

Creating entrepreneurship inside big business

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Growth means change and change involves risk, stepping from the known to the unknown.
– George Shinn

Even in a downturn market, most companies are looking for growth opportunities — and growth requires risk. How can a company, even a well-established one, translate a breakthrough idea into entrepreneurship?

Some companies never get the idea out of the internal incubator. However, some use a different business model to turn an idea into significant, sustainable long-term growth. Obviously, the quality of the market opportunity plays a critical role in success, but so does organizational structure. In many cases, the success of innovation is limited not by the quality of the idea but rather the agility of the organization. How do large companies organize to create, foster and expand growth engines within their base business?

One option is to allow the incubation of new ideas and growth platforms to reside within the existing base company framework. Many times innovation gets stifled because the opportunity is small, relative to the more mature business and requires significant time and resources to launch. In result, the new business opportunity is perceived as a drag on the overall performance of the base company. Therefore, new ventures created within this framework are rarely successful.

Another option is to create a new startup as a completely separate business, relying little to none on the existing company's business model. The new startup looks at business through a different lens. Who is the customer and what value do we offer them? Take Avon, for example. In creating its new venture *mark*, Avon took a hard look and decided to take the "This is not your mother's make-up" approach. *mark* targets a much younger demographic, aiming at the college and high school market.

The new startup may consider offering value in a completely different way. In the Avon/*mark* example, *mark girls* (generally college-aged salespeople) create online *mark* stores using custom websites and social media — a departure from Avon's traditional models. This approach offers the ability to deliver Avon's traditional value with new products to a new generation of customers. Additionally, launching new products within a startup takes less time (about a third of the time that it takes for core businesses to launch products in some situations).

In order for the startup to thrive, several factors are critical:

- The startup needs to create a new culture – without separation, the new startup won't develop a culture that is noticeably different from the base company.
- The startup is able to leverage from the base company whenever it provides a distinct competitive advantage. This is a huge benefit over independent startups.
- The startup needs to have the *clean-slate advantage* to develop products and methods from scratch, instead of adapting processes from the base company.

Many times, leadership makes the assumption that what has worked for the established business will work for the startup. Companies make the mistake of duplicating organizational design because it minimizes hassles. Leadership must be willing to change how it traditionally looks at a wide range of issues, including hiring decisions, business

performance assessment, metrics, compensation, planning and budgeting, individual performance evaluation and reporting relationships. Making exceptions to these rules can lead to resentment within the base company.

Take the example of Saturn and GM. The Saturn brand was marketed as a "different kind of car company" and operated outside the GM conglomerate. It had its own assembly plant and workforce, unique models and a separate retailer network. Everything at Saturn was new, including its brand recognition for "no-haggle" pricing. However, its separation from the rest of its GM parent, plus the fact that it drained \$5 billion from other car projects, stirred resentment within GM ranks.

Links between the new startup and base company should be selected intentionally because interactions between the two will be difficult to manage and can easily become an "us vs. them" situation. Managing the fine line between communication and separation between the two entities requires significant attention from senior management to ensure cooperation doesn't break down. Leaders need to be designated and ready and willing to act as referees when necessary. One way to alleviate the pressure is to reconsider incentives and reward managers in the base company to help promote collaboration. Another is to replenish resources in the base company if the startup has put a significant drain on them.

There is the natural tendency to evaluate the new startup by the base company's business model and data. The most common mistakes made are in determining which metrics to use to measure performance, where the new startup reports within the organization and how projections are handled. Standard metrics used by the base company won't effectively measure success for the new startup. They are usually short-term focused and cash driven. The new startup should report at least one level above the base company to ensure adequate resources are provided and to reduce the pressure of delivering short-term results. Projections should be treated as informed estimates rather than non-negotiables used to judge performance.

The most important thing the leader of the new startup can do is to learn to predict its business outcome. Startups require a steep learning curve with projections starting out as wild guesses and moving to reliable forecasts over time. Although holding managers accountable to plans is effective in mature businesses, such accountability may be crippling to a new venture. The key is to evaluate the leader on how quickly they can learn and make adjustments to drive the desired business outcome. Planning should be more frequent and simpler, with a focus on resolving critical unknowns. Otherwise, the situation can quickly move from one of significant investment to complete abandonment.

The assumption is usually made that a growth environment is easier to foster and flourish within smaller companies versus large companies. However, these principles and required leadership behaviors can be used in any size organization.