2005, we acquired CQ Systems in the UK, and in 2006, McCue Systems in the US. Later, we set up offices in Thailand, China and Australia. In 2009, we formed a joint venture with the Atheeb Group of Saudi Arabia to create Atheeb NetSol Limited.

"Once we had established a mature software product, we felt we were ready to expand internationally. Initially, we chose markets based on accessibility and similarity to the markets where we were already operating. In mature leasing markets like the US and UK, we decided to acquire companies to avoid additional challenges associated with start-up companies."

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Ghauri: "Pakistan's image was a big challenge in building growth internationally. Obtaining travel visas for our staff to visit customer locations was often difficult. It was almost remarkable how NetSol was able to overcome such challenges by emphasizing its international quality certifications, strong infrastructure, experienced team of professionals and growing customer base."

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Ghauri: "China was just opening up to lending around the time we entered that market. This created opportunity as well as complexity in dealing with them. Language and cultural barriers posed real challenges."

Kirmani: "Our entry into China went very smoothly, as we were able to leverage our credentials from an implementation for the same customer in Taiwan. However, further growth brought out new challenges in dealing with Chinese customs and language. We originally put a British manager from our UK office in charge of our China office, assisted by a senior Pakistani project manager. However, we continued to face difficulties in working with local clients and other contacts. Eventually, we put a new team in the office consisting of Chinese nationals to conduct the front office and first-level contact with locals and Pakistani technical staff in the back office.

"Dealing with our multinational customers in China from the captive auto-finance segment was in some ways easier, as they already had international exposure. The high point came when we won business with the second largest bank in China for automating their big-ticket project financing business. By that time, our growing ability to follow Chinese customs and language became useful in our negotiations with the Chinese customer, and we were able to carry out this challenging implementation successfully."

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

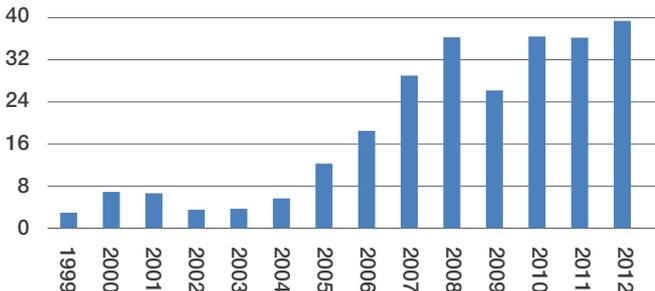
Ghauri: "The high moment in seeking international growth was in 2000 when we were awarded a US\$ 2 million contract to build a complex contract management system for our customer in Australia. This was a significant development for a relatively new company. The project helped us gain knowledge of end-to-end enterprise software development, and thus helped us establish our own application.

"The dark moment was in April 2001 when there was a shareholder takeover attempt in the US that shook the company and took a great deal to fight off. It was the time when our company had been affected by the dotcom crisis and our share price had fallen from US\$ 79 to 10 cents. As if that was not enough, one fine morning we found that a group of shareholders had broken into our US office and taken control. They prevented us from entering. We had not expected events to unfold in this manner, and we were left shocked and disappointed. However, we decided to fight back, and after a legal battle that lasted several months, we won a court decision to regain control of the company.

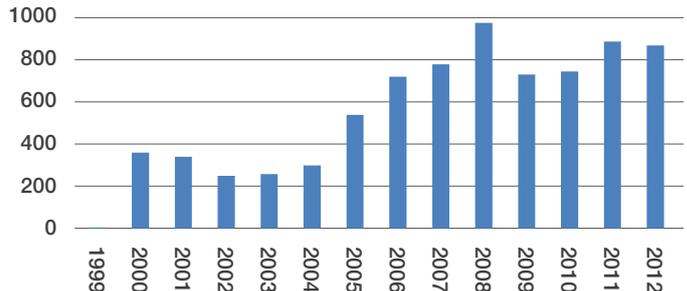
"Those were tough times. The company was completely cash strapped. We had to sell some family property to keep the business going. The company had to face major layoffs, but we stuck around and eventually the business revived. In hindsight, I feel that we took some bold measures and remained very watchful, but did not overreact."

Kirmani: "The hedge fund shareholders in the US called a meeting on their own when the share price fell drastically. In their attempt to take over the company, they appointed their own chairman and forcibly took over the company office by breaking the locks. The founders had to fight a court battle that took over one year before they got a favourable court ruling and were able to restore control. In the meantime, the office in Lahore went through a very tough time with major cutbacks in staff. The company's business was primarily services and the product was in its very early stage at that time. NetSol also lost a major service contract with a client in Europe because of this situation that constrained it financially. It was the resolve of the founding team (the three brothers) that helped pull the company through that difficult period."

Revenues (Millions \$)



Headcount



# NEXON

## South Korea

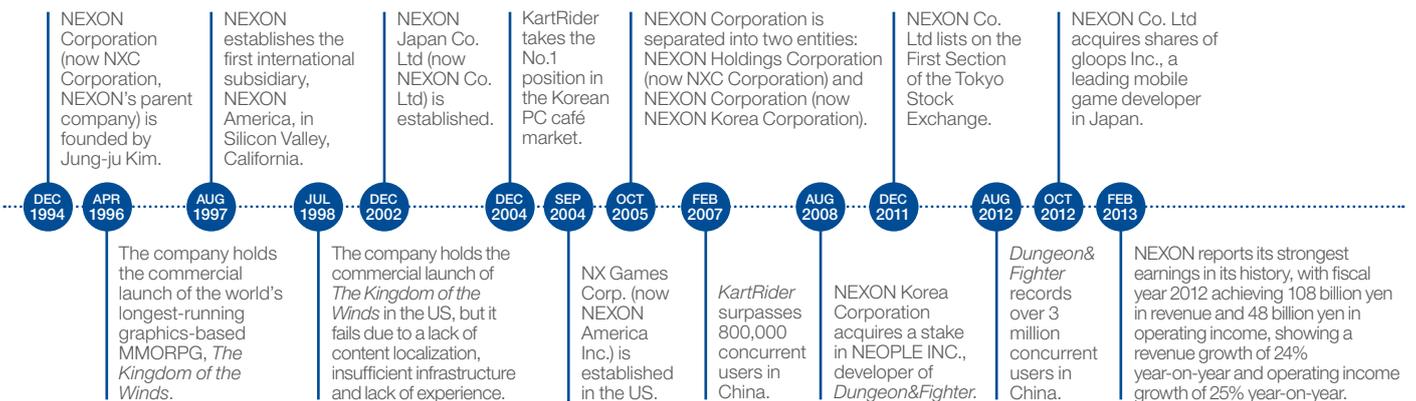
Prepared by George Foster and Sandy Plunkett

### Overview

NEXON is a worldwide pioneer and leader in free-to-play (F2P) online games. It creates rich, deeply immersive gaming experiences that appeal to a broad base of users. Founded in South Korea in 1994, it aggressively pushed for foreign expansion since its infancy and moved its headquarters to Japan in 2005. NEXON was one of the first companies to understand and capitalize on the opportunity to provide games for a global audience utilizing the F2P business model, in which play is free and users have the option to purchase in-game items to enhance their experience. On 14 December 2011, NEXON was listed on the Tokyo Stock Exchange with a US\$ 1.2 billion initial public offering in what became the largest IPO of the year in Japan.

NEXON's development and operations span more than 60 games across more than 100 countries including China, South Korea and Japan, and North America and Europe. Each game is tailored to the unique geography in which it is played. Titles include the popular franchises *Dungeon&Fighter*, *MapleStory* and *Sudden Attack*. Its creative development studios have produced some of the most successful online titles in video game history including *The Kingdom of the Winds*, NEXON's first massively multiplayer online role-playing game (MMORPG) which is the world's longest-running MMORPG. NEXON continues robust experimentation with new genres and formats, including various devices and platforms.

### Timeline/Key Events



### Quotations

Jung-ju Kim is the founder of NEXON Corporation and Chief Executive Officer of NXC Inc. He pioneered the development and commercialization of graphics-based online games and revolutionized a new era of gaming. He has propelled NEXON to expand internationally since its founding. Kim is lauded as one of Asia's most distinguished young entrepreneurs. He holds a BS in computer science and engineering from Seoul National University, and completed a PhD in electronic engineering and computer science from the Korea Advanced Institute of Science and Technology (KAIST).

Seung-woo Choi is Chief Executive Officer of NEXON Co. Ltd. He has been with NEXON since 1999 and led the company through its aggressive globalization strategy. Under his leadership of the corporate development and overseas business departments, NEXON's foreign revenues came to represent more than 50% of total revenues. He received the 2008 Presidential Award for the Foreign Expansion of Korean Cultural Contents. Choi holds a BA in international relations from Seoul National University.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Kim: "We like to play together, and we were inspired by the technology of thousands of people on the same server. In the 1990s, PC proliferation was rapidly increasing and more people started to seek entertainment through the PC. At the same time, the Internet was taking off and provided an environment where people could connect virtually. We wanted to provide an entertainment arena in which people could play games together using the Internet, and that evolved as broadband penetration increased and technologies improved. Our dream was to build a game company that would make history along the lines of Nintendo and Square Enix. We introduced game after game in the midst of a constantly changing technological and social landscape. Our business model went through many changes to reflect the respective time periods – from PC cafés to personal users, and monthly subscriptions to free-to-play – but we always strove for the same goal of making enjoyable games for a wide audience."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Kim: “We think the timing really helped us. While the gaming world was still dominated by consoles, the PC market was growing rapidly, and users were eager for more entertainment. Our games were accessible online for the PC platform, which at the time was quickly becoming a home device and appealed to both genders and diverse age groups. Early penetration of broadband and the popularity of PC cafés in Korea also helped. Eventually, our conversion to a free-to-play model became a major growth accelerator because it appealed to a wider audience, and enabled us to aggressively expand into foreign markets early.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Kim: “We benefited from the ecosystem in general. Many were predicting the rise in PC and PC-related entertainment and the market was full of potential for software engineers. South Korea requires all able-bodied men above the age of 18 to enlist in the military service for a couple of years. As a growing domestic company, we were eligible to provide a programme in which these men could work for NEXON instead of going to the military, which was a very attractive alternative for young talents.

“The network infrastructure at schools incubated start-up efforts. Back in the days when the Internet was not available at the national level, top-tier universities in Korea had already established networks for their students. The infrastructure at these universities – Seoul National University, KAIST, POSTECH – enabled elite students to discuss and experiment together. A lot of the online entrepreneurs – Jung-ju Kim, Hae-jin Lee (founder of NHN), Jake Song (developer of *The Kingdom of the Winds* and *Lineage*) and Sang-beom Kim (former executive director of NEXON) – met at school. Additionally, the first PC games in Korea were distributed over school networks.

“Our entrepreneurial spirit pushed us to grow during our formative years. The growing PC and Internet industries held so much potential, and PC-based entertainment was just starting to take off. In the 1990s, we were the only gaming company in Korea to produce new titles every year. Some did better than others, but we eventually grew into one of Korea’s biggest gaming companies.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Kim: “There were not many people we could turn to for advice or help, as the PC game business was just emerging. Pre-1990s, South Korea was centred on conglomerate corporations with strict hierarchies and traditional industries. We instead turned our attention to other companies, which oftentimes did not provide the answer but helped us find one. Data and documents from Japan’s Square and other companies provided a surprising plethora of information, such as the types of incentive programmes or policies companies adopted as they grew. We needed to look beyond the PC gaming scope to packaged games and other industries.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Choi: “From the beginning, we were intent on building a global company and designed games so they could easily be exported. We also started early; *The Kingdom of the Winds* was released in Korea in 1996, and we took that to the US in 1998. NEXON established its first foreign branch in the US in 1997, a joint venture in Japan in 1999, and a branch in South-East Asia after that. We encouraged players in foreign markets to try our games, as they were different from what was currently available. If they did not like a game, we made another one. The games might not have been the best games ever created, but we kept trying.

“In the mid-2000s, we made a definitive move to enter the market in China. We had acquired experience in independent operations through launching our global server for *MapleStory* and establishing the US subsidiary. *Crazy Arcade BnB*, *KartRider* and other casual games became hit titles in China and confirmed the exportability of our intellectual property and business model. The success gave us renewed confidence that we could succeed in foreign markets. In the late 2000s, Europe, North America, China, Taiwan and Japan all showed explosive growth. We continued to make strategic investments. We acquired Neople in 2008 because we believed in its potential for the international market including China. As *Dungeon&Fighter* showed strong growth particularly in China, and revenues from Japanese operations started contributing, we were determined to make aggressive mergers and acquisitions to obtain promising intellectual property that could be customized and exported.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Choi: “The biggest challenge was that although we had been quite successful at capturing what the Korean gamers wanted, the games were difficult to export because they had been built on our experiences in Korea and these experiences were limited. *The Kingdom of the Winds* failed to receive attention at its initial launch in the US and we had to pull out. One of the reasons we failed was that Korea had many different payment models including small-sum payments through cellular phones and gift certificates, but the US was based on credit cards. To respond to such challenges, we had to go back to square one and rebuild parts of our business. We made pre-paid cards and sold them in different stores, similar to Apple’s pre-paid iTunes cards. Today, more than 50,000 stores in the US sell NEXON cash cards.

“The second big challenge was ‘cultural translation’. Our first international venture merely offered a literal translation of the Korean game into English, but we quickly came to realize that was not enough. The games had to undergo cultural translation as well, to localize and capture local taste. Now we tailor the game to each region to appeal to the local population. Content localization has become our primary expansion strategy.

“The third challenge was the lack of high-speed Internet infrastructure in regions other than the US at the time we started to export *The Kingdom of the Winds*. We had to wait for that; and as Internet proliferation increased, reception of our games improved as well. In the meantime, we devised methods to work around the infrastructure; for example, we split our clients into smaller files to cope with slower connection speeds. We learned to make the most of what we had in spite of environmental limitations.

“The last challenge was the perception that PC games based on F2P are lower quality. This was especially prevalent in international markets including Japan and the US, where there already was an active, sizeable and scalable package game market. At that time, F2P PC games were just taking off and their presence was so small compared to the popular, high-quality package games. F2P PC games had a stigma that they were inferior to package games. In essence, why would a company provide a game for free?”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

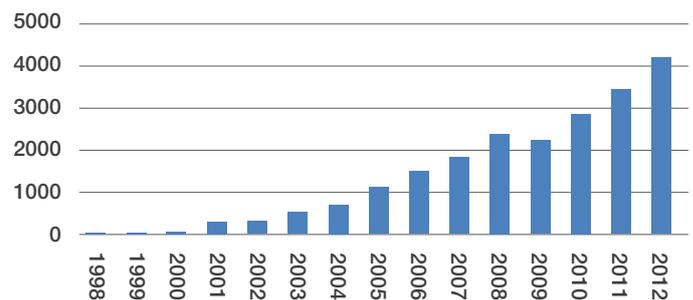
Choi: “Obstacles certainly existed but helped us think more in depth rather than impeding us. For example, within South-East Asia, differences in gamer preference, governmental regulations and markets made the export process difficult at times. China has very strict regulations within games. National flags cannot be shown and English must be kept to a minimum. Violent scenes have to be censored to show no blood or bone. Moreover, the Chinese people have specific preferences we had to cater to, including a window mode for games, a chat function and specialized music. We had to localize the content of each of our games to fit the needs, while adding items that would appeal to the Chinese market. Another example is Taiwan. It has a big motorcycle culture, so we collaborated with Yamaha to launch successful items within *KartRider*, which is originally a car racing game. Each country has its own barrier to entry and local tastes that cannot be ignored. By working with each of these cultures, we have come to appreciate the importance of localization, which has enabled us to build a strong strategy for international expansion.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Choi: “A low moment for us was from the late 1990s to the early 2000s when international expansion efforts kept hitting walls. At times, we had to rethink our international expansion strategy, especially when we had to shut down US operations after the failed launch of *The Kingdom of the Winds*. The inflection point came when Jung-ju Kim and I visited Japan in 1999. We saw a long line of people waiting in front of an electronics store, and were shocked to find out that it was for the new Nintendo console. People were lining up for a new console but had little knowledge of the PC online games. Compared to the established console market – and Japan was very console-focused at the time – the barrier to international markets seemed formidable. However, this re-motivated us to challenge that perception and situation. We started to resume foreign business development in earnest in 1999. Since then, 14 years have come and gone. We just kept trying, and eventually our perseverance paid off.

“A high moment for us was during the mid-2000s when revenues from international subsidiaries were rapidly growing. It was then that we felt our efforts had finally paid off. For example, we were closely monitoring the status of *Dungeon&Fighter* in the late 2000s because it was growing rapidly overseas. We saw that maximum concurrent users across China, Korea and Japan had passed 2.3 million in 2009, and it felt unreal when reflecting upon our history. That was definitely a high point for all of us. But at the same time, we continue to experience high moments – they may be high revenues, a new strategy we are excited about or a trend in the market, but we strive to keep our eyes focused on our initial goal of providing accessible entertainment.”

**Headcount**



# OpenDNS

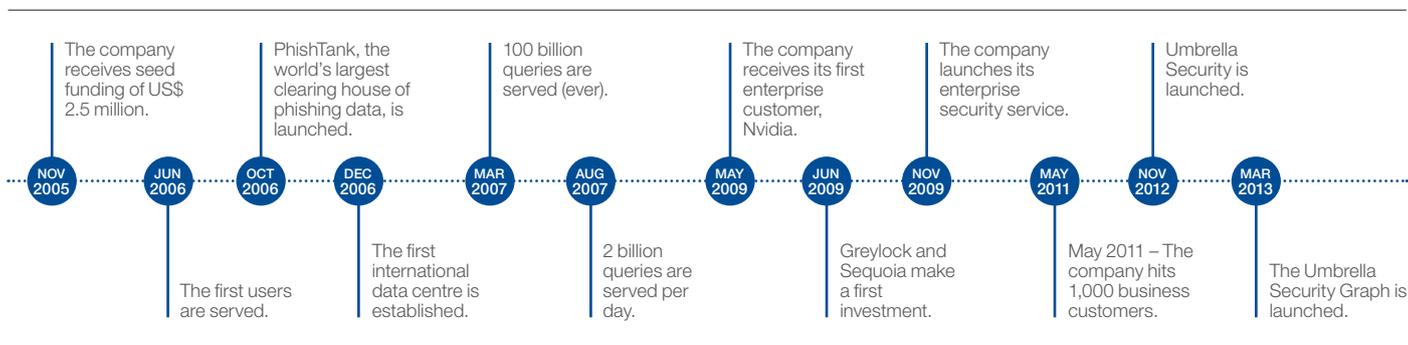
## USA

Prepared by George Foster

### Overview

OpenDNS is the world's leading provider of cloud-delivered Web security services, enabling the world to connect to the Internet with confidence on any device, anywhere, anytime. OpenDNS protects thousands of organizations and their users from malicious Web threats and provides them control over how users navigate the Internet, while dramatically increasing the network's overall performance and reliability. The company's cloud-delivered Umbrella Security service protects enterprise users from malware, botnets and phishing, regardless of location or device. At the heart of all OpenDNS services is the OpenDNS Global Network, the world's largest Internet-wide security network, securing 50 million active users daily through 19 data centres worldwide. OpenDNS was founded by David Ulevitch in 2005, launched consumer services in mid-2006 and launched business services in late 2009.

### Timeline/Key Events



### Quotations

David Ulevitch is the Founder and Chief Executive Officer of OpenDNS. An acclaimed domain name system (DNS) and Internet security expert, Ulevitch started OpenDNS in 2005 after identifying a need for a better performing, more secure DNS service than what was available to network administrators. He grew the company from inception to profitability, and to a customer base of millions of users around the world. Prior to founding OpenDNS, Ulevitch started EveryDNS, an authoritative DNS service that continues to operate today. He received a Bachelor's degree in anthropology from Washington University in St Louis in 2004.

Paul Denton is the Chief Financial Officer for OpenDNS. He has more than 20 years of strategic-leadership experience as an executive at numerous emerging-growth companies. Most recently, he was part of the management team that successfully sold Zvents to eBay-owned StubHub. He has held chief financial and executive roles at FusionOne, Determina, Andale and Zembu. His background includes management positions at Booz Allen Hamilton and Exxon/Esso Petroleum Company. He has an MBA from the Stanford Graduate School of Business and a BS with honours in chemical engineering from University of Birmingham, United Kingdom.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Ulevitch: "OpenDNS was founded as a response to my first business, EveryDNS.Net, which became a worldwide leader in providing domain name services. We recognized that as we became more and more sophisticated at detecting and blocking malicious customers from using our services, they would simply hop to another, less-well-maintained service. In effect, policing our virtual neighbourhood simply moved the bad actors somewhere else. OpenDNS was created to address that by moving the security and protection to the perimeter and edges of the Internet, where companies connect to the Internet. Our architecture turned out to be fortuitous, because the rise of nomadic workers, smartphones, and cloud computing have all made the edge of the network the most vital and important to protect.

"I met our original investor, Halsey Minor, in 2005, and he had wanted to create a company focused on the domain name system due to its broad reach across the Internet, but a consumer DNS service had never been contemplated. We decided to go for it, and with US\$ 2.5 million from Minor, I started OpenDNS with Minor's help. It scaled quickly as we offered better Internet content filtering so parents could protect their kids, the best phishing protection available and numerous other free consumer services that made the Internet safer, faster and smarter. But businesses took notice,

too, and were using it in droves. By 2009, thousands of businesses, and tens of thousands of schools were using our free service as a business-critical security solution. We launched OpenDNS Enterprise in November 2009 and that has been the core focus of our business ever since. Our business has changed many times over the years, but we have always been rooted in the foundation of wanting to deliver a better Internet experience, and to delight our customers with exceptional service.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Denton: “The initial consumer business took off because we were unique – no one had considered the need to use anything other than their ISP provider for connection to the Internet. By offering a free, faster and more reliable connection and then adding content filtering, consumers quickly saw the value and switched. Due to the cloud-based service, the switching cost was almost zero as it only required the typing in of a different DNS address into the router/modem.”

Ulevitch: “The rise of malicious attacks on businesses, the rise of mobile devices, and the shift to cloud computing all have created massive transformations in how IT organizations protect their users, resources and data. We have grabbed on to that trend and it has been a rocket ship ever since.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Ulevitch: “Starting our company in Silicon Valley was pivotal to our early success. Not only are we surrounded by an entire support structure to create companies through venture capital, but also by an ecosystem that encourages risk and tolerates failure. Moreover, there is an entire industry of service providers (lawyers, accountants, etc.) who are familiar with start-up challenges, legal requirements and more, to help facilitate the structure that start-ups need to be successful, helping us focus on our core business.”

Denton: “The proximity of the venture capitalists makes it easy to get visibility, network and set up face-to-face meetings when in a capital-raising mode. Our location has made it much more efficient when raising money and has allowed us to close on rounds of funding without spending a large amount of time. We were also able to tap into the local technology-savvy consumers who were not scared to change their DNS settings and try a new technology service.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Ulevitch: “Frankly, starting a company in Silicon Valley, despite its many benefits, is one of the most expensive places to try and start a business. And it is not just expensive due to cost, but due to the distraction cost and the challenges in hiring great people and finding office space. It is in high demand for a reason; starting elsewhere would have provided many of these other benefits at a much lower friction point.”

Denton: “The cost of hiring is high resulting from the large full-time recruiting staff we have to employ, even for a relatively small company. We have to compete not only with the big tech companies like Google and Microsoft, but also with hot start-ups like Square and Box, so the effort required to build a world-class organization is large and occupies a huge amount of everyone’s time.”

**Q5: Large companies can play an important role in the scaling up early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on. Describe the key areas where interaction with larger companies helped promote your growth path. Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Ulevitch: “We have rarely found large companies to be helpful to our growth, but they often get in the way. Large companies can distract you with competitive offerings that are fast followers backed by more financial resources, and they can distract you with legal challenges in the form of patent assertions and lawsuits.”

Denton: “Getting one or two large customers with brand names early did provide credibility when selling other companies, but these agreements came with a good deal of pain during the sales and contract negotiation process. Large companies expect small companies like us to roll over and accept whatever they ask for. When you don’t, they are surprised and have to realize that their brand name only has so much value. Recognizing up front the trade-off between agreeing to unreasonable warranties, indemnification and other risk allocation terms to get a deal versus explaining to a due diligence lawyer from an acquiring company years after the deal why they should assume the risk is very important.”

**Q6: Your revenue growth to date has been focused predominantly on the domestic market. What are the main reasons for this focus?**

Ulevitch: “The shifts to mobility, nomadic workers and cloud computing have created a new set of security challenges that the main incumbent security vendors have failed to address. Our growth is due to our products better meeting the needs created by these shifts.”

Denton: “These changing market dynamics have created plenty of domestic opportunity. Focusing too early on international business will distract us from executing in North America. We need to create a well-oiled machine in North America first and then turn our attention to the rest of the world. However, we do have a lot of international customers given our global network presence and the reach of the Internet; we just do not focus on marketing and selling to that audience at this point in time.”

**Q7: What would you view as the greatest challenges in growing a sizable revenue presence in markets beyond your own domestic country or region? In deciding when and where to seek growth in international markets, what characteristics of a country's ecosystem would be most important in attracting you to invest significant resources in that non-domestic country or region?**

**Ulevitch:** "Right now, as a SaaS-based business, our customer acquisition cost and cost of sales are key metrics that determine our ability to scale and grow quickly. Frankly, the more we spend, the faster we grow. And thus, access to cost-efficient capital is critical to maintaining our ability to rapidly expand, including internationally."

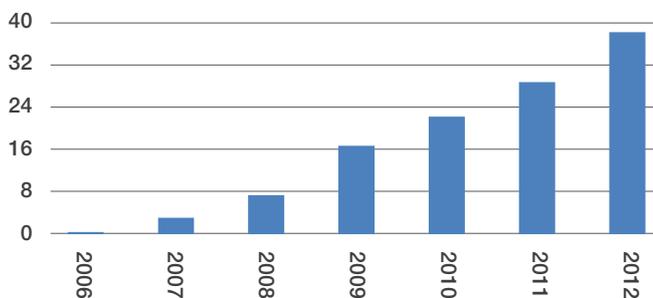
**Denton:** "We are likely to look at Northern Europe as our first step, due to the lack of a language barrier with our product and communication between people. The legal system will not be completely foreign, although the tax structure and social welfare systems will take some understanding to ensure we operate within the confines of acceptable practices. There is a high cost associated with setting up an international location and this cost, time and effort cannot be underestimated. We have already established a Canadian subsidiary. We have an office in Vancouver which we are expanding, and currently have around 20 employees located there and increasing all the time. While this is probably the easiest first international step, the cost and time were significant and all the visa issues to allow people to travel freely between offices cannot be overlooked."

**Q8: Building a company that aims to have sustainable high growth inevitably will have both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in your entrepreneurial journey.**

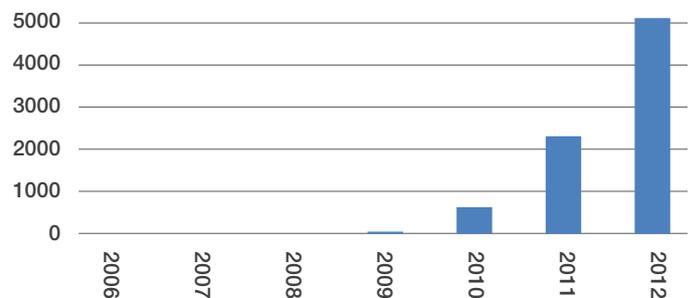
**Ulevitch:** "The high moments are fortunately quite frequent, and they come in the daily wins of a big customer, a new product launch, receiving an e-mail from a happy customer and working with great people. The lows come when we hit unexpected speed bumps in the form of a distracting lawsuit, an unexpected resignation, a lost customer or an inability to execute (and, related, an inability to understand why we are not executing)."

**Denton:** "Unlike the old enterprise software model where one big perpetual license deal at the end of the quarter can make or break a company, the SaaS model makes it much harder to have a huge quarter and overachieve; but, in contrast, the underachievement is also moderated, as the renewals business delivers a large and relatively stable revenue stream."

**DNS Queries per Day (millions)\***



**Number of Paying Business Customers\***



\*DNS Queries per day is a proxy for free users. Number of paying business customers is a proxy for growth in the security business.

# PCH International

## Ireland & China

Prepared by Ning Jia and George Foster

### Overview

PCH International was founded by Liam Casey in 1996, with corporate headquarters in Cork, Ireland, operational headquarters in Shenzhen, China, and US headquarters in San Francisco. PCH started as a small sourcing company and now its services span all stages of the consumer product development and supply chain, from concept to delivery, and all critical steps in between. PCH combines end-to-end services with a unique understanding of China and transparent partnerships to deliver absolute peace of mind to clients.

PCH is the behind-the-scenes partner responsible for some of the most successful launches of consumer electronics accessories. PCH is the enabler, turning an idea into a physical product in the hands of a consumer, while optimizing quality, costs, and time-to-market for clients. PCH clients are located all over the world, from the technology giants of Silicon Valley to every corner where promising opportunities arise. To successfully capture these opportunities, PCH has established 10 regional offices across multiple time zones with more than 4,000 employees.

### Timeline/Key Events



### Quotations

Liam Casey is the founder and CEO of PCH International. He is widely recognized as a business thought leader for international trade and business in China. Named Ernst & Young's Entrepreneur of the Year – Ireland in 2007, Casey is a frequent guest speaker at corporate leadership conferences, university forums, trade shows, Asia and Ireland-focused business forums and investment group events. He was appointed International Start-up Ambassador to China by Enterprise Ireland, an Irish government agency, in March 2012. Casey was also appointed a member of the Advisory Group for the Global Irish Network by the Irish Government in April 2012. In 2013 he was appointed a member of the National Competitiveness Council of Ireland by the Irish Government. In 2013, Casey was a judge for the Ernst & Young World Entrepreneur of the Year, awarded in Monte Carlo.

James H. Boettcher is a founding partner of Focus Ventures, an early venture investor in PCH. Prior to co-founding Focus Ventures in 1986, he was a co-founder and Managing Director of the successful merchant banking boutique, Amsterdam Pacific Corporation, which was purchased by a large European bank in 1994. Prior to that venture, he was Vice-President of the Telecommunications Section of the Bank of America's Investment Banking Group, where he led

media and high technology assignments in the United States, Europe, and East Asia. Boettcher has an electrical engineering degree from the University of Wisconsin and an MBA (as an Arjay Miller Scholar) and MA degrees from Stanford University.

Linus Chung is Head of Corporate Development, New Markets for LinkedIn (NYSE: LNKD), the world's largest professional network, where he is responsible for corporate and business development for the company's strategic new markets. Before LinkedIn, Chung was Vice-President of Corporate Development at PCH International, where he led strategic initiatives, capital fundraising and investor relations. Prior to PCH, he was a venture capitalist at Lightspeed Venture Partners. Prior to Lightspeed, he was a management consultant at Bain & Company. Chung received a Bachelor of Science degree in Electrical Engineering from Stanford University.

Christina Zhang is PCH's Strategic Account Manager focusing on Asian market business development. She joined PCH in January 2000 and has since worked in different functional departments including shipping, product development, project management and executive administration. Zhang holds a Bachelor's degree from Shenzhen University and an MBA from HEC Paris.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Casey: “In the early to mid-1990s, many US technology companies opened large European manufacturing headquarters in Ireland. This presented a major opportunity. In addition to having a rapidly growing technology industry in Ireland, many of these big international companies were purchasing components that originated in Asia, in most cases China, which then arrived in Ireland through many different geographical routes. I saw a huge opportunity when I looked at what they were doing. It was often complex and very confusing. That confusion was often the competitive advantage for trading and supply chain companies. The first two years of PCH were all about learning. But we quickly identified an opportunity to simplify the supply chain process and make it much more efficient. This started on a small scale, but we were able to very quickly replicate this successful formula for multiple clients.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Casey: “PCH’s ability to win new business and quickly demonstrate to clients the need for our expertise has always been a key aspect in our growth. Early on we established partnerships with some of the some of the world’s best brands and continually added new services specifically tailored to meet their individual requirements. By simplifying their supply chain processes and providing peace of mind, we were able to save our clients time and money and let them focus on what they do best. We became a key part of their operations.

Setting up operations in China quickly and being present on the ground was a major factor in our success and gave us a huge competitive advantage. It allowed us access to the facilities and engineers and speeded up the whole process. Very early on we saw the need to become experts on running companies in China – not just having operations there.

Our continuing investment in technology is also a major accelerator. This has helped us increase information transparency with our clients. Transparency of process is a central PCH offering. We have developed a series of online software tools that drive internal PCH activities and provide a portal for clients to oversee and participate in the process. These systems enable PCH, our customers and third-party suppliers to view and share the same data.

PCH has, over time, developed a much broader platform to help our customers. Now, even if our client just asks for product quotes, we put that product through industrial design optimization that yields the best cost for the customer while minimizing potential quality issues. We are a leading exponent of supply chain management with very large benefits that are shared with our clients.”

Boettcher: “One of the key accelerators launching PCH from a company with revenue of around US\$ 100 million in 2008 to likely over a billion in 2013 was the closing of its US\$ 21 million series A venture funding in September of 2008. Liam had been reluctant to raise venture capital when we first met in January 2006. He had concerns that venture capitalists always tried to oust the founders and take control of many companies. I believe he would now say that his three initial venture investors have been good partners that have provided sound advice and added significant value over the years, contributing to his great success.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Casey: “Why do people manufacture in China? It’s down to the ecosystem of raw materials, and it’s down to the skilled workforce. These are the aspects that have had the most effect on PCH.

Chinese factories can respond to demand incredibly quickly. Anywhere else in the world, you’d have to import different raw materials and components. In China, multiple suppliers are located right on the doorstep and they can provide samples the same day, often within hours. People often have the impression that China is cheap, but really, it’s fast, and that was a key aspect that allowed our business to take off as quickly as it did.

Having a skilled workforce in China is probably one of the greatest assets you can have. China is not about cheap labour – in fact, labour costs on the products we make are typically a very small percentage of the overall amount. It’s down to the skilled workforce. As China has evolved over the last 15 years, so has the workforce. Shenzhen used to be the place to make cheap products. Then it became a cheap place to make products. Now it’s the only place to make the kind of products that we work on. We are moving from ‘Made in Shenzhen’ to ‘Made by Shenzhen’ to ‘Designed by Shenzhen’. Poor quality is now the exception rather than the rule. The new China lies in design, quality, clean tech, innovation and setting new world standards for global business.”

Boettcher: “The human resources side of PCH has been greatly strengthened. With increasing success, PCH has been able to attract more senior, successful managers and given them the decision-making authority needed to scale the business faster. PCH today is truly one of the most caring, employee-centric work environments I have ever seen. One of Liam’s early limitations was to have to be in control of all aspects of sales and the key customer relationships for each account. I have seen this in many private company founders over the years. Liam has adapted and improved greatly in this area as the company has grown. The broader management team at PCH embraces an expansive and strategic approach that is essential to scale the company and bring in multiple new customers.”

Zhang: “PCH was founded at the right time, in the right place and with the right people. In the late 1990s, Chinese PC manufacturers were mostly concentrated in the Pearl River Delta. It was the centre of the logistics chain for computer components. Being based in Shenzhen made it much easier for us to reach out to local factories and very much facilitated the sourcing and purchasing business. Finding the right people was also a key growth accelerator. For example, in the early days of PCH, one of our core team members was very well connected and had extensive knowledge of the PC industry in Taiwan. He was very helpful in expanding the company’s supply base. As more local staff, myself included, joined the company, the operation started to be managed locally instead of remotely from Ireland.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

Casey: “The biggest challenges for PCH were the lack of easily available finance and the limited availability of mentors and advisers.”

Funding is always a major challenge for start-ups and entrepreneurs – it's not always easily available. During the first few years our expansion was often limited by the funds we had available and, at times, we were stretched financially.

Likewise, finding knowledgeable mentors and advisers that are available to help entrepreneurs and start-ups is incredibly difficult. PCH's path was an unlikely one and we had to find our own way and navigate the complexities of doing business in Asia, Europe and the United States all at the same time. We did that with very few mentors guiding us and it was a real challenge at times. But that has given us the experience we have today and has opened up new opportunities for us."

Zhang: "Lack of expansion capital was a major challenge in the early days. Our customers are well-known and reputable companies, so there was not much problem in getting the payment. But we didn't have sufficient capital to expand product/service offerings, make new investments and launch new production lines to meet particular customer requirements."

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Casey: "From the very beginning, we were a truly international company – that's where we saw the opportunity. Our business was founded on the international technology market and opportunities to link up and simplify the supply chain, adding value along the way."

Boettcher: "PCH has always been a truly global company, led by a visionary leader from day one. How many Irishmen from Cork have lived in a hotel room in Shenzhen, China for over 17 years building a company whose revenues went from zero to over US\$ 1 billion, naming it after a highway in California... Pacific Coast Highway!"

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Casey: "Having suppliers, customers and our own teams spread across the different time zones in the United States, Asia and Europe has always been one of our biggest challenges, but PCH saw this as an opportunity.

The majority of our workforce is based in Shenzhen, but key elements of our global operations are managed from Cork, Ireland where they are able to communicate, during their working day, with customers in the US and their Chinese operations, giving us a competitive advantage over other supply chain management companies.

You have to be global, you have to think global. In business, geography is history and you have to be able to scale and reach other markets. We now have a team comprised of more than 4,000 people of 16 different nationalities located in 10 offices around the world."

Chung: "Working with clients from all over the world brings a unique set of challenges in communication and building trust. E-mail and conference calls are no substitute for face-to-face communication. A lot is often lost in translation when a client on the other side of the world can't see what you're seeing. They can't see a factory floor or touch a product prototype. If this continues for too long, clients may lose peace of mind. We'd sometimes have clients drop their plans and get on the first plane from the US to China right before a big production

ramp. A week of having them on the ground with us in person would usually assuage any concerns they had. We soon realized that clients shouldn't have to get on a plane to know that their project was on track. We now make a great effort to recreate the experience of coming to China and bring it closer to our clients. In 2012, PCH acquired Lime Lab, a product design and development firm in San Francisco, within a short drive of many of our clients. PCH is also launching a new centre of operations in San Francisco to act as a bridge to China for clients looking to manage a supply chain across the Pacific Ocean. Being global is a necessity in today's world, but we've learned that a little effort to bridge the international divide with our clients goes a long way."

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Casey: "Chinese people are very ambitious and entrepreneurial, and they want to do business. It was a challenge at first, but once we had built relationships and trust with people they were very helpful. We're still in touch with, and in some cases still doing business with, people we first met back in the early years.

Trading companies and intermediaries often used confusion as a competitive advantage. At PCH, we refused to accept this and sought to simplify the processes for our clients."

Chung: "PCH's headquarters are in Ireland, with major operations in China, but most of our clients are in Silicon Valley. PCH's growth benefited greatly from the vibrant ecosystem of technology companies in Silicon Valley. Silicon Valley's sheer density of technology companies with global ambitions is unmatched anywhere else in the world. One of the unique characteristics of Silicon Valley is the culture of collaboration and cross-breeding of ideas. The Silicon Valley ecosystem and culture made it easy for us to make inroads with new client prospects. Many times, new clients came referred to us by existing clients. Or supply chain managers from one of our clients would take a post at a new company, bringing along a strong recommendation and desire to work with PCH again. Our reputation preceded us with increasing frequency. This was, however, a double-edged sword. One bad client experience could hinder opportunities a long way down the road. We understood this and always prioritized creating constructive partnerships above all else."

**Q8: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Chung: "Large companies demand the best in every partner with whom they work. This is always a challenge, but we saw it as an opportunity. We see every interaction with our large clients as an opportunity to get better as a company, to raise our game to the next level. Our employees started to view working with our largest clients as the best training and experience possible. It was like getting paid to get a PhD in excellence. With a portfolio of large clients also came instant credibility that fuelled our growth. Over time, new clients coming in cold became increasingly rare. New clients came to us because their supply chain managers had heard of us or worked with us before at a different company. The conversation changed from

our having to prove to new prospects why we were the right partner for them to our having to decide whether we had the bandwidth to take on a new client's business."

Zhang: "Large companies (our customers) have helped us in many ways, and we have truly learned a lot from doing business with them, ranging from product design, to manufacturing, to quality control, which enabled us to build up our knowledge base substantially over a short period of time. Working with large companies also allowed us to examine and observe our limitations, whether it's human resources, or soft or hard infrastructures, and forced us to improve continuously."

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Chung: "A key potential problem with working with large companies can be the complacency that comes from steady revenue streams. The bar for bringing on a new client became increasingly high. With a handful of clients generating hundreds of millions in sales, our team began questioning why we would bother bringing on new clients if they didn't bring revenue of at least double-digit millions in the first year. We began to miss opportunities. Our CEO was visionary enough to know that the industries we play in move incredibly fast. The next multinational giant could be just a few guys in a basement tinkering on ideas right now. If we didn't change our mindset, we could miss out on the next big thing. We responded by creating a new programme to work exclusively with innovative start-ups. We put some of our best employees on servicing these small clients that demonstrated true growth potential. We applied our experience of working with Fortune 500 clients in an effort to give these start-ups the best service possible."

Zhang: "Every large company that we work with has a different culture and structure. Some companies tend to be aggressive and are highly efficient in business decisions, while others may have a more established and fixed business model, so decision-making may be relatively slow. Sometimes, even if the top management want to make a change inside the firm, it may be difficult to push it through the entire organization. So we need to learn to work with companies of different 'styles'."

**Q9: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Casey: "In May 2001, I decided to bring the entire company together for our first ever company-wide in-person meeting in

Cork, Ireland. Although we were then only a company of 14 people, that meeting included staff from many parts of Ireland, Shenzhen, Taipei, San Francisco and Austin, Texas. It was a pivotal moment in recognizing how far we had come and what we had achieved. It also made us realize the possibilities of what PCH could go on to achieve. Many of the people involved in that meeting are still with the company today and have played a big part in our success.

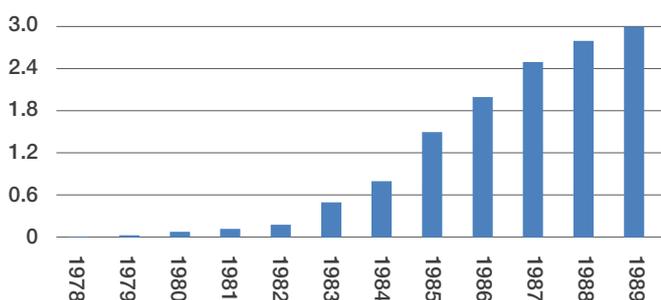
We're an entrepreneurial and opportunistic company – we don't see challenges as low moments. But one of the more challenging moments happened back in 1997 and involved a US customer based in the UK, a Taipei trading company, a Shenzhen factory and a Hong Kong shipping company, with an Irish bank financing the order.

At the time, there was in excess of US\$ 100,000-worth of products sitting at a Shenzhen factory, ready to leave for Europe, when a paperwork mix-up meant the bank refused to pay the factory. There would be a large fine if the product wasn't delivered, as the factory would have had workers standing around doing nothing. The factory owner refused a request for 60 days' credit. In desperation, I handed over my passport to the factory as collateral. The factory owner placed the passport in a safe where it stayed for two months, leaving me stranded in China for two months, other than a day crossing the border to Hong Kong closely accompanied by the factory owner who wouldn't let me out of his sight! However, it was time well spent in China, mostly travelling round the Pearl River Delta, to two or three factories a day, seven days a week."

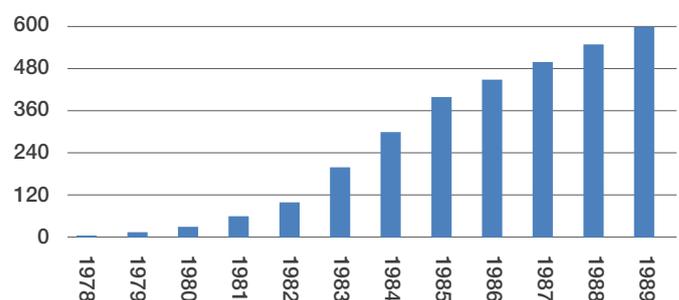
Chung: "In 2010, a huge portion of our staff was working tirelessly on a top-secret product for one of our biggest clients. It was one of the most inspiring displays of dedication to delivering great work I've ever seen out of a team. Finally, after over eight months of building in secret, the product was finally unveiled as part of a big announcement by our client. The product we worked on was

meant to complement a much bigger product our client was releasing at the same time. The huge surprise for us was when many consumers and journalists were praising the product we helped bring to life, some going so far as to say it stole the show and was more impressive than the main product. It was almost like the back-up singers were finally brought front and centre. Over the next few months, it was a powerful thing to see consumers around the world using the products that we had played a huge part in making possible. Our client was happy, consumers were delighted, and we were reminded why we work so tirelessly to deliver excellent products and services."

**Sales Revenue (\$ millions)**



**Headcount**



# Pintar International Corporation

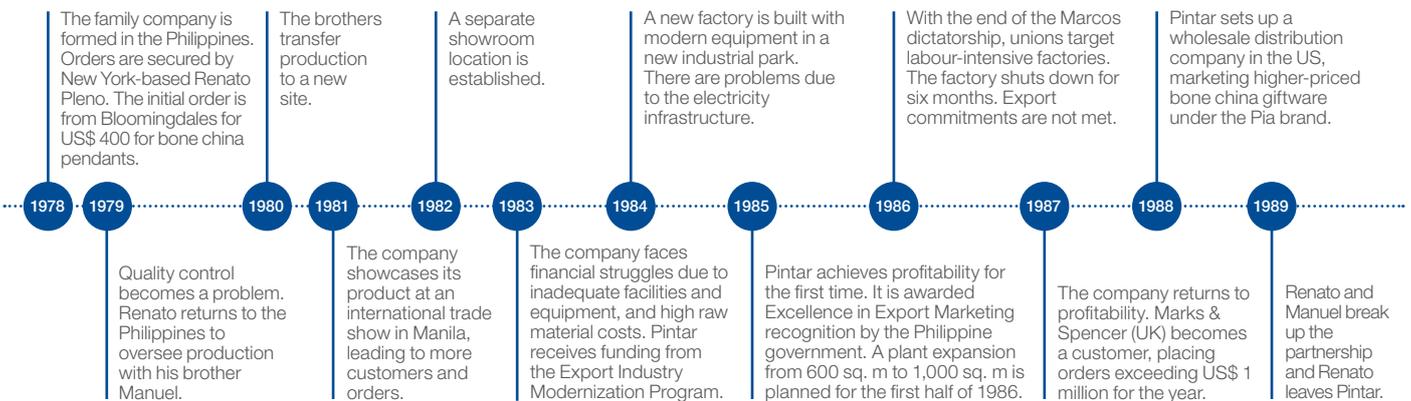
## Philippines

Prepared by George Foster

### Overview

Pintar International Corporation started as a backyard operation with a handful of workers and a small kiln to produce a special kind of ceramics called bone china (bone porcelain) under the supervision of Manuel Pleno, a ceramic engineer who had learned how to make bone china while training in New Zealand with a ceramic factory.

### Timeline/Key Events



### Quotations

Renato Pleno graduated from Ateneo de Manila University in 1970 with an AB Mathematics degree, summa cum laude, and as class valedictorian. He is a 1973 Stanford MBA graduate. After three years working with Union Carbide Corporation in New York City, he co-founded Pintar to promote Philippine exports to the US. He returned to the Philippines to look after the quality of production and to better promote customer focus. He was President of the Ceramic Export Manufacturers Association from its inception in 1984 until 1999. The association spearheaded the growth of the decorative ceramics exports from US\$ 3 million in 1984 up to US\$ 60 million in 1992.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Pleno: "The source of the initial idea was that we had a special capability – the making of bone china decorative products – that was possessed only by a very few companies worldwide. These companies were mostly in the United Kingdom where it was invented, with Wedgwood as the most famous maker. The world ceramic industry is very wide in product scope, from building materials (bricks), sanitary wares (water closets), dinnerware, and gift and decorative accessories as the main categories. The gift/decorative accessories category required little capital investment and was very labour-intensive, an ideal situation for a start-up in a developing country such as the Philippines. One special attribute of the Filipino people is their creativity and artistic bent, which further strengthened the competitiveness of an enterprise run by Filipinos.

"The world market for bone china decorative wares was mostly concentrated in the US, the United Kingdom and Germany. The English makers had already developed a sizeable market for their decorative bone china. At the time Pintar entered the market, there were a Japanese maker and several Taiwanese makers offering a less expensive product due to significant wage differentials between the United Kingdom and the Asian countries.

“Deciding what to produce, creating innovative and attractive designs and correctly pricing them, given our production limitations at the start, was critical. Fortunately, we mostly made the right decisions and the company grew. From fashion jewellery pendants to napkin rings, we graduated into bathroom accessories (tumbler, toothbrush holder, soap dish), and then to larger vases, footed bowls and dishes. We also went in new directions, like Christmas ornaments.

“As our production facilities improved and our ovens became larger, we were able to introduce more items into our product lines and also achieve economies of scale to make it economically viable.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Pleno: “Finding large customers was the most important accelerator for our company in the early years of high growth. Being a small start-up company, our size was a challenge compared to our potential buyers’ requirements. Servicing the orders to our customer’s satisfaction and getting repeat orders is really the name of the game. Consistent and dedicated work with no let-up was essential for Pintar. We also developed our business with smaller customers to grow them into medium-sized companies. We were continuously product-developing with them, some ideas coming from them and others from us. Also, by having satisfied customers, word goes around the buying community, and referrals from existing customers brought in more customers.

“Finally, we had unexpected sales help us grow and build stature. An example was when an NGO approached us to provide employment for resettled squatters (slum dwellers) from Metro Manila who lived near our factory. They were taught how to make bone china roses (small ones that could be transported in boxes without crumbling) to attach to our vases. Pintar designed a range of gift items with at least a dozen roses attached to each item. These products were very successful at the Frankfurt show. Our sales jumped and we were able to give livelihood to quite a number of people outside our factory.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Pleno: “The ecosystem in the Philippines was not manufacturing-friendly when Pintar started. We encountered politicians grand-standing and passing 20% increases in minimum wages without regard to labour-intensive export industries such as Pintar’s. Overregulation drove up the cost of doing business. Advance taxes on imports, automatic surrendering of foreign exchange to the central bank and buying again when needed to import raw materials became part of doing business.

“Nonetheless, there were also positives from the government for a small start-up during our early years. They helped us participate in international trade fairs. The Department of Trade and Industry helped us negotiate ways to satisfy some government regulations.

“A major positive for Pintar was the opening up of the special funding for export industries called the Export Industry Modernization Program. The Japanese government provided long-term money (up to seven years) at 7 and 3/8% per annum interest rate to Philippine exporting companies. In the Philippines, even today, there really is no long-term financing available to manufacturers. A one-year loan is already considered long term. At the time Pintar needed the financing, interest rates were running 20-30%. Later, government administrations frowned on this type of financial intervention (sadly) and wanted the regular banking channels to provide the needed financing.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Pleno: “Normally, in a well-developed economy, there is a lot of horizontal integration among industries. Thus, if I were a ceramic factory, there would be clay mining companies, clay formulating companies, glaze-making companies, colour makers, kiln manufacturers and kiln furniture makers. In a developing country, when one starts a new industry, there are no support industries. You have to source them abroad. This is feasible if you can bring in materials and equipment freely into your country. However, usually, developing countries have very stringent rules about importing materials and tax them very heavily. To overcome this, one has to register with the government as an export company which requires a lot of paper work and time. My MBA background helped in negotiating with the government.

“Your ability to create innovative products is often hampered in developing countries. For instance, we had one customer, The San Francisco Music Box Company. The music movements for this product category are only available from Switzerland and Japan. Bringing them into the Philippines required so much effort that we could not really exploit this business fully.

“Another example is packaging. There is a local packaging industry in the Philippines, but the quality does not pass the requirements of Marks & Spencer. However, the government protects the local industry. The result was large amounts of effort to justify importing the gift boxes from Hong Kong.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Pleno: “Since the outset, we were aiming for international markets. Our principal target market was the US and the United Kingdom since they were the most developed markets for our product. After our initial four years of operation and just managing to survive, we decided to build a factory with the right equipment, tools, raw materials and adequate capital. That is when we decided to apply for a long-term loan and had to put up my brother’s house as collateral.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Pleno: “The biggest challenge in growing our business internationally was the aggressive competition from Taiwan and later China. If we were very successful with one design, for example with Marks & Spencer and our ‘Victoria’ collection, in a year’s time our Asian competitors would have copied the design down to even the packaging and the name, at one-third to half our price. But the big difference would be the quality. While ours was bone china, theirs was a more greyish porcelain. Fortunately, the English public would rather pay the little extra and get the real thing than just a cheap substitute. Our prices were still moderate compared to the English product and just as good in quality (as admitted by Marks & Spencer).

“The other strategy to overcome the Chinese competition was to enter new product categories and niche markets that they would not imagine entering. For instance, we collaborated with a Scottish soap maker to make Humpty Dumpty egg cups, with their soap in the shape of an egg. We sold tens of thousands of these. We worked with one Christmas decoration wholesaler and developed items which were not glazed and made ideal candle votive holders.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Pleno: “The countries we first chose to export to were very well-developed as markets, especially the US. The wholesale and retail trades were very organized. Wholesalers were typically national in scope, i.e. covering the whole US, with most having up to 15 showrooms in key market centres. Sales representatives ably covered the different market territories. There was a calendar of shows regularly attended by the tens of thousands of Mom and Pop stores all over the country. For decorative ceramic wares, for instance, there was 225 Fifth Avenue in New York City. Here, anyone important in the wholesale trade of gifts and decorative accessories can be found. Apart from the trade shows, there were monthly trade magazines that showed the latest collections and who’s who in the trade.”

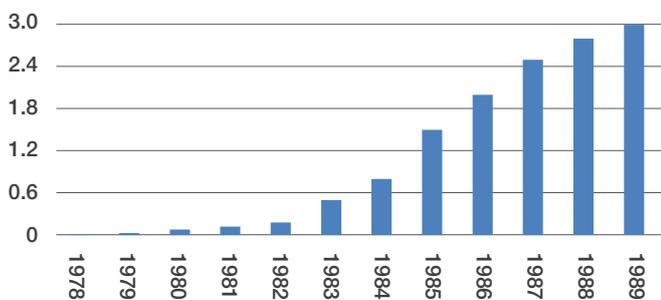
**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Pleno: “One event that captured a dark moment and a high moment happened sometime in 1987. One of our biggest customers was a UK party plan (Avon style) company that was the second largest in Britain. We had been doing business together for over three years and our volume of business had reached close to half a million dollars annually. Our transactions were done through letters of credit (L/C) which stipulated the items ordered, quantities, prices and the latest shipment date. As long as the supplier strictly followed these conditions, payment was assured. Any changes, like extension of the delivery date, however, would require an amendment to the L/C which could be quite expensive.

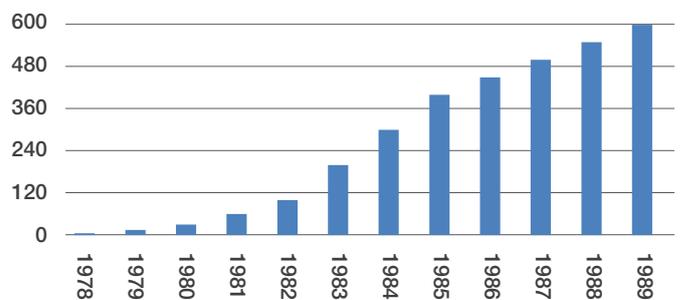
“In one instance, as we were finishing up on two purchase orders to be loaded on two 20-foot containers worth about US\$ 60,000, we realized we would miss the L/C’s latest shipping date by a few days. As had become routine with this buyer, I would fax her that we would miss our deadline and request a fax back saying that they would accept late shipment. This would be enough to present to our bank so that they would purchase our export documents without an L/C amendment. We had done this many times before. It also happened that I was leaving for Frankfurt, Germany, where we exhibited twice yearly at the largest gift and housewares fair in the world.

“When I arrived at the fair on opening day, I received the news that my party plan buyer had gone bankrupt! This meant that I would not be able to claim payment for my shipment. I contacted all my UK buyers and informed them of the situation. I was very disappointed to hear them offer to pay me 40 cents to the dollar for my shipment. I narrated my sad experience to my biggest German buyer who did about US\$ 250,000 annually with me. Much to my surprise, he offered to buy the whole lot (the items were the same as what he regularly buys from me) at full value. I was overwhelmed and inspired that, in this world of business, there was room for fairness and integrity. This German buyer became my most prized customer.”

**Sales Revenue (\$ millions)**



**Headcount**



# Polyera

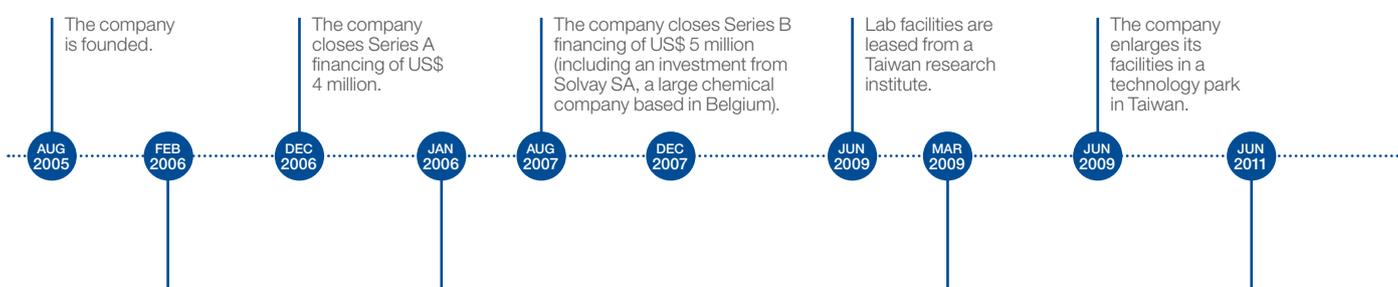
## USA

Prepared by George Foster

### Overview

Polyera is a materials science company enabling next-generation electronic products. The company's current focus is the development of flexible display technology that will enable the future of consumer electronics. An example of such products would be a tablet (like iPad) that can be rolled up and slipped into a pocket. Polyera's business model is to supply its specialty materials along with associated knowhow to manufacturers. While these materials can be used in a wide range of applications, Polyera's current focus on display technology means that most of its customers are based in South Korea, Taiwan, China and Japan.

### Timeline/Key Events



### Quotations

Philippe Inagaki is Founder and Chief Executive Officer of Polyera Corporation. Prior to Polyera, he worked in operations and business development roles at high-tech start-ups in various fields, including biomaterials and embedded electronics. Inagaki holds an AB in physics, magna cum laude, and received the Allen Goodrich Shenstone Prize for excellence in research from Princeton University.

Prakash Ramachandran is the Chief Financial Officer of Polyera Corporation. Prior to Polyera, he worked as chief financial officer in a number of companies including Nordic Windpower, Novariant, Sonicity and Sonex Group. Ramachandran is a Chartered Accountant from India and holds a Master's degree in management from The Graduate School of Business, Stanford University.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Inagaki: "In January 2005, I was scouting for technologies in US universities with the goal of finding the seed for an audacious technology company. I met professors Antonio Facchetti and Tobin Marks at Northwestern University and was introduced to the field of printed and flexible electronics. Antonio and Tobin were working on new classes of electronic materials which could enable novel form factors and manufacturing processes. After conducting some due diligence, it became clear that many of the world's leading electronics manufacturers were extremely interested in the field of printed and flexible electronics, but that a key bottleneck was the availability of materials with suitable performance levels. Polyera was founded to address this bottleneck and enable the next generation of electronics.

"At heart, the vision and business model of the company has remained consistent since the founding. However, we have greatly improved our focus and our understanding of applications and markets over time. The potential of our materials is to enable the printing of electronics in much the same way you print a newspaper, and to allow these electronics to be plastic-like in their mechanical properties (e.g. plastic, unlike a glass display or silicon chip, is flexible and will not break if you hit it with a hammer).

“One of the applications that initially came to mind was item-level RFID tags, i.e. printing RFID tags on every item in a store the same way a bar code is printed on every item. In 2005, when the company was founded, RFID was a hot sector. In 2003, Wal-Mart had declared its intent to have its top 100 suppliers tag every pallet and case. Many analysts were predicting the widespread adoption of RFID technology, but as it turns out, adoption has been much slower than anticipated.

“Another application which was in our sights was flexible displays. In this case, the context has evolved in an incredibly positive direction. The introduction of the iPhone in 2007 and iPad in 2010 has created a huge demand for mobile computing and consequently there is incredible interest in more advanced displays that are lighter, thinner, more robust and eventually flexible. The recent emergence of wearable electronics as the next wave of hardware has even further increased this interest. These trends are very likely going to be sustained over the coming decade, and we have positioned Polyera to take advantage of them.”

## **Q2: What were the major growth accelerators for your company in the early years of high growth?**

**Inagaki:** “When Polyera was founded in August 2005, we found ourselves in a common situation for a university spin-out. We were developing a platform technology with very large potential markets, but there was a lot of uncertainty around the amount of time it would take us to reach first commercialization. Because of this uncertainty, we did not even attempt to raise venture capital. Instead, we focused on exploring corporate partnerships under which we could receive significant development fees.

“In February of 2007, we were able to close a multimillion dollar partnership with BASF, the largest chemical company in the world. Our discussions with BASF began in December 2005, so it took a little over a year to finalize a deal. Our key focus in the negotiations was ensuring that at the end of the collaboration’s term in September 2009, we would be free to walk away and continue to build our business independently if we chose to do so. This entailed careful crafting of the intellectual property terms of our agreement.

“As it turns out, this approach was critical because we did end our collaboration with BASF in 2009, despite good faith efforts on both sides to negotiate a continuation. Our collaboration was viewed as a success because we hit every technical milestone ahead of schedule and BASF continued to have interest in the field, but a few factors made the discussions quite difficult. One was that in April 2009, BASF had closed on its acquisition of Ciba, a specialty chemical company which happened to have some research activities in printed and flexible electronics. To be clear, BASF’s decision to acquire Ciba had nothing to do with their research in printed and flexible electronics, as this was a small pre-revenue effort within a US\$ 5 billion+ revenue company, but all of Ciba’s research activities had to be merged as part of the acquisition. In other words, the lengthy and complicated integration of a US\$ 5 billion+ company became relevant to our discussions with BASF because that business happened to have some exploratory research in printed and flexible electronics.

“Today, while both Polyera and BASF continue to have research activities in related fields, our strategy, focus and technology portfolios are very different and so we are neither collaborating nor competing significantly. That being said, our partnership with BASF and other large corporations were definitely strong growth accelerators in our early days. So, I am a strong advocate of young technology start-ups pursuing corporate partnerships, as long as it is done with eyes wide open.”

## **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

**Inagaki:** “Because we spun out Polyera from Northwestern, we decided to establish our labs just a few miles away from the university. Such close physical proximity was a big advantage to the company in its early days as we were able to leverage equipment at the university at low costs and avoid significant capital investments. In addition, Northwestern’s material science department consistently ranks as one of the top 10 in the world, and the university has been a great source of talent. We also continue to sponsor research at the university and benefit from new ideas which originate from these programmes.”

## **Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

**Inagaki:** “Chicago’s ecosystem for funding high-tech ventures is much less developed than that of other areas such as Silicon Valley or Boston. However, the most challenging gap has been the fact that the US does not manufacture flat panel displays, and therefore it is extremely hard to find engineering talent with a deep understanding of display manufacturing domestically. We have addressed this gap by opening an office and laboratory in Taiwan, but looking back, the company would have benefited from adding more ‘hard-core’ display process engineering talent early on.”

## **Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

**Inagaki:** “After beginning some joint development programmes focused on the commercialization of flexible displays, not only did we realize that we needed much more display engineering talent within our company, but we also realized that we needed to be physically much closer to our customers in order to make rapid progress. This meant opening a technical facility in South Korea, Japan, Taiwan or China. Taiwan had a combination of the right talent pool, display partners and a reasonable cost structure. In addition, while the top display companies were historically based in Japan, South Korea and Taiwan, it was clear that China was rising quickly and likely to become the largest display manufacturer over the coming decade. Building up in Taiwan would give us a pool of Chinese-speaking talent which could assist our future expansion into China.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Ramachandran: “Once the decision to expand into Taiwan was taken by the company, the first biggest challenge was to identify a leader who could run the operations in that country. It was not easy to find a leader who had a strong track record in the industry, who could culturally fit into our start-up values and who shared the same vision as us for the flexible display market. We were lucky that a very strong candidate became available at the right time, and we acted very quickly to recruit him.

“The second challenge was to have access to high-quality equipment and facilities that were needed by our Taiwan team for using our core materials (that were developed in the US) to develop process expertise and build demonstrators that could be shown to potential customers. Initially, we rented lab facilities from a Taiwan research institute to get started quickly, and then we gradually built our own facilities within the first year of expansion.”

Inagaki: “The biggest challenge from my perspective has been to align two teams across the world to work in a very fast-paced, high-pressure environment, especially given the culture difference between the sites. In addition to the obvious East-West cultural differences, our technical talent in the US has a mindset focused on innovation, while our technical talent in Taiwan has a mindset focused on advanced manufacturing. As we cross-fertilized these mindsets, our company has gained a strong competitive advantage over other materials suppliers.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Ramachandran: “One of the key aspects of the ecosystem in Taiwan is that there are a lot of display manufacturing companies that were target customers and partners for our products. These companies have a track record of partnering with young companies to launch new products using new technologies. Having a strong local presence helped us gain traction with some of these key potential customers in Taiwan.

“There is also a very strong talent pool of display engineers in Taiwan who have had a rich experience with these display manufacturing companies. We were able to attract high-quality employees at competitive salary levels. They brought a tremendous amount of credibility with our target customers and their work ethic has been phenomenal.

“Another aspect of the ecosystem is that the other major display manufacturing countries (like South Korea, China and Japan) are easily accessible from Taiwan and hence customer development and customer support in those countries became easier for us.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Inagaki: “One of the dark moments was that early on, after setting up operations in Taiwan, the wrong material sample was delivered to one of our Taiwanese partners and caused several days of R&D to be wasted at the customer site. This came about because of inadequate internal processes between our US and Taiwan sites and was quickly addressed, but it caused tensions within the company and embarrassment towards the customer.

“One of the high moments was that after starting our Taiwan operations, we were able to produce a display demonstrator with our materials in an outstandingly fast time (approximately eight weeks). We also quickly achieved great success in business development, often securing partnerships and joint development agreements where our competitors had failed to do so.”

# Pronto Promo (Private) Limited

## Pakistan

Prepared by Syed Zahoor Hassan and George Foster

### Overview

Pronto Promo (Private) Limited is the leading promotional products company in Pakistan. It has grown from a home-based business to a case-study small and medium-sized company (SME) cited as a role model for Pakistan's promotional products industry.

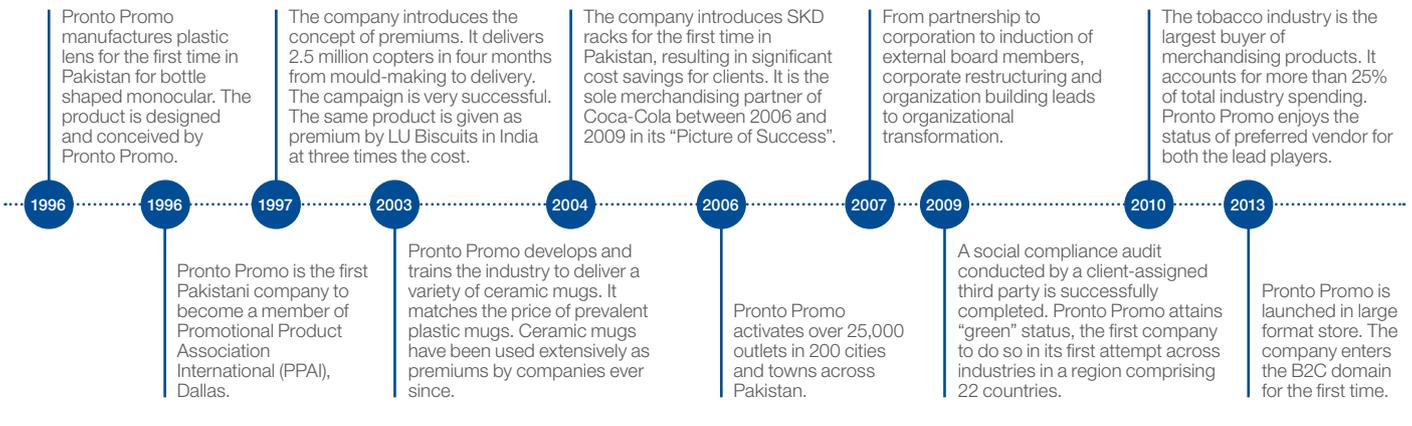
With a client portfolio comprising more than 30 Fortune 500 companies, Pronto Promo has been a partner of choice for leading brands for more than a decade. High client retention and tremendous goodwill are an endorsement of its consistent contribution to clients' objectives.

A company built on an outsourcing model with a highly flexible and scalable assembly line, Pronto Promo has backward integrated in some of its core industries, namely wirework, fabrication and wood working. With a projected turnover of 500 million Pakistani rupees (PKR) in 2013 and 120 permanent employees, Pronto Promo's peak-time workforce reached 300 in 2010.

Pronto Promo is the only socially compliant supplier of Coca-Cola, Nestlé and PMI in Pakistan's merchandising/promotional products industry. In the words of the auditor, "This is the first time across industries that anyone got a Green in its first attempt in a region comprising 22 countries."

Today Pronto Promo's name is synonymous with quality. It has a 19-year track record of delivering quality products at highly competitive prices. With a focus on capacity building and capability enhancement, Pronto Promo is ready for a new era of growth and success.

### Timeline/Key Events



### Quotations

Saulat Salahuddin is the lead entrepreneur, Co-Founder and CEO of Pronto Promo (Pvt.) Ltd, a promotional products company that is widely considered to be the industry leader in Pakistan. In recognition of Salahuddin's achievements, she was invited to the launch ceremony of the Small and Medium Enterprises Development Authority (SMEDA), where Pronto Promo was showcased as a model business. She is invited regularly by Lahore University of Management Sciences (LUMS) to speak to current MBA students about entrepreneurship and her experiences as a businesswoman. Salahuddin earned her MBA from LUMS and completed her BA from Lahore College for Women. Her initial jobs after completing the MBA were based in Morocco and the US and involved sourcing for the apparel industry

Najaf Yawar Khan is Co-Founder and Director of Pronto Promo (Pvt.) Ltd. Khan obtained an MBA from LUMS in 1989 and later worked in Morocco before returning to Pronto Promo. He obtained another master's from Lancaster in 2000. He was responsible for in-house production at Pronto Promo from 1994 to 1999 and played the leading role in designing and implementing the company's flexible assembly line process. In 2002, Khan joined the faculty of Government College University (GCU) to teach operations management. Since 2006, he is Associate Professor, Director and Chairperson of GCU's Management Sciences department.

Aftab Ahmed joined Pronto Promo in 1996 after a brief stint at Ammar Textile. Until 2010 he was responsible for all in-house production as well as setting up production at all vendor locations. Since 2010 he has managed the development department, overseeing the development and sampling of roughly 250 new product ideas every year. In 2013 he took on the additional charge of compliance, making him accountable for Pronto Promo's conformity with all regulatory and social responsibility requirements. Ahmed has a BA from Bahauddin Zakariya University, Multan.

Amir Anis has been director of business development since 2009. He is responsible for managing most of company's client portfolio as well as for developing new clients. From 2002, as General Manager Anis was responsible for the day-to-day operation of the company. From 1998 to 2002 he headed the sourcing department, responsible for finding new vendors, managing outsourced production and purchasing. He joined the company as sourcing executive after completing a BSc in 1995.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Salahuddin: "Returning to Pakistan after my jobs in Morocco and the US, I started working as a freelance marketing consultant. A survey that I carried out for one of my consulting projects helped me identify an opportunity in the giveaways market. This niche was occupied by unorganized players who just brought ready-made products from China, and clients were receptive to a formal sector entity that could provide custom-designed solutions.

"I realized my first sale in March 1994 by selling 5,000 pyramid clocks to Glaxo Welcome. We successfully completed the deliveries by September. I hired Pronto Promo's first employee and set up an office in my room. The next few orders also came from the pharmaceutical sector.

"Our strategy revolved around outsourcing major components and then doing the final assembly in-house. Over the years, Pronto Promo developed a large pool of vendors and suppliers to whom it was lending active managerial and financial support to ensure timely execution of the product. Najaf set up the assembly line in a manner that made it one of our core strengths. It was a very flexible and scalable assembly line that could accommodate a variety of products and deliver efficiently, based on time and motion study notwithstanding any manpower constraints."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Salahuddin: "I can identify three major factors:

1. Our client base comprised blue-chip companies only. Coca-Cola, Nestlé, Unilever, Gillette, Servier and Schering Asia were some of our early clients. This was a thought-out strategy that was clearly pronounced when I started Pronto Promo. This strategy was the key takeout of my one-year consulting experience with the 2nd- and 3rd-tier companies. It took forever to get consulting fees out from them. It was with this background that I decided to sell to multinational corporations (MNCs) only where, once the purchase requisition is raised and budget approved, all you are dependent upon is your performance against the agreed-upon deliverables. This strategy opened the doors to a huge market for Pronto Promo. The energy was spent on selling ideas and not worrying about the fate of

receivables. Additionally, these clients were keen to explore and work on new ideas that could be scaled up. Their previous suppliers were shy of taking up big quantities whereas we thrived on large quantities.

2. Our outsourcing model allowed us to deliver large quantities. This was the only barrier to entry as the other players in the industry did not possess the capability to deliver on large orders. At Pronto Promo, we constantly identify and build the best source for different processes, components and products. Through constant management support, Pronto Promo is able to add value to its suppliers. Our suppliers have benefited in terms of enhanced operations management skills and have delivered to quantities that they never thought was possible. Our flexible and adaptable production capability has enabled us to establish quality-conscious, cost-effective manufacturing set-ups that can deliver to a deadline.
3. Our highly flexible and scalable assembly line, based on time and motion study and where we can run multiple projects in parallel, has been our unique feature.

"At a time when piece rate was prevalent all over Pakistan, we instituted hourly wages. The philosophy behind this was to pass on the ownership of the project and quality to management and not leave it to workers. We have never had quality-control inspectors at Pronto Promo; quality is built into our processes."

Khan: "An in-house scalable finishing line permitted great flexibility in delivery schedules as we could increase capacities by over 200% in a matter of weeks, and that too for a short duration of time, still staying very cost competitive. It also provided quality assurance and certainty about what we were delivering."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Salahuddin: "Of the factors listed above, the three that helped Pronto Promo most to grow were:

1. Availability of accessible markets: With many leading MNCs operating out of Pakistan, all I had to do was identify the buyer, think of a product and get them excited about the value that our product could add to their campaign and help them attain their goals. We always got orders wherever we went. At times it felt like a seller's market.
2. Availability of workforce: Contrary to the plight of entrepreneurs and small businesses, who constantly complain of workforce-related issues, we have been extremely lucky, as this has never been a constraint for us. It is actually one of our biggest strengths. Due to the very nature of our business, a dynamically changing product line, varying workforce requirements that are highly dependent upon order quantities, timing of the campaign and the lead time available, we always had a very large component of temporary workers. Our production model is geared to hire, train and assimilate fresh workers and get quality production from them. It takes us between 3 and 4 days after induction to reach optimal production target on our assembly line. With a permanent workforce of 35, our peak-time temporary workforce has gone as high as 300.

3. Availability of mentors: This is another factor that has helped me chase my dream. My teacher and MBA project adviser at LUMS has been a great mentor. Every time I thought I had reached a dead end, he was someone I turned to. He gave me ideas, insight and considered opinion that helped me take up the challenges head on. The physical proximity of the school also helped me reach out to him easily and frequently. My husband has been a coach and mentor to me for the past four years. Having been at the helm of affairs of large organizations, he played a pivotal role in Pronto Promo's restructuring and helped me to focus more on the bigger picture. He has been my biggest constructive critic and supporter."

Ahmed: "Though we had access to a healthy stream of workforce, none of it was skilled particularly in the context of our industry. Even now when we are able to find skilled workers, universities still fall short on courses and degrees that are relevant to our industry. With regard to this, we make it our personal mission to train and develop the skills of the work force we hired."

Anis: "We were bringing about a new kind of business and in the business world we invoked a sense of curiosity and envy. This got us respect and support from the business sector."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Salahuddin: "Pronto Promo's biggest challenge has been the lack of funding. There are very limited financing options available to entrepreneurs in Pakistan. There is no cash-flow-based lending in this economy. Here, you have to be born in money to make money. There was never enough running finance (R/F) available to support our operations. We have historically given between 10 to 15 times turnover against the R/F facility available. Despite all this, we can never get funds on time.

"Government regulations fuelled the problem. Prudential regulations of the State Bank of Pakistan (SBP) do not allow cash-flow-based lending. There can be no clean line of credit. The only time the SBP allows companies to export against purchase order (PO) is when the payment is made against documents. No multinational is interested in taking this headache.

"Another challenge is the lack of trained workforce and management personnel. Labour is not cheap in Pakistan; it is actually very expensive. The lack of education and poor vocational training make them very expensive. It is very difficult to train people without basic literacy and numeracy. On the workforce end, we have been successful in implementing an effective training system particularly when it comes to assembly-line products but there are serious gaps in technical areas. The poor quality of training imparted at vocational training institutes is a serious handicap. A bigger challenge is capacity building at managerial levels. The quality of education does not equip people coming in at executive positions for any form of critical thinking. They do not possess the right skill sets and domain knowledge that can help them grow in an organization."

Anis: "A sales tax law was enacted in 1996. Pronto Promo was the first company to voluntarily register with the authorities. The implementation of the law was at nascent stages across industries with a lot of resistance from suppliers, and here we were, a company giving attention to these things along with a new business model which truly posed a challenge.

"There were not many reforms or frameworks for businesses in the days when Pronto Promo started out. We decided to make most of our payments through cross checks. This policy was met with a lot of resistance from suppliers and vendors who demanded payment in cash.

"Skilled labour as well as qualified management were absent in our industry. There are no courses or degrees even today that cater specifically to our industry requirement. We overcame this by educating our vendors and suppliers about the importance of such steps and bringing them on board. The concept of documentation and processes was alien to the market we were operating in."

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Salahuddin: "2006 was a benchmark year for Pronto Promo. We were able to pay off all our losses and were profitable again. It was at this stage that I decided to pursue Coca-Cola Atlanta for a social compliance audit so that I could pursue international orders. I resolved to convince our key vendor to move to Pronto Promo's purpose-built premises and run their businesses from there. No one even entertained the idea. They were not willing to, nor ready for any form of structuring that could have led them to the path of compliance. I, who was a strong proponent of outsourcing and who resisted being a manufacturing set-up for years, finally decided to backward integrate some of our core processes. Pronto Promo invested everything it had earned since its financial turnaround in its facility, which earned Coca-Cola Social Compliance Audit certification on its first attempt on 5 November 2009. Following compliance certification, the scale and the scope of our work changed altogether. Now as we look forward to breaking into the export market, it seemed very logical and possible."

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Salahuddin: "With a socially compliant status, I felt like a five-star general. The irony of it all is that we lost the very client for whom we had undertaken the audit, namely Coca-Cola. Our sales to CCBPL (CCEC's bottling partners) dropped from PKR 90 million in 2008 to PKR 7.5 million in 2009, post compliance certification. With 15 years of track record of delivering good quality and innovative products to Coca-Cola, being their key merchandising partner ever since Coke started its retail merchandising drive in 2006, being showcased as a success story in Coca-Cola's picture of success in a four-day session where 10 countries of the region participated, being the only socially complaint supplier in our industry, we lost Coke who had been our biggest client since 2006. Contracts were given out to a new stream of non-compliant local suppliers and to this day I wonder why we were thrown out. It turned out that social compliance was not mandatory; it was just a façade for these MNCs and a

good selling point in front of the international audience. In a country rampant with corruption, not many cared if the laws of the land were adhered to or if the health and safety of the workforce were their key consideration.

“The next challenge is to sustain this growth and meet our 2015 target of PKR 1 billion in sales. For this we have to bring in international collaboration along with exports. Pronto Promo has to partner with international companies that are key players in the international merchandising industry, servicing similar clients, if it plans to stay in a leadership role and grow. This has not proven easy so far. The companies are very reluctant to even talk to someone from Pakistan. Their generic response is ‘it is not in our plans for now.’

“I met with the vice-president of one of the leading merchandising companies two years back. They are present in more than 100 countries across the world and share a lot of common clients with us. The meeting went well and I was successful in convincing him to allow us to take some of their products to Pakistan for manufacturing under license but then the board did not grant permission. As the saying goes, ‘you have to kiss many frogs before you find your Prince Charming’. We will keep searching until we find a partner of choice to collaborate with.”

“I am very hopeful that these companies will come to Pakistan, given the history of multinationals that are operating successfully in Pakistan, most of which are posting double-digit growth and investing heavily despite the security threats and poor international image. The ground reality is very different from the perception or else MNCs would not be investing in Pakistan.”

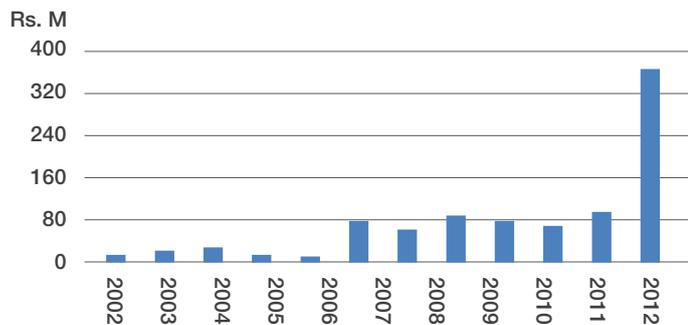
**Q7:What major role, if any, did key aspects of the ecosystem in the country(countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Salahuddin: “Some of the buyers at multinationals believe that those suppliers who have set up proper production facilities through organic growth have done it through over-pricing. There is also a general perception that being socially compliant translates into higher labour cost and hence a dent to their pocket. They totally overlook the benefits that such a set-up brings in terms of cost efficiency and order processing. A lot of these companies have a very short-term and transactional approach, working from order to order. They do not look at their vendors and suppliers as strategic partners. They are not interested in helping their supplier develop core capabilities that would make them long-term partners.”

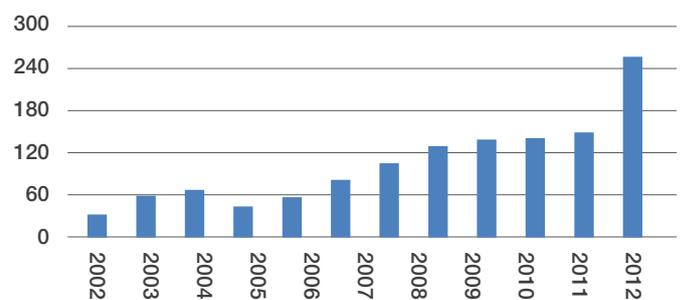
**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Salahuddin: “The high moment was obtaining the international social compliance certification but it also led to the darkest moment when the customer pulled back their business for no valid reason. They wanted us to be complaint and yet they wanted us to compete head on with those who openly do gross violations and cut corners. If compliance is important, then why is everyone not judged against one standard? It is the double standards of the multinationals that is a major challenge for companies from developing countries to do work with these organizations on a sustainable basis.”

## Revenue



## Headcount



## Overview

QC is a non-bank financial institution providing loans to micro and small businesses in low-income urban communities in northern and central Mexico. QC started operations in 2005 in Monterrey, Mexico, a market that had been overlooked by the financial industry and was served mainly by informal money lenders who charged extremely high interest rates. Since its origins, QC has pursued a unique branchless distribution strategy supported by a network of independent women representatives, which has allowed it to achieve a widespread presence in the markets it serves.

## Timeline/Key Events



## Quotations

Oscar Robles is Founder and CEO of QC. Prior to creating QC, he was active in investment banking and direct investments through Quantum Capital (QC's predecessor), a company he founded in 1996. Previously he held senior executive positions at CYDSA and CEMEX. Robles holds an MBA from the Stanford Graduate School of Business where he was a Fulbright Scholar.

Jorge Melendez is Vice-President, New Media, for Grupo Reforma, the largest newspaper consortium in Mexico. He is also an investor and co-founder of ProTeak, a teak plantation and transformation company that went public in the Mexican Stock Exchange in 2010, and an investor and advisory board member in Phunware, an Austin-based start-up that is the worldwide leader in App development for AAA companies. He writes "Benchmark", a biweekly column published in the Business section of Grupo Reforma's papers in Mexico City, Monterrey and Guadalajara. Melendez is a Fulbright Scholar with an MBA from Stanford University.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Robles: "Two events led to the start of QC. Back in 2003, CEMEX retained my consulting firm to help them develop a strategy to finance cement through their distribution network in Mexico. Our recommendation to CEMEX was to develop their own financing arm to serve the end consumer by itself, but its decision was to partner with GE (later shut down due to bad implementation). Later, in 2004 Home Depot Mexico hired our company to look for acquisition candidates to accelerate their growth in household appliances, which led us to analyse several retailers that based their business on consumer credit. We concluded there was room for financing home improvement projects for low-income people and therefore decided to test the market in 2005. While our initial assumptions about the home improvement market proved to be correct, many of our customers continued to ask for financing for other needs, including short-term funding for their home-based businesses, once they paid back their original loans. The decision to broaden our original product offering brought significant growth to QC."

### Q2: What were the major growth accelerators for your company in the early years of high growth?

Robles: "I believe that we were open to listen to a customer whose needs had been historically overlooked. During our first years, I spent most of my time in the field understanding the market. We developed our product offering by adapting some financial structures which I had used for structuring venture capital transactions. We also made the decision not to invest in branches in order to cut costs; therefore we

started developing a network of independent women representatives (promoters) in poor neighbourhoods who would help screen customers based on their reputation in the community.

“Instead of paying rental fees, our representatives’ homes became our offices. This saved costs and our promoters loved it, since they could work from home and take care of their family. This also forced our employees to be in the field rather staying in their offices. When the network started to take off, the customer base grew fast and the implementation of a proprietary IT system and contact centre allowed us to capitalize the opportunity without opening branches. At some point we decided to furnish each of our representatives with a computer so they could log into our system to process applications and look at their collection reports. Also, I believe that as important as the market opportunity, the support of our investors was a key factor for our success. We have a very active board that has guided our growth and has helped set the vision of QC. All of our board members are experienced business people and are investors in the company; therefore they are fully committed to the success of the company.”

Melendez: “QC’s Board is formed by investors who have a wide range of practical experience in sales, financial analysis, human resources and project management. Members thus not only have their money invested but brought their experience and guidance to help Oscar and his team focus on the key tasks. When a company experiences explosive growth, it is easy to get side tracked to issues that are not pivotal. One of the key decisions we had to face initially was to strike a balance between growing through new customers vs growing through increasing the average loan to current customers. Getting new customers is difficult, since QC’s lending model is ‘solidarity loans’, where a group of 4-5 customers (usually women) are the subjects of the loan. We did a lot of A/B testing to understand the risks and benefits associated with increasing the loan amount to established groups that have been customers for several cycles (a cycle is a 16-week period).”

### **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Robles:

1. “Access to talent: Our community is well known for the availability of qualified human capital. We have been very lucky to attract very creative people who have helped define and implement an innovative business model. Over the last eight years, we have seen that most of the initiatives of major banks to enter the market fail because they tried to adopt traditional banking models to a market that requires intensive service delivered at a very low cost.
2. Availability of financing: Our industry is capital intensive and since we are not a bank we are not allowed to get deposits from our customers. Therefore access to funding through private investors who were willing to endorse QC has been crucial for our growth.

3. Changes in legislation: When we started testing the market, one of our major concerns was how to incorporate QC. Prior to 2006 we were limited as the minimum capital requirements for the existing legal alternatives were far beyond our possibilities. In 2006, new legislation, which allowed non-bank institutions with lower capital requirements to be formed, was enacted. This opened up the possibility for QC to expand.

4. Technology: Our business model is technology intensive. We take advantage of every piece of new technology to reduce our costs and improve our services. For instance, we were among the first in the industry to use mobile technology to report collections in real time. Every time we renew a loan, our credit officers request each of our customers to fill up a service survey on a tablet and the results are sent to our officers so they can contact the customer to resolve any problems. We know the exact location of each of our customers by using GPS tracking data, etc. All of this is possible because we are headquartered in Monterrey where it is easy to find reliable technology partners.”

### **Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Robles: “One of the obstacles we faced in the beginning was a lack of access to capital. Despite the fact that microfinance can have a tremendous impact to alleviate poverty, sources for funding were limited. We looked at development banks in Mexico and their funds were scarce or non-existent back in 2005. In the international markets, Mexico was not on the priority list for many microfinance funds as they were focusing on projects in other parts of the world. The situation changed in 2008 as the potential of the Mexican market became known when Compartamos, a large Mexican competitor, decided to pursue one of the world’s first IPOs in the microfinance sector, and capital became available.”

Melendez: “Finding good promoters has always been a key challenge that QC has had to face. The promoter is the sales agent, but also the collection agent. Any company that is in the business of lending money knows that “uncollectible” loans are the main devil to avoid. A good promoter gets good customers, keeps the company in good financial health. We’ve had to experiment with many ways to recruit promoters, with mass media and more personalized approaches. We have found that old fashioned flyer distribution in public markets and similar popular venues works best.”

### **Q5: Describe the key areas where interaction with larger companies helped promote your growth path.**

Robles: “Since we deliver financial services without relying on our own branches, we have established alliances with large chains of convenience stores with regional or countrywide presence, including Seven-Eleven and Oxxo, both of which are headquartered in Monterrey. The support of these larger companies has been crucial for our expansion plans. Also, AT&T has become an important partner for our communications needs. They were very interested in QC since the beginning and have been very flexible to support our infrastructure and provide some value added services.”

**Q6: Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Robles: "Prior to the establishment of partnerships with convenience stores, we tried to establish relationships with traditional banks. With the exception of two of them, the rest of the bank system would not allow us to open accounts with them, the main rationale being that they looked at us as potential competitors."

**Q7: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Robles: "I believe there are still significant opportunities in the domestic market that need to be analysed before we decide to enter new markets. Being a Mexican company, the US does not seem to offer a market potential for our products. One possibility is Central and South America; however we still need to establish our presence in central Mexico before thinking of an international expansion."

Melendez: "I agree with Oscar completely. The Monterrey market is not as great as it used to be, with more competitors, the effect of the organized crime violence, and in general due to the adverse effects of the recent economic crises. We are now trying to explore different types of loans, like lending to small and medium-sized companies overlooked by the traditional financial system. We still need to understand better how we can successfully replicate our Monterrey model in other markets. Our Puebla and Estado de Mexico expansions have shown good results, but are still in very early stages. Our competitive advantage is still in Mexico. Once we have other segments and more cities, we can think about international."

**Q8: What major role, if any, did key aspects of the ecosystem in the country(countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

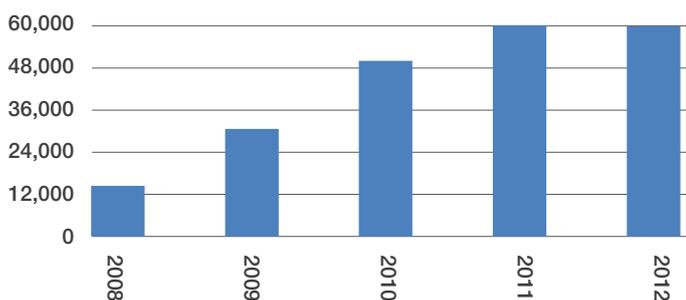
Robles: "Our business model is catered to the urban market. It would be very difficult for us to expand in smaller countries where microfinance is mainly a rural business. In order to operate successfully, we rely a lot on information systems and this seems to be an obstacle even in smaller towns in Mexico where communications infrastructure is not readily available and people with technical skills are scarce."

**Q9: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

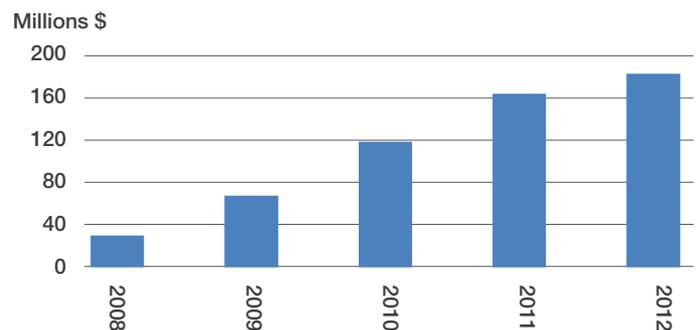
Robles: "I believe the high moment was from 2008 to 2010. Our customer base kept growing and delinquency rates were low, therefore profitability was very attractive. However, in 2007 Compartamos, our largest competitor, decided to pursue one of the world's first IPOs in the microfinance sector. Since then, commercialization and the expansion of new competitors began, as new activity was sufficiently attractive for new players to come in and compete. Starting in 2011 we saw many clients borrowing simultaneously from multiple sources. This has translated into higher delinquency rates and lower profitability. We believe that Mexico may be at the tipping point where a crisis can develop. Over-indebtedness has forced us to be more cautious and reduce our growth. At this point in time, we are exploiting big data to reduce our exposure and come out stronger of a credit bubble."

Melendez: "In general, QC went from one loan to 10,000 clients in the span of a few years. This is impressive. We are a major presence in Monterrey, but we face some challenges in this market and still need to crack other markets. We need to find a way to continue growing to reach a scale where we can have exit strategies that are attractive to the founder and the investors."

**Loan Applications**



**Total Amount Lent (MxPs)**



# Qualtrics

## USA

Prepared by George Foster and Sandy Plunkett

### Overview

Qualtrics is a leading global supplier of enterprise data collection and analysis products for market research, voice of customer, employee performance and academic research. The company was founded in a basement in 2002 with the goal of making sophisticated research simple. Qualtrics Research Suite helps organizations conduct research faster, cheaper and better than ever before.

Qualtrics has been profitable since its inception, a result of bootstrapping and exponential customer growth. In 2012, Qualtrics received a US\$ 70 million investment from Accel Partners and Sequoia Capital, the two firms' largest-ever joint investment. The company reached US\$ 48 million in revenue in 2012 and has more than doubled its workforce in the past year to 350 employees.

In 2013, Qualtrics was named to Forbes' list of "America's Most Promising Companies" and Qualtrics Chief Executive Officer Ryan Smith was named one of "America's Most Promising CEOs Under 35". Qualtrics has more than 5,000 customers, including half of the Fortune 100, over 1,300 colleges and universities, and 95 of the top 100 business schools. Customers include top brands across every major industry, including Amazon, Boeing, Chevron, Citibank, ESPN, FedEx, Foot Locker, Expedia, GEICO, MasterCard, MetLife, Microsoft, Neiman Marcus, PepsiCo, Prudential, Royal Caribbean, Southwest Airlines, Thomson Reuters, Toyota, Travelocity, Vodafone and Zappos.

### Timeline/Key Events



### Quotations

Ryan Smith is co-founder and Chief Executive Officer of Qualtrics (since 2002). As CEO, he has led the company from a basement start-up to one of the fastest-growing technology companies, with triple digit growth in the past four years. Smith was named one of *Forbes'* "America's Most Promising CEOs Under 35" in 2013 and has been featured in *Fast Company*, *Forbes*, *Fortune*, *Harvard Business Review*, *The New York Times*, *TechCrunch*, *The Wall Street Journal* and *USA Today*. He studied at the Marriott School of Management at Brigham Young University.

Jared Smith is a co-founder of Qualtrics and oversees engineering, product development and business operations. Before Qualtrics, Jared spent six years at Google scaling operations and leading all of the company's product efforts for Greater China and South-East Asia (more than 30 countries and ~26% of the world's Internet users). Prior to Google, Jared was Vice-President of Product & Marketing for Juice Software in New York City, the lead product manager for the directory service at Novell, and a consumer product manager at WordPerfect, overseeing 22 products in 17 countries. Jared has a bachelor's degree from the London School of Economics.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?**

R. Smith: “I was a sophomore in college and working in Los Angeles on a summer programme. My father, Scott Smith, a veteran market research professor, was diagnosed with throat cancer, so I took a semester off school to be with him. He was always tinkering with technology to make the research world better. When he would come home from his radiation treatments, he couldn’t speak. I bonded with him by helping him with his work. By the time he recovered from the cancer, I had signed up 20 clients and we had formed a business around Qualtrics Research Suite.

“Our goal is to make sophisticated research simple. Many organizations today are using tools that are either too basic or too complex – or they are outsourcing research at great expense. We offer a survey-based platform that makes it easy to get real-time insights. The most successful organizations will make decisions based on data. We help organizations be right.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

R. Smith: “In the early days, academic clients were the only ones open to doing online research. Most of our growth was by word of mouth. We set a goal to get 100 universities on board, and then 250 – now 1,300 universities are using Qualtrics, including 95 of the top 100 business schools. It actually turned out to be a brilliant strategy as thousands of MBAs are going to corporations and influencing the buying decisions for enterprise survey software. It’s gone viral.

“Our market really changed with the recession in 2008 when companies realized they needed data to be right and to remain competitive. They needed to make sure every move they made really counted. That’s when our corporate business really took off. Businesses realized that Qualtrics was the platform to get that data.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

R. Smith: “We weren’t looking for capital as we’ve always been a profitable, bootstrapped business, but we wanted partners that shared our vision for growth. Our partnership with Accel Partners and Sequoia Capital has been a best-case scenario for us, particularly as we expand internationally. Both firms are excited about our business and it’s great to have them in the tent with us.

“We are headquartered in Utah, a state that *Forbes* magazine consistently ranks #1 for business. It’s a great place to be an entrepreneur. Utah also has a strong tech sector and we have access to a highly educated workforce of more than 100,000 university students in our immediate area.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

R. Smith: “Many people told us we wouldn’t be able to hire the right talent, as we aren’t headquartered in Silicon Valley. Mike Moritz, the Chairman of Sequoia Capital, once told me over dinner that he saw the opportunity for us to build a great company in Utah. That was a huge vote of confidence for me.

“We have strict hiring standards and have been able to hire locally, as well as attract talent from out of state. When you build a great company, great people want to be a part of it. We’ve more than doubled our employee count in the past year to keep pace with our rapid growth.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

J. Smith: “Our international customer growth actually surprised us. For several years, we had a US team coming into the office at 2 AM to work with our European customers or at 3 PM to work with Asia. These teams did a phenomenal job – so much so that we opened our first office in Europe with US\$ 10 million in revenue under our belt. We’ve bootstrapped our international growth just as we have bootstrapped the company for the past 10 years.”

R. Smith: “We wanted to expand to a location where we could run a similar model in a new market. We recently opened an initial office in Dublin, which is a great fit. In three weeks we signed a lease, established an office to scale to 50 employees, moved a landing team over and hired a head of the office. We see blue skies ahead.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

J. Smith: “The number one challenge for us is finding the right talent. Obviously, we want people who can perform, but we are also an incredibly transparent company. It’s our way of doing business and we don’t want to manage any differently in Europe. The worst thing you can do is lower the bar because you think the local conditions don’t match. I learned this over and over when hiring at Google. You don’t lower the bar – you just look harder. All countries have great people. The upside for us in Ireland is that there is a lot of talent.

“Another challenge in expanding to multiple locations is maintaining the same level of high-touch customer interaction. At Qualtrics, we offer a Rolls Royce product, with Ritz Carlton service and a Honda price point. Offering superior customer service across all countries and languages is at the core of our brand.”

R. Smith: “Another challenge in growing internationally is the ability to maintain our unique corporate culture. We’ve gone to extraordinary lengths to build out internal systems and design an office in Dublin that makes everyone feel like one big company. For example, we have cameras in the offices so people in the US can see the European team and that team can see what’s going on at the home office. We’ve also been diligent in getting ideas and advice from people who have done it before, like the guy at Google who opened Europe and hired 3,000 people. We want to learn from the experiences of others how we can best execute. We know we’ll make some mistakes, but we don’t want to make the same ones others have made.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

J. Smith: “The Irish government has been a willing partner for us and provides a welcoming environment for tech companies. That is not the case in many countries. We are finding great local talent, and we were able to get work permits easily for our landing team. Our main impediment is the rate at which we can hire people with the right language skills. And we sorely miss having access to a Staples or an Office Depot.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

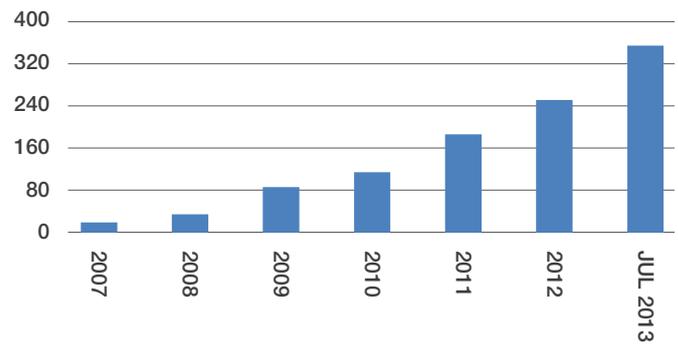
R. Smith: “A high point for me was having all of the company founders in Europe recently and realizing how far we’ve come from our days as a basement start-up, to now becoming an international company. There is huge excitement among the landing team – they are working hard and are already having great success.

“A low moment would definitely be the price tag, as international growth is a big investment with a lot of upfront costs.”

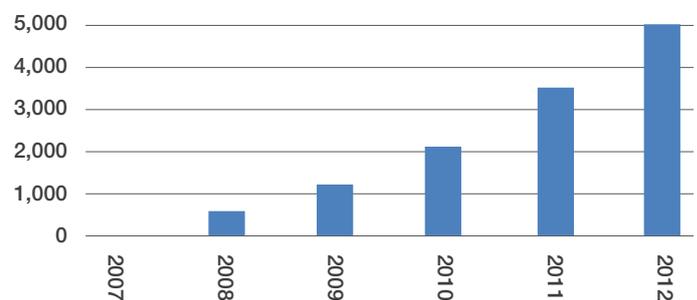
J. Smith: “Negotiating with landlords and working with construction teams can be wearing, particularly when we wanted to create a unique office space that reflects our corporate culture. We also learned that our European team was hesitant to sell into some countries because we lack the right language skills, but we’re hiring for that.

“A high moment for me was completing the office, turning on the IT systems and phones, and having the landing team arrive. We even saw a few Qualtrics t-shirts around town. One of the best surprises was being warmly welcomed by the local universities in Ireland because they are all our clients. Qualtrics has a strong presence in the academic market. They all want to help us hire great people. We learned that the youth unemployment rate is 30% in Ireland and we have some of the best jobs out there.”

## Employee Growth



## Customer Growth



# Reputation.com

## USA

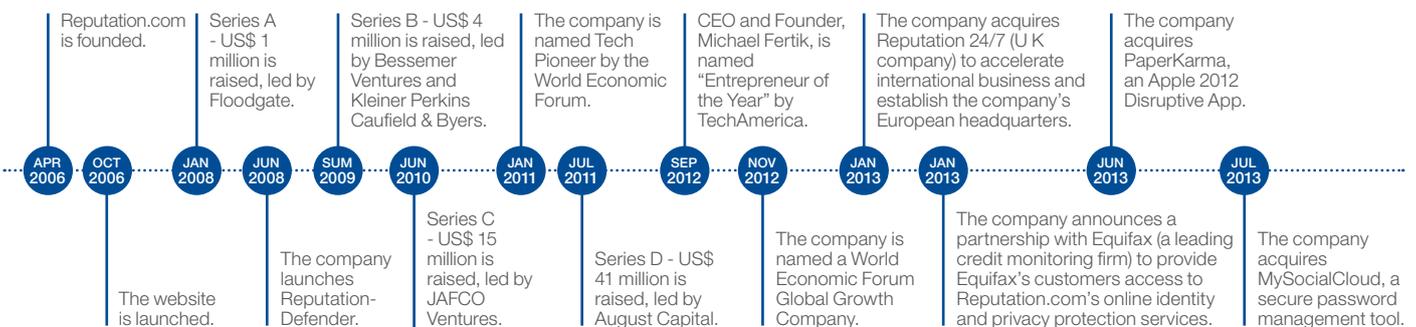
Prepared by George Foster and Sandy Plunkett

### Overview

Reputation.com was founded in 2006 to give individuals and businesses the power to control their digital privacy and reputation. The company continues to pioneer patented solutions that safeguard and remove personal data from the Internet, monitor and respond to online reviews, build a positive and accurate Web presence for clients, and help businesses proactively engage customers.

Reputation.com is a World Economic Forum Global Growth Company and multiple award winner, including the recent Silver for the Best in Biz Awards for “Most Customer Friendly Company” in 2012. It is funded by top-tier venture capital firms and has customers in 100 countries.

### Timeline/Key Events



### Quotations

Michael Fertik founded Reputation.com with the belief that people and businesses have the right to control and protect their online reputation and privacy. He is viewed as one of the world's leading cyberthinkers in digital privacy and reputation. Fertik was most recently named “Entrepreneur of the Year” by TechAmerica. He is a Member of the World Economic Forum Global Agenda Council on the Future of the Internet and a recipient of the World Economic Forum Technology Pioneer 2011 Award. Through his leadership, the Forum named Reputation.com a Global Growth Company in 2012. Fertik is an industry commentator with guest columns in many business magazines. He regularly blogs on current events as well as developments in entrepreneurship and technology and frequently appears on national and international television and radio shows. Fertik is a co-author of Wild West 2.0 and The Reputation Economy (Crown, 2013). He founded his first Internet company while an undergraduate at Harvard University and received his JD from Harvard Law School.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?

Fertik: “For me, there are only two kinds of venture-backed companies. There's faster-better-cheaper, and there's Brave New World, neither of which is more noble or less noble than the other. Faster-better-cheaper tends to have more successful exits, though they are still few in number as a percentage of starts. Those exits tend to be smaller, although there are major exceptions; Google and Facebook are the major, major exceptions. Brave New World tends to be more capital intensive, more risky, but the exits tend to be larger – Intuit, Yahoo!, Amazon, eBay and Microsoft. For me, it has to be Brave New World. So that is the first factor I considered. Second, the market has to be there and/or getting much better in the future. I have to see some kind of inevitability to the size of the market. Third, it has to be hard, something that is going to keep me interested for five or six years.

“The problem of what we now call cyber bullying was of high interest around 2006. Pre-Internet this obviously occurred, such as children writing on the bathroom wall at school. One change here with the Internet is that everything is written, posted, etc. Somewhat related was what was appearing on the Internet. It's like we're all being co-opted into a machine without our knowledge or permission by people we can't identify for purposes we can never know. Moreover, our very own data is being transacted without our knowledge and exploited without us capturing any of its value. I was angry

about this but for a while did nothing about it. I had the choice in my own mind of put up or shut up. My driving passions were to (i) protect people and their reputations, (ii) to protect people and their privacy, and (iii) protect kids from the same two things. That was the initial kernel of the idea.

“We do all of those things basically today, except the products for kids. I thought parents would pay to protect their kids online, but there is little evidence they are willing to pay to do this. I kept a set of products for kids alive for four or five years, when I probably could have shut it down after two years. It’s interesting that there were two funded copycat start-ups about two years after we got started, one called Social Safety Web and the other called Social Shield. Both raised about US\$ 15 million focusing only on kid-related products. Both crashed and burned and went out of business. One by-product of not closing our kid products earlier was that we did not signal to the marketplace that we thought it was not a great opportunity.

“Over time, the basic vision has remained the same. We’re basically protecting reputation and privacy. We are doing it for businesses as well as individuals. And we are now collecting a huge amount of data about people, places and things that we can eventually dump into a data vault. This will allow us to monetize for our customers their data with their explicit knowledge and consent for purposes they can identify, with people they can nominate and elect and deselect.

“There were several learnings from our early days. First, adults want not only to protect themselves but also to enhance, burnish, and explain their reputations. It’s not just about defending or repairing a problem. It’s about explaining who you are to the world and understanding this is a kind of marketing avenue for your business and for your life. Second, we learned that people and businesses are prepared to pay sizable amounts to go well beyond cleaning up a few things. This evolved into our Reputation Defender product, which is one of our better sellers. Third, we learned that businesses care very deeply about their reputations and they care deeply about their reviews. A high percentage of consumers across developed markets will consult a review and be influenced by a review, positively or negatively, before the transaction moment. The absence of reviews or the prevalence of negative reviews can turn business away, full stop, and so that part of our business has been a surprise.”

## **Q2: What were the major growth accelerators for your company in the early years of high growth?**

Fertik: “Some key ones were:

1. Market reception to our products. Our message that ‘the Internet is possibly bad for you, there’s no delete button on the Internet, you’ve got to do something about it,’ hit a chord in the zeitgeist, and among the media. Within a couple of days of launching our website in October 2006, both Wired.com and National Public Radio (NPR) reached out to us. Those two very quickly gave us some traffic and currency. Since then there have been between 100 and 500 interviews a year in the US and overseas. These interviews give us free publicity to many important potential customers. Our international press has been very important to building organic growth. Germany has been especially important here.

2. Key hires. In 2009 we hired a marketing person from Comcast. It’s actually very hard in Silicon Valley to find someone who is good in marketing. We hired someone who could market something and create a market instead of just riding the wave of traffic and pixilating their way into 10% improvements.
3. Financing from leading venture capital firms and having leading people from those firms provide insightful advice. In our A round in 2008, we raised US\$ 1 million. Then in 2009 in a B round we raised US\$ 4 million – US\$ 2 million from Bessemer Ventures (David Cowan joined our board) and US\$ 2 million from Kleiner, Perkins, Caufield & Byers (Ted Schlein). We subsequently did much larger rounds in 2010 and 2011, which provided important growth capital. Cowan and Schlein as advisers have well exceeded even the very high expectations I had when they joined our board.”

## **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Fertik: “For our type of business, there is a huge benefit from starting the business in the United States. The capacity to build an Internet business from the US that is either very narrow or very deep in scope is unrivalled here. Many options are available. The size of the US Internet market economy is compelling, especially for those like us who are in the business of protecting reputations and privacy.

“Mentors have been very important. I certainly gained much when David Cowan and Ted Schlein joined our board. I have also been looking for my own rabbi. A real rabbi to me should have to have little to no economic interest at stake. In the early years, I viewed myself as CEO 1.0. Now I’m CEO 2.0 trying to become CEO 3.0. That’s my current project. Several very well-known CEOs outside of my product area have been providing very good mentorship and advice. They have been generous with me of their time.”

## **Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Fertik: “Northern California is a superb place for lifestyle. It provides enormous rewards of all kinds and a very creative environment. You have brilliant people who are very, very interested in novelty and creation. And that set of things is extremely rewarding. California is a nation and earth unto itself, and northern California is half of that.

“However, there are very concerning aspects in the regulatory and governmental area. The personal tax situation is punitive at around 53%. Labour laws can be punitive and are a mess. The only thing that helps is that you can hire people and they don’t get non-competes, which sometimes hurts you, but mostly helps. As regards the regulatory environment for doing business, if I could just transplant Texas to California, I would.

“Silicon Valley does not think enough about Washington, DC. It appears you have to get to behemoth size to afford putting your hand in there. We have seen no interest from DC in getting input or advice from us on the reputation or privacy area that we have built up as expertise. It’s a similar problem with immigration issues. Silicon Valley recently finally realized they had to spend some money to lobby for immigration reform. But we haven’t been good at influencing regulators and policy-makers. We have had this notion that we are somehow above it, beyond it. That’s a big, big mistake.

“Silicon Valley is not a huge centre of Global 2000 enterprise-sized businesses. New York has a much broader set of industries represented at the large enterprise level. We do not have the really big companies in many key areas, such as cars and insurance.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Fertik: “It came to us. We have paying customers in 100 countries. We were very lucky in getting a lot of international press coverage immediately after launching in 2006. Europe (and many other countries) is very concerned with digital privacy issues. For the first four or five years, about 30% of our organic growth was from overseas and 20% from Germany. We had a German-language website and opened an office in Munich. In 2012 we bought a UK company and are now growing the UK/Ireland team. It’s only been in the last year that we’ve really been affirmative and decisive about our approach to Europe.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Fertik: “Much of the business challenge in growing internationally, especially for a consumer facing company like ours, is language and knowing when to walk away. When you are protecting someone’s privacy and reputation you need a highly facile and nuanced assessment of the language in order to do the job for your customers. And you need international markets where there is a huge penetration of the Internet. That means people who are accustomed to spending 100 to thousands of dollars by credit on the Internet.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Fertik: “Language, culture and time zone are important factors that are relevant. But in terms of walking away, it’s language. There are certain places that are very hard to do business for a US Internet company like ours. For example, Germany has been a lot easier to do business with than France. It really gets down to ease of use, and ease in doing business. Italy is very difficult unless you’re on mobile (platforms). Japan and South Korea are probably the best markets in Asia for our business because you have enterprise businesses that are huge, small businesses and customers in large numbers, and large consumer markets with a lot of wealth and of course large penetration of the Internet. Most other countries for us are going to be either enterprise markets or wealthy family markets, e.g. Brazil, and South Africa. In many markets the consumer market is just not ready yet.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Fertik: “The low moments in the United States have been about losing key employees. You know, just people who you’ve been with for years who depart poorly and you are shocked to lose but it turns out they had been ‘dating’ privately and secretly outside for a while. You feel betrayed and for me that’s the hardest thing. My first class action lawsuit was tough but I had to quickly get over that.

“The highlights for me are usually also about people, and a tremendous working experience through developing a product, launching a product and finding out somebody likes it. Also getting international business is a real highlight. Getting purchases in international markets and getting people to respond to the issue and discovering the international scope was a very, very big deal for us.”

# Saham Finances

## Morocco

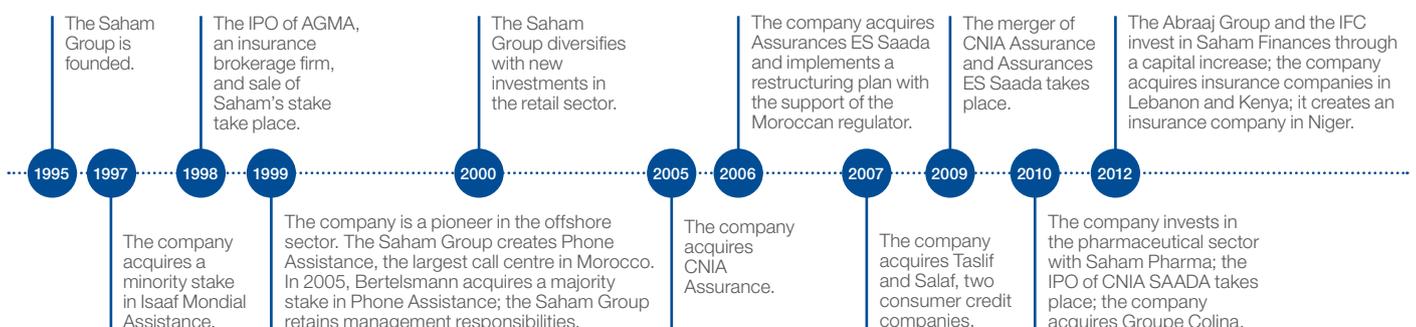
Prepared by George Foster

### Overview

The Saham Group is a Morocco-based conglomerate primarily engaged in the insurance, pharmaceutical, healthcare, agriculture, real-estate and call centre industries. It was founded by Moulay Hafid Elalamy, a leading Moroccan businessman, who has extensive experience in the insurance industry in Canada and Morocco. He was also President of the influential Employers' Federation of Morocco until 2009 (and is currently honorary Chairman) and was previously Chief Operating Officer of the King's holding company (ONA). He started the Saham Group in 1995 and has built it into a leading conglomerate through organic growth and a series of acquisitions.

Insurance is by far the main business within the Saham Group. It is managed by Saham Finances and owned by the Abraaj Group and the International Finance Corporation (IFC), as well as the Saham Group.

### Timeline/Key Events



### Quotations

Moulay Hafid Elalamy is the founder and Chief Executive Officer of the Saham Group. A graduate of Sherbrooke University in Computer Science in 1984, he started his career in Canada as a senior adviser at the Quebec Ministry of Finance before moving to Saint-Maurice, a Canadian insurance company where he headed the IT department. Back in Morocco, as Vice-President of ONA Group, Elalamy successfully integrated the subsidiary, Compagnie Africaine D'Assurance. In 1995, he created his holding company, the Saham Group, and invested heavily in the financial services industry. He also served as President of the Employers' Federation of Morocco from 2006-2009, where he institutionalized the Federation and led adjustments on key issues, such as an increase in the country's minimum wage.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?**

Elalamy: "Our initial vision was that the Moroccan and African markets were bound to consume more and more services in a sustainable fashion, particularly financial services and insurance. There was therefore a role to be played by local firms with international standards of service. Initially, the broader African market (such as West, Central and Sub-Saharan Africa) was not a priority for the major North African players. They were focused on their own regional market. We saw an opportunity before the other players and deployed

our strategy quickly and efficiently to engage in a voluntary geographic expansion in the long term."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Elalamy: "In addition to the fundamental economic growth of the markets we are engaged in, the growth of our company was accelerated by:

- strategic and differentiating choices with regard to products, positioning and communication
- a promise of high-quality service
- management with high HR qualities
- high-performing distribution networks
- established partners with solid reputations"

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Elalamy: "Our strategy has been deployed in the context of promoting Morocco as a regional hub for the African continent. This was done by seeking accompaniment with regard to financing, the use of quality partners and the help of local regulators who choose to back strong and structured companies."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Elalamy: “Morocco operates a controlled currency. As a result, acquiring foreign firms is at the very least a challenging exercise and usually unfeasible. To convert the Moroccan dirham to another currency, one has to demonstrate the ‘value add’ of this investment to the Moroccan economy (such as rapid return of cash flows), and maintain the clear traceability of the funds. Also, this is highly dependent on the current balance of payments situation. In a year of high deficit, investing abroad is very challenging.

“The other issue we have faced is human resources. It has been challenging to find multicultural and mobile employees to fuel our growth.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Elalamy: “Once our positioning on the local market was consolidated (through mergers and acquisitions), the opportunity to invest abroad became the new priority. Strategic studies confirmed that the development of financial services in Africa was solid, and the much improved regulatory environment comforted this choice.”

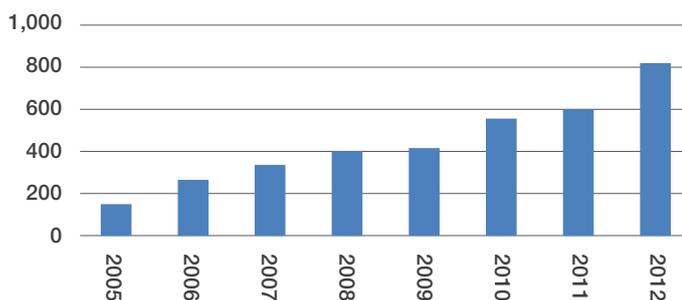
**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Elalamy: “The challenge has been choosing the right countries and, in each country, the best method of implementing ourselves. Our international development was started through external growth. We therefore had to find a solid network of insurance companies. We studied multiple opportunities before choosing Groupe Colina, which correlated best to our expectations and our corporate culture.

“The difficulty then lies in exporting the skills of Saham while respecting the local culture and preserving the current position.

“The choice of our group has been to continue trusting the local management while bringing them the commercial and technical support necessary to attain our new ambitions.”

**Gross Written Premium (Millions \$)**



**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Elalamy: “Our company was well received in the new markets and was perceived as a firm with international standards. However, we were aided by the fact that our cultural proximity made the interpersonal relationships easier in those countries than what they had experienced with European and North American firms.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

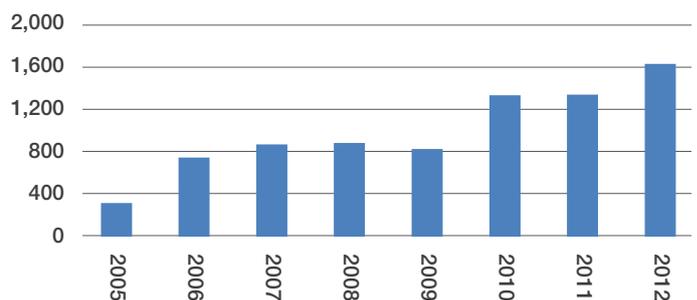
Elalamy: “Africa represents a very strong potential to develop a firm but is also characterized by strong political instabilities in multiple regions.

“Since the beginning of our expansion, we have known two crises:

- “We purchased an insurance company in the Ivory Coast in December 2010, a couple of days before the country entered into a serious political crisis due to a power struggle between ex-president Laurent Gbagbo and president-elect, Alassane Ouattara. In a situation with dried-up funding, Gbagbo engaged in the nationalization of internationally-held firms as a source of cash to pay his troops. We held on to our investment throughout this conflict. As we believed in the country in the long term, we were willing to suffer transitory difficulties. We also took the decision to trust our local management team to handle this complicated situation. This has led to strong resilience of our local activities and the renewed trust of our principal clients whom we backed throughout the conflict. Fundamentally, the market had understood that we were there for the long term.
- “Since the beginning of the year, we have also had to deal with the war in Mali. We have managed this crisis in the same manner. We kept calm and maintained support to our clients. During this period, we even launched a new campaign for our life insurance products.

“However, we have also had high moments in our geographic expansion. Most recently, we received regulatory approval to launch new insurance companies in three countries where we did not have a presence. These approvals were obtained in record time, demonstrating the status of the large insurance player that our Group has become on the African continent.”

**Headcount**



# Sinocare Group

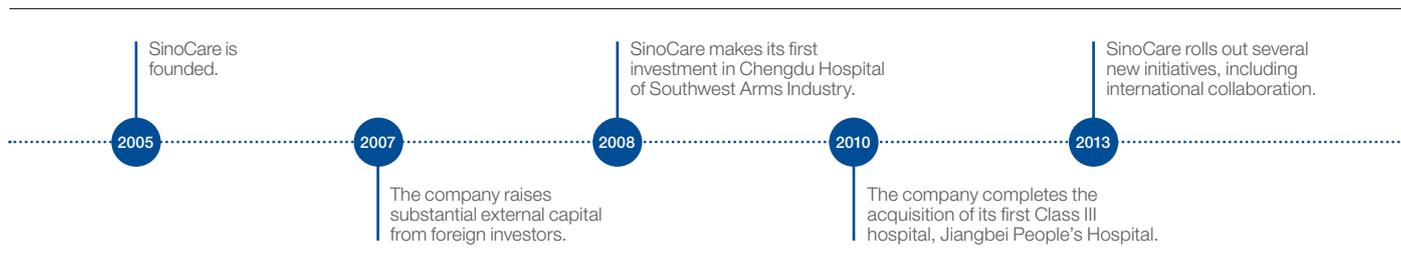
## China

Prepared by Ning Jia and George Foster

### Overview

Founded in 2005, SinoCare Group is a hospital management company based in Beijing. The company operates and owns general hospitals in conjunction with local provinces to change the quality of healthcare delivered to the Chinese middle class within the state system. SinoCare forms joint ventures with selected provinces, currently Sichuan and Jiangsu, respectively.

### Timeline/Key Events



### Quotations

John Robert Porter is Founder and Chairman of SinoCare. At the age of 25 he co-founded VeriFone, which he built as a start-up to US\$ 600 million revenues, before its sale to Hewlett Packard. Porter is also a co-founder of GPS, a Paris based retail group that created the leading super-optical chain in Europe. He serves as President of Earth Focus Foundation, a Geneva-based charity. Porter has served on the Advisory Council of the Graduate School of Business, Stanford, and serves on the Advisory Council of Said Business School, Oxford. He is a graduate of Oxford University, UK, the Institut d'Etudes Politiques, Paris and Stanford University, USA.

Yanhui (Michael) Ma is Founder and Chief Executive Officer of SinoCare. After graduating from medical school in China in 1983, Ma moved to California to carry out research in the field of diabetes at the University of California at San Francisco Medical Center (UCSF) under world-renowned Gerald Grodsky and John Karam. He has published extensively in the field of diabetes research, treatment and drug discovery. After UCSF, Ma was invited to the Consulting Medical Advisory Board of Minimed Inc. (since acquired by Medtronic). In 1993, Ma left UCSF to take up a research position with the endocrinology team at Genentech Inc. In recent years, Ma has been involved in the creation, founding and development of several healthcare companies, especially joint ventures between the US and China. He has established a wide range of contacts in China, including those of high ranking business and government officials. Ma was appointed to the Overseas Scholar Committee, a healthcare, hi-tech and business development think tank established by the Chinese Government, and has helped many US companies to successfully establish their operations in China. Ma serves on the board of several healthcare-related corporations that he founded or co-founded in the US and China, including SinoCare, Sinomed and Medical Entrepreneurs II. He also

organized and co-founded the International Drug Delivery Society in China, and currently serves as Vice-Chairman of the Society. Additionally, Ma is an invited research professor of three medical universities in China.

#### **Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Porter: "The initial idea came when I had a manufacturing company that supplied Kennaway with golf club heads. Getting healthcare for my Chinese employees that was available was very rudimentary. So I became aware that there was very limited healthcare in China available to what I would call 'normal Chinese citizens'. In fact, there was an evolution in that my first project with Yanhui was on a product for diabetes in China. The idea started originally from whether Chinese herbal medicines could be applied to diabetes and moved into making the first Chinese-designed insulin, which is just going through the SFDA approval. While doing that, we were talking to people about the Chinese healthcare system generally, and together with someone that Yanhui knew well, we decided there has to be a change in the Chinese hospital management system. Then it came down to the question of whether China would follow the American path, which is all private, or whether China would follow more of a European path of comprehensive coverage and insurance. If you want to provide general coverage to your population at the lowest cost for the nation, then I think you need to take the single-payer model. I am well aware of some of the limitations that happened within the Chinese system, but I think the government delivered significant results for its population. The approaches have not yet focused on healthcare but I think in the next wave the Chinese leadership will focus on healthcare as it is one of the areas of infrastructure that needs to be improved and is also an area of legitimacy for the Communist Party as a way the Party delivers visible benefits to the population.

“I think the pure privatization of the healthcare sector could produce a cost explosion for the Chinese government. Our formula at SinoCare is a moderated margin. We need to learn how to be effective within a fairly clear price cap. We are hoping to become the model that China eventually uses. Our proposition is to take existing state hospitals, keep them within the state reimbursement system, and work on them to get healthy entities.”

**Ma:** “John and I have known each other since I was a student at the UCSF. After working together on several small medical-related projects (e.g. medical equipment and artificial medical insulin pumps) in China, we came to a consensus that China’s healthcare industry and hospital management were significantly lagging behind that of the US, and we wanted to do something to change the situation. China’s healthcare sector at the time was not fully opened up to private and foreign capital. Foreign players mainly operate private hospitals and specialized clinics that provide high-end medical services to China’s wealthy class. But we wanted to focus on public hospitals that provide medical services to the general public. Our idea was to import advanced western hospital management ideas and practices to China and change the way Chinese hospitals are operated while leaving the current healthcare system and infrastructure intact. But we soon realized that it was extremely difficult to operate public hospitals in China without acquiring a sizable equity stake. Hence in 2007, we decided to raise additional capital that would enable us to invest in Chinese hospitals to implement our new management practices.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

**Porter:** “There was a strong need for better healthcare availability. The government recognized that something needed to change.”

**Ma:** “China’s healthcare industry is subject to strong government regulation. Prior to 2007, foreign capital had only limited access to China’s healthcare industry, which was a major challenge for us given our foreign background. As a result, SinoCare did not experience a strong growth momentum in the early days. The situation was changed after 2009 when the State Council launched a new policy to encourage greater private and foreign capital involvement in the nation’s hospitals and clinics as part of a health system reform programme that aims to make affordable healthcare available to the general public. Under the new policy, foreign investors can now take up the majority shareholding of a hospital, which enabled us to tap into more hospitals and subsequently accelerated our growth.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

**Porter:** “Accessible markets, human capital/workforce, regulatory framework and infrastructure, education and training all played an important role in the growth of our company.”

**Ma:** “One aspect is that the Chinese government finally recognized the need to reform the healthcare sector and to encourage private and foreign capital to play a more active role in the transformation. Public hospitals in China used to be monopolistic with little competition. The development of private-capital-funded medical institutions would exert significant competitive pressure on public hospitals and force

them to continuously improve in multiple areas, including operating efficiency and service quality. Another key aspect is the strong social force behind healthcare reform. China’s current healthcare system is hospital-centric instead of patient-centric. The ‘care’ component of healthcare is not properly implemented. However, patients are expecting more in terms of the quality of medical care. Hospital administrators are also eager to improve operating efficiency and service quality. Investors and hospital management experts including us also have strong incentives to pursue the same goal. Together, they formed a strong driving force leading to the reform of the healthcare sector.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

**Porter:** “In terms of regulatory framework and infrastructure, we took some risk in anticipating the direction that the healthcare reform would go. At the same time, we believe we built a model that is robust if the pace of reform is a little slower than announced, because that can often happen. The Chinese government has good intentions about where it wants to drive these things, but a lot of stakeholders still need to be lined up. There is significant announcement, but the translation of announcements into detailed guidelines can take a long time.”

**Ma:** “As I mentioned above, the regulatory framework of China’s healthcare sector was not favourable to foreign players prior to 2009. Since we were a fully foreign-invested hospital management company, it was virtually impossible for us to directly tap into the nation’s healthcare market. So we had to opt for an indirect approach to circumvent institutional limitations, including setting up a wholly foreign-owned enterprise structure, which was quite time-consuming.

“Another challenge we encountered in the early days was to convince people of the validity of our business model. The general perception at the time was that high-income groups with greater payment ability will seek medical services from high-end, private hospitals while the medical needs of the general public will be covered by non-profit, public hospitals. Those are two distinct niche markets. But what we wanted to achieve is to provide high-quality medical services to the general public at a price similar to what the public hospitals charge, via the improvement of hospital operation and service quality. However, none of the other hospital management and investment companies were doing the same thing at the time. They were mostly operating private hospitals or specialized clinics. How to convince people, including some of our own staff, of the validity of this new idea was a real challenge. We also have to think about how to broaden the scope of our business and improve the service quality of hospitals under our management, while delivering reasonable financial return to our investors. Luckily, all of our investors share the same long-term vision as me. They were not looking for a quick cash-out and were willing to be patient. In retrospect, I think finding the right investors whose interest and vision are well aligned with the entrepreneur is very important.”

**Q5: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Porter: "Large companies are great as intelligent customers and suppliers. They are very helpful."

Ma: "As investing in large hospitals entails greater upfront investments and risks, we started from smaller hospitals to prove the validity of business models. Hospitals of different sizes face many common management challenges. But having said that, compared to smaller hospitals, large hospitals do possess more resources and have better developed infrastructure that enable us to implement advanced technologies and management ideas, as well as facilitate collaboration with Western medical institutions."

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Porter: "From what I have seen so far, large companies are generally not as good as marketing partners or joint venture partners because the pace of decision at small and large companies is so different. It often creates problems. I had another company a while back, and the management was thrilled because we signed a joint venture deal with a large IT company. But our management can never get the sales force of that company to pay attention to our product, even though it's a great product. But so far, for SinoCare, large companies have not affected us as they are not in our space."

**Q6: Your current revenue growth to date had been predominantly focused on your own domestic market. What are the major reasons for this major revenue focus to date on domestic markets?**

Porter: "We are perceived more as a domestic company than most. At SinoCare, we are a China-centric model. We are not trying to bring better knowledge from elsewhere. We are about solving a problem in China, and go outside for technology when we need it, but in general we are about a Chinese approach to a Chinese problem. I don't have any intention to take the company outside of China for the time being. We need to get the leading market share in China."

**Q7: What would you view as the greatest challenges in growing a sizable revenue presence in markets beyond your own domestic country or region? In deciding when and where to seek growth in international markets, what characteristics of a country's ecosystem would be most important in attracting you to invest significant resources in that non-domestic country or region?**

Porter: "Hospital service is such a country-specific market. Going from the US to Europe when the US had better technology makes sense, but hospital service is very cultural to their country. If we choose to expand abroad, in all likelihood, it will be with the help of the Chinese government with Chinese aid hospitals in Africa. If we can train up enough staff with English speaking capability, I would look at providing our team into the single-payer systems in Europe which are dysfunctional. I would consider doing the same type of turnaround in Europe using our expertise. There is a window of opportunity on that. It's not going to be activated

in the next 4-5 years. But I do have a company that supplies ambulance services to the NHS in the UK. My dream eventually would be to bring SinoCare efficiency into the NHS."

**Q8: Building a company that aims to have sustainable high growth inevitably will have both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in your entrepreneurial journey.**

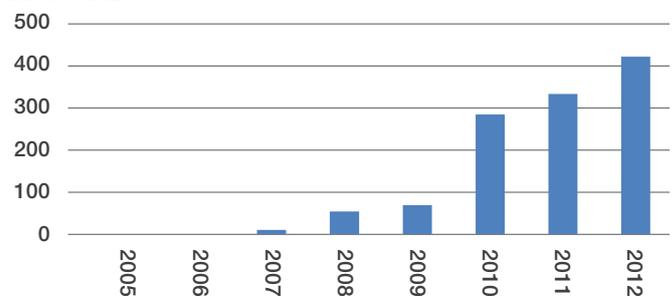
Porter: "A high moment was when we achieved class III status for our hospitals. A low moment was having to remove a senior colleague from the company for misconduct."

Ma: "As I mentioned above, the business model we adopted was new and many people had doubt about whether we could succeed with such a model. The first several investments we made were in small hospitals that were near the edge of bankruptcy. We approached and convinced the hospital management of the opportunity to make a change. As it turned out, under our management, these hospitals not only survived but the revenues tripled in a year's time. This was a high moment for us as it demonstrated the validity of our business model.

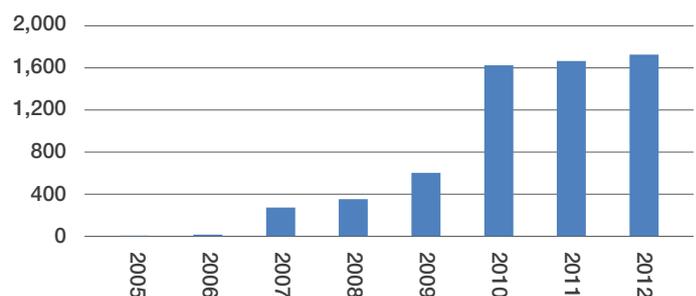
"A low moment was in the early days when we had the money and were ready to make the investments, but no hospital was willing to work with us due to lack of faith in our ability to make a positive change. We had to ask and convince the hospitals for the opportunity to partner. Now that we have a proven track record, it is much easier to strike deals. In some cases, the hospitals approach us instead."

## Revenue

Millions RMB



## Headcount



# SouthWestern

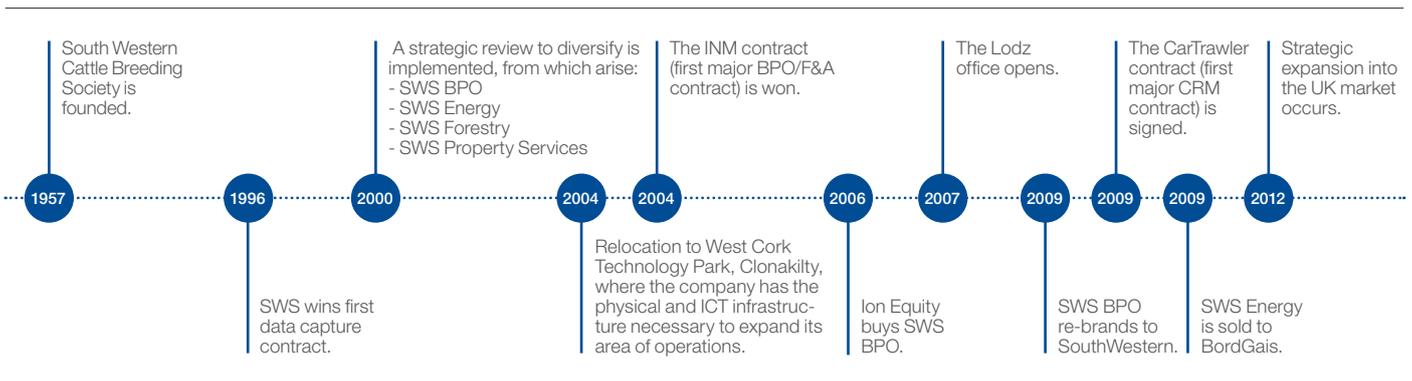
## Ireland

Prepared by George Foster

### Overview

SouthWestern (Business Process Services Ltd) was founded in 2003 as a subsidiary of a cooperative group in Cork, Ireland, known as SWS Co-op. SWS Co-op was a farming services company. SWS was founded in 1957, and by the turn of the century many of its service lines produced marginal profits. At this stage the co-op diversified into natural resources and business process outsourcing (BPO) services. The BPO company was built upon a small contract with the Irish Government for the processing of cattle passports. From a BPO perspective, it involved building a national database for animals, an application system and a call centre for resolving queries. Between 2004 and today, SouthWestern has applied these business process innovation techniques to other public sector organizations in Ireland and the UK as well as to mid-sized private sector companies. Today SouthWestern employs over 700 people, 500 of whom are based in Cork, Ireland, and 200 in Poland. The company is opening a new operations centre in England in 2013. It is now a market leader in providing a range of quality BPO services to leading-edge public and private sector clients in the Irish and European markets. SouthWestern specializes in delivering end to end BPO solutions that deliver real value to its clients in Ireland, the UK and beyond.

### Timeline/Key Events



### Quotations

Jim Costello has worked with SouthWestern since 2003. Previously he spent 15 years in the Information Technology and Outsourcing sectors in Ireland and internationally. He graduated with a degree in accounting and was Finance Director for Unisys Corporation in Europe. He left that function and became General Manager of Unisys Managed Services in France and then Global Managing Director of the Unisys/Dell Managed Services Alliance, a US\$ 120 million managed services business based out of Philadelphia. He joined SouthWestern in 2003 as the company tried to move from its processing contract with the Irish Department of Agriculture into a full business process outsourcing company. Since then the company has grown through the delivery of true added value to all existing and new customers. Costello studied at the University of Ulster and Stanford University, California.

Kieran Calnan is the former Chief Executive of SWS Group. His appointment to this position in 1996 marked the culmination of 30 years' service to the organization and to the cooperative movement in West Cork. Since 1996, Calnan has overseen the diversification of SWS from a single service provider (agricultural services) to a multi-service company that includes renewables, business process outsourcing, forestry and business services. Calnan retired in 2007 but still plays an active part in the business as President and non-executive director.

Eoin O'Driscoll is on the board of a number of early-stage telecommunications companies and is Chairman of Forfas, Ireland's national policy and advisory board for enterprise, trade, science, technology and innovation. He is also Chairman of e|net, the company that holds the concession to manage the Government Metropolitan Area Networks; Chairman of Oak Acquisitions; Director of Ion Equity; Director of The Irish Times and The Irish Times Trust; Director of the Cork University Foundation, Director of the Trinity College Institute of Neuroscience; and Member of the National Executive Council of IBEC.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Calnan: “At the turn of the century, SWS needed to find new sources of growth and value creation. At this time we saw major opportunity emerging in two areas, one of which was the signing of the Kyoto protocol, and the other was the speed of change in broadband.

“In following the Kyoto protocol, we set up natural resource companies in forestry, wind energy and other renewables. Over time we focused on building out wind farms and we sold those in 2009 for over €300 million.

“In broadband, we knew that we could deliver complex data processing contracts, such as the one we had with the Irish Department of Agriculture, from regional locations such as West Cork, through the growing availability of broadband. We believed we could grow this service out to other government services, and also to commercial companies. Over time this company has grown into SouthWestern, one of the largest employers in the region.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Calnan: “All of the growth of SouthWestern over the years has been organic. It was only possible to do this through hiring the right people. Initially this was through partnership with University College Cork (UCC) and the hiring of graduates from there with qualification in IT and business knowledge in agriculture. In order to grow from there we needed experience in the outsourcing sector. We did not have the finances to pay high wages, so we incentivized these people through shares in the company, to supplement average pay for the sector. It was this combination of the right people, with the right incentives that gave acceleration to the company.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Costello: “As Kieran described, the management of SWS at that time embraced the available aspects of the entrepreneurial ecosystem. The hiring of the right people, collaboration with local University of Cork and the creation of incentives were critical. SWS though was not certain of the market. On the areas mentioned:

1. Access to markets: This access was questionable. We had one government contract, but otherwise the Irish Government had not adopted outsourcing like the UK or US governments. The model was also new in the private sector. This was a problem.
2. Availability of human capital: We hired qualified resources from the local university and from returned emigrants, who had experience of the outsourcing models in other countries. There was high availability of semi-skilled labour in the region and this has provided for a stable and loyal workforce. We have the lowest staff turnover numbers in the industry.
3. Funding: This was also a challenge. We didn't have access to vast amounts of capital and the energy subsidiary was thirsty for capital. So there wasn't much left. We needed to grow using our working capital.

4. Availability of mentors and advisers: There was good availability of mentors and advisers, including the former CEO of SWS and state agencies.
5. Favourable regulatory framework: Ireland is an easy place to do business. Where we needed certifications and accreditations, these were available to us as we took the right steps for training and certification. But there was little bureaucracy, so it has been possible to add new services and contracts fast.
6. Training: Initially there was little specific outsourcing or shared services training and education available. We built up our own training programmes by hiring skilled trainers from multinational firms, with experience in this domain. Over time we got the state training agencies to introduce certifications in customer services, project management and other disciplines that we needed.
7. Collaboration: We collaborated extensively with UCC. First UCC helped us to build our strategy. Then we collaborated with them to find good, qualified people. We have continued this relationship over the years.
8. Cultural and societal support: This support has been vital to our success. We started as a farm services company and now provide regulated services to major state and commercial companies. Yet we retain a strong identity to the regions in which we work, our history and our values.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Calnan: “Despite the existing contract, outsourcing had not yet been embraced in Ireland as a business model, either in the public or private sectors. This was the major task that needed to be completed by the new team. Partnerships with universities, professional services firms and government agencies were all used to help raise awareness of the business model and to build demand.”

O'Driscoll: “The company was bought in 2006 by private investors in a leveraged buy-out. ION equity, based in Dublin, bought the wind energy company and the outsourcing business. The wind business was capital hungry. So the outsourcing company did not have capital available to invest in acquisitions or major sales and marketing campaigns. The company needed to grow organically and pay down debt as it did so.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Costello: “In 2007, the company decided to open an operation in Lodz, Poland. This was required to support lower cost demands from Irish and UK clients as the economic recession hit their businesses. The main factor was lower costs and growth potential. Poland was selected after significant review of options. But Poland would mainly be a delivery centre, since there is just a small domestic market there. We did expand our sales offices to Dublin and to London to be on the doorstep of the major buyers in the sectors we were going after.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

O'Driscoll: "The board of SouthWestern supported the international growth plans, provided SouthWestern did not overly draw on the financial resources of the company. All growth had to be organic and had to provide for the future growth potential of the company. Poland was a great choice, a stable economy that was joining the European Union. The board were concerned also about the ability to manage the cultural and business differences that would arise from this expansion. In addition, the 250 staff (at that time) in Ireland were worried that the business was going to relocate. This fear was addressed by sharing the company growth plans with staff that the international expansion would provide the scope for."

Costello: "Initially Poland was chosen to base our operations centre, but we also wanted to build business development in international markets. After one year, we found that Poland was not a good choice for domestic sales and we moved our international sales efforts to London over the next couple of years. This learning cost us about a year of growth in the Polish market, but we quickly adapted and focused on international sales out of London, with delivery from Ireland, Poland or a blend of the two, using our technology developed over time from Ireland."

**Q7: What major role, if any, did key aspects of the ecosystem in the country(countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Costello: "Initially, the analysis of where to locate our business was conducted without much use of agencies in the various countries that we considered. We wanted a truly independent view and used independent information sources for our analysis (European Union statistics). As soon as we had built our economic and cultural business case and had a shortlist, we then worked with the universities and state agencies in the shortlisted countries. This allowed us to benchmark cultural, educational and social aspects as well as the statistics, and get an "on-the-ground" feel for what it would be like."

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

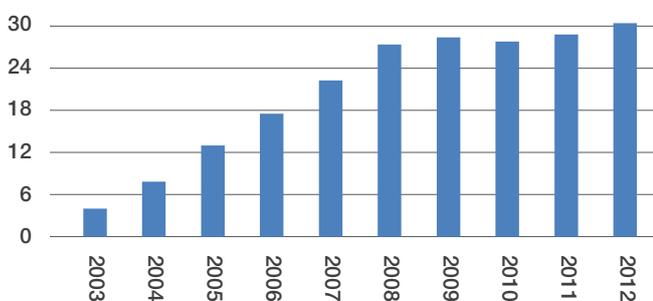
Calhan: "I suppose the high moment was to see this formerly regional co-op in the South of Ireland emerge into an international player. My first visit to the Polish office and the official opening with the Mayor of Lodz in Poland was a very proud moment. Winning our first UK Government contract was also a special high point. It was with the UK Department of Agriculture and was proof of our niche international growth strategy."

Costello: "The highs were the deals we won. Our first UK deals were breakthrough with independent newspapers. Also, our first global contract with CarTrawler meant we were now open 24 hours a day, 365 days per year, delivering in 15 languages to half the world, from Hawaii to Eastern Europe and every country in between. I guess the lows are the deals you lose. We have had some major breakthrough deal wins over the last 10 years, but we lost some good ones too. It is a cliché, but you have to pick yourself up, dust yourself off and drive on. Make improvement where you need to and win the next deals."

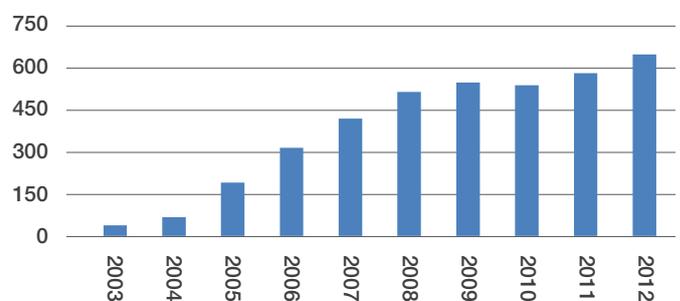
O'Driscoll: "The highs were the growth, the awards and the employment of such large numbers of people. The hiring of great resources always fuelled the growth and the shareholders have always been very positively engaged in the business. The company has only taken on profitable business and has continuously grown its profits over the years in line with revenues. They have won many awards including national and international recognition and Company of the Year awards."

"Of the lows, the company has had to ride through one of the toughest economic depressions in Ireland since the 1970s. Despite cuts in government contracts, a fall in commercial transaction volumes and a very tough business environment, the company continued to increase both revenues and profits."

**Revenue (Millions \$)**



**Average Headcount**



# TaKaDu

## Israel

Prepared by George Foster and Sandy Plunkett

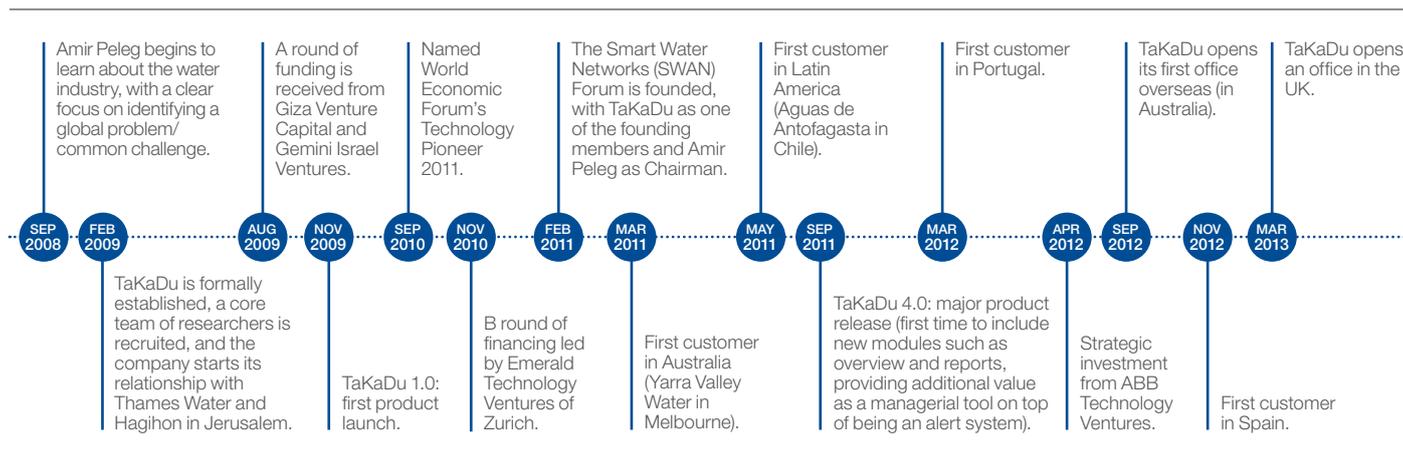
### Overview

TaKaDu is the global leader in water network monitoring, providing a platform for water utilities looking to reduce costs and increase efficiency. The company was established in 2009 by Amir Peleg, its founder and CEO, with the vision to enable water utilities to monitor their networks remotely (cloud-based solution) using data-driven technologies, similar to the common practices for managing other types of networks (e.g. IT, telecom).

TaKaDu's patented cloud solution converts existing network data which measures, in real time, parameters like flow and pressure into real-time insights and alerts about network inefficiencies using sophisticated statistical algorithms and a simple-to-operate web application to allow early detection, better operation and more efficient management.

The TaKaDu solution is in daily operational use by leading water utilities worldwide, from Australia through Europe, to Latin America. The company is a founding member of the Smart Water Networks (SWAN) Forum and the winner of many industry awards, including the prestigious Technology Pioneer Award from the World Economic Forum.

### Timeline/Key Events



### Quotations

Amir Peleg is the founder and CEO of TaKaDu, a water network monitoring pioneer. As of late 2012, he is also Chairman of the SWAN Forum. Peleg is a successful serial entrepreneur. In 2005, he founded YaData, a behavioural targeting company, and served as its CEO until its acquisition by Microsoft in early 2008. In 1999, he founded Cash-U (later named Unipier) in the mobile entertainment field. Peleg holds a BSc in Mathematics, Physics and Computer Science from the Hebrew University of Jerusalem (via the IDF TALPIOT program) and an MBA from INSEAD, Fontainebleau, France.

Moshe Tamir became TaKaDu's Vice-President of Sales and Marketing in January 2013. Prior to joining TaKaDu, Tamir managed the business segment and was Vice-President at Siemens Renewable Energy (formerly Solel), where he was responsible for the sales and delivery of Siemens' solar thermal activities in the Americas, Europe, Israel and the Far East. Siemens Renewable Energy is one of the world's leading suppliers of a wide range of products, solutions and services in the field of energy technology. He also took part in Siemens' US\$ 418 million acquisition of Solel.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Peleg: "After selling my previous venture to Microsoft, I was eager to do something with significant environmental impact in the clean tech space as a future growing sector. I started studying the water sector, and was exposed to some disturbing facts about global water loss. Apparently, about 25-30% of water is being lost along the distribution network, mainly due to leakage. Being Israeli, with a high level of awareness of water scarcity, I decided that this would be my next challenge.

Coming from an IT and communications background, I was familiar with other types of networks, where visibility is much more advanced, and realized that there is no reason why water network operators can't enjoy the same benefits of visibility and decision support. I decided to bring high-tech approaches into the perceived low-tech water sector. This way of thinking, together with a market needs assessment showing a huge need and growing demand (growing gap between the supply of and demand for water), led to the decision to establish TaKaDu.

I then contacted my 'mathematical genius' friends asking them to come up with a new technology to address this problem. Tackling the same problem while coming from a completely different background (statistics and mathematics rather than hydraulics) was a great advantage, allowing us to develop an "out of the box" solution to eliminate the guess work of water network operators."

**Tamir:** "After becoming operational, working with various customers of different sizes and across multiple countries, and learning more about the market needs and common practices, we added more features and capabilities to improve our offering: expanding to more users and providing greater benefits. The combination of multiple types of data and a unique data fusion approach allowed us to develop a real practical solution for a problem that had not been appropriately addressed before then."

### **Q2: What were the major growth accelerators for your company in the early years of high growth?**

**Tamir:** "I would split it into two key drivers: the first is market need, which is huge and global, especially when considering the inadequate level of innovation in this field over the past few decades; the second is the TaKaDu cloud service business model, which, being a based on OPEX with clear ROI rather than a big capital project, complies with the challenges in this specific market and helps us overcome the key barriers as a vendor for water utilities.

There is an enormous and growing global need for solutions to make water supply sustainable. As an indication, in its Global Risks Report 2013, the World Economic Forum ranked 'water supply crises' second out of 50 risks in terms of impact. Insufficient water supply can trigger food shortages, demographic changes, political strife and even armed conflict.

On the practical level, while the demand for water is continuously growing, more water is wasted through leakage as water infrastructure ages and deteriorates. Water utilities worldwide suffer from a deteriorating infrastructure in drastic need of capital. This forms a great opportunity for technologies that provide superior operational performance at lower costs. This is one of the key growth drivers for TaKaDu, which, by using a software-as-a-service (SaaS) delivery model, helps water utilities to increase their operational efficiency while involving no upfront investment or capital cost."

### **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

**Peleg:** "Initiating a venture in the water sector is more complex than doing it in other fields like Internet, communications or IT. Venture capitalists are more reluctant as the water market is considered conservative and slow moving. As a serial entrepreneur, I had some advantages – I was familiar with the process, knew what needs to be done and had the right connections. The reputation I gained from my previous projects, combined with the ability to finance the early stage (seed investment) myself also facilitated the process.

The geographical location also played a role in the initial stages of the company. Seeking investors for the first funding round, we benefited from the developed venture capital community and investment industry (lawyers, certified public accountants) in Israel. In addition, being based in Israel, with a strong personal network, it was relatively easy to find top-notch researchers and developers to join the venture and develop the solution.

Moreover, specifically when it comes to water technologies, the Israeli Government widely supports the Israeli water industry and especially exporters in this field. We have benefited, and still do, from special programmes developed by the government to support marketing and business development activities opening doors to Israeli companies worldwide."

### **Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

**Peleg:** "One of the most significant challenges for any entrepreneur is gaining the first set of customers. This is even more challenging when you are in the water business – early adopters within the water sector are hard to find. Most water utilities are conservative and risk-averse and local references from the same country are always needed, which means that getting the foot in the door in each territory is a complex task requiring high investment. We address this challenge by first identifying markets with high awareness to water scarcity issues, spotting the few early adopters that do exist in those territories and approaching them, as well as leveraging well-known customers that can serve as good references for others."

**Tamir:** "I agree with Amir's assessment of the absence of early adopters. I would add that since the TaKaDu solution makes use of readings from network sensors and meters, our primary target market is comprised of utilities that already have those sensors in place. Although we see a global trend of water utilities becoming more data-driven, it appears that many water utilities are still way behind in terms of the implementation of advanced technologies for managing their distribution networks and do not have the basic instrumentation required for working with TaKaDu. Although this is a major challenge, it is not a limiting factor in the short term as there are currently enough utilities which do have the required instrumentation and are in a position to add value by working with TaKaDu. These are typically the 'early adopters' we referred to earlier. Looking at the longer term, this is not a concern at all, as there is no doubt that water utilities worldwide are moving in this direction, hence the overall potential is constantly growing.

A different channel that helps us address those challenges is our global network of partners. TaKaDu partners with a range of well-known resellers (from local professional companies to large international corporates) that represent us internationally, reducing the level of reluctance from the customer side. The most significant partnership is with TaKaDu's strategic partner ABB, which also led a US\$ 6 million funding round for TaKaDu in April 2012. The partnership with ABB as well as with other resellers of TaKaDu who are also selling network measurement instrumentation, creates opportunities by bringing companies to a level where they are technically ready for TaKaDu, thereby increasing TaKaDu's addressable market."

### **Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

**Peleg:** “We have been seeking international growth from day one. The Israeli market is very small and limited, and doesn’t hold a great amount of potential for TaKaDu. This is typical for most new Israeli ventures who think globally from the start.

When first starting the company, we approached a large water utility in the UK which is considered a leading water supplier worldwide. We started with the UK as it is known to be very advanced and is a leader in the international water community. Other countries usually follow the UK so success there can be relatively easily translated into success in other parts of the world.”

**Tamir:** “Very soon after that, we decided to expand to other countries and selected them based on several key performance indicators such as the total market potential in the country, the level of adoption of advanced technologies, and the expected ROI when buying TaKaDu (based on indicators like water loss, energy consumption and potential savings). This is how we chose to focus our efforts in Australia for example, as well as other markets like Spain and Portugal.

Since TaKaDu’s offering is a software-as-a-service solution, and since we sell it to end customers through local partners, working with customers in different geographies is relatively easy and not as cost-intensive as it may be for other businesses.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

**Peleg:** “As the creator of a new market category, the biggest challenge for us was, and actually still is, market education. TaKaDu introduced a revolutionary approach and a whole new layer in operational decision support – using existing network data to increase network visibility and allowing operators to take control of their network, all of which is done in the cloud. As mentioned earlier, the water industry is very conservative, which, given that ours is such an innovative solution, presents a huge challenge. From day one of the company, we invested a lot of effort in market education and building trust and awareness – that included writing articles and participating in leading conferences, pitching the new approach, producing white papers and educational material, collaborating with partners that could support these extensive market education efforts and initiating the SWAN Forum together with global leading players like Schneider Electric in 2011 to educate the market on data-driven technologies and smart water networks in general.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

**Peleg:** “Let’s take the Australian market as an example. The Australian water utilities are very advanced, which means that the ecosystem there is quite mature, which has advantages and disadvantages. The down side was the presence of competitors – even though not direct competitors, we found ourselves competing with other innovative solutions on resources and attention. In many cases, these were solutions developed in-house by the water utilities themselves which made us face the ‘not invented here’ barrier. Additionally, since the Australian water market is known for being a good market to start with, many vendors of advanced solutions try to penetrate this market and end up fighting over the same budgets.

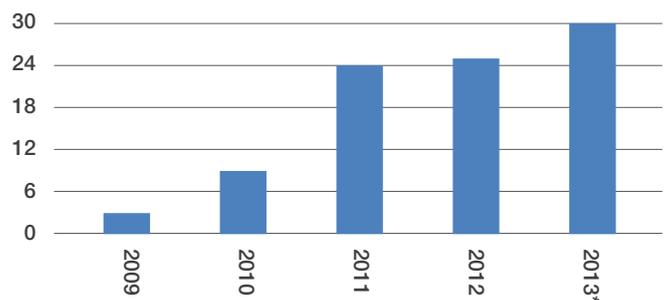
On the other hand, owing to the highly developed nature of the ecosystem in Australia, there were many platforms and tools in place enabling us to present our solution to the relevant stakeholders. For example, there were local industry events specific to data-driven solutions for utilities or water loss reduction or special seminars dedicated to innovation. These are things that you could only dream of in other countries. Moreover, the water community in Australia is relatively small with a limited number of large utilities – this typically promotes growth as success with one customer leads to other potential customers willing to adopt the technology.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

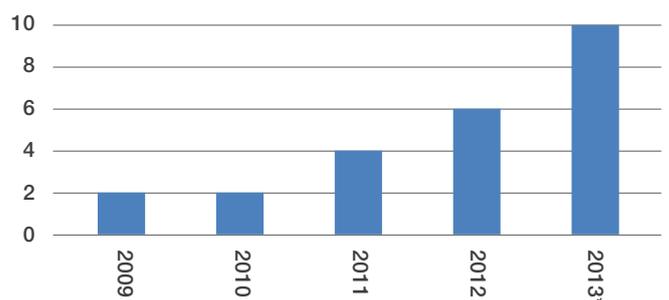
**Peleg:** “As you can imagine, there have been many achievements resulting in high moments alongside many challenges and disappointments. One of the darkest moments I remember was realizing that many of the UK water utilities, which have developed their own in-house solutions over the years, are less tempted to try a new approach, practically delaying our entry to the UK market by a few years.

“By contrast, an important high moment was when we were first exposed to the Australian market while being introduced to the great leadership of Yarra Valley Water in Melbourne. At that exact moment we realized how promising the Aussie market was for us. It had all the required ingredients for TaKaDu’s success – high awareness of water issues, utilities seeking new innovative solutions, a strong regulator, and more. In our case, the geographic distance of this market from Israel did not pose a major barrier and was easy to overcome since we sell a remote cloud-based solution.”

**Headcount**



**Number of Countries with Operational Customers**



# Taste Holdings

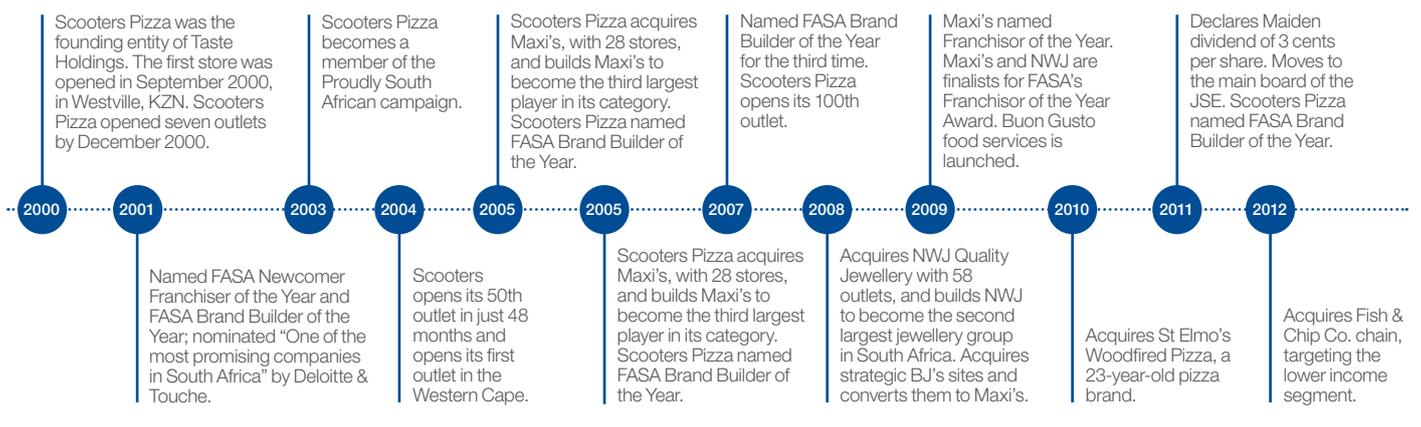
## South Africa

Prepared by Maya Dadoo Gonzalez, George Foster and Rhett Morris

### Overview

Taste Holdings is a vertically integrated franchiser with a strong brand focus. Started in 2000, its early success was highlighted by multiple awards. Taste started with a Scooters Pizza as its founding entity. It then broadened into wholesale and manufacturing as well as retail. Its two major areas of focus are food (with the Scooters Pizza, St Elmo's Woodfired Pizza, Maxi's, The Fish & Chip Co. and Buon Gusto Food Service brands) and jewellery (with the NWJ Jewellery, Latan, Kimmi Kay, Sterling, Soul and Tsar Collection brands). Its distribution of revenues is as follows: 43% is attributable to jewellery franchises and wholesale, 21% to jewellery retail, 18% to food manufacturing, 17% to food franchises and 1% to food retail. The branding aspect is viewed as a key differentiating factor and is supported by relatively large marketing funds within their segment. Over 95% of Taste's revenue comes from South Africa. Its growth has been a combination of organic growth and acquisition. It was listed on the alternative exchange of the Johannesburg Stock Exchange (JSE) in 2006 and moved to the main board of the JSE in 2011.

### Timeline/Key Events



### Quotations

Carlo Gonzaga is Chief Executive Officer of Taste Holdings. Carlo completed a postgraduate LLB degree at the University of Natal, after which he and his father, Luigi, became owners of four franchised pizza outlets in the Durban region. In 1999, Carlo sold his interests and commenced the groundwork to create a new pizza delivery concept, which became Scooters Pizza in September 2000. Carlo guides the strategic direction of the company, its growth strategy and human capital development. He chairs the executive committee.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Gonzaga: "In 2000, I had a franchise of another pizza brand and I sold my 25% share in that business. I made a little bit of money. At age 25, I wondered what I would do with the rest of my life. Like most South Africans, the decision of whether to immigrate came up. I made the very conscious decision to stay in South Africa and to grow a business through franchising. I thought then, and do now, that franchising has the ability to have a large social impact in a short period of time, specifically through the creation of jobs. That is what gave rise to Scooters Pizza, which started in 2000. It is now the second largest chain in the country. The only thing that was a little bit disruptive at the time was our business model. In the late 1990s, franchising had a reputation in South Africa of being full of conmen who essentially made false promises about financial performance; took potential franchisees deposits and often disappeared with them, without passing on the benefits of group buying back to the franchisees. We changed franchising in a few ways.

We were among the first franchisers to not make a profit on the building/construction of a store. We were completely transparent with our franchisees as to actual building costs and they paid actual costs. Our view was that business was tough enough without being hamstrung by inflated set-up costs, and therefore higher required repayments to commercial banks. To date, we are the pizza franchise with the lowest set-up costs in South Africa and we continue the practice of franchisees only paying what it costs.

At the time, the supply chain was opaque and controlled by the franchiser. While today we do in fact have elements of vertical integration, in 2000 we, unlike almost all other franchisers, did not supply directly to franchisees. This removed the distrust between franchisee and franchiser, but more importantly, allowed us to price our product some 20% cheaper than the market leader, while still maintaining the same store-level gross margins as them.

We also implemented a marketing royalty that was the highest in the industry at the time, despite being the smallest player in the market. While the source of a large amount of robust debate with our growing franchise base, this marketing royalty has become widespread.

Lastly, we made a subtle but important change to our customer value proposition. We were the first delivery business in South Africa to 'walk the talk' with our delivery promise in that we offered our customer their order FREE on the spot if we were late. To date, 13 years later, no one else has been able to match this promise. In the first five years, we built the business on the delivery promise ('if it's late, it's free') and on our price advantage over the competitor.

Other than that, there wasn't anything that we did that was marvellously new. I think sometimes entrepreneurs are told that the only way you can make an impact is if you are the next Google. I disagree with that.

My business plan back in 2000 didn't look one bit like our business looks today. We made a conscious decision in 2004 to become diversified across product categories rather than focus on geography. So, instead of focusing on one brand across multiple geographies, we decided to focus on many brands in a geography we understand. That was our big strategic watershed around 2004. We took quite a close look at our business – what were the skills that we had in it at that time? And how could we apply them? What were we good at? What were we getting better at? Even today, people ask how we got into jewellery. Back then we asked ourselves what skills we thought we had in the business that we could apply to another sector and grow? We were not afraid. We got a lot of criticism for buying a jewellery business in 2008. But it has grown by about 50% since we bought it and it is now the second largest jewellery group by volume in the country. It took me a while to convince people that we knew anything about jewellery, but we had the same ideas about how we could add value to the business.

All ideas have evolved mainly based on whether we thought we could move into areas that other people were not looking at. We bought a fish and chip business last year – it services mainly low-income consumers. To date, none of the listed companies own any brands for low-income consumers. These stores are in the middle of townships and shack cities. Do we think we've got the skills to go into this? We think we do. And that became the whole idea behind what made us change our plans: we have got the skills."

## **Q2: What were the major growth accelerators for your company in the early years of high growth?**

Gonzaga: "In the first four years of building only the Scooters Pizza business, we were the fastest growing franchise company in the country. We were opening a new store every 23-30 days. Our biggest accelerator was being in an industry that had good tails – the pizza delivery business. A second accelerator was our partnership with Nando's, one of our founding shareholders. Nando's is a global chain. We had great credibility in the marketplace. That phase took us to 2004.

The second phase was from 2004 to 2008, when our growth slowed down. But the big change we had was that we were listed. Failure to get access to capital can be an important growth inhibitor in our set of businesses. When we bought Maxi's, we were an unlisted private company. I think we ended up going to 17 institutions (for funding) and on the closing day of the transaction, we were still 1 million rand short. I asked for a 30-day extension. Listing on the JSE gave us a better platform to raise capital.

Several strategic decisions in 2008 were important growth accelerators. Acquisitions played a key role in building out this strategy. We made the strategic decision to integrate vertically as well as the strategic decision to enter an additional product focus. With our acquisition of St Elmo's in 2008, we started on a vertical integration path in our food division. We are now involved in manufacturing – pizza toppings and all sorts of things for our food brands. In 2008, we bought NWJ Jewellery, which has subsequently led to us becoming the second largest jewellery chain in South Africa. Our philosophy is to combine acquisitions with organic growth. If we see that we can acquire a competitor in the market that we can add value to, then yes, we aim to acquire that company."

## **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Gonzaga:

- "Availability of accessible markets: Yes, the restaurant market was underdeveloped in 2000. Even today, 99% of our revenue comes from South Africa, despite having operations in other African countries.
- Availability of workforce/human capital: As explained below, there are advantages and disadvantages here.
- Availability of funding/finance: When raising capital, we were 1 million rand short and therefore decided to list on the JSE.
- Availability of mentors and advisers: Overall, if I want to credit one thing that enabled us to achieve the relative success we've had, it would be that in the past 13 years we have always had, and I have personally had, an enormously strong circle of advisers and mentors. For example, we have a board of directors with technically competent people on it.
- Favourable regulatory framework and infrastructure: There is a mixture here. As explained below, South Africa is well developed in certain areas but underdeveloped in others."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

Gonzaga:

- “Availability of workforce/human capital: A lot of the African ecosystem isn’t really an ecosystem. Many African entrepreneurs are born out of necessity. What they’re really trying to do is generate enough to look after themselves, rather than looking for a solution to a problem that can be scaled. A major constraint in scaling is the limited skills of the workforce. There is a pretty low level of education. We’re constrained very much by access to skills. And you have to pay substantially to get them.
- Availability of mentors and advisers: We were fortunate. But in general in South Africa, there isn’t a big ecosystem around entrepreneurship. If you’re a young start-up entrepreneur, there aren’t many ways that you can get good advice, advisory boards, etc. Some companies provide financial training support, but they are not trying to build an entrepreneurial ecosystem.
- Favourable regulatory framework and infrastructure: South Africa is one of the hardest parts of the world in which to start a business. The framework doesn’t foster entrepreneurship. A key problem is the cost of running a business in South Africa. The worst thing I hear people say to me is that I want to start a business with two employees. This is impossible because you’ve got such a rigid structure. If you want to fire somebody you may as well give him the company.
- Because of inflated democracy, we are generating legislation at a rate that is largely unparalleled, but is not supportive of entrepreneurship. A small business has to navigate a minefield of legislation that is costly to live with. For example, we’ve got a consumer protection act that is too advanced for the way South Africa is as an economy, especially for the young companies aspiring to grow.
- Major universities being located nearby: Unfortunately, universities have not helped overcome the shortage of skills we face. We have, as a country, more and more people going to university, but many have not acquired the skills we require. We could get ourselves educated employees, but there is a good chance many will have poor financial management skills. So I would say the education system hasn’t helped most of us in business.”

**Q5: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Gonzaga: “The ecosystem of large entrepreneurs in terms of owner-run businesses in South Africa is quite big. There are already some quite substantial companies, maybe second generation. We received massive amounts of help from people who saw us as a young starter. And they knew we had quite a good reputation as reasonably honest guys. And we had support from Benchmark, the third largest retailer in Africa. Any time we said we’d like to come and see how you manage your business, they would put us in touch with their highest management. When we started, I went to many suppliers and said I have this cool idea – we want to take over the world, but we don’t have a store yet, though I would like my chief price and box price to be the same as the market leader, my competitor. We succeeded in likely 90% of our negotiations with suppliers in getting this pricing. In South Africa, some corporations are completely closed, while other competitors say yes, come and look at our business. Even competitors with three or four stores – we show them around our warehouses and show them how we work and contribute to building an ecosystem.

In South Africa, because of our history of sanctions and things like that, we’ve got quite a supportive culture as regards growing as businesses. It is very rare that we don’t have access to other businesses. A part of the motivation is that when I see someone doing well and I could help him or her, we very much try to as we don’t know what could happen one day.”

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Gonzaga: “The quality of the domestic retail sector in South Africa has meant that some key international players that could have been major franchise competitors have struggled and hence played less of a role in limiting our growth. We have some of the best retailers on the planet. Any brand has got to bring their best fighting armour if they want to come here and they have to adapt their model to South Africa. Domino’s has come and gone. McDonald’s has only got 150 stores here.”

**Q6: Your current revenue growth to date had been predominantly focused on your own domestic market. What are the major reasons for this major revenue focus to date on domestic markets?**

Gonzaga: “Starting in South Africa, we have always been asked about expanding beyond our borders. In 2004, we made the strategic decision to stay in South Africa and grow the business through franchising. The strategy was to be diversified across product categories rather than geographies. Instead of focusing on one brand across multiple geographies, we choose to focus on many brands in the South African geography, which we understood very well. Currently 99% of our revenues come from South Africa. The areas we have expanded into are close geographically. We now have stores in Namibia, Botswana, Zimbabwe, Lesotho and Swaziland and are planning to open in two other countries in the course of this year: Mozambique and Zambia.”

**Q7: What would you view as the greatest challenges in growing a sizable revenue presence in markets beyond your own domestic country or region? In deciding when and where to seek growth in international markets, what characteristics of a country's ecosystem would be most important in attracting you to invest significant resources in that non-domestic country or region?**

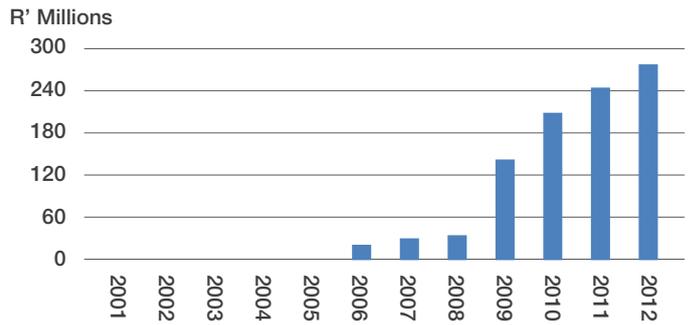
Gonzaga: "Three key factors we look at when deciding whether to enter a new geographic market are: (i) trademark protection; (ii) the financial system; and (iii) whether there is an existing or potential supply chain so that we can supply our stores with the products. Africa is an incredibly diverse region. One country can be reasonably modernized in terms of its financial ecosystem, and another may not even have a stock exchange. There are large differences in terms of tribes and religions. It is a very complex continent in which to operate. Strong market management and building infrastructure are essential to our business.

We don't have a long checklist to assess emerging markets. Each one will likely be different from South Africa. You must go as you need to in each market. But without trademark protection, a strong financial system and the potential to have an effective and efficient supply chain, the low likelihood of successfully scaling in that market would make it unattractive to commit large resources."

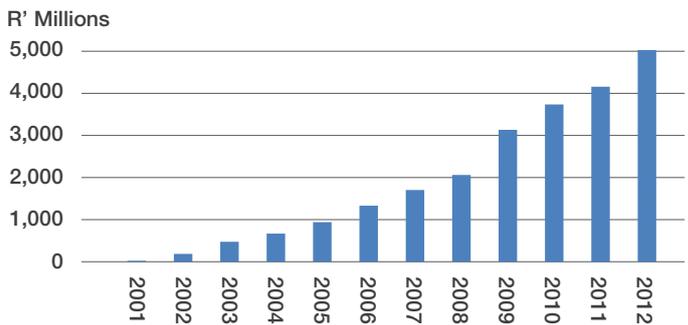
**Q8: Building a company that aims to have sustainable high growth inevitably will have both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in your entrepreneurial journey.**

Gonzaga: "One high moment was our success after entering the jewellery business in 2008. We received much criticism, but were able to prove the naysayers wrong. We have run out of money twice – like many entrepreneurs have – but it's all part of the day-to-day stuff we have to deal with. I am unhappy when people we hire are not able to grow with the needs of the business. This happens often. The obsession some have with quarter-by-quarter profitability for a listed South African company does create problems. About a year ago, I realized that we had started to think about profit too often. Too many of our general management discussions were about how we were going to make the next half-year or quarter numbers. They were away from people, and away from the customer. That's not why I ever go into business."

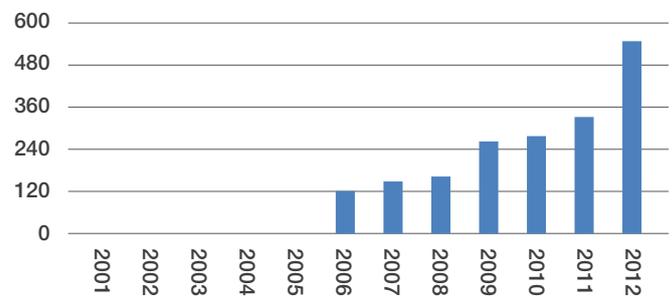
### Revenue of Taste Holdings



### Systemwide Sales of Taste Holdings Stores



### Total Number of Stores



# Tough Mudder

## USA

Prepared by Jason Luther and George Foster

### Overview

Founded in 2010 by Will Dean and Guy Livingstone, Tough Mudder is an adventure challenge series that tests a person's strength, stamina, mental grit and camaraderie. Each event is untimed and consists of a 10-12 mile-long obstacle course created to play off of common fears, such as fire, water and heights. Designed by the British Special Forces, these courses have a military-style feel and are purposefully constructed to encourage teamwork to successfully complete each challenge. On average, only 78% of entrants finish a course.

Tough Mudder, however, is not designed to attract the hardcore, highly-trained enthusiast. In fact, the most successful "Mudders" are those who do not take themselves too seriously and who value fun over stress. This mentality is prevalent at each event, with teams often dressing in costumes and staff providing beer to participants at the finish line. Ultimately, Tough Mudder intends to provide a venue to help participants unlock a true sense of accomplishment, have a great time and build connections with those around them.

Will Dean created the idea for Tough Mudder while attending Harvard Business School. Dean was frustrated with unimaginative, repetitive adventure runs and was inspired to create an unconventional challenge to fill the gap. Armed with an US\$ 8,000 marketing budget, Tough Mudder used Facebook and word-of-mouth to advertise the first Tough Mudder in May 2010. This event drew nearly 5,000 entrants, with Tough Mudder reaching 50,000 participants after the first year. In 2012, Tough Mudder hosted 35 events, up from three held in 2010. To date, Tough Mudder has hosted over 750,000 worldwide participants who have raised more than US\$ 5.8 million for the Wounded Warrior Project. The company currently holds events in Australia, Canada, Germany, Scotland, the United Kingdom and the United States.

### Timeline/Key Events



### Quotations

Will Dean is the Co-Founder and Chief Executive Officer of Tough Mudder. Dean began his entrepreneurial career by running a T-shirt company and a Bollywood poster business. Subsequently, Dean worked for five years for Britain's Foreign and Commonwealth Office in its counterterrorism policy department. Dean left this position in 2007 to pursue an MBA at Harvard Business School. While at Harvard, Dean entered Tough Mudder into the school's annual business plan competition, finishing as a semi-finalist. Dean's contest teammates ultimately scattered to other postgraduate opportunities, leading Dean to partner with Guy Livingstone, a friend from boarding school, in 2009.

Guy Livingstone is the Co-Founder and President of Tough Mudder. Prior to Tough Mudder, Livingstone was an attorney at the leading global law firm Allen & Overy LLP. Livingstone earned an MA in Modern History from the University of Edinburgh and a Graduate Diploma in Law from BPP Law School in the United Kingdom. In 2012, Livingstone continued his education by attending the Executive Program at the Stanford University Graduate School of Business.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Livingstone: “The initial idea came from my business partner, Will Dean. He was studying to get his MBA at Harvard Business School in 2008 and was looking to start a company. Will was exploring the mass-participation events space because he felt a company could scale rapidly with minimal up-front capital expenditure requirements. In particular, he thought that a concept like Tough Mudder would do well in the United States. He and I had completed many triathlons and had grown weary of the repetitive, slightly boring and also very individualistic nature of these events. Accordingly, he wanted to do something that spiced up the industry and pushed it more towards team-based activities.

“At the time, there were similar events in Germany, the United Kingdom and Australia. These events, however, were poorly executed and marketed. We felt we could take their value propositions, Americanize them and deliver the content in a way that would better resonate with the customer base. This involved improving the obstacles, lowering wait-time and keeping participants focused on the event itself. We knew that achieving these goals would result in a strong word-of-mouth movement.

“Amazingly, the evolution of the Tough Mudder concept was relatively linear. We had a very clear idea of what the event would look like and have since supplemented this vision with tens of thousands of ideas about its delivery. For example, we knew a running event with obstacles would be successful, but modified it by removing the timing element. This move was crucial in reshaping the overall experience from a race to an event.

“Our minimal viable product was a one-page website with a rudimentary video that we purchased for about US\$ 500. We started experimenting on Facebook and were achieving pre-registration sign-ups from our website. These signs of interest showed us our idea worked without our having to spend much on advertising or proof of concept.

“Using Facebook, we sold out our first event to 4,500 people. This proved to be a game changer for us in how we viewed growing the business. We felt we could host three events in the first year, which we did. In the second year, we thought to ourselves, ‘We are putting cash in the bank and people are paying us in advance. We should develop our own internal team and use our cash-flow to fund a more aggressive expansion strategy.’

“We were also good at responding very quickly to customer feedback. We would send out post-event surveys to all of our participants and absorb what people had to say. For example, our initial event was seven miles long and we pushed it up to 10 to 12 miles based on the feedback we received. By diligently listening to what customers wanted and felt was important, we were able to iterate our idea and provide a better product.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Livingstone: “At the time, there was a big push towards fitness. During the recession, there was huge growth in the number of marathons, 10Ks and triathlons. We felt this trend would remain strong as people focused attention on staying fit and getting healthier to help cope with financial stress. This shift was an important driver for us.

“We also benefited from the growing popularity of mass-participation events. Our society has moved towards sharing common experiences as a form of social currency. Whether it is going to a music festival, ice climbing or watching a sports event, people enjoy participating in activities with their friends. This phenomenon was amplified by the rise of social media. Facebook and other photo-sharing sites allowed users to use pictures or videos to show the world what they had done and this helped us. In 2010, we were able to purchase Facebook advertising for cheap since it was still in its infancy. Now, the same keywords we purchased just two years ago have quintupled in price.

“This wave has assisted us simply by people posting photos of themselves at our events. The visibility this gives Tough Mudder has been a huge catalyst for our growth. The variety of obstacles we design and the stories associated with them also provide something for people to talk about around the water cooler or with their friends at a bar.

“We are creating a very impassioned and engaged online community of people who, from Monday to Friday, long for an escape from a sterile environment and want to get muddy. As life becomes more competitive, participating in an untimed event that is not about winning but about pushing yourself and others becomes more attractive. Tough Mudder is a lifestyle, something that people wear as a badge of honour. It is a brand that says you want to do something interesting and be team-oriented, but not at the expense of everything else you have going on in life.

“We also benefited from operating in a relatively immature industry. In general, there were very few business-savvy people in the events industry. Triathlons and other races are often run by race directors, who were perhaps the best in their field in 1985, but do not have the skills to turn an event into a viable business. We viewed this as a huge opportunity to leverage our skill sets and provide one of the very few professional products in the events industry.

“Brand is everything to us and this focus has helped accelerate our company. For example, Tough Mudder partnered with the Wounded Warrior Project, an organization that helps assist civilian service-people from Iraq and Afghanistan. Through this partnership, we give a US\$ 25 discount to participants who raise US\$ 150 for the Project. This relationship helps Tough Mudder reach people by word-of-mouth through the promotion of a worthy cause.

“We are also able to attract top talent. Many people are disillusioned with the corporate environment and want to join a rapidly growing company that is doing something fun, interesting and positive for the world. The common viewpoint is that most entrepreneurs want to enter the tech space and create the next Google. Lucky for us, this leaves Tough Mudder as a viable alternative for those not looking to enter that industry.

“Hiring great people is so, so important. As with any start-up, it was tough attracting talent at first. We did a good job of messaging the ancillary benefits of working for the company and were fortunate to attract a few incredibly smart people without having to give out big salaries. Now, we have several ex-corporate lawyers, multiple accountants and a few ex-investment bankers.

“Lastly, not taking external financing gave us a high-degree of freedom in how we operate. Neither Will nor I were interested in making a lot of money, so we were able to focus on what helped the company grow in the long rather than short term. Not having a venture capital or angel investor made us significantly more nimble and allowed us to develop a brand that was much edgier than we would have been able to otherwise.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Dean: “Early on it was crucial that we develop a business model that, in its DNA, contained a force for good. Accordingly, the Wounded Warrior Project is very important to us. We talk about our participants raising nearly US\$ 6 million for the project and that is great. But, far more important to us is that we get people to our events who themselves are injured veterans. To empower these people to come in and participate is an important part of what Tough Mudder is. With this, we have been able to leverage a groundswell of public support for what we are trying to accomplish. Many of our volunteers give their time because they believe in what we are doing. We are helping people get healthy and are providing a venue for others to build memories and spend time with their friends.

“Originally, we were worried about obtaining insurance and regulatory approval. This is where I was fortunate to have a partner like Guy. He is extremely good with people and was able to work well with local authorities. At first there were hurdles, but now we use our relationships as a competitive advantage. We have built this expertise in working with local governments and figuring out how to make sure we are all speaking the same language. Moreover, Tough Mudder brings a tremendous amount of business to cities where we hold events and communities often understand this. Thus, if we can get buy-in within the community and if everyone is aligned in the central government, getting permitting authority from police and fire marshals is not too hard.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Dean: “Our business model was not to go out and hire people from the event industry. We have obstacles where participants jump through flames and the first thing an outside event person would do in that situation is pull out a fire extinguisher and put the fire out. Removing people in specific professions from their way of thinking is difficult. Many event planners would say, ‘People pay per mile. You can charge more for a marathon than a half marathon.’ This pre-established thinking made it clear that we needed to be careful when hiring.

“At first, it was difficult dealing with people whose incentives were not aligned with ours. The local chief of police would often prefer our event not come to his city because we would choke up roads. When we were beginning to grow, people would ask, ‘What is this thing? What kind of person does this? Are they going to get drunk or do drugs?’ Obviously this is not what our event is about, but I understand why people want answers to these questions. There have also been some very scary last-minute calls when we thought permits would get pulled or communities would push back on our event. Sometimes this came in the form of limiting parking availability.

“With hindsight, I would have done many operational things differently. For example, we were behind the curve on ERP [Enterprise Resource Planning] implementation. We relied on ad hoc mechanisms, management systems and other control systems that prevented us from institutionalizing some of our knowledge as we grew. This is where taking venture capital funding and instilling some of the discipline that comes with having outside investors may have been useful.”

Livingstone: “In the UK there do not seem to be many institutions that promote entrepreneurship. Teachers often do not support people who wish to establish their own companies, which results in hurdles for aspiring entrepreneurs, such as Will and I, to overcome. England has always been much more of a trading economy where establishing careers in finance, law and accounting are the keys to success. This is substantially different than in America, where it is the big dream to build something from nothing. It seems as if entrepreneurship is more deeply engrained in the culture than it is where Will and I were raised.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Dean: “I believed very strongly from the start that Tough Mudder had the potential to resonate in several different cultures. We get people to have fun, goof around, drink a few beers and challenge themselves both mentally and physically. People have been doing these things since the dawn of time; they are not activities that are specific to American or even Anglo-Saxon cultures.

“I also knew that there was a strong first-mover advantage in our space. If you look at what Ironman has done, it is really without peer. Why? Because if someone intends to train to do an Ironman event, they will pay a premium to do ‘the real thing’. Similarly, we sought to build a strong community because we understood the power of network effects. These network effects make it difficult for firms from different cultures to replicate our business model.

“We knew that we should not hesitate to expand to Britain and Australia. At Harvard, we called it the ‘commonwealth strategy’. The idea was to enter countries that are similar to America and produce our events remotely. We flew teams in to these countries and once we established that there was demand, we built permanent offices. We now have offices in London and Melbourne, with the intention to later establish beachheads for further expansion. In particular, our London office acts as the headquarters for our whole European operation.

“We went to Germany because we knew it would force the company to push its own boundaries. We could not sit back and say, ‘Hey, let’s use our English-speaking, North American marketing department for expansion.’ We would need to develop new capabilities. This evolution would make it easier for us to enter Japan and other less-familiar markets. In these countries, there will be more variables and we will need to build capabilities in our organization.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Dean: "I think there were several challenges. First, we had to decide when to adapt or not to adapt our product. When we first came to the United States everyone said, 'This feels very English,' and when we went to England everyone said, 'This feels very American.' A good example of this was playing the national anthem. There are very few countries in the world that are as patriotic as the United States. Many people said, 'I don't know how well playing the national anthem at a British event will go over.'

"Another good example is charging for car parking. One of our biggest capacity constraints is the availability of parking, so we often incentivize people to carpool. This is not a huge revenue stream for us, but it does allow us to host more people at events. Often times, we will have people tell us that we can or cannot charge.

"When expanding to other countries, we also needed to be cognizant of the effects of our military partnerships. In the United States, and to a slightly lesser extent in the UK, people tend to be pro armed forces and are supportive of veterans' causes. Germany has a slightly different relationship with its military and we have chosen not to partner with a veteran's charity in Germany for that reason.

"South Africa also poses many challenges for us. We are about to enter that market and, for very logical and sensible reasons, there are strict rules on how to do so. Ultimately, we will need a partner to help us enter, which, from a capital perspective, we do not need. Moreover, it is difficult having to surrender some of our flexibility to have access to the domestic knowledge that we want to tap into.

"On a more minor level, we have an equipment warehouse in Canada because it is far easier than having to go through the headaches and hang-ups of bringing supplies back and forth across the border."

**Q7: What major role, if any, did key aspects of the ecosystem in the country(countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Dean: "One important thing to understand about our event is that most of our awareness comes through word-of-mouth. In fact, more than 90% of our brand awareness is derived through this medium. When we talk about word-of-mouth at Tough Mudder, we mean people uploading photographs to Facebook, posting statuses about events, linking YouTube videos, etc. Since our product is so visual, Facebook proves to be a very important advertising and word-of-mouth channel. This means that we are somewhat reliant upon how and where Facebook is adopted.

"In Germany, for example, Facebook penetration is lower. Therefore, Facebook is less effective there not only as an advertising channel, but also as a word-of-mouth channel. Conversely, you see this trend in highly urbanized regions of the United States. People who live in big cities are, to some extent, more likely to interact with a large number of people every day. Consequently, our ability to drive word-of-mouth in these areas is very high. If you go to parts of the United States that are densely populated but perhaps a little more rural, getting traction is harder.

"You also see regional preferences and differences. Tough Mudder was a home run from day 1 in Australia. I remember arriving at the Melbourne airport and the immigration staff gleaming with excitement to meet me because they were all doing Tough Mudder. In the UK, people were less inclined to be early adopters. We just about broke even at our first event, but after that there was a tipping point. The English tended to be a bit more conservative and were waiting to see if we could execute on our promises and provide a safe experience. They also wanted to make certain other people were having fun before signing up."

**Q8: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Dean: "At the onset, I focused on having partners who were willing to help from a marketing activation and logistics perspective. In particular, we had a partner very early on that helped us straighten out our first event. They came in at the stage when we were really just two guys working across from each other at my kitchen table and they helped us a great deal in terms of gaining legitimacy and building productive partnerships. In the beginning, we were also able to find one or two key contractors and construction partners who helped us rapidly scale. With the size of our infrastructure at that time, it would have been very difficult to accomplish the same tasks without them."

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Dean: "Larger organizations tend to not make decisions at the speed that smaller organizations require to effectively operate. In particular, I can think of several instances when items were delivered late or not at all. At one of our early events, we were waiting for a shipment of apparel to be delivered. The day before the event a gentleman shows up with a package for 'Mr T. Mudder.'

"After several minutes of conversation, I found myself in a situation where the delivery-person would not drop off the t-shirts because there was no 'Mr T. Mudder' to sign for the packages. I remember having this ridiculous dialogue where I was trying to explain that this is clearly a mistake. If we were dealing with a smaller organization, then the person most likely would have had the autonomy to say, 'Yes, that's obviously what has happened here. I have been presented with more than enough evidence that Mr T. Mudder is an entity, not a person, and I can deliver these packages.' With larger organizations, however, representatives are often not authorized to make real-time decisions. This can really inhibit the speed with which partner firms can conduct their business.

"Early on trying to get people to understand, from an insurance perspective, the actuarial list around our event was challenging. Organizations would try to categorize us by asking questions such as, 'Are you like a marathon?' I would respond with, 'Well, there are elements of our event that are like a marathon. We are more like a marathon than we are a McDonald's, but that does not mean we are a marathon.'"

Livingstone: “As with any new business, the major challenge in the first 6 to 12 months was to avoid thinking that the whole world was against us. In the beginning, many established players refused to give us the time of day. Professional services firms charged us, our registration partner was incredibly non-responsive, and many of our other partners, whom we relied upon, were not particularly forthcoming. Unfortunately, we had very little leverage over our partners at that stage and it made operating the company much more difficult.”

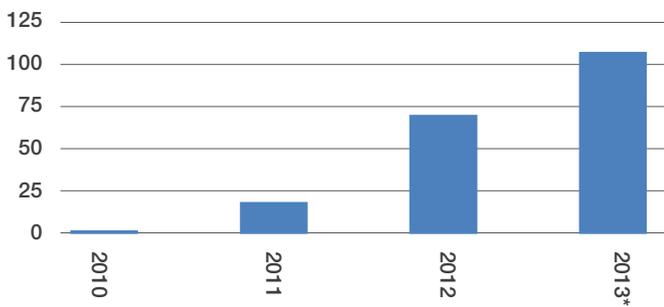
**Q9: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Dean: “As an entrepreneur – and this transcends geography – it is amazing to see something that was once an idea in your head become a reality. To see this real thing, which thousands of people in front of you are engaging in, has been a special part of the business for me. When Tough Mudder went international, it added another dimension to it. Having our first event in England and having my family and friends from college on the starting line made it incredibly special. This feeling is only matched by witnessing the first event in a non-English language. Seeing people talk about your product in ways that you can, without understanding the words, identify with is breathtaking.

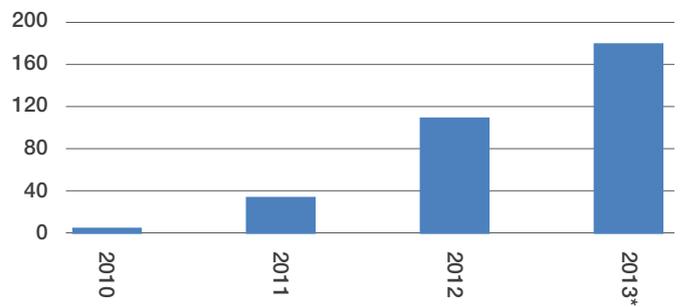
“On the harder side, we have had to spend time navigating tough cultural issues. In particular, from a marketing perspective, we made our lives harder than we perhaps needed to at the beginning. I recall having a rather heated discussion with our chief marketing officer about the importance of not using American English when expanding to the UK or Australia. Americans can sometimes struggle to understand why American English may be offensive in these countries, but recognizing nuances such as these plays a crucial role in connecting with an international audience.

“At the end of the day, our product is about mud, obstacles, a starting line, a finish line and a free beer. And although the product does not change much, there are other things to consider in terms of how you articulate the value propositions. Ultimately, we were slow to move up the curve in terms of identifying the right local partners to help us do some things and relay our message. This was certainly true in Germany. One of the things I joke about from my experience there is: if you are not careful, you can translate ‘bad-ass’ as ‘evil donkey.’”

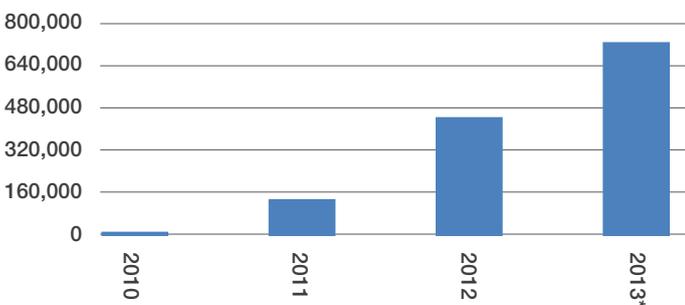
**Revenues (Millions \$)**



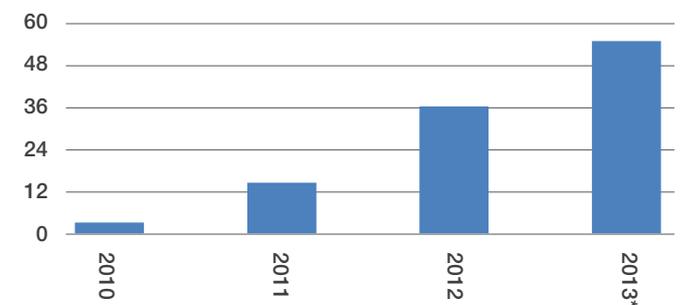
**Headcount**



**Number of Participants**



**Number of Events**



\*2013 numbers are projections.

# USS

## Argentina

Prepared by George Foster

### Overview

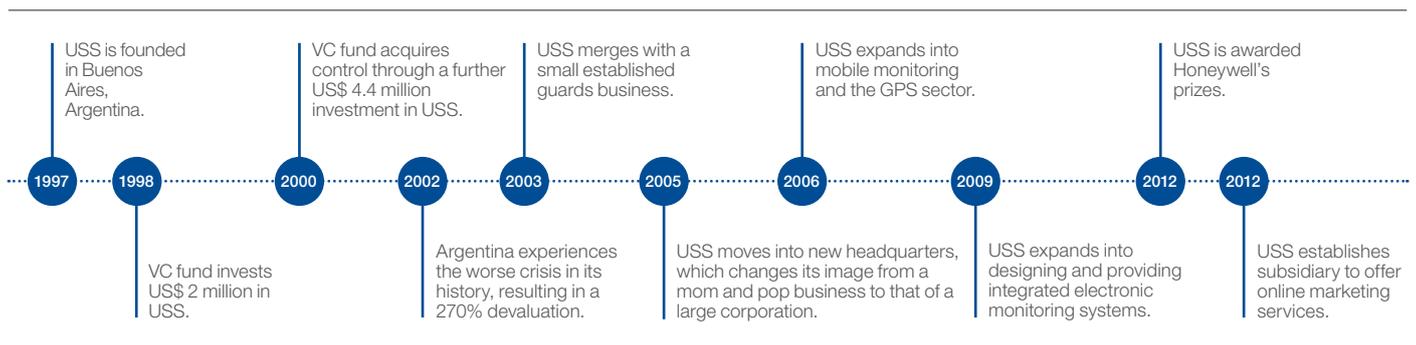
United Security Services SA (USS) was founded in 1997 in Buenos Aires, Argentina. USS started life as a security company dedicated exclusively to the installation and monitoring of alarm systems in private residences and business establishments. The unfortunate and deteriorating security environment in the greater Buenos Aires area gave rise to the idea of starting a security company. Greater Buenos Aires has approximately 15 million inhabitants.

In 1998 a Bahamas-based VC fund, Winslow Investments, invested US\$ 2 million in USS. In 2000 the VC fund increased its investment to US\$ 4.4 million, thereby acquiring control. In 2002, after four years of recession, Argentina entered into the worse crisis in its history resulting in, among other things, a 270% devaluation. This forced USS to change its business strategy to adapt to the new market conditions. By 2003 USS had approximately 3,500 accounts and was a mid-sized security company in a crowded market. At this point, the owners decided to differentiate USS by offering an integrated security service. In the following years, USS entered the following security areas: physical guards (guards in supermarkets, offices, banks, retail stores, airports, etc.); mobile monitoring (vehicles following transported valuables); Automatic Vehicle Location (AVL) GPS vehicle monitoring, and installation and servicing integrated electronic security systems.

Almost by accident USS discovered in 2009 that soliciting clients via Internet search engines was far more efficient and cost effective than the traditional personal approach. This was a major change in an industry that has always been very conservative. As a result USS was awarded several marketing prizes by Honeywell's dealer programme, which is easily the most important in the worldwide security industry. In 2012, USS established a subsidiary to offer that service beyond Buenos Aires and Argentina. The subsidiary designs and implements online marketing services. Although this is a very new area, the subsidiary already has clients both in and outside the security sector in Peru, Mexico and Argentina, and prospects in several other countries.

Today USS is one of the very few integrated security companies in Argentina. Clients include airlines, the central bank, major supermarkets, single family homes, small businesses, transport companies, gated neighbourhoods and various public sector clients, such as municipalities and the nuclear power stations where USS installs and services security systems.

### Timeline/Key Events



### Quotations

W. Scott Perry is an entrepreneur who with partners has owned businesses in several South American countries (Argentina, Brazil, Chile and Uruguay). These businesses ranged from a hotel and tomato paste business in Brazil; a property, telephony and security businesses in Argentina; a wood panel manufacturer, electricity distribution, fruit grower, fish processor, plate glass manufacturer and sugar refiner in Chile, to farm lands in Uruguay.

Francisco Alberton, Chairman of USS and a partner, is a retired officer and ex-commando of the Argentine army. In addition to his role at USS, Alberton is a partner and president of a property development company in Argentina.

Eduardo Kbal is President of USS and a partner. Kbal is an accountant by training who, before joining USS in 2003, was a consultant at PricewaterhouseCoopers in Buenos Aires in the corporate finance practice.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Alberton: "The unfortunate and rapidly deteriorating security environment in Argentina in general and more specifically in Buenos Aires gave rise to the idea of starting a security company. For the last 20 years the security industry in Argentina has experienced double-digit growth. It would be very misleading to state that it was an easy task to evolve into a viable growing company. The sector was very crowded and at times disrupted by the entry of the sector's international giants, such as ADT of the United States, Prosegur of Spain and Securitas of Sweden."

Perry: "Over time since 1997, the security industry in Argentina has seen substantial consolidation. In 2010 USS itself was the target of a takeover by one of the large international companies. Small security companies that are not fully integrated will continue to be absorbed by larger competition. Today USS is unlikely to be a target of acquisition, mainly because it is fully integrated and perhaps too large."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Alberton: "Unlike most start-ups, USS experienced slow growth in its early years until 2003 when we decided to integrate other security services. By 2003 we realized that most potential clients, particularly public and large private sector clients, would rather have a single provider for all their security needs. By offering almost the full range of security services (we don't presently offer safe deposit boxes or armoured car transport), USS has been able to approach the more attractive large potential clients since 2003."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Kbal: "I will take each of the areas individually:

1. Availability of accessible markets: This has never been a problem as the security situation in Argentina continues to deteriorate.
2. Availability of workforce/human capital: This is a very challenging area for us, particularly in the physical guard business as the level of education of these candidates is very limited. We have an intense training programme that we hope adequately makes up for the low level of education. However this training is costly and time consuming as we are not billing for the time it takes to train guards.
3. Availability of funding/finance: This is another very challenging area, particularly in the last 18 months. Argentina has a very limited capital market. Start-ups, like USS, are almost always financed entirely by the founders. Outside capital is rarely available. In the past, some venture capital funds invested in Argentina but, most recently, government policies have effectively precluded any possibility of outside finance.
4. Availability of mentors and advisers: USS is fortunate to have several retired military officers on its staff who provide the expertise needed. Occasionally we have sought the advice of outside sources.

5. Favourable regulatory framework and infrastructure: The regulatory framework in Argentina, sadly, is very business unfriendly; however, conversely the infrastructure, in particular communications, is first class.
6. Level of education and training in the region: Argentina has excellent university-level education but very poor and deteriorating public primary and secondary education.
7. Major universities nearby: In fact, USS is a case study in what is reputed as the top business school in Argentina.
8. Cultural and societal support and respect for entrepreneurship: Out of necessity, Argentina probably has more entrepreneurs relatively than most countries. Entrepreneurship is viewed favourably in society but not necessarily by the government."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Perry: "Unquestionably, the absence of developed capital markets has retarded the growth of USS. This deficiency was met through shareholder finance and self-generated funding."

**Q5: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Perry: "There have been very limited instances where large companies in our sector have assisted USS' growth. Perhaps the only area would be in contracts with the public sector where USS is viewed as a local company, whereas all the large companies in our sector are foreign owned. Our large competitors on rare occasions have invited us to participate in a public sector bid to lend a 'local' element to their offer."

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Perry: "The large companies in our industry in Argentina are invariably foreign owned. We are probably the largest domestic company in our sector. The challenge of competing against large multinational companies has been mainly financial as most of our large foreign competitors are well financed. Every division of our company, alarms, guards, mobile guards, GPS and security systems requires investment to grow. We either have to buy a stock of alarms, train guards, buy mobile units and GPS equipment or compete for the installation of security systems, which invariably has a long gestation period. Our advantage versus the large foreign owned competition is the fact that our decision-making process is far more agile as all the decision-makers are in Argentina and concerned, for now at least, only with the Argentina market."

**Q6: Your current revenue growth to date had been predominantly focused on your own domestic market. What are the major reasons for this major revenue focus to date on domestic markets?**

Alberton: “The answer to this question is simple. USS barely has enough finance to attend the booming demand in our sector in Argentina.”

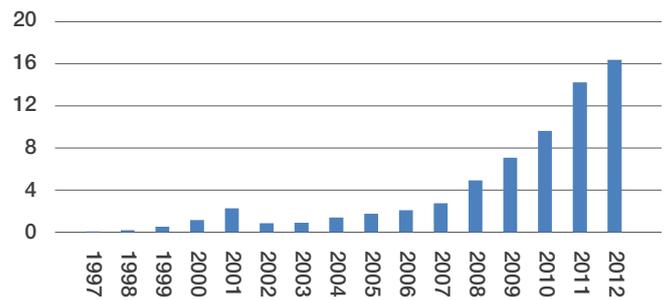
**Q7: What major role, if any, did key aspects of the ecosystem in the country(countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Kbal: “Other than the lack of finance, there are no real challenges to grow a sizeable revenue presence outside Argentina. In fact, we are presently considering entering other markets in Latin America. For USS the Latin American market is very attractive because we speak the same language, we think in terms of US dollars and we face similar challenges in our sector throughout the region.”

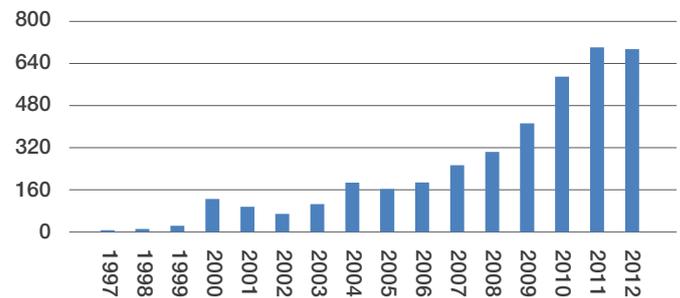
**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Alberton: “Unquestionably, one of our high moments was being selected as a security provider for the Nuclear Energy Administration (CNEA). Our lowest point was the failure – by a government-run company – to meet its financial obligations (payments) with us for over six months, a problem that we are still attempting to resolve. Perhaps an equally low point was the 2002 crisis which forced USS to change its business strategy.”

**Revenues (Millions \$)**



**Headcount**



# Victoria Seeds Ltd

## Uganda

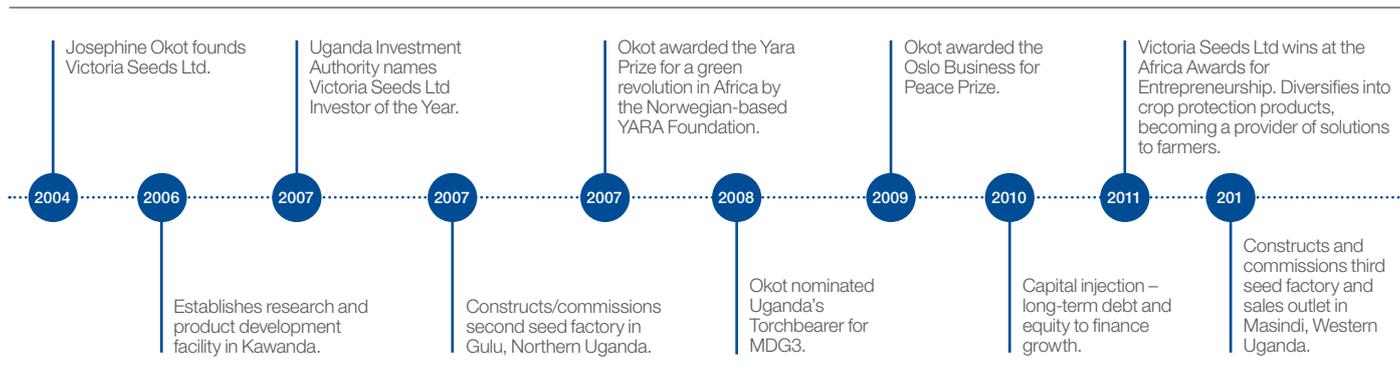
Prepared by Justin Randolph and George Foster

### Overview

Victoria Seeds Limited is a full-line seed company, based in Kampala, Uganda. It became operational in 2004 for the purpose of delivering quality seed to Ugandan “smallholder” farmers, who produce over 90% of agricultural output in Uganda.

The company has since grown into a seed house that exports to the East Africa regional market and is engaged in seed research, production, processing and marketing. The company provides vegetable and cereal seed – and related inputs – as its core business product; it also offers a range of seed varieties for legume crops, oil crops and forage for livestock farmers. The company’s efforts to reverse the decline in agricultural productivity in Uganda and other countries in the region have been widely acknowledged. In 2007, the Uganda Investment Authority recognized its contribution to Uganda’s economy and named the company Investor of the Year in the Small & Medium Enterprise category.

### Timeline/Key Events



### Quotations

Josephine Okot is the founder and Managing Director of Victoria Seeds Ltd. She has extensive experience in agribusiness and addressing the challenges of emerging seed markets, and has also played a leadership role in the harmonization of seed policies and laws in Eastern Africa. Okot served as chairperson of the Uganda Seed Trade Association and on the board of directors of key institutions and industry associations such as the Uganda Investment Authority, the African Seed Trade Association, the African Agricultural Technology Foundation and presently on the Board of Stanbic Bank (U) Ltd. Okot served as co-chair of the management committee overseeing the implementation of the Sub-Saharan Challenge Programme in the Lake Kivu region. In 2006, she was awarded the Syngenta Foundation Fellowship for East African women scientists – provided to support professional development and improve access to finance by businesses – and was proclaimed the leading woman entrepreneur by Business in Africa Magazine. She received the 2007 YARA Prize for a “green revolution” in Africa, and was selected in 2008 to be Uganda’s Torchbearer for Millennium Development Goal 3 on gender equality and the empowerment of women. Okot holds an advanced degree in international business. She has completed executive courses at both Harvard Business School and Stanford Graduate School of Business.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Okot: “The source of the initial idea was the observation that the majority of the yields achieved by Ugandan farmers were much lower than those realized at research levels – at times one third lower.

I was also driven by the desire to try and make a difference in the lives of rural women in Uganda. While growing up, I had the experience of seeing women holding their families together, heading households during civil war, and really contributing most of the agricultural production in Uganda.

So I was motivated to capitalize on the market opportunity for improved quality seed in Uganda in the hope of making a difference in the lives of Ugandan agricultural communities.

Over time the idea has evolved and morphed into a broader idea in the sense that in the beginning, we were only focusing on what was right for the business. As time went on, we really got validation from various entrepreneurs that, when you focus on factors in addition to financial returns, the rewards are more sustainable and longer-lasting. So we have incorporated an explicit social focus into our business model. We really strive to make sure that as we grow our business there is also a very strong CSR component, which isn’t

typical of a small or medium-sized enterprise of our size. For instance, we work with and train women farmers that are in our supply chain such that they now represent 70% of our employees, which I think illustrates the values of what we're all about.

The role of our business, in the context of food security, has also evolved so that we now find ourselves being involved in key policy decisions. The Ugandan Government, as well as many development partners like the World Bank, DFID and USAID, often solicit our viewpoints. As such, we've had to learn how to articulate the issues and influence the right people so as to be successful policy advocates in these high-profile forums."

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Okot: "I would say a key accelerator was the government, which at the time of our founding had just launched a very effective policy called the Plan for the Modernization of Agriculture. Mechanisms to encourage smallholder farmers – who accounted for over 90% of Uganda's farmers – to adopt improved agricultural inputs were embedded in that policy, and so the use of improved seed represented an important way to increase agricultural production.

A government body was formed – the National Agricultural Advisory Services (NAADS) – to facilitate members of the private sector, such as ourselves, to go out and distribute inputs to small farmers. It provided subsidies to farmers to allow them to demonstrate proof of concept and subsequently generate enough income to become self-sustaining.

So it was very exciting because the demand for improved seed was really growing with seed market potential of over 35,000 metric tons. By incentivizing the private sector to participate, farmers adopted hybrid maize at levels that we didn't have before. Demand grew from just 100 metric tons per annum in 2004 to over 2,000 metric tons today. It was a huge improvement, and the policy environment was right."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Okot: "Well, the opportunity originated from the seed industry having been in the public domain for 30 years. The business opportunity was there and unrealized, especially with a country like Uganda where there was a rapidly growing population that fundamentally needed more food. At the company's founding, it helped, as I mentioned, that the policy environment was supportive.

However, agribusiness was seen as risky by most commercial banks. I was an excited entrepreneur, ready to mortgage my house to pursue the opportunity, and I went to a commercial bank for start-up capital. They said, 'No way. Even if you have a house or collateral, we aren't in the business of reselling houses, my dear. You have no credit history and may just disappear.' And of course, that was really an obstacle, but I still believed in myself. Back then, there was a USAID agriculture productivity enhancement programme, and I approached the head of the programme, presented him with my business plan, and told him how I was stuck. After speaking, he decided to write to the bank and offered a guarantee on the loan. I think that without that intervention, Victoria Seeds wouldn't even exist.

It also helped at the time that we had available labour. Labour was very cheap. Another important growth driver was the recognitions we got – such as the Yara Prize for the green revolution in Africa or the Investor of the Year prize from the Uganda Investment Authority. We were privileged to meet Sir Richard Branson, who cited us as one of the promising enterprises in Africa – not in terms of revenue, but as a company that had the building blocks for a successful business, had management systems in place, and policies that would ensure the business ran ethically. These recognitions gave us the will to continue doing what we were doing and provided us with valuable credibility."

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

Okot: "One challenge we've encountered has had to do with the deterioration of the Ugandan policy environment and the politicization of the government's agricultural programmes, especially NAADS.

Also, enforcement has completely collapsed. The National Seed Certification Services in the Ministry of Agriculture, Animal Industry and Fisheries have not had adequate financial or human resources to undertake seed crop inspections and regulate the seed market. There have been issues with counterfeit, fake seeds throughout the country. So that has really undermined our market, and from a business standpoint we certainly have seen our profits stall. So the market has really been hurt over the last three years due to counterfeit seeds and the inability to prevent them from hitting the market.

Important legislation has also been absent. Attempts have been made since 2003 to get the plant variety protection bill enacted into law, but to no avail and it is still currently with parliament. How does an investor invest in new technology or how can an international company bring their product into a market where there's no protection for intellectual property?

While access to finance has improved since we started, financial products structured for agribusiness are still limited. There's debt and very expensive finance with erratic rates. For instance, in 2011, inflation caused by food shortages drove commercial bank interest to 30%. I don't blame the banks – they have depositors' money after all – but the country needs more flexible products from development banks that also factor in market and environmental risks impacting agribusiness, in particular adverse weather patterns like drought and flooding, into the terms of any loan.

Further, the country as a whole also lacks sufficient marketing infrastructure. In successful seed markets, such as in Kenya or South Africa, either a very strong grain board or a commodity exchange exists, which enables farmers to sell their entire crop even when there's a surplus in the market. So the challenge in Uganda is that we have a weak commodity exchange that has never really taken off. So when there's a bumper harvest, prices collapse. Farmers don't want to grow the following season, and they don't come to us for more seeds. So we have to live through that. That has been a huge challenge for us.

A similar challenge is a general lack of information. Right now, if somebody asks how much land area in Uganda is under tomato production or maize production, the statistics that would provide the answer are virtually non-existent. They only become available three years later. So in running a seed trade business, it's helpful to know what exists in the market around which production can be planned, but it's very difficult to do so today. What's more, the educational system in Uganda is not designed to drive business growth. So when you recruit young graduates – even the ones with Master's degrees in agriculture – you have to train them; and that can be very costly for a start-up enterprise. There are few vocational skills taught in the schools or universities.

Lastly, you can never really realistically achieve any serious gains in food production without rural electrification and transportation infrastructure. Farmers require some kind of mechanization, primary processing or storage to get their product to market. So you need rural electrification and well-functioning roads. While this is one area where the government has tried really hard – I commend them for that – it's still a challenge.

These are issues that we've raised at the policy level without much success. We tried to make the National Seed Certification Services that regulate us autonomous so that they don't have to go through the Ministry of Agriculture to get funding, but we've found that there is no political will to truly make a difference. So certainly the policy environment has changed. Now, there's very little regulation or accountability. But I just think that if there is political will, these are issues that can be addressed – they're not insurmountable."

**Q5: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Okot: "Our business model mostly involves working with small farmers, though it's important to note that we don't work with farmers as individuals; instead, farmers are organized in producer groups called marketing groups, which are similar to a cooperative. Nevertheless, there are a few large farmers out there, and as a company we are beginning to target them in lieu of smaller holders because that market is more sustainable and they're ready to adopt new technologies as they have the resources and knowledge. Moreover, you can only truly pursue the small farmer market if government extension is working, but it's not fully functioning at the moment; small farmers often make costly mistakes. They often don't know the correct plant population, or sometimes they spray their crops with the wrong pesticides, frequently suffering high post-harvest losses, and in all these cases they are quick to put the blame on us. So that becomes a challenge."

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Okot: "In order to source our seed supply, we could have gone to one of the big, global agricultural companies – such as Monsanto or Syngenta – but we would have realized limited returns. Instead, we get our parental seed lines from public research institutions – such as Kenya's Agriculture Research Institute – or from Ugandan universities and research institutes.

A number of multinationals were present in Uganda, but the majority have since either scaled down or they have closed down and left because of the unfavourable policy environment. And we considered working with them, but my understanding was that when you are very small and you get married to a very, very large company, there's always a mismatch. So in our strategy, we thought we should first build up the company and get our brand name known. Then at that stage, rather than buying and selling products, you can go into more of a joint venture with one of the multinationals so that they bring in technology and the experience. And then we'll use our infrastructure to scale it up."

**Q6: Your current revenue growth to date had been predominantly focused on your own domestic market. What are the major reasons for this major revenue focus to date on domestic markets?**

Okot: "Our business is not only within Uganda. We export to the regional market and 25% of our turnover already comes from exports to South Sudan, where we are a registered company. While South Sudan has a lot of challenges, its agri-ecology and the kinds of staple food that the people eat there are nearly identical to those of Uganda. The opportunity and our mission began in Uganda, and so we've been keen to maintain our focus here. But if we can send our seed across Uganda's near borders – remember, borders are nothing more than lines drawn across the continent – it means we can rapidly scale up in terms of revenue. So that has been our objective. We also hope to open an outlet and start sales efforts in Rwanda in the near term."

**Q7: What would you view as the greatest challenges in growing a sizable revenue presence in markets beyond your own domestic country or region? In deciding when and where to seek growth in international markets, what characteristics of a country's ecosystem would be most important in attracting you to invest significant resources in that non-domestic country or region?**

Okot: "The greatest challenge in markets outside Uganda has been policy-oriented. Issues like currency or culture are surmountable. However, in places like South Sudan, infrastructure is really absent. There are hardly any roads. And the government hasn't been in power long enough to craft policies that fully promote the development of the country's agricultural sector."

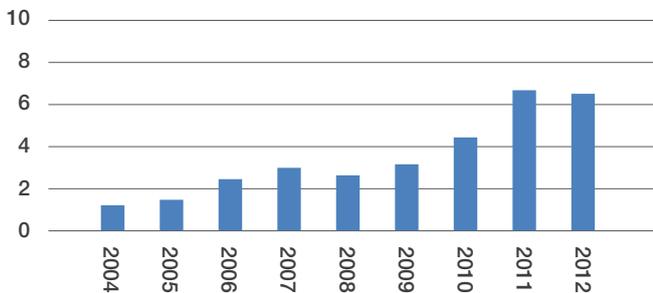
**Q8: Building a company that aims to have sustainable high growth inevitably will have both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in your entrepreneurial journey.**

Okot: "Our high moments have certainly come when someone else recognizes our work, which fills us with pride. We've been fortunate enough to receive a number of accolades. Other great moments come when we meet and fulfil our strategy plans, such as developing our research facility, completing a processing plant in northern Uganda, or constructing our brand new headquarters at the prestigious Kampala Industrial and Business Park. Those have all been very high moments that come with dreaming up a plan and meeting our goals.

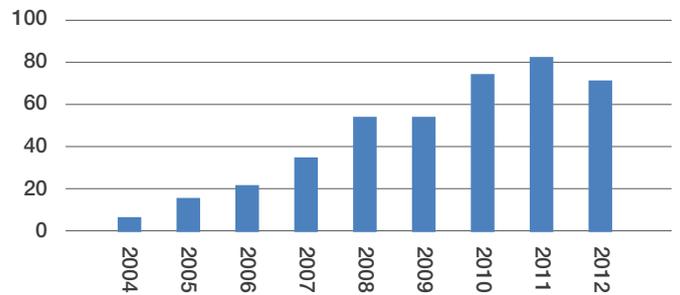
The biggest challenge we have faced has had to do with our employees. Many times, even the best employee does not grow in line with the company. In such situations, and given our size, I've had to be not only a CEO and manager, but also a mentor, which has been very challenging. At times, I've had to make a decision to let employees go in order to bring in new talent that is more aligned with the company. Those moments are very dark."

### Revenue

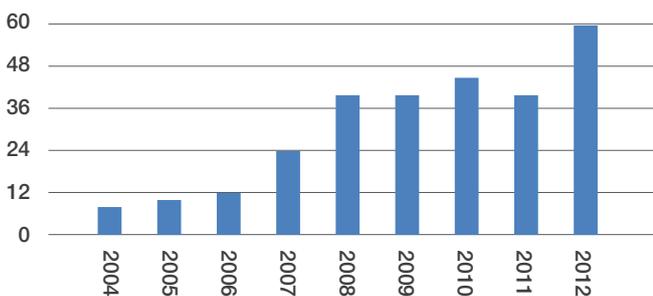
Millions \$



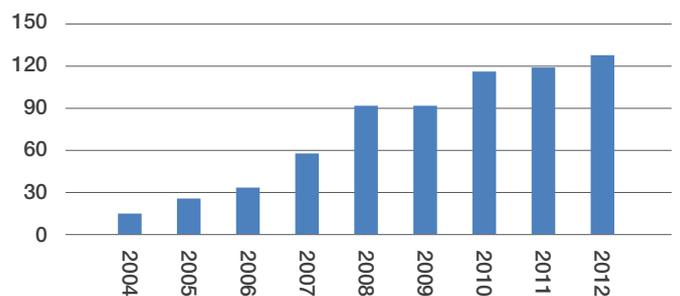
### Full-time Employees (Professional staff)



### Part-time Employees



### Total Employees



# Vision In Healthcare (ViiCare)

## China

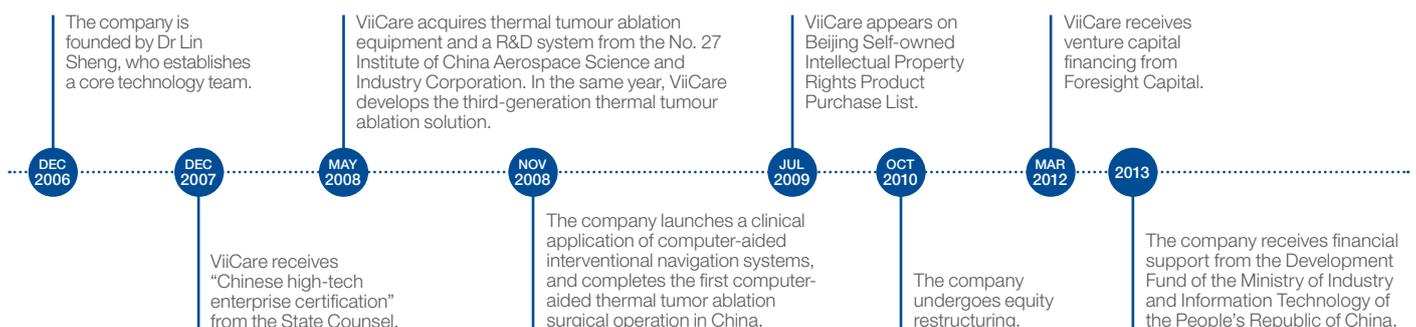
Prepared by Ning Jia and George Foster

### Overview

Founded in 2006, Vision in Healthcare (ViiCare) is a privately-held technology company focused on the development of information technology solutions as well as medical virtual reality technology for hospitals. The core technology team is composed of technology and medical experts from Tsinghua University and top-tier hospitals in China. Built upon the earliest microwave thermal ablation platform in China, the company has gradually expanded its product and service offerings to a thermal tumour ablation solution, a picture archive and communication system (PACS), an electronic medical record system (EMR) and a hospital information service bus system (HSB), among others.

Headquartered in Beijing, ViiCare currently has two branch offices in Hunan and Zhejiang province, respectively. The company has received financial support from the “Development Fund of the Ministry of Industry and Information Technology of the People’s Republic of China” and the “Innovation Fund of the Ministry of Science and Technology of the People’s Republic of China”, and has received the ISO9001/13485 quality certificate.

### Timeline/Key Events



### Quotations

Lin Sheng is Founder of ViiCare. He directs the tumour ablation centre at Yuquan hospital, which is affiliated with Tsinghua University. He is Commissioner of the Chinese Association of Ultrasound in Medicine and Engineering (CAUME) and the Beijing Association of Ultrasound. He is also an associate editor of the Chinese Journal for Clinicians. He has more than 15 years of experience in medical clinical application and the development of medical-related products and services. Lin Sheng holds a master’s degree from the General Hospital of the Chinese People’s Liberation Army (known as the 301 Hospital).

Qiao Zheng is a venture capital investor in ViiCare and general partner of Foresight Capital, with more than 10 years of experience in management consulting and venture capital investment in China. Qiao Zheng holds a BS in Civil Engineering and an MBA from Shanghai Jiaotong University.

### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Lin Sheng: “The initial idea came out of the microwave thermal ablation research project led by Professor Dong Baowei of Tsinghua University and the General Hospital of the Chinese People’s Liberation Army (known as the 301 Hospital). The research project started in 1994 and was completed in 2004. It came in second at China’s National Science and Technology Progress Award. Upon successful completion of the project, we decided to commercialize two key research outputs, the microwave thermal ablation technology and the computer-aided surgical navigation systems. During the R&D phase of the computer-aided surgical navigation systems, ViiCare also developed multiple new technologies in the area of 3D medical image segmentation. Over the years, ViiCare has transformed itself from a single product company to a provider of healthcare solutions with a wide spectrum of product and service offerings.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

Lin Sheng: “Since the beginning, ViiCare has been a R&D oriented start-up company. We have predominantly focused on the development of cutting-edge medical technologies and, as a result, we didn’t invest much into marketing and sales, and were a bit slow in building up a competent sales force. In addition, because it usually takes a long time to obtain a medical equipment certificate in China, we did not generate significant revenues in the first several years. Since 2009, the Ministry of Health has significantly increased investment in the area of healthcare information technology. Because many of our products, including the 3D medical image systems, hospital information systems and hospital information service bus systems (HSB) were comparable to foreign brands in terms of quality and technical specifications, we were able to land contracts with many large hospitals in China, which contributed significantly to our revenue growth.”

Qiao Zheng: “ViiCare didn’t experience significant growth in the first several years because of the strategic choice to focus on R&D. The company gained significant growth momentum after 2009 when top management decided to invest significant resources into marketing and sales.”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Lin Sheng: “The healthcare industry in China has much room for growth. Most hospitals in China are owned or controlled by the government, including central and local health authorities, state-owned enterprises and the military. In 2009, the Ministry of Finance initiated long-term health reform to achieve the objective for “everyone to have access to essential healthcare services”. Significant investments were made to develop the healthcare system in China, creating substantial market opportunities for ViiCare.

“Based in Beijing, ViiCare has access to top-tier academic institutions, including Tsinghua University, Peking University and the Chinese Academy of Sciences. These institutions are able to provide us with a large pool of IT talent. In addition, because of our close affiliation with Tsinghua University, we are able to benefit from its brand and a wider range of resources.”

Qiao Zheng: “Most of China’s educational and medical resources are concentrated in Beijing; therefore ViiCare is able to receive a lot of support from the local community, especially in areas of human resource, R&D, mentors and advisers. Also, because most VC firms are either based in Beijing or at least have a branch office there, it is relatively easy to access external investors for fundraising purposes.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Lin Sheng: “One key aspect of the entrepreneurial ecosystem surrounding ViiCare that existed only in a weak form was social respect and support for entrepreneurial companies. Compared to Western countries, the Chinese culture generally is less tolerant of failures. In China, when you fail, sometimes you ‘lose face’ in front of your friends and others.

“Another obstacle we faced was a lack of access to capital. The healthcare sector in China is subject to high entry barriers, high risks, strict government regulation and underinvestment by government in basic infrastructure. As a result, start-up companies in the healthcare sector generally have a longer lead time to revenues and lower growth rates compared to, say, Internet companies. Consequently, venture capital firms that aim for quick exits and high returns are generally not interested in healthcare ventures.”

Qiao Zheng: “The lack of enforcement of favourable government policy is another major challenge. Although the government has put forth many favourable policies in an effort to reform the healthcare industry, many of these policies have not been enacted. Another challenge is the rising cost of living in China, especially in top-tier cities such as Beijing and Shanghai. As a result, labour costs at ViiCare have gone up significantly over the last few years.”

**Q5: Large companies can play an important role in the scaling up of early-stage companies with high growth aspirations. These roles can include being customers, suppliers, marketing partners, joint venture partners, and so on.**

**(a) Describe the key areas where interaction with larger companies helped promote your growth path.**

Lin Sheng: “We have established partnerships with large companies in the areas of marketing and sales. These partners, including Accenture, Digital China and Enjoyor, have helped us land large hospital contracts. In addition, some of our clients are large hospitals, including Shanghai Xinhua hospital and General Hospital of the Armed Police Forces.”

**(b) Describe the challenges and potential problems that larger companies may have played in limiting the growth path of your company.**

Lin Sheng: “It is not easy to establish partnerships with large companies. They would typically require a lengthy and intensive due diligence process before signing the MOU with us. Also, they would require a proven track record to ensure that we are a reliable partner. Moreover, large companies typically possess greater bargaining power. We have come across situations where potential partners ask us to share the source code and other intellectual property with them for free.”

Qiao Zheng: “The decision process at large companies sometimes is too long, and we may have already missed the market opportunity when consensus is finally reached.”

**Q6: Your current revenue growth to date had been predominantly focused on your own domestic market. What are the major reasons for this major revenue focus to date on domestic markets?**

Lin Sheng: “The domestic market in and of itself is big enough. We thrive to secure a strong foothold in the Chinese market before tapping into foreign countries. Since we are now providing healthcare solutions to hospitals, we need to stay close to our clients in order to ensure the quality of post-sales services.”

**Q7: What would you view as the greatest challenges in growing a sizable revenue presence in markets beyond your own domestic country or region? In deciding when and where to seek growth in international markets, what characteristics of a country's ecosystem would be most important in attracting you to invest significant resources in that non-domestic country or region?**

Lin Sheng: "There are two major challenges in rolling out globalization strategies. First, foreign customers are generally unfamiliar with Chinese medical brands. Lack of strong faith in our technological capability is another issue. Second, our product and service offerings require a high-touch marketing and sales approach, as well as a strong post-sale maintenance team. Putting together a local workforce for our company is difficult. I would say that market readiness and accessibility is the most important factor in deciding whether to tap into that foreign country."

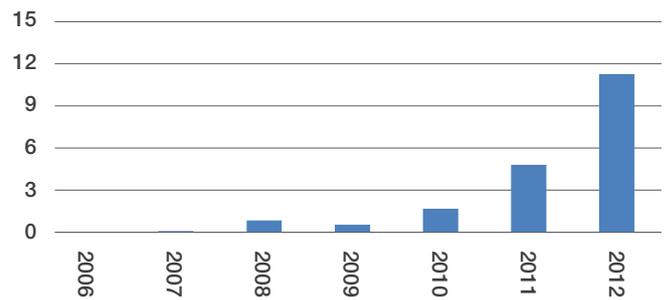
Qiao Zheng: "The top management team of ViiCare lacks people with overseas educational and/or work experience who are familiar with foreign institutions and business environments and can lead the company's foreign marketing and sales initiatives."

**Q8: Building a company that aims to have sustainable high growth inevitably will have both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in your entrepreneurial journey.**

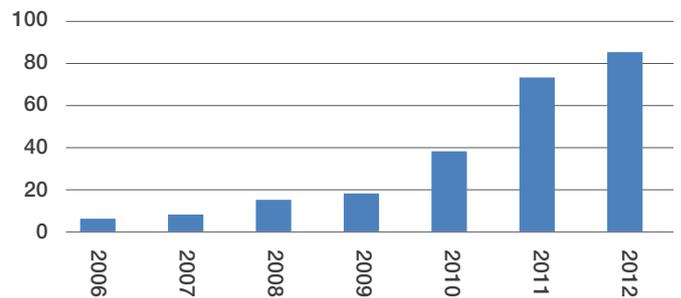
Lin Sheng: "A high moment was when we received venture capital funding from Foresight Capital. The injection of external capital allowed us to significantly scale up our marketing and sales efforts. Foresight Capital also helped us land several major contracts."

"A low moment was when four members of the founding team decided to leave after the company had gone through several rough patches in the early days. The founding team was composed of six medical and technology experts from Tsinghua University and the General Hospital of the Chinese People's Liberation Army. ViiCare went through multiple rounds of trials and errors in the early days. For example, the R&D team made several mistakes on the choice of technical pathway for the computer-aided surgical navigation systems. As a result, initial products failed to meet client requirements. Four members of the core team subsequently left the company and their departure had a significant adverse impact on employees' faith in the company."

**Revenues (Millions RMB)**



**Headcount**



# Wildfire Interactive Inc

## USA

Prepared by Jason Luther and George Foster

### Overview

Wildfire Interactive Inc. (Wildfire) provides brands with a social media management platform that offers a comprehensive solution to engaging and monetizing customers through social media. Using this platform, customers are able to develop social promotion and advertising campaigns, manage mobile and desktop pages, and analyse real-time analytics across social networks – Facebook, YouTube, Google+, Twitter and Pinterest. These tools are provided on an intuitive and easy-to-use interface that even the least tech-savvy user can understand.

Launched in 2008 by Victoria Ransom and Alain Chuard, Wildfire was born through its founders' need to develop their own social-marketing campaign. At the time, Ransom and Chuard were owners of a New Zealand-based adventure travel company called Access Travel and were attempting to expand the firm's market presence and client base through free trip giveaways. In doing so, Ransom and Chuard developed Promotion Builder, an application that enabled marketers to develop social media marketing campaigns comprised of sweepstakes, user-generated contests, quizzes, coupons and other one-time promotions. They caught the attention of Facebook and were winners of the fbFund, a source of early operating capital. As Wildfire grew, the company transformed its business model from a campaign-based platform to a subscription-based one. It also transitioned from a largely SME client base to working primarily with mid- to large-sized companies.

The social marketing technology category saw several high profile acquisitions in mid-2012. Oracle acquired Vitruve in May 2012 and Salesforce.com acquired Buddy Media in June 2012. In July 2012 Wildfire was acquired by Google. Today, Wildfire's client portfolio consists of 32 of the world's 50 most valuable brands and contains over 21,000 paying customers worldwide.

### Quotations

Alain Chuard is the co-founder and was Head of Product Management at Wildfire. At Google, Chuard is Group Product Manager for Wildfire. Throughout his life, Chuard has proven to have a keen intellect for entrepreneurship. Prior to Wildfire, Chuard was the co-founder of Access Travel Ltd, a company focused on international and instructional adventure travel. Chuard was also a founder and partner at IncFuel Corp and an entrepreneur in residence at Highland Capital Partners. Before this, Alain spent two years as a financial analyst with Salomon Smith Barney. As an analyst, Alain was involved in a variety of merger-related transactions in the financial institution industry.

Chuard graduated from Macalester College with a BA in Mathematics and Economics in 1999 and earned his MBA from the Stanford Graduate School of Business in 2007. Chuard is also a former professional snowboarder, having competed in the World Cup Pro Tour.

Victoria Ransom is the Chief Executive Officer of Wildfire, and Wildfire's Director of Product at Google. Prior to Wildfire, Ransom was a co-founder of Access Travel Ltd and a financial analyst at Morgan Stanley. Ransom earned a Bachelor of Arts degree from Macalester College in 1999, where she graduated summa cum laude, and an MBA from Harvard Business School in 2008.

During her career, Ransom has received much recognition for her success. Since 2010, Ransom has been named one of Fortune's "40 Under 40" and a White House "Champion of Change". She won the Ernst & Young Entrepreneur of the Year for New Zealand award and received the TechFellow Award in the General Management category.

#### **Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?**

Chuard: "Wildfire really came out of our own need. Victoria and I ran an adventure travel company before Wildfire and we did a lot of online marketing. At the time, one of my Stanford classmates was working for Facebook and he told me the company was launching fan pages and suggested we take advantage of Facebook for our travel company's viral marketing campaigns.

We created a Facebook page for the company and quickly realized that to do anything more you needed to build an application. So we built a promotional application to run coupon promotions, sweepstakes and contests. Our intention was to leverage these marketing vehicles on the web and try to create some buzz on Facebook. The application we built and used for our own travel company was fairly successful in creating visibility and generating leads.

When we started, this was more of a side project. Since the product was still young, we still had to call companies and ask, 'Do you want to have the application?' Over time, other companies began to see our product and started to appreciate the impact it was having. We initially gave the platform away free of charge and then once larger clients such as Zappos and Kayak.com knocked on our door and said, 'Hey can we use the application too?', we realized the opportunity we had and changed our model.

The 'freemium' model was quite popular at the time and everyone told us 'Go freemium! Go freemium!' However, we thought the best validation that your product provides value is to actually charge. If people are willing to pay you, then you are creating some value for them.

We were huge believers in keeping a simple fee model, so we created the product in a way where you were able to create an account free of charge so the user could start playing around with the tools. If you wanted to publish a campaign on your Facebook page, website, or Twitter account, at that point we would charge a fee. I think our cheapest plan contained a US\$ 5.00 setup fee, plus US\$ 0.99 per day. So, for example, if you had a 30-day campaign, you paid US\$ 35.00. If you wanted to have more sophisticated features in your campaign then the pricing increased.

This was our initial pricing strategy. Around two years ago, we started expanding our product to a wider platform for social media marketing tools. As a result, we executed a switch from a campaign-based pricing model to a subscription-based one. When we switched to the subscription model, we built products that enabled brands to use the product every day. The result was a social stream management product, which enabled users to manage their Google+, YouTube and Facebook pages, Twitter stream, etc.”

## **Q2: What were the major growth accelerators for your company in the early years of high growth?**

Chuard: “Externally, the biggest accelerator was the paradigm shift in marketing from digital to social media. In the beginning, we reached out to a myriad of companies. In late 2008, early 2009, we began to feel the market turn to where everyone wanted to be on, and market themselves to, social media. I often compare it to surfing. You can have the best surfboard in production but if you do not catch a big wave, you will not get very far. If you can catch a big wave, however, you can really go places. I felt this was very much the case with Wildfire. We were in the market at the right time, with the right product and with the right team. We were very much focused on speed and execution and that helped us to be one of the early companies in that space.

Internally, we dedicated substantial effort to building a strong sales team. I think a lot of companies in Silicon Valley assume that if they build a product, customers will automatically buy it. We knew we needed to build the internal structures to sell our product and we set out to do this from the onset. To start, we hired someone from the financial industry who was able to implement the tools necessary to scale the sales force and drive revenues.

Culture was also big for us. We did not utilize outside recruiting firms to find our people. We built our own internal recruiting team that knew our values and was able to find the right person for the right position. We also worked through our existing employee base for referrals. Focusing on strong hiring from the start allowed us to build that first kernel of people that really shared the same values and vision as we did. Honestly, we never sat down in the early days and said, ‘These are our values. This is our mission statement, etc.’ (though we did so later). Our culture was so ingrained in us from the start that the values we innately exuded caused it to grow organically.”

Ransom: “Culture was a huge part of our success. Over 50% of our employees came through referrals and we developed some really innovative initiatives to highlight that as something that we really celebrated. This helped us get hires both through monetary compensation and people within the company. As our company has grown, it has become popular for people to compete with each other to be our best referrer.

Another accelerator was the initial funding we received through the Facebook Fund. We bootstrapped the business from inception until the end of 2008. At that time, we were awarded a US\$ 250,000 grant from Facebook, which was enough for us to hire a couple more developers, launch the product out of beta, and get to profitability without raising money. As a profitable company, there were all kinds of funding available to us and we raised series A funding through Summit Partners, a top-tier private equity firm in the area. We felt great about the team they had and it seemed like a good fit. When we changed the business model, we raised insider series B funding.

The change in business model came from changing the product. We started as a platform for helping create social media marketing campaigns and then we started to face pressure in the market to produce a broader set of solutions. Customers did not want to just run social marketing campaigns, they also wanted to track and respond to what people were saying about them. So we had to decide between going broad and staying deep in one area we were already familiar with. Eventually, we made the decision to have a more comprehensive platform, because it made sense for all of those products to live together. This really helped accelerate our growth.

The most recent accelerator was our selling Wildfire to Google. Wildfire was at the stage where we were coming to a real turning point. We felt that eventually we were either going to be acquired or have to raise a lot of money. We recognized that the status quo was probably not an option for much longer. A lot of our thinking involved analyzing our space and if it could support dozens of independent public companies or if it would eventually consolidate. Wildfire was one of the two biggest players in the market, yet it was at a size where it was about to have a completely new set of competitors in the market and, with large enterprises such as Oracle and Salesforce making acquisitions in our space, would need stronger backing.

There is this belief in the market that there is no one solution for marketing teams, and yet there is for sales, finance and purchasing teams. So I think we felt that consolidation was meant to happen and that it would be hard to be an independent point solution. It also felt as if we were hitting a point where, if you do not choose to get acquired, you may need to go public. We understood that, no matter how nice the situation had been in the past, with three people on the Board and our having complete control, things were going to change.”

## **Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Chuard: “We had good timing and were able to benefit from the Facebook and social media wave. Initially, our sales were predominantly from the United States and, when Facebook took off internationally, our sales followed. We were also able to leverage the strong relationships we had at Facebook. When their sales team would sell ads, their clients would often ask, ‘What can we do beyond ads?’, and Facebook would respond with, ‘use Wildfire’.

In terms of marketing, there were other companies in our space that put a lot more brand awareness marketing into their budgets than we did. For example, Buddy Media raised close to US\$ 100 million and put a large part of the money into brand marketing like airport billboards and magazine covers. It’s ironic given that they are a social media marketing company. I think ultimately we benefited from Buddy Media’s

market spends because their brand awareness efforts carved a space for social media marketing. When Buddy Media was acquired, their valuation impacted the acquisition value of our company, as well.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges?**

Chuard: “Getting access to our target market from where we were was difficult at first. At the time, we thought that Silicon Valley was a great place to find talented engineers and build a good product because everything here is so tech-focused. Given that we were in the advertising industry, I think we thought it would also be nice to have an office in New York, where all of the big advertisers were. So choosing Silicon Valley was a bit of a trade-off for us, since it did not have a deep ecosystem in our industry. I do, however, think there are plenty of people that can help you get connected in New York or in Los Angeles when needed.”

Ransom: “In Silicon Valley, we were definitely less plugged into the advertising agency world. It is typical to hear people say that ‘Silicon Valley companies are all tech-focused and they have no idea how to go to market’ and ‘all East Coast companies have great sales teams but poor technology’. Whereas it is somewhat of a generalization, I do believe there is a dynamic where you get a lot of support out here as it relates to technology. Relative to several other companies, our big advantage was that we were next to the Googles, Facebooks, Twitters and Pinterests of the world.

The other thing I hear, and it may not be so much of an ecosystem issue, is that people feel Silicon Valley is the best place to locate your company because of talent. In our experience, we had to hire most of our talent from elsewhere because the fight for talent here is so extreme. Many companies fail to realize that, out here, you are competing against Pinterest, Dropbox and any of a number of well-respected, well-funded companies.

I would guess that more than 50% of our hires were from outside of the area. We encouraged people to come in from the Midwest and all over. Our secret weapon for attracting these types of talent was not our offering a fancy office or paying the highest salaries, it was our culture. We built a tremendously strong reputation as a great place to work. There was something about the environment that we created that made it so that if we got someone in the door for an interview, they almost always wanted the job.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Chuard: “In 2008-2009, we started to see Wildfire take off in the United States. In 2009-2010, we experienced the same acceleration in Europe and overseas. We ended up building an office in London that served the rest of Europe to accommodate this growth.

We definitely benefited from the Facebook and social media wave. When Facebook and other social media started to take off in Europe, we were taken along for the ride, causing most of our expansion to be in line with where other social media firms were doing well.”

Ransom: “Fairly early on we put people in London, which is currently our biggest international presence. After that, we put people in France, Germany, Singapore and Australia. Of these expansions, the France and Singapore offices no longer exist.”

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Chuard: “On the engineering production side, we were very fragmented to begin with. We started by developing the software with two engineers in Estonia, one guy in Finland and two guys in New Zealand. This went well until the engineering team grew and it became hard to coordinate. At that point, we made a conscious effort to hire the engineering team here in Silicon Valley. It was not until later that we built a team in London.”

Ransom: “We no longer have a presence in France or Singapore. In both cases, the issues were with hiring the wrong people. After stepping back, we also asked ourselves, ‘Do we actually need an office here now?’ Overall, though, I think the challenges were finding the right people.

The two places where we hired people that had not been a part of Wildfire before – France and Singapore – were the ones that did not work out. On the other hand, the offices that were successful had people who were trained at our headquarters. Seeing this, we adjusted our hiring processes. Right up until Google acquired us, all of our international hires would spend four weeks at Wildfire HQ in an extensive training programme. After this period, the hires would be sent to their respective locations.

Aside from hiring the right people, a big challenge for us was navigating legal systems. Creating entities, managing taxes and understanding other beyond-market factors made it that much more difficult to operate in different countries. Moreover, the difficulties with communication and isolation due to geographic distance highlighted just how important it was to travel frequently if you intend to open international offices. It all took a lot of work.”

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Chuard: “In Europe, the local competitors often had an advantage. Some of the European clients looked at us and said, ‘This is an American company. We are more trusting of the local companies and competitors.’ So I think it was a bit more challenging to penetrate the European markets.”

Ransom: “Internationally, there were several different challenges. In Germany, companies tended to be more conservative; if they decided to use your product, then they were much more likely to stay with you later on. Unfortunately, the lead time and the sales cycle associated with getting these firms to sign up were cumbersome. We also received a decent amount of pushback for things such as, ‘You don’t have an office here in Germany’ and ‘You don’t have a customer support team based here.’

In Singapore, we were competing against cheap custom development. Developers there could say, ‘I can just build this for you for cheaper’. Often times the products they built did not work, but it still hurt us. In general, Asia was difficult to sell to since we did not have a customer support team that was in a client’s time zone.

There were also language challenges. There were instances when we would sell a product and we thought the client understood what they were purchasing and it turned out they did not. These language issues were prevalent in most places we expanded to. French companies, in particular, wanted everything to be in French.”

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Chuard: “We had some difficulty pushing away large companies. When it comes to product engineering, these companies pay you a lot of money and expect you to cater your product to their specific needs. We have always had the philosophy that we are building a platform of products where all customers can benefit from the same set of features. It was tough having to tell large companies, ‘we cannot do that’, or ‘we will not do this’.

We have had to push away a good amount of business because of this philosophy. This proved especially challenging when we developed an enterprise sales force. Enterprise salespeople tend to want to sell the deal, and if product engineering says that they cannot, or will not, do something then it sometimes can create tension.”

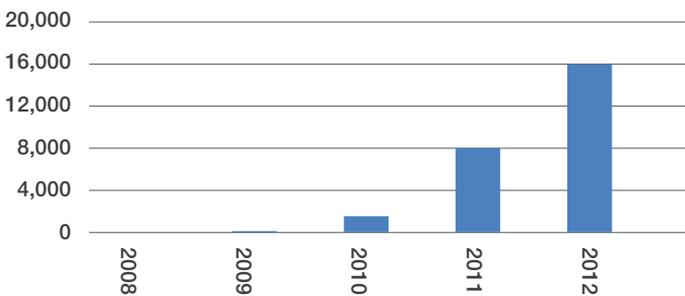
Ransom: “In general, 2010 was a really fun year for us. Every month we exceeded our sales expectations and it seemed as if we were in a period of endless growth.

When we changed to a subscription business model, we had a tougher time because of cash flow timing. We missed a couple of sales targets and it was the first time we started to burn cash. We started thinking to ourselves, ‘Gosh, if we don’t hit this sales target, what happens?’ This was one of those turning points where you realize, ‘This isn’t all so easy’.

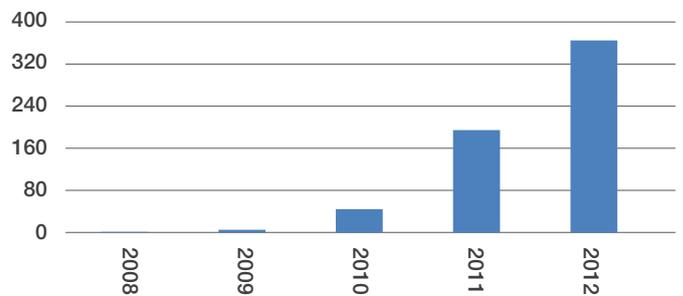
I think our being leanly financed made it scarier. We had to be careful about how we spent our money and we were taking a big risk that we would keep hitting our numbers. We knew we no longer had the predictability we had before because we were new to the subscription world. We had to learn new things and we were unaware that, with certain incentives, we could get a majority of our clients to pay us up front for the whole year. Luckily, it worked out and looking back we know we made the right decision.

There were also difficult decisions to make regarding whether or not to work with large companies. Even when we were really small, we said no to several large companies who approached us to provide them with specially tailored products. Because of this philosophy, we won some deals and lost some deals. Ultimately, we were fortunate to have enough deals in the pipeline that turning down certain companies was not too devastating to our financials. Our discipline also made us less reliant on a small group of large clients. We had a very large customer base with no one customer representing a huge percent of our revenue. This provided us with a tremendous amount of freedom and flexibility to build the product the way we felt best.”

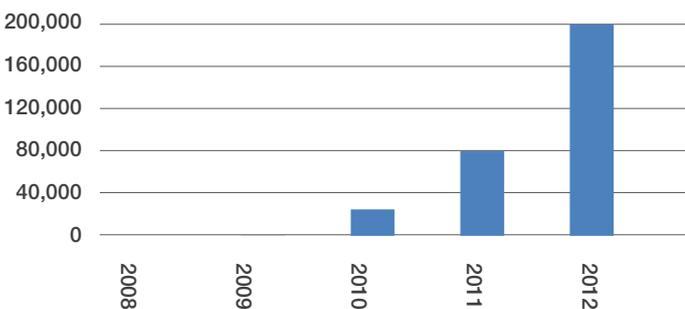
**Cumulative Customers**



**Headcount**



**Cumulative Campaign Runs**



# ZheJiang HuiFeng Warp Knitting Co. Ltd

## China

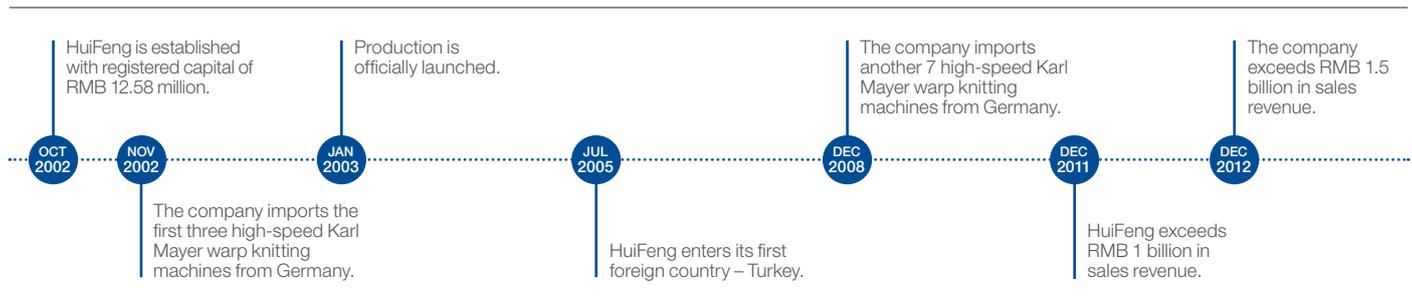
Prepared by Ning Jia and George Foster

### Overview

Founded in 2002, ZheJiang HuiFeng Warp Knitting Co. Ltd (HuiFeng) is a privately-held company that specializes in the production of various tricot fabrics. The company's total assets exceed RMB 60 million with 38,000 square metres of production facilities.

HuiFeng currently has more than 50 product offerings, including suede, aloba, velboa, tricot, printed and foiled suede, corduroy and mesh fabric. These fabrics are widely used in home textiles, garments, shoes, car seats and other areas. HuiFeng is equipped with 20 advanced high-speed Karl Mayer warp knitting machines imported from Germany, with annual production capacity above 20 million metres. The company holds both import and export trading rights, and has sales in Europe, North America, the Middle East, Japan, South Korea, South-East Asia, Hong Kong SAR, Taiwan and more. The company has received ISO9001 and ISO14001 quality certifications.

### Timeline/Key Events



### Quotations

Shen Nianfu is Founder and CEO of HuiFeng. He worked in the Zhejiang local government prior to becoming an entrepreneur. Before founding HuiFeng, he established a start-up company that produces clay bricks used in masonry construction. Shen is also an angel investor in other start-up companies.

#### Q1: What was the source of the initial idea, and how did that idea evolve into a viable growing company? How did it change over time?

Shen: "Prior to establishing HuiFeng, I was the Founder and CEO of another start-up company that produces clay bricks used in masonry construction. After several years of operation, it became clear to me that this business was hard to grow as the company was using traditional kilns, which are energy-inefficient and highly polluting. As China has gradually been moving into the 'green economy', I wanted to switch to a business that conforms to the national environmental strategy and is able to scale up quickly. After doing extensive market research and talking to several friends in the knitting industry, I decided to enter into this business. Warp knitting has a wide range of applications and the market has a lot of room for future growth."

#### Q2: What were the major growth accelerators for your company in the early years of high growth?

Shen: "I was able to exit the first venture with a decent payoff, and I basically invested all of it into HuiFeng to set up the manufacturing plants and facilities, purchase manufacturing equipment and hire managers for key positions. Having sufficient start-up capital significantly reduces the pressure to make decisions that trade off long-term benefits for short-term gains, and enables us to focus on important strategic activities, such as research and development, human resources and quality control.

"Favourable government policy was another major growth accelerator. Early in 2006, the State Development and Reform Commission (SDRC) released the "Notice on Several Opinions on Accelerating Restructuring to Facilitate the Upgrading of the Textile Industry", the "Circular on Relevant Policies to Promote Chinese Textile Industry to Shift to New Ways of Growth in Foreign Trade and Support Chinese Textile Enterprises to Go Global", as well as the 11th Five-Year Plan for the textile industry. These policies are intended to help Chinese textile enterprises pursue technological innovation, enhance their competitiveness and establish foreign sales. Our company was able to enjoy some these favourable policies."

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

Shen: "Market accessibilities, sufficient supply of human capital and favourable government policies are all important aspects of the entrepreneurial ecosystem that played an important role in the growth of our company. In addition, Zhejiang province, where our company is located, is known for its entrepreneurial culture. Many small and medium-sized enterprises in China, especially in traditional sectors, were established in Zhejiang. The local community is highly supportive of entrepreneurial activities. Local entrepreneurs are also very supportive of each other. I think that having the social support and respect for entrepreneurship is very important."

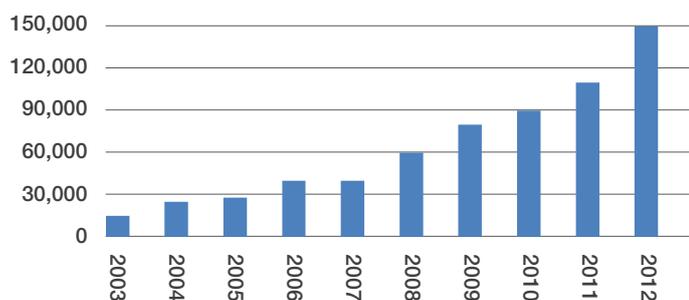
**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

Shen: "One challenge is low government operating efficiency and lack of transparency. The government approval process usually takes a very long time and involves multiple departments, sometimes with conflicting instructions and/or policies. And sometimes you need to have the right connection to obtain or expedite government approval."

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Shen: "Given the government encouragement of Chinese textile companies to go abroad, we were aiming to enter foreign markets early in the life of the company. We started to generate foreign sales in 2006. Two factors were pivotal in deciding into which country to enter. One is whether the market is big enough in that country and whether it is accessible to us. Second is whether there are large exchange rate fluctuations between China and that foreign country. In the past several years, because the RMB has been appreciating against foreign currencies, it has a fairly significant negative impact on our revenues."

**Revenues (RMB)**



**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Shen: "One major challenge is high import taxes, especially in European countries. To maintain a reasonable profit margin, we have to cut back costs and improve operating efficiency through the use of formal management control systems and streamlining our production process. Unfortunately, the labour costs in China have been on the rise in the last few years, which significantly increased our cost of goods sold. In addition, the domestic market is also highly competitive. The lack of sufficient management bandwidth to oversee both domestic and international operations is another challenge."

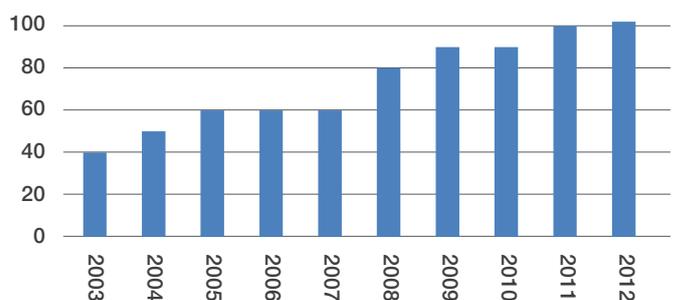
**Q7: What major role, if any, did key aspects of the ecosystem in the country(countryes) you first sought international growth either promote or impede your ability to grow in those international markets?**

Shen: "The first foreign country that we entered into was Turkey. We also have sales in Brazil, Mexico, Japan, the United States and several European countries. Generally speaking, developed countries such as the US and European countries typically have higher quality standards and import tax rates than developing countries, which impeded our ability to compete and grow in those markets."

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

Shen: "A high moment was when we successfully entered into Brazil. Currently 40% of our products are exported to Brazil. A low moment was when we encountered setbacks in Turkey. The textile market in Turkey is highly competitive, so we are a price taker, not price setter. The import tax rate is also very high, which significantly limited our profit margin."

**Headcount**





# References

1. The eight-pillar classification is built from multiple sources. One major influence was research by members of the current research team, e.g. *Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies*, April, 2011. New York: World Economic Forum. Other major influences came from Ernst & Young, Endeavor, the Organisation for Economic Co-operation and Development (OECD) and members of the Steering Committee, especially Daniel Isenberg – see “Domains of the Entrepreneurship Ecosystem”, Babson Global, 2011. See also *Startup Ecosystem Report 2012*, November 2012, Startup Genome and Telefonica Digital.
2. A subset of the US responses did not give a city location; they are included only in the North America column in Exhibit 2-3.
3. *Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies*, 2011. World Economic Forum, Exhibit 3-6 on pg. 63.
4. The average score for each pillar does not include US – Silicon Valley/Bay Area and US – Other Cities to avoid double-counting these percentages.
5. *Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies*, 2011. World Economic Forum.
6. *Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies*, 2011. World Economic Forum.
7. For averages of the continents and countries, only the bar for North America is used (and not the bars for US – Silicon Valley/Bay Area and US – Other Cities) to avoid double-counting North American respondents. All other columns in these exhibits are included.
8. NAICS (North American Industry Classification System) two-digit codes were used to classify company responses into separate industry groups. The most frequent and related industries were aggregated to yield seven separate industry groups: (1) Professional, technical and scientific services, (2) Information, (3) Manufacturing, (4) Finance and insurance, (5) Utilities, (6) Accommodation and food services, and (7) Healthcare and social assistance. An eighth group, “Other industries”, was added.
9. This section addresses many of the issues of corporate venturing. A superb, rich source of information in this area is the journal *Global Corporate Venturing*, whose editor-in-chief is James Mawson. Details on [www.globalcorporateventuring.com](http://www.globalcorporateventuring.com).
10. *Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies*. New York: World Economic Forum, 2011.
11. See, for example, Lerner, J. *Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed – and What to Do About It*. New Jersey: Princeton University Press, 2009.
12. Dacom Corp. was a Korean telecommunications company providing network services and internet communication services along with the local/international telecom service.





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