Kraft’s craft
How Robert Kraft built a business empire — and notched up three Super Bowl wins along the way

Naomi Whittel of Reserveage on harnessing the “French paradox”

Why Chip Bergh of Levi’s wants to turn blue jeans green

Muhammad Yunus: the brains behind microfinance
You’re a leader, a visionary, a game-changer. Be celebrated for it.

The EY Entrepreneur Of The Year™ Program honors entrepreneurs whose spirit of innovation and disciplined execution are building the best companies in America.

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Exceptional is an award-winning magazine for and about entrepreneurs and fast-growth companies.

Igniting growth

At the end of last year, some of the world’s most successful business leaders gathered in Palm Springs, California, for the EY Strategic Growth Forum® 2014. Some lead long-running, multibillion-dollar public companies. Others are high-growth dynamos shaking up their industries.

What they all have in common is a hunger to expand and inspire; to ignite creativity and ambition in their companies and in the people who work there. And as you can see in our infographic on page 12, they’re succeeding: the finalists in the EY Entrepreneur Of The Year™ Program in the US are potent job creators and revenue drivers.

In this issue, we meet some of these entrepreneurs and find out how they’re leading their companies to even greater success.

Our cover star is Robert Kraft, who not only founded a successful family-run group of companies but also revitalized the New England Patriots football team, which he bought in 1994. He tells us what it takes to build a winning team both on and off the field.

We also meet Chip Bergh, CEO of Levi Strauss & Co. He made headlines last year when he told people not to wash their jeans — but it wasn’t a mere publicity stunt. Instead, it was born out of his fierce belief in the need to conserve the planet’s resources, which is at the heart of his plans for one of America’s best-known brands.

Naomi Whittel is a serial entrepreneur whose current company is Reserveage, a manufacturer of nutritional supplements that harnesses the dietary habits of some of the world’s healthiest cultures. She shares her thoughts on building a happy workplace and a more inclusive industry.

We’ve spoken to many other business superstars, from Randall Stephenson of AT&T and microfinance inventor Muhammad Yunus to Will Dean of Tough Mudder and our 2014 World Entrepreneur Of The Year, Uday Kotak. We also explore topics including IPO preparation and how women entrepreneurs can scale their companies.

I hope you enjoy this issue — and keep on igniting growth.

Herb Engert
Americas Leader, Strategic Growth Markets, EY
"I care so much about work being a place where you can engage, grow and learn."
Naomi Whittel of Reserveage looks beyond the bottom line.

The ultimate team player
Robert Kraft on building a winning team on and off the field.

Blue jeans, green genes
Chip Bergh has put sustainability at the heart of Levi’s.

Designs on the future
Lessons from Mark Bissell on building a lasting family business.

Powered by nature
Naomi Whittel of Reserveage takes inspiration from the world’s healthiest cultures.

Down and dirty
A Q&A with Will Dean, the former British counterterrorism officer who now leads Tough Mudder.

Making the connection
How Randall Stephenson is transforming telecom giant AT&T.

The man who invented microfinance
For Grameen Bank’s Muhammad Yunus, it’s all about starting small.

Lessons in guerrilla marketing
Daniel Birnbaum’s strategy for reviving a household name.

Opportunity knocks
Sergio Arquilleres on how FINSA has built a real estate empire.

Prudence, simplicity, humility
How Uday Kotak built one of India’s biggest banks.

Analytic

Infographic: Full speed ahead
The high-growth companies powering the economy.

Preparation is everything
The elements of a successful IPO, from people who have been there.

Where M&A has taken hold
The middle market has seen a rise in M&A activity, according to the EY Capital Confidence Barometer.

Beyond profit: A sporting chance
Sebrae aims to help Brazil’s SMEs seize growth opportunities during the upcoming Olympic Games.

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Analysis

30% of middle-market companies expect to pursue acquisitions in 2015. (page 40)

“Through the tough times, our principles have helped us to emerge stronger.”
Uday Kotak (page 58)
After hours
JOEL HOLLAND
Founder and CEO, Videos Blocks
Dream vacation destination: A treehouse log cabin on a magical mountain where there is always spectacular fall foliage on one side and incredible powder skiing on the other.
Book you read recently: Biography by Martin Lindstrom.
Dream dinner date: Elon Musk. He is a modern-day Renaissance man.
Passion outside work: I love being outdoors as much as possible — skiing, playing tennis, hiking, to name a few.

My first job
SHARON VIRTS-MOZER
CEO, FCi Federal
"When I was a kid, I worked with my mother and aunts in local orchards picking fruit such as peaches, cherries and damsons. I was paid 30 cents for each bucket and realized the concept of production and its impact on pay."

Lip service
JACQUELINE COCHRAN
"I have found adventure in flying, in world travel, in business and even close at hand ... Adventure is a state of mind – and spirit."
Aviator and entrepreneur (1906–1980)

Snap Shot Cross-border IPOs
Number of IPOs originating abroad and listing in the US, 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Deals</th>
<th>Amount (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>13</td>
<td>6.8b</td>
</tr>
<tr>
<td>Israel</td>
<td>16</td>
<td>2.5b</td>
</tr>
<tr>
<td>China</td>
<td>15</td>
<td>29.4b</td>
</tr>
<tr>
<td>Other 8</td>
<td></td>
<td>2.0b</td>
</tr>
</tbody>
</table>

The Big Number
US$ 6.5m
The amount Tough Mudder participants have raised for Wounded Warrior Project to date

Book club
Fewer, Bigger, Bolder
Sanjay V. Khosla and Mohanbir Sawhney (Portfolio, 2014)

Is growth desirable at any cost? According to the authors, the answer is a resounding "No." They say short-term revenue boosts like new products and acquisitions simply add complexity and dilute a company’s focus. Instead, they advocate simplicity: a program of sustainable growth through the proper resourcing of top priorities, streamlined operations, learning from experience and giving power and agency to high-performing employees.

It all sounds like a lot of common sense, but given the authors’ proven track records, it’s worth reading — especially the section on microfinance and Muhammad Yunus. Did you know?

How do you say ... in Brazilian Portuguese?

<table>
<thead>
<tr>
<th>English</th>
<th>Portuguese</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hello</td>
<td>Ol!</td>
</tr>
<tr>
<td>How are you?</td>
<td>Como vai?</td>
</tr>
<tr>
<td>Thank you</td>
<td>Obrigado(a)</td>
</tr>
<tr>
<td>Do you speak English?</td>
<td>Falá inglês?</td>
</tr>
<tr>
<td>I’m fine, thanks. And you?</td>
<td>Você bem, obrigado(a). E você?</td>
</tr>
<tr>
<td>Sorry, I didn’t understand that.</td>
<td>Desculpe, não entendi.</td>
</tr>
</tbody>
</table>

Source: www.omniglot.com

Read more about IPOs on page 30

It was the late 1970s, and Robert Kraft and his sons were watching the New England Patriots from section 217, row 25 at Schaefer Stadium. A long-time fan of the team, Kraft had seen the Patriots play at their four Boston venues many times during the 1960s, so he had jumped at the chance to buy season tickets when they moved to their new permanent home in Foxborough, Massachusetts, in 1971. And after nearly a decade of watching games with family and friends in those very seats, the idea of buying his favorite team began to germinate.

“I was always passionate about the Patriots,” he says, “but I often got frustrated with the direction of the franchise, or the lack thereof. I think I was probably like most Boston sports fans at the time. I was convinced that I could do it better.”

Many fans dream of owning a professional sports team: being able to hire the right coach, sign the right players and make all the right moves to build a championship-caliber team. Kraft, then the owner of a growing paper and packaging company based in the Boston area, had similar dreams. But he made his a reality through patience, persistence, strategic planning and a few significant financial risks.

He began analyzing the key components of the Patriots’ business structure and carefully charted a course to gain the leverage needed to purchase the team. He took his first step toward the acquisition in 1985, when he secured a 10-year option on the hundreds of acres of land surrounding Schaefer Stadium.

That land contained the parking lots needed to operate the stadium and proved to be one of the key assets that allowed Kraft to buy the stadium out of bankruptcy court for US$25m three years later.

Owning the stadium, and the operating lease it had with the team, meant Kraft was able to prevent the previous owners from moving the franchise to St. Louis as they’d planned. But it still took a US$172m investment, at that time the highest price ever paid for a professional sports franchise, for Kraft to fulfill his dream of owning the Patriots and keeping the franchise in New England.

The deal, completed in 1994, was vintage Kraft — a result of what he calls “connecting the dots” through years of patient, methodical planning.
His passion for the Patriots has translated into both on-field and financial success for the franchise. The foundation was set when Kraft privately financed the construction of the Patriots’ new home: the 68,000-seat Gillette Stadium, which opened in 2002. Carrying a construction price tag of US$325m, it is the only NFL venue of its kind to be built without a dollar of public funding and without revenue generated through private seat licenses.

Today, the Patriots are worth an estimated US$2.6b, according to Forbes. And since Kraft purchased the franchise in 1994, no other NFL team has won more games, more division titles, more conference titles or more Super Bowl championships.

There may be a bit of luck involved, but Kraft’s success is also a product of his vision and his desire to make his dreams reality. “It’s part of being an entrepreneur — dreaming and not listening to the naysayers,” he says. “As an entrepreneur, you have to step up and make decisions. You measure your downside, but you also try to see things that other people can’t see, because if everyone can see them, it wouldn’t be a unique opportunity.”

After graduating from Harvard Business School in the mid-1960s, Kraft launched his career with the Rand-Whitney Group, a small regional packaging company he later acquired. “I saw that of the sales dollars, 50% to 60% of it was to pay for the raw materials. So I asked, ‘Why don’t we try to find a way to control the raw materials?’” he recalls. “I went up to Canada and did a partnership with the government of Newfoundland and started our international company in the early 1970s.”

This was International Forest Products, a global trader of paper commodities focused on the logistics and financing of the global paper trade. The Rand-Whitney Group and International Forest Products now do business in more than 90 countries and form the largest privately owned paper and packaging company in the US.

Building an empire
Kraft is now Chairman and CEO of the Kraft Group, the parent company of all his holdings. In addition to paper and packaging, these include real estate development and numerous private equity and venture investments in the technology, medical and life science sectors. Sports and entertainment form another pillar of the Kraft Group. Along with his ownership of the Patriots, Kraft was one of the three founding organizers of Major League Soccer in the mid-1990s and founded the New England Revolution soccer club (see panel, left).
He even saw new opportunities in those old parking lots he bought so many years ago. After the completion of Gillette Stadium, Kraft built Patriot Place, a dining, retail and entertainment complex next door.

As he looks back on his career, Kraft, who prizes himself on his ability to work with all types of people, points to his father and mother as early influences. His father, the late Sarah Kraft, was the one who instilled in him discipline and a yearning to succeed. His mother, the late Myra Kraft, was a close confidante, sharing her husband's spiritual and moral man.

“Do what you love to do, so that when you wake up every day, you’re excited to get started.”

Harry Kraft, was a dressmaker in Boston and a “deeply spiritual and moral man.”

“He was the greatest person I’ve ever known and my role model,” says Kraft. “One of the main pieces of advice my father used to say to me – and I’ve tried to convey this to my own children – is that when you go to bed at night, make sure the people you touched that day are richer for having known you. He lived his life that way.”

The second eldest of three children, Kraft says his mother, the late Sarah Kraft, was the one who instilled in him discipline and a yearning to succeed.

“She had a very strong character,” Kraft recalls. “If I’m an OK businessman today, it’s probably because of what she taught me. I remember a little sign she had out by the front door to my parents: ‘Hard work, perseverance and charity are the main things in life.’ That was her dictum.”

Preparing the next generation

Kraft has tried to instill those same values in his four sons, three of whom work with him at the Kraft Group. Jonathan is President of the Kraft Group and New England Patriots, with day-to-day responsibility for running the businesses; Daniel is President of the Kraft Group – International, with a focus on International Forest Products; and Joshua is President of the New England Patriots Charitable Foundation as well as Nicholas President and CEO of the Boys and Girls Clubs of Boston, which helps more than 15,000 kids annually.

“My sons are all independent,” says Kraft. “What we had all of them do is work in one of our factories. We have unions, so they joined the union. They got up at 5:00 in the morning, worked the shifts and learned a lot about the people in our plants.

“I think it taught each of them some important life lessons and showed them the importance of making something and not just being financial engineers. Producing products creates jobs, and those jobs are vital to any economy.”

The “we” Kraft mentions is a reference to his late wife, Myra, who died of ovarian cancer in 2011 after 48 years of marriage. A well-known philanthropist in Boston, Myra Kraft was a close confidante, sharing her husband’s public triumphs and private anxieties.

In her memory, the charitable arms of the Kraft Group – the Robert and Myra Kraft Family Foundation and the New England Patriots Charitable Foundation – have continued to support cancer treatment and awareness initiatives, along with many other causes. The Kraft Group’s donations over the years have exceeded hundreds of millions of dollars, a level of generosity Robert Kraft says is motivated by his father’s old practice of donating a percentage of his income to charity.

Kraft says he has the privilege of running a private company and has no desire to take it public.

“The only reason you go public is if you desperately need capital and can’t get it any other way,” he says. “Fortunately, we’ve gotten stronger and stronger, and our ability to access capital has always been there. And, to be honest, I don’t like answering to anybody.”

Kraft adds that his philosophy is to foster a vision through long-term planning – something that may not always be realistic when a company is public.

“I have the privilege of not having boards or directors or being public and having to think, ‘Is this the right thing for the 90-day quarterly report card?’ I only want to do things that make sense long-term,” he says.

It’s an eminently practical approach, but there’s more to it than that. “I love what I do,” Kraft says. “I’ve always tried to get involved in things that I enjoy and I’m passionate about. People will say, ‘What advice do you have for people?’ I say, ‘Do what you love to do, so that when you wake up every day, you’re excited to get started.’ That’s what I tell them.”

Sports leagues' digital push

Imagine a child in China sitting down to check up on his favorite National Basketball Association team and players.

Using a personal computer or smartphone, he searches for game scores, individual player data, league standings and news. He can barely wait to stream highlights of a recent NBA game.

Twenty-five years ago, all of this was inconceivable. The commercial internet simply didn’t exist, let alone its social media offerings and apps that let users look up facts and videos from almost anywhere.

When fans talk about sports leagues expanding around the world, they usually mean teams playing actual exhibition or even regular season games abroad. The NBA, considered the pioneer of North American leagues when it comes to international marketing, has long hosted games in Europe, Asia and South America. The National Football League has had success with its International Series in London. And Major League Baseball is now hosting games in Asia, Australia and South America.

But it’s not all about selling game tickets and merchandise at international arenas or establishing some other physical presence overseas, as crucial as those initiatives are. The real driver of international expansion today is digital technology — and that’s where the opportunity lies.

Think of that child in China clicking through sites, looking up favorite players and teams. Now think of him this way: there are a lot of league sponsors and advertisers who would love to reach out to him and other fans, young and old.

Today, those fans can be reached not just through television, but also through the wide variety of new media and digital outlets that simply didn’t exist a few decades ago: league social media sites, streaming video, video games, mobile apps and websites.

Sports leagues already have the proven entertainment content, and now they and their corporate sponsors have the technological means to expand their fan bases globally in ways unthinkable in the past. Some teams and leagues may believe they’ve hit saturation point in their own home markets, but they’re not even close to hitting it when it comes to a digital global audience.

Think of multinational sponsorship campaigns and other marketing pushes associated with popular teams and leagues, all directed at a growing worldwide audience reached through many different media channels. That’s the real expansion game.

A few decades ago, there were only a handful of athletes whose superstar status allowed them to serve as global ambassadors for their sports and sponsors. Today, with all the new media technologies out there linking sports fans, every league, athlete, game, score and click counts.

More information
To learn more, email alan.luchs@ey.com or visit eey.com/us/mediatargeting.
Full speed ahead

Vibrant innovation and accelerated growth: that’s what we see in the 663 EY Entrepreneur Of The Year 2014 US finalists. They’re embracing technology and using outside investment to grow – fast. Here’s a snapshot of who they are.

They’re mainly private

Ownership type

- 88% privately owned
- 12% family businesses
- 27% VC-backed
- 24% PE-backed

They’re young

Almost half of all finalist companies are less than a decade old.

Company age in years

- 24% 0–5
- 22% 6–10
- 26% 11–20
- 10% 21–30
- 6% 31–40
- 3% 41–50
- 2% 50–100
- 2% 100+

Technology is hot

It’s the sector with the highest percentage of finalists.

Percentage of finalist companies in each sector

- Technology: 22%
- Consumer products: 10%
- Distribution and manufacturing: 10%
- Provider care: 9%
- Life sciences: 6%
- Oil and gas: 4%
- Retail and consumer: 4%
- Media and entertainment: 3%
- Government: 2%
- Power and utilities: 1%
- Telecommunications: 1%
- Automotive: 1%
- Other sectors: 1%

They’re growing fast

Growth

- 529,133 employees total
- 32% employment growth over past two years

Revenue

- US$197b in total revenue
- 34% revenue growth in each of the last two years

The median number of employees, up from 191 the year before.

133,807 new jobs over past two years

Top 5 fastest-growing sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>% sales growth (year on year)</th>
<th>% headcount growth (year on year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power and utilities</td>
<td>34%</td>
<td>32%</td>
</tr>
<tr>
<td>Media and entertainment</td>
<td>18%</td>
<td>12%</td>
</tr>
<tr>
<td>Banking and capital markets</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>Technology</td>
<td>10%</td>
<td>4%</td>
</tr>
</tbody>
</table>

“Regardless of sector, young companies are able to scale at record speed thanks to their use of technology and an uptick in financial backing.”

Mike Kacmar, EY Entrepreneur Of The Year Americas Program Director

To read the full report, visit ey.com/blurringthelines.
Since taking the helm of Levi Strauss & Co., Chip Bergh has injected discipline, a focus on sustainability and just a little nostalgia into the iconic brand.

It’s also about sustainability, an issue that matters a great deal to Bergh. Roughly half of the water used in the life cycle of a pair of jeans is for growing the cotton, and most of the rest is used to wash them. While their actual production only consumes 3% to 4% of the water, it’s still significant given jeans’ immense popularity. So, LS&Co. recently introduced a line of jeans called Waterless, which are produced using little to no water. “We’ve saved about a billion liters of water over the last couple of years, which is enough to supply Manhattan for about 45 days,” Bergh says.

It’s this approach to business that has made him such a great fit for LS&Co. The company has been around since 1853, and its founder was a renowned philanthropist. It has a long history of social innovation, championing fair employment practices and gender, racial and economic equality.

Bergh has worked for two companies his entire adult life: Procter & Gamble for 28 years and Levi Strauss since 2011. “Both companies have a deep sense of value,” he says. “Our values go all the way back to the founder, Levi Strauss himself, and it’s a big part of who we are. We’re privately held, and the descendants of Levi Strauss are majority shareholders, so those values really are something that drives us.”

Explicitly, those values are empathy, originality, integrity and courage — all qualities that resonate with Bergh. “If your own personal values are linked with those of the company,” he says, “you bond with the company … for lack of a better word.”

Rebuilding a classic brand

In the 1990s, LS&Co.’s sales started to slump, falling victim in part to the rise of premium denim brands. A sales figure of US$7.1b in 1996 fell to US$4.2b in 2003. Bergh was brought on board to turn the company around. “I was getting a lot of calls for different CEO opportunities,” he remembers. “When I got this call, …
"We take our responsibility as a leader very, very seriously," says Chip Bergh. "When we lead, others follow. Twenty-two years ago, the company established our Terms of Engagement (ToE), which was the standard on working conditions that we established with our suppliers. It was risky at the time, because by saying we were setting higher standards, it meant we were willing to accept higher costs than our competitors, but these things are important to us. Basic things like safety, no child labor, security, fire exits, fire systems in the plants. But by doing that, the industry ultimately followed.

"We now have ToE 2.0, where we're focused on worker well-being, working with factory owners around the world to improve the lives of their workers, and demonstrating that, by investing in worker well-being, there is a positive return on investment because of lower turnover and lower absenteeism. "It’s focused more on the people who work in the plants, which is mostly women and [those] in emerging markets. We started by running a survey asking what is important to them. Things that came out were women's health education, teaching them how to save money and making sure there was access to education for their children. That program has been in tests for over a year, and in some cases, we’re seeing a three-to-one return on investment."

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Profile: Levi Strauss & Co.

"The opportunity to make the company great again was too good to pass up."

The company’s Eureka Innovation Lab plays a key role in Bergh’s vision of a more sustainable product line.

"We're focused on worker well-being"

"my reaction was ‘Oh, wow.’ At the end of the day, I’m a brand guy, and I grew up building brands. Levi's is one of the most iconic, one of the most amazing brands in the world, but it had been underperforming for almost two decades. I looked at this as a once-in-a-lifetime opportunity. The opportunity to turn the company around and make it great again was just too good to pass up."

For Bergh, taking over at LS&Co. wasn’t just about maintaining its values; it was about continuing to set higher standards. "If you become complacent," he says, "you're not advancing the ball."

Streamlining the team

He made two key decisions. The first was to build his team. In the initial 18 months, 9 of his 11 direct reports were replaced by new leaders. Then he developed a strategy. "I wanted it to be simple so that everyone in the company understood what we were trying to do," he says. He boiled it down to four big strategic choices: grow the profitable core business, expand where there were legitimate expansion opportunities, become a leading world-class omnichannel retailer and improve the financial health of the company.

To make the company's cost structure more competitive, Bergh eliminated 1,300 management positions (about a third of the total headcount) in less than 12 months, de-layering to make the company more agile, and used those savings to invest in talent and e-commerce. When he joined the company, it had almost US$2b in debt, one-quarter of which it has now paid down.

Levi's is taking on the high-end brands by spanning every market segment, from the bargain denim at Walmart and Target to custom jeans that cost as much as US$1,000. The sweet spot, he says, is US$45. Levi’s is also tapping into the nostalgia factor – the affection people have for their Levi’s. As its new slogan goes: “You wear jeans. You live in Levi’s.”

Bergh says that when people describe him, they say he’s disciplined. He paid his way through college with a Reserve Officer Training Corps (ROTC) scholarship, and as a result owed Uncle Sam four years. His experience as an Army captain was, he says, “one of the most transformational periods."

Profile: Levi Strauss & Co.
of my life. I learned a lot about leadership and myself. I was 21 years old. I lived overseas, and the people who reported to me were all Vietnam veterans, and I had to earn their respect and trust.”

These days, Bergh is a vegan for health reasons and gets up every day at 5:00 a.m. to work out. He also runs the occasional marathon. “I carve up my day to make sure that I give maximum energy against those things that are really important, and I say no to a lot of things. I’m not on any boards at the moment. It’s about having the discipline to say no.”

This discipline extends to his focus on environmental issues. “I think sustainability is good business,” he explains. “Typically, sustainability efforts save costs. If we’re using less water, we’re not paying for that water.

“If you have all the resources in the world, all the money in the world, you’re not necessarily going to get better innovation. Instead, you say, ‘Here’s the problem I want you to solve.’”

As the company is turning around, Bergh is looking to the future. This involves finding the best talent and focusing on growth, as well as really understanding the consumer. “Our stated objective is to be and be seen as the world’s best apparel company, and among the best companies in any industry,” he says. “I’m pretty competitive; I like to win.”

Viewpoint

Engaging the board

Many companies pay lip service to sustainability. But it’s not enough to consign responsibility to the marketing or public relations department. In an age when global megatrends such as population growth, resource scarcity and climate change are often at the core of board discussions about strategy, risk and performance, everyone should be taking it seriously. Here is our guide to raising sustainability awareness in your organization.

• Set the tone from the top. The sustainability perspective must be consistently communicated throughout the organization by an engaged leadership team that understands the importance of sustainability to long-term success, is involved in setting goals and is held accountable for company performance.

• Include sustainability in the corporate strategy. Consider integrating sustainability into the core of the company’s strategy and processes throughout its value chain. Determine the business case to include sustainability in other corporate agendas such as innovation, quality, safety, public policy and human resource initiatives.

• Involve your employees. A skilled and motivated workforce is a sustainable one. Involving employees in the development and implementation of the corporate sustainability program motivates, educates and instills pride in the company.

• Engage external stakeholders. Stakeholders across the value chain – from suppliers and customers to shareholders and members of the local community – are important sources of sustainability engagement. They can each provide context and ideas that help enhance the company’s sustainability journey.

• Identify and assess the materiality of risks and opportunities. Employ a systematic approach to determine which environmental, social and governance issues have the greatest impact on the business and the greatest influence on stakeholder decisions about the company. This allows company leadership to allocate resources effectively.

• Look for quick wins. Demonstrating early results helps to accelerate an organization’s sustainability journey. It encourages support from stakeholders, illustrating to investors that sustainability is a strategic priority for the company.

• Set goals and monitor performance. An organization must think strategically about setting sustainability goals. It should also develop an appropriate set of criteria and metrics so as to continuously monitor and report on company performance. In addition to financial metrics, performance goals could align with overall sustainability strategy, including clearly defined metrics relating to topics like energy efficiency, water usage, health and safety, and the reduction of carbon emissions.

• Communicate progress internally and externally. An open and transparent approach to reporting progress on sustainability-related goals can help a company reinforce the importance of environmental and social issues and enhance the company’s brand.

More information

Learn about EY’s sustainability services at ey.com/esuccs or its consumer products services at ey.com/us/consumerproducts.
Designs on the future

He may run one of America’s oldest family businesses, but Mark Bissell says BISSELL Inc. thrives on emerging trends and new technologies.
O ne hundred and thirty-nine years ago, Melville Bissell, owner of a crotchet shop in Grand Rapids, Michigan, invented a carpet sweeper. He patented it in 1876 and began selling it, ably assisted by his wife, Anna. She took over the business when he died in 1889, becoming one of America’s first female CEOs.

Anna proved a shrewd and ambitious leader, marketing the Bissell carpet sweeper aggressively and expanding the business abroad. Under her tenure, the company began selling in 20 countries and counted Queen Victoria among its many fans.

Today, Anna’s great-grandson, Mark Bissell, is CEO of BISSELL Inc. — now the leading floor cleaning company in North America. While justifiably proud of the company’s long history, Bissell has found success by looking to the future, keeping a watchful eye on emerging consumer trends and new technologies.

“We do a lot of market research on the unfilled needs of consumers today,” says Bissell, who became CEO in 1996. “We spend time with our customers. We ask questions: How are people living? How do we make cleaning more rewarding? Getting out of the office is what it takes. A lot of innovation is happening in business models. How do you take advantage of that? Where do we make our big bets?”

Despite his famous last name, running the family business was never a sure thing for Bissell. He worked for the company as an intern in college but didn’t become a full-time employee until he was 28, several years after getting his MBA from Cornell University and working on Wall Street for both J.P. Morgan and Chase Manhattan.

But the family business was never far from his mind. He figured his experience at some of the world’s leading financial institutions could come in handy, “I had a lot of exposure to commercial banking, investment banking and money management,” he says, “I also worked with a lot of lawyers and learned about negotiating.”

No easy ride

Lofty credentials and the family name aside, when Bissell returned to Grand Rapids in 1985 to join the family business, he still had to prove himself the old-fashioned way: through hard work and exceptional performance.

He attributes much of his success since then to lessons he learned from John Bissell, his predecessor, role model and father. “My dad was a great mentor,” he says. “He talked a lot about understanding business fundamentals, understanding accounting and finance and those other building blocks of a business. Growing up, there was a lot of talk about business around the kitchen table, and I traveled with my dad to trade fairs.”

Bissell is proud of what he and his team have accomplished in the 30 years since he joined the company. He says BISSELL Inc. has grown steadily since then at a compounded rate of about 10%, and he is hopeful it will reach the US$1b revenue mark in the next three to five years. He concedes that business has slowed in the past few years, in part because the company’s North American and European markets have matured. To counter that, Bissell continues to work hard at finding new markets abroad — just as his great-grandmother did in the late 19th century. Currently, the company has offices in 10 countries and sells in twice that many.

But Bissell believes there’s still some growth opportunity in other niches that the company has historically not explored. “We sell a lot of carpet-cleaning machines to retail,” he says. “We never really participated in the rental business. Now we’re a renter of carpet machines. Our focus has been retail and residential. But commercial is a big space as well, and commercial is proving to be significant for us.”

He also doesn’t shy away from acquisitions if they prove to be a good strategic fit. In 2004, the company acquired the Woolite carpet and upholstery business, broadening its product offering.

But Bissell doesn’t want to grow for the sake of growth. Instead, he has streamlined what had become a sprawling empire, selling off several businesses with the goal of refocusing the company on its core proposition.

Smaller but stronger

To further strengthen the firm’s position, Bissell consolidated company ownership about a decade ago. “Every family company goes through this,” he says. “The stock had been gifted to a number of children, and by 2000 we had about 115 shareholders. I was able to consolidate by selling off some businesses and using the proceeds to buy the shares back from the shareholders; we went from 115 to 15. Now we have a control block and can focus on what we think is best for the business.”

It’s a tight-knit group, and Bissell says he’s committed to keeping the company family-owned. He and his wife, Cathy (see panel, right), have three kids. Currently, only his son, Max, works for BISSELL Inc. full-time, in the London office. Their youngest child, Meric, is in college, and their eldest, Alissandra, has chosen to work for a pet project.

More than a pet project

A few years ago, Mark Bissell’s wife, Cathy, a lifelong animal lover and owner of four black Labradors, helped to host a fundraiser for animal shelters. The amount raised surpassed her expectations. And it gave her the idea to start a foundation dedicated to raising funds for animal shelters and rescue organizations.

In the four years since the BISSELL Pet Foundation was born, it has given more than US$1.8m in grants to 213 organizations in 40 states and about US$142,000 worth of BISSELL products to 835 organizations.

Cathy Bissell says the large number of animals saved or adopted in part because of the foundation’s work makes the job rewarding. One of the downsides: turning down many grant requests because there’s not enough money.

She says one of her biggest goals for the coming years is to boost the foundation’s grant-giving significantly. “If it could be at the US$5m mark yearly, that would be really good.”

Mark Bissell says the foundation’s work is a good fit for BISSELL Inc., which sells a lot of pet-related cleaning products. “About 65% of US families have pets. Pets have been an important part of our business, but also an important part of our lives,” he says. “It’s good cause marketing. We don’t want it to be overly commercial, but at the same time, we want customers to know that we support pets.”

Profession: BISSELL Inc.
Why cohesion matters to family businesses

Some of the world's most successful businesses are run by families. Hearst, Mars and Ford, to name but three, are dynasties that were built on the back of a good name. The dominance of these and other globe-spanning family business empires suggests bonds among family members forego all others. While the pressures of everyday life no doubt test this theory, a study published by EY and Kennesaw State University's Cox Family Enterprise Center shows the most successful family businesses are not only profitable, but also cohesive. In fact, their cohesion contributes to their profitability.

The EY and Kennesaw State University global family business survey distills the responses of 1,000 of the world's largest family-owned businesses to find out what makes them sustainable. In harmony: family business cohesion and profitability presents evidence demonstrating that the world's most successful family businesses focus not only on growing their companies but also on strengthening their family bonds.

One element that links the most profitable businesses is the strength of and belief in the family brand, with 76% of the respondents indicating they refer to themselves as a family company in their corporate communications. The most commonly cited reason for this is the belief that the business is an essential part of the family and vice versa. This palpable bond is key to the success of not only the families, but also the businesses they run. Additional research published in the Journal of Family Business Strategy shows that family business branding has a direct impact on customer loyalty, with about 30% of consumers preferring products and services offered by family companies and 65% thinking favorably of these businesses.

The largest family businesses also place significant emphasis on what happens next. For instance, the EY and Kennesaw State University's Cox Family Enterprise Center survey found that 30% of the companies surveyed require family members to gain outside work experience before joining the business, ensuring they come to their roles with a breadth of experience from multiple sources. And succession planning is a key point in many agendas: 44% of family-run companies say the board of directors has responsibility for succession planning, and 28% have a separate succession preparation committee.

This illustrates the importance placed on the next generation by the business and, in turn, ties in those who will one day run it. It's a symbiotic relationship that works: two-thirds of those who responded to the survey were second-generation family members or later. Continuity is at the heart of family businesses; the family that stays together profits together.

Dave Hoogendoorn, Managing Partner – Grand Rapids, Ernst & Young LLP

Profile: BISSELL Inc.

I’m not going to lose my job over it. For me, performing well over a longer period of time is more important.

“I’m able to take a longer-term view. As a family-owned company, you are able to do things that are really meaningful. It makes a difference to the customers when your name is on the door.”

He adds that he doesn't see BISSELL Inc. going public.

“What would force me to bring in outside equity would be some big opportunity that would require more capital than we have,” he says. “That hasn’t happened. I like the position we’re in. It will limit the opportunity to do something big, but I don’t think that’s all bad.”

For now, BISSELL Inc. will remain a fiercely independent, family-run business on its way to becoming a billion-dollar company — which seems like a pretty good place to be, according to its enthusiastic CEO.
American women start businesses at 1.5 times the rate of men and are at least half-owners of 46% of privately held firms. These businesses employ 7.8 million people and generate US$1.3t in annual revenue.

Yet, according to recent research, only 2% of US women-owned businesses break US$1m in revenue. The reason? Women tend to underestimate what they can achieve and are not routinely thinking “big.”

That’s the basis of a new EY report, Force multipliers: how three fundamental adaptations can help women entrepreneurs scale big. It outlines three key steps that successful entrepreneurs take to grow.

1. They build a strong community
Having access to a community of successful female entrepreneur role models and like-minded peers is essential. They can provide a flow of information, access to resources and invaluable advice and help women push beyond self-imposed restrictions. Seventy percent of the participants in EY’s Entrepreneurial Winning Women™ Program, for example, say they think bigger and have set higher company growth goals since joining.

“It is incredibly valuable to know that I have opportunities to talk through a business issue with women who may have encountered similar circumstances, or whose background might be helpful,” says Dr. Rebecca Thomley, President and CEO of Orion Associates, a Minneapolis management services company.

2. They are driven by a purpose
A strong sense of purpose — the simple statement of “why we do what we do” — fuels the most successful businesses. Purpose helps create brand loyalty, more engaged employees, growth and profitability.

Evidence increasingly suggests that companies with stronger purposes are far more successful than those without them. Significantly, an investment in the Stengel 50 (the world’s fastest-growing purpose-defined companies) over the last decade would have been 400% more profitable than one in the S&P 500.

Dr. Lisa Williams, founder and CEO of San Diego-based World of EPI, which makes multicultural dolls and toys, says, “I hear people say, ‘There is something different about your products.’ I believe it’s because they intuitively sense our authentic purpose.”

3. They adapt their leadership style as the company grows
All entrepreneurs have to change how they lead over time. As a company grows, the founder must learn to delegate. As it scales, she becomes the visionary. And as it continues to grow, she must hire subject matter specialists and let them do their jobs. For innovation to flourish, there must be a shift from monarchy to democracy.

This shift in focus requires introspection, self-awareness and a keen sense of strategy. More than 80% of EY Entrepreneurial Winning Women say they take a collaborative approach to decision-making, indicating they are willing to surrender control and adapt to meet the company’s changing needs.

Karri Bass, founder and CEO of Cincinnati-based Illumination Research, describes the shift in her role as “setting the vision, enrolling others and creating the optimal organization to achieve our goals, versus being too involved in the actual execution of our day-to-day work.”

More information
To read the full Force multipliers report, visit tinyurl.com/forcemultipliers.
At 6, Naomi Whittel started running away from home. She was interested to see “what else was out there,” but she didn’t get very far. However, the curiosity remained. A month later, she took her little brother with her—and went a little farther. That curiosity still drives her.

A serial entrepreneur, Whittel is currently CEO of Reserveage Nutrition, the supplement brand she launched in 2009 in Gainesville, Florida. Within three years of its launch, the company was making tens of millions of dollars in top-line sales. Whittel knows this is an unusually high figure for a woman-owned business. Yet she was surprised to discover that only 2% of such businesses in the US break US$1m in revenue.

So is there a magic ingredient that allows her to succeed where others don’t? “I’m not a confident person,” Whittel admits. “And it’s probably that lack of confidence that propels me and pushes me to get out there. I build my confidence through my curiosity. I really believe that if you focus on your purpose, it’s a stronger driver than the insecurities you may have.”

Whittel’s purpose is to find nutritional solutions for women using pure, whole ingredients—something she grew up on. When she wasn’t running away from home, she was surrounded by the doctors, scientists and entrepreneurs who made up her family. She spent summers learning to make tinctures on the farm of her Swiss-German herbalist grandmother. At 12, she moved from England to the US, a country that, even then, she recognized as an ideal environment for her entrepreneurial aspirations.

Her stepfather ran a plastic manufacturing business and allowed her to sit in on any meeting she wanted to. In 1996, she went to work at her other grandmother’s health food store, Horns Nutrition in Boca Raton, Florida. She bought it soon after and then sold it a year later, at the age of 23, to health and nutrition giant GNC. She also set up her first supplement business, Ageless Foundation, which made US$1m in its first year. After seven years, she sold it to Naturade.

This methodical approach to business has served her well. When it came to founding Reserveage in 2009, she and her husband, Rob, were able to fund the start-up with their own savings.

A strong belief in its purpose has helped Reserveage Nutrition thrive in a crowded market. And this is only the beginning, says founder and CEO Naomi Whittel.

Words Roshan McArthur

“\textit{If you are going to buy a nutritional supplement, it’s got to work.}”

Naomi Whittel’s products are inspired by the diets of “the Earth’s healthiest cultures.”
The idea was born on a visit to the south of France, where Whittel found herself contemplating the "French paradox." The French eat large quantities of butter, brie, cream and other foods rich in saturated fats, yet France has a lower rate of coronary heart disease than many other countries.

She curiously led her to red wine and ultimately to the University of Bordeaux, whose researchers helped her learn how to extract polyphenols from the leftover material generated by local organic and biodynamic vineyards.

The lipstick effect
While the middle of a recession may seem like an odd time to launch a company like Reserveage, Whittel did her research and discovered that the market for supplements was relatively recession-proof. In fact, due to the so-called lipstick effect, where consumers seek out small indulgences, sales tend to increase in times of financial hardship. "It was exciting," she recalls, "because no other comparable companies were launching."

But in a crowded market, her brand still had to stand out. She looked at every product on the shelf and found each comparable companies were launching."

"Taking care of our own health and wellness is the secret sauce," she adds. "I get massages throughout the week, I exercise, I spoil myself — that’s just what it takes for me to do what I do."

She encourages them to look after themselves, refusing to speak with them on weekends. "Taking care of our own health and wellness is the secret sauce," she adds. "I couldn’t find female CEOs or executives in my industry. Eighty-five percent of money spent in health and wellness is by women."

"Once the company started to grow, I realized that I had a platform and women were asking me questions," she says. "I didn’t have enough women where we should have them."

"Women should consider stepping outside of their comfort zones right contacts, including private investors. VC firms, in turn, should consider stepping outside of their comfort zones and looking for new investment opportunities outside their standard channels. They will find great companies if they do!"

"French paradox" is due to a byproduct of grapes. Reserveage’s CocoaWell range took its cue from the Kuna people of coastal Panama, who drink several cups of raw cacao a day.

Accepting there will be bumps in that road is part of the process. She recalls another important lesson she learned as a child, when a ski instructor told her she had to fall on every slope in order to learn. "If you’re not falling, you’re not getting better," she explains.

But she admits to "the great joy of winning — I’m completely addicted to that!"

Inevitably, giving back is a big part of the process for Whittel, so she formed the group DAWN (Developing and Advancing Women in Naturals) in 2011 as a forum for women in her industry to gain sponsorship and mentorship.

"Women have become a potent source of innovation and job creation the world over. They are more likely to achieve their full potential through effective, mutually beneficial relationships with venture capitalists and other investors."
Preparation is everything

The last two years have seen the IPO market rebound, but taking a company public is still one of the most challenging processes a CEO will navigate. Pace yourself, say the experts.

“…one sitting or recently retired CFO or CEO,” he says. “It’s a complex task, and companies can do it on a compressed time frame, and sometimes it works out OK, but you really want to be thoroughly prepared.”

Finding the right team

Dr. Peter Maag is CEO of CareDx, a Bay Area molecular diagnostics company that develops and commercializes surveillance solutions for transplant recipients. It went public last year to raise funding for new development.

Maag agrees that getting a company financially ready for an IPO is not to be underestimated. “Having auditors on board as partners who [understood] the business, and when we [were] as a company, was critical,” he says.

You don’t want to wait too late, but you don’t want to bring the entire company in too early either, Kourey says. “The day that they’re informed, there should be training by management and outside counsel. The CEO needs to be deeply involved and fully responsible, but at the end of the day, the CEO and the team need to run the business. Make sure the entire team doesn’t become the IPO team. The CFO can be the ringleader of the process, rather than the CEO.”

Having the right team is key, Addante adds. “If you’re working well together, it will reduce their need to need you.”

Once the process is completed, the atmosphere at work is often less celebratory. In fact, Addante urges CEOs to expect and prepare for a slump in energy in the days after going public. “First time around, my CFO looked at me and said, ‘I think it’s just the IPO hangover.' People were so wiped out by the event,” he says.

“You’re doing your full-time job, and you’ve got all this extra work you’ve got to do in terms of compliance and readiness, systems and pitches, organizational meetings and roadshows. It probably took us a good two months to get over that.”

“It’s like the day after your wedding,” he laughs. “There’s an enormous amount of work that goes into the entire process, all this preparation and excitement up front, months and months and months, then that day comes and goes so quickly.”

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“What is most important is your ability to set expectations, forecast and manage the business.”
Down and dirty

As businesses go, Tough Mudder is more than a little unconventional. Yet in the five years since CEO Will Dean founded it, the endurance event company has gone from strength to strength on the back of little more than social-media mastery and a flair for pushing boundaries.

Unimpressed by the triathlons in which he was competing, Will Dean cofounded Tough Mudder with Guy Livingstone in New York in 2010. Since then, more than 1.5 million people have completed its obstacle courses. Participants work in teams to complete 10- to 12-mile courses, complete with barbed wire, ice-filled Dumpsters, puddles of mud and live electric wires. They are also encouraged to raise money for charity and, in the US, have brought in more than US$6.5m to date for Wounded Warrior Project. We asked Dean about innovation, safety and the benefits of laziness.
What sparked the idea for Tough Mudder?
I was doing a triathlon eight years ago, and the zipper on my wetsuit jammed coming out of the swim. There was a guy next to me, and I said, “My zipper’s jammed. Can you just pull on it?” And the guy said no, which took me by surprise. It’s because everyone’s so focused on their own individual time and accomplishment. I wanted to create something that’s more about a group dynamic, working together and not taking yourself too seriously. I looked at nontraditional running events—mud runs, obstacle courses—and I thought there really wasn’t anyone doing something together that’s memorable.

Why is camaraderie so important to Tough Mudder?
We designed a lot of the event so that you are forced to work together. Some obstacles are pretty much impossible to get over on your own, but if you work together, they become relatively easy. We have one called Pyramid Scheme, which is basically a large, slippery ramp. If you’re the first guy there, you have to wait for the second person to give you a boost. You actually end up forming a human pyramid. If you extend small common courtesies and favors to your fellow human beings, you’re actually going to be happier.

How is social media so important to the brand?
Facebook is one of our primary advertising channels but also a huge word-of-mouth channel. We have created something that people identify with and define themselves by. Five thousand people have had our logo tattooed on them. That says something about how people engage with our product. We have something that’s very buzzworthy. Tough Mudder is about teams, great obstacles and charity—and those are all things that people want to talk about on social media.

Tough Mudder has never needed outside investment. Why is this?
One of the nice things about our business is we get paid in advance by charging entry fees. Our first event, we were hoping for 500 people and 5,000 showed up. I don’t see any need to look for investors in the short to medium term, but I think the right strategic partner could allow us to take our business to the next level. For example, one of the main questions we are asked is: “How do I train for a Tough Mudder?” Are we, as a five-year-old company, ready to start our own training program? Trying to launch that would just crush us. We don’t have the bandwidth or the expertise, but the right partner could help us.

How do you stay innovative?
New obstacles are a huge part of our business. We need to learn and grow from the things that push, challenge and get us outside of our comfort zones. One of the things I realized about myself is that doesn’t happen naturally. I have to set myself very clear goals, and I have to set myself challenges that scare me. Starting a business is very scary, and there are many days when you’re racked with self-doubt. It’s how you deal with those crappy days that defines you.

Q&A: Will Dean, Tough Mudder

What is the biggest lesson you’ve learned from running a business that you didn’t learn in business school?
Five years ago, all my business professors [Dean got an MBA at Harvard] were saying, “Oh my God, Will—fire, electricity, ice, what are you thinking?” But actually, if you have the right people and the right protocols, it’s very, very manageable. We have a full field hospital on site at our events, and we have medics on staff who have caught people in danger of having heart attacks. There are people who are alive today who wouldn’t otherwise be alive, and people who are healthier from doing Tough Mudders. That said, we’ve had nearly two million people do our events, and statistically, injuries are going to happen.

Despite the fact that you’re running a company with revenue of US$100m, you have said you are “fundamentally quite lazy.” How does this tally with having to work boundaries can get harder, and you have to set the right tone from the top.

Safety must be paramount. How do you deal with that?
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Despite the fact that you’re running a company with revenue of US$100m, you have said you are “fundamentally quite lazy.” How does this tally with the work you do?
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What are the key challenges you face now?
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Q&A: Will Dean, Tough Mudder

Why did you join the Foreign Office after 9/11?
It was one of the most entrepreneurial experiences of my life. Suddenly, people had this new set of challenges, a completely new working environment and a huge impetus to get answers quickly. You had some really bright people, not too much conventional wisdom, and a lot of people willing to take risks and think outside of the box. I ended up working quite closely with various Special Forces units. The thing that really impressed me is what a cogent team they are.

How do you stay innovative?
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Making the connection

AT&T has been around since the late 19th century, but its latest transformation may be its most radical yet. Chairman and CEO Randall Stephenson tells us about its move into connected technology and why video is the future of the telecommunications industry.

In 1878, Alexander Graham Bell wrote, “I believe, in the future, wires will unite the head offices of telephone companies in different cities, and a man in one part of the country may communicate by word of mouth with another in a distant place.”

His vision certainly came true, but even this great inventor would probably find it hard to comprehend just how far beyond it we have gone. Today, AT&T, the direct descendant of Bell Telephone Company, which Bell founded in 1877, connects not only individuals but also cars and homes — and not with wires, but wirelessly.

Even in the seven years since Chairman and CEO Randall Stephenson took the helm, he has witnessed exponential technological leaps, not least the rise of the smartphone.

And he freely admits he has no idea how he would live without his. “I don’t know how I would do my job without [my smartphone],” he laughs. “I don’t know how I would keep my family happy without it. I definitely would not be able to stay in touch with my children without it, or my 76-year-old mother. They all text me.”

Stephenson joined the company in Oklahoma in 1982, when it was Southwestern Bell Telephone. “When I started, there were no cell phones; there was no broadband,” he says, pausing to emphasize the magnitude of this change. He worked his way up through the company; his favorite job was fixing software programming errors on the night shift. “I was the last person in the world who would have expected me to become CEO.”

He quickly gained a reputation as the guy who fixed things. “Every time I’d get something fixed, they’d throw me into another mess,” he says. “By virtue of that, I got to see every piece of this business.” A master’s degree in accountancy from the University of Oklahoma provided a base for his ever-evolving career. By 2001 he was CFO, in 2004 he became COO, and in 2007 he took the top seat.

Stephenson adapts to the constantly changing market by surrounding himself with great people. “That’s the first thing,” he says. “And you have to be a voracious reader and a voracious consumer of the technology. I try to use as many of the new capabilities coming out as I can.”

To this end, AT&T has opened an international network of “foundries,” or innovation centers: in Palo Alto, California; Plano, Texas; Atlanta, Georgia (attached to Georgia Tech); and Tel Aviv, Israel.

“The foundries are where we invite people to bring in their technology and show us how they would use it with our technology and our network,” he explains. “There, we learn if our technology is ahead or behind the curve, and if there are certain technologies we want to invest in. It’s a wonderful opportunity for us to have a front-row seat on new things coming to the market.”

Nonetheless, he readily admits today’s good idea can be tomorrow’s old news. “Technology becomes obsolete so...”

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Profile: AT&T

Exceptional January-June 2015

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Roshan McArthur

Words:

Roshan McArthur

Photography:

Credit: Credit: AT&T and photography courtesy of AT&T
quickly. When I became CEO, there was no smartphone. There was no App Store. There were no applications. That’s how fast this is moving."

**Connected homes, connected cars**

A big area for AT&T today is the Internet of Things, or connected technology. The company defines its purpose as “connecting people to their world,” and its home security and automation service, Digital Life, is doing just that. Stephenson’s house has more than 200 sensors. They detect water leaks, can turn lights on and off, allow him to unlock doors from thousands of miles away and send notifications when he is out of town.

And in the third quarter of 2014, 500,000 cars came off the assembly line with AT&T Drive connectivity built in. Tesla is one of the automakers using this technology, so Stephenson bought one of its cars. “My Tesla is interconnected at so many levels,” he says. “It’s interconnected to our mobile network, its navigation is coming to me over AT&T’s mobile network, and it’s interconnected to my smartphone. When I park it in my garage, it automatically pairs with the Wi-Fi in my house.”

The implications of this technology, he believes, are endless. “My mother’s husband suffers from Alzheimer’s and can wander around, so she has a tracking sensor on him,” he says. “If he gets out of the house, she pulls up her smartphone and sees where he is. Think about in-home medical care. Elderly people can now stay in their homes longer. A doctor can look in on a patient by camera very inexpensively.”

“It may be a brave new world, but it’s not without challenges. Stephenson says the launch of the iPhone in 2007 was one. “We had built a really robust mobile internet capability, but the iPhone took off like nobody could have anticipated, and it created some serious load on our network,” he says. “The biggest effort I have had in my career was how to turn around that network capability.”

From 2008 to 2013, AT&T’s capital expenditures totaled more than US$140bn – most of it to improve the company’s network. “AT&T now has the strongest LTE signal and the most reliable 4G LTE network,” Stephenson says. “We feel really good about that.”

He has also grappled with regulatory constraints, most notably with the abandoned T-Mobile USA acquisition in 2011. It was a deal he believed would transform the business. The company did extensive preliminary work, and he was confident that if the deal went to court over anti-trust issues, AT&T would win. “What I miscalculated,” he says, “was the extent to which our government would go to keep it out of the courts. As I reflect back, it was just one last box I didn’t check.”

Stephenson believes video is transforming the media landscape. He also says there is no growth without risk. So today AT&T is working hard on approval of its acquisition of DIRECTV. Of all the traffic that goes across AT&T’s network, more than 50% is video traffic. “Video is growing at a torrid pace,” he says. “We are convinced this is the future of our industry. That is the main reason we bought DIRECTV. It gives us a wonderful video platform, a wonderful relationship with the content providers, and it gives us the scale to begin delivering video to the TV, to the tablet, to the smartphone. So we’re very excited about it.”

Stephenson says if AT&T is to expand at its desired pace, the government must not try to regulate the entire internet under Title II. “These rules were written to regulate the AT&T telephone monopoly in the 1930s,” he says. “Our service at that time was a black rotary dial phone, and the only data service that existed was the telegraph.”

“In his view, the sprawling internet does not fit comfortably within these rules, and the proposal creates significant uncertainty in the underlying investment decisions. AT&T and other providers have threatened to challenge implementation in the courts. In the meantime, AT&T has hit the “pause” button and does not plan to make any fiber investments that would go beyond its DIRECTV merger-related commitments, including the company’s previously announced fiber deployment plans.

“This industry is moving fast, and if you can’t bring new products to service at your speed, not the government’s speed, and if you can’t change prices at the market’s speed, why would you make these investments?” he says.

**Building a better workforce**

There’s still plenty to do. The rapid development in the telecom industry, particularly in terms of cloud technology, means AT&T is looking to retool its workforce so employees have the right skills for a world that is quickly moving from hardware to software.

In 2008, AT&T launched its Aspire education initiative, and in 2012 it committed US$250m over five years to create a pipeline of skilled workers. Most recently, it has teamed up with Udacity at Georgia Tech to develop a low-cost, online master degree in computer science. And it has partnered with Udacity to develop a nano-degree program that is effectively a trade school for the software economy. The company has also just launched two internal training programs to retrain employees free of charge. “We have to retool our people at a scale that is daunting,” Stephenson says.

But it’s a worthy exercise: one of those people, perhaps someone troubleshooting on the night shift, could be a future leader of the company Alexander Graham Bell founded 138 years ago.

**Telecom challenges**

Randy Can, Vice Chair and Southwest Region Managing Partner, Ernst & Young LLP

AT&T’s unsuccessful bid for T-Mobile highlights one of the trickiest issues facing telecommunications companies today: regulation. That particular deal was abandoned after the Justice Department, backed by the Federal Communications Commission, moved to block it. And in an era when many see consolidation as the way forward for the telecom sector, the regulatory environment has rarely been more unpredictable.

That is certainly the view of the telcos. Our Global Capital Confidence Barometer (October 2014) found that uncertainty over the regulatory environment was cited by more than twice as many telco executives as their counterparts in other businesses as the main inhibitor to making an acquisition.

One of the thorniest regulatory issues, of course, concerns the question of net neutrality, the long-established orthodoxy that holds that all data on the internet should be treated equally. This is the policy being championed by President Barack Obama in the face of opposition from an unlikely combination of civil rights groups and big business in the US and some politicians abroad, such as German Chancellor Angela Merkel.

The regulatory environment is not the only M&A issue vexing telecom operators. As web streaming services and adjacent market players such as cable companies move in on the telecom operators’ turf, prices are being driven down and profit margins hit. In such a context, it is no surprise that “funding availability” was cited as the second most significant deal inhibitor, as companies find themselves simultaneously committed to major investments in 4G. Indeed, debt management is an increasingly key issue among telcos.

Many big names in the industry are unwilling to make any more “billion-dollar bets” – as AT&T’s Randall Stephenson describes them – until the regulatory regime has been made more transparent. And the industry should not sit back and wait for governments to act. Operators should seize the initiative by prioritizing shared industry positions and re-evaluating the relative merits of e-market consolidation versus network sharing and other synergy drivers.

A third challenge is consumer trust levels, which have declined drastically in the wake of negative headlines about telcos and data privacy. While trust in mobile operators and information sharing is falling, consumers’ faith in other ecosystem players, such as app developers and social networks, has declined even faster.

It will take a proactive approach to enhanced privacy and security features to satisfy new demands for data sovereignty, personal data privacy and cybersecurity if smartphone users are to regain confidence in their suppliers.

More information

Being in the middle has never looked better for the deal market. EY’s latest Capital Confidence Barometer shows that the appetite for M&A by middle-market companies is as high as it has been for more than three years. It is supported by relatively stable economic confidence and strong deal fundamentals: healthy balance sheets, readily available credit and steady valuations.

As we predicted in our previous report, much of 2014 has seen a big increase in multibillion-dollar deals. Now, increasing competition at the top end and a renewed focus on growing core businesses will fuel more middle-market deals (defined as deals valued at less than US$1b). After a slow but steady macroeconomic rebound that saw the US out in front, every indication is that the US will be at the head of the dealmaking parade as well — with the middle market taking the lead.

Eyes on the prize

Middle-market companies in the US are significantly more positive in their outlook on the domestic M&A market than they were in April 2014. The majority — 73%, up from 40% in April — see the local M&A market improving in the next 12 months. The number of middle-market companies that expect to pursue acquisitions has increased since April, to 30% from 18%, a clear signal of intent to look at deals as a route to growth.

“In the past, this might have been the recipe for a wave of high-risk M&A,” says Pip McCrostie, Global Vice Chair — Transaction Advisory Services, EY. “Not today. Greater complexity in the shape of global megatrends, such as digital transformation, and external pressure, such as that exerted by shareholder activists, is helping ensure that executives are focused on lower-risk transactions.”

Deals at the smaller end of the range, between US$50m and US$250m, are expected to nearly double in the next 12 months, while plans for deals over US$500m have dropped considerably. The majority of acquirers from middle-market companies are focusing on M&A to strengthen their core business, with an eye to boosting market share, managing costs and improving margin growth. As a result, the vast majority of planned deal activity will consist of bolt-on acquisitions to complement the current business model.

Back in the race

This is positive news for middle-market M&A. After years of contraction and stagnation, deal activity globally looks set to return to pre-crisis levels. The transformative deals hitting the headlines in 2014 are set to continue. However, the next chapter of the M&A story should be middle-market momentum, both with larger companies wanting to acquire quality middle-market assets and middle-market companies themselves looking to grow. This anticipated middle-market trend will further lift M&A and support an uptick in the market as a whole, as US M&A enters a new – and relatively buoyant – phase.

More information

Download the latest Capital Confidence Barometer at ey.com/ccb.
The best-known anecdote from the long and storied career of economist and social entrepreneur Muhammad Yunus is the one about the extremely modest beginnings of the microfinance movement he launched. The first loan was worth just US$27, split between 42 women in a single Bangladeshi village.

What is less known is how close it came to never happening. Yunus, then aged 35 and a well-regarded university Economics professor, was investigating — "purely for my own knowledge," he says — the operations of loan sharks in his native region of Bangladesh.

“There was one specific woman who captured my attention,” he recalls. “She handmade small stools out of bamboo, and she did so with borrowed money from a loan shark. There was a tremendous contrast between her poor, rundown shack and the nice stools she made, and I became curious. I wanted to know more about how she worked: How much money did she borrow? What were the terms? How much did she keep? How was the money used?”

But there was a big problem: the woman refused to discuss it with him.

“As a woman and with no man at home, she couldn’t talk to me; I approached her and she just ran away,” Yunus explains. “It took some time and effort to persuade her. I was with two students and we chatted in the local dialect, and all the while she remained in her small hut with us outside, speaking through the door. Over time, we convinced her.

“I never thought about making it big. The plan was just to help a few people, then a few more.”
The world is tiring of the current system, so social businesses are expanding globally.

Yunus’ principles of social business
1. Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access and environment) that threaten people and society; not profit maximization.
2. Financial and economic sustainability
3. Investors get back their investment amount only. No dividend is given beyond investment money.
4. When investment amount is paid back, company profit stays with the company for expansion and improvement.
5. Environmentally conscious.
6. Workforce gets market wage with better working conditions.

Yunus’ life was shadowed by the phenomenon early on. In Bangladesh in the 1970s, his first steps into the world of microfinance quickly outgrew his ability to finance his project from his own resources. But established banks were hesitant to fill the gap.

“At the start, it was easy because I didn’t have to ask for permission from anyone,” he recalls. “Some people worried that I wouldn’t get all the money back, but it didn’t matter too much. I didn’t keep detailed records. When someone paid me back, I just put the money in my pocket. But eventually, what we were doing spread people worldwide, and it happened with surprisingly little money when measured per capita. Along the way, Yunus became an iconic figure as an author, lecturer, advocate and visionary. He won the Nobel Peace Prize in 2006 and has also been awarded the US Congressional Gold Medal and the Presidential Medal of Freedom — the two highest civilian honors the US can bestow. In 2008, he was ranked second on Foreign Policy magazine’s list of top global thinkers. He has counselled business leaders, heads of state and government, and even Pope Francis, who shares Yunus’ worry about growing income inequality.

It only takes a dollar
That first meeting in Bangladesh took place nearly four decades ago, but Yunus’ passion and enthusiasm remain as strong as ever. Even today, he loans forward in his seat and the rhythm of his speech quickens when he discusses the issues closest to his heart.

“It takes a dollar to catch a dollar,” he says, repeating one of his most quoted remarks. “An empty hand cannot catch money when measured per capita. Along the way, Yunus became an iconic figure as an author, lecturer, advocate and visionary. He won the Nobel Peace Prize in 2006 and has also been awarded the US Congressional Gold Medal and the Presidential Medal of Freedom — the two highest civilian honors the US can bestow. In 2008, he was ranked second on Foreign Policy magazine’s list of top global thinkers. He has counselled business leaders, heads of state and government, and even Pope Francis, who shares Yunus’ worry about growing income inequality.

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Five decades of big ideas

1970s
• 1976: introduces the idea of microcredit

2000s
• 2000: introduces its Village Phone project

1990s
• 1997: Grameenphone launches its Village Phone project

1980s
• 1989: Grameen starts to diversify into separate organizations working in areas such as fisheries and irrigation

1970s
• 1976: introduces the idea of microfinance, loaning US$27 of his own money to 42 women in the village of Jobra.

Profile: Grameen Bank

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• 2006: is awarded the Nobel Peace Prize.

2010s
• 2009: formulates his seven principles of social business

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For Daniel Birnbaum, the chance to revitalize a once-loved but moribund brand was irresistible. He tells us how he got the world to sit up and take notice of SodaStream.

D

aniel Birnbaum couldn’t hide his amusement when, in 2006, his friend Yuval Cohen asked him to check out a company Cohen was considering buying. “I almost fell off my chair,” Birnbaum recalls. At the time, Birnbaum was leading the Israel division of one of the world’s coolest brands: Nike. Cohen wanted him to assess one of the most antiquated: SodaStream. The company had been in a long decline since its heyday in the 1970s, having failed to adequately explain to people why it was better to add their own bubbles to their soft drinks when there were so many ready-carbonated drinks available.

And so the century-old British brand, which had moved to Israel in 1998 after being acquired by its Israeli distributor, had been bumbling along for three decades. Birnbaum puts it more bluntly, saying that its executives were “basically milking a 100-year-old company” without updating its products, investing in marketing or expanding into new markets.

He never imagined SodaStream would be the company through which he would hang out with the likes of Scarlett Johansson, who controversially served as its celebrity face in a high-profile ad campaign. Nor did he ever think that raising the brand’s prominence would irk the world’s biggest beverage brands.

Birnbaum got his chance to shake things up in 2007, when Yuval Cohen bought SodaStream – or, as it was then, Soda-Club incorporating SodaStream – through his Fortissimo Capital Fund. Birnbaum became CEO and went on to rebrand the company and float it on NASDAQ. In its best year, 2012, it reached a profit of nearly US$44m, and from 2009 to 2013, sales of its soda-maker units quadrupled.

Birnbaum, it seemed, was just the ingredient missing in the long-dormant brand. His energy and enthusiasm are reflected in the range of topics he covers in conversation, from his identity as a second-generation Holocaust survivor and his wish for Jews to coexist with Arabs to, of course, his hopes for SodaStream.

Starting fresh

Telling his story in his modest central-Israel office – the furniture is more Ikea than it is executive – he recalls his first days in this building. “When I came here, I would ask the company executives, ‘What is our business?’ and they would say, ‘We put bubbles in water; we’re in the business of home carbonation systems.’ And I told them there is no such business as home carbonation systems. The consumers are not looking for home carbonation systems.” Instead, he said that consumers think in terms of quenching thirst, not carbonating. And instead of other carbonation companies, he decided SodaStream’s competitors were the major soft-drink companies.

It was an ambitious vision, but there were challenges ahead. At Nike and, earlier, when he was establishing Pillsbury in Israel, Birnbaum had global resources behind him. But at SodaStream, he was on his own, and faced with a thorny additional challenge: at a time of increasing calls to boycott companies that operated in Israel’s West Bank settlements, he inherited a production plant in a settlement just outside Jerusalem.

This caused major controversy last year, after Johansson filmed her advertisement and was widely accused of endorsing the occupation. Birnbaum has decided to close the plant this year – though he insists this was motivated by logistics and not in response to the controversy. Either way, he is offering full-time jobs in the new facility for all those, whether Jew or Arab, who worked in the original plant.

Politics aside, his main challenge after joining SodaStream was to “amplify” its message to compensate for its marketing budget, which was tiny in comparison with those of its competitors. “We found ourselves writing the textbook on guerrilla marketing,” he says.

As well as getting designer Yves Béhar to redesign a number of SodaStream devices, launching new syrup flavors and expanding the company’s market reach from 13 countries to 46, Birnbaum enlisted the environment

“We found ourselves writing the textbook on guerrilla marketing.”
A century of bubbles

1903

1998
Israeli company Soda-Club acquires SodaStream.

2007
Fortissimo Capital acquires SodaStream; Daniel Birnbaum is named CEO.

2014
SodaStream signs Scarlett Johansson as its global brand ambassador.

US$44m
SodaStream's profit in its best year, 2012

2,000
The number of soda bottles one SodaStream bottle saves each year

Profile: SodaStream

“There say if it ain’t broke, don’t fix it, but my biggest lesson from everything that happened is if it ain’t broke, fix it.”

As his key marketing weapon. He told people they needed to home-carbonate to save the planet, saying that one SodaStream bottle saves 2,000 bottles each year. To hammer the point home, SodaStream launched a campaign in 2010 that placed cages containing thousands of bottles and cans collected from landfills – the drink-related waste of a family over three to five years – in 25 countries. This program was contested by Coca-Cola, triggering a global debate that generated millions of free media impressions for SodaStream.

But even the company’s conventional marketing pulls no punches. Its 2013 Super Bowl ad went viral online after being rejected for airing by CBS because it showed bottles of competitor soft drinks combusting when a SodaStream being rejected for airing by CBS because it showed bottles of competitor soft drinks combusting when a SodaStream...
mall and medium-sized enterprises comprise 99% of Brazil’s established businesses and employ 52% of the Brazilian workforce. They are therefore crucial to the country’s social and economic development. Sebrae’s mission is to support the sustainable development of these companies and promote competitiveness within this segment of the market. We can attribute the growth of SMEs in Brazil to three factors. First, the country’s growing middle class has brought increased purchasing power to 40 million Brazilians. Second, new legislation has improved conditions for SMEs, including a reduction in tax for some of them. Third, levels of education are rising: from 2002 to 2012, the number of students attending college in Brazil doubled to 7 million, and this figure is expected to reach 10 million by the end of 2015.

SMEs’ economic power is growing, but we need to improve their leaders’ knowledge and skills. Many small companies start operating without having the necessary knowledge or experience to run a business and do not seek any training. To support growth and development of these companies, Sebrae offers courses, facilitates partnerships and gives access to markets. We also work to reduce the tax burden and bureaucracy for SMEs and to improve access to credit, technology and innovation.

The 2014 FIFA World Cup provided huge opportunities for SMEs. A study by Observatório de Turismo (Brazil’s tourism research body) found that Rio de Janeiro welcomed 471,000 foreign tourists and 415,000 domestic visitors during the World Cup, bringing in 4.4b Brazilian reais (US$1.7b), according to the Ministry of Tourism. The same survey found that 58% of the respondents intend to come back for the 2016 Olympic Games, making it all the more important that Brazilian entrepreneurs are ready to seize opportunities when they present themselves.

The Sebrae 2014 project aimed to help SMEs become more competitive before, during and after the World Cup. Company leaders underwent training, took qualification courses, received consulting assistance and participated in business meetings. After the tournament, a survey found that almost 4 in 10 SMEs have improved their approach to management and are more attentive to the issues of sustainability and access to new markets. This will allow small companies to enlarge their share of the whole production process.

At Sebrae, we aim to help create an economic legacy that lasts long after the 2016 Olympic Games are over. A good example of this is the project that is helping organic food producers meet the demands of the Rio 2016 Organizing Committee for the Olympic and Paralympic Games to supply organic food for the athletes. We also want to facilitate business encounters between smaller Brazilian companies and large foreign enterprises, paving the way for partnerships and joint ventures. SMEs from all sectors — from laundries to print shops and furniture stores — now recognize the need to prepare to take advantage of new business opportunities presented by the 2016 Olympic Games.

Brazil, particularly the State of Rio de Janeiro, presents two main challenges for SMEs. The first is to increase the number of formally organized enterprises and improve management standards of SMEs. This will allow them to benefit from the opportunities that emerge from both the 2016 Olympics and elsewhere. The other challenge is more complex but no less encouraging: to support the creation and development of companies that are small but still able to offer products and services that can compete directly with state-of-the-art businesses based elsewhere.

Outstanding entrepreneurs are able to see opportunities where no one else can, in the most diverse markets. For this to happen, it is necessary to be prepared, to think big and to face up to challenges, independent of public authorities or, in some cases, of excessive government interventionism. Sebrae supports them in all these areas.

As large companies increasingly focus on reducing the environmental impact of their production processes, smaller companies have the opportunity to develop technologies and services to help them.

A focus on technology not only boosts state and national economies, it also helps improve growth prospects for smaller enterprises. The Sebrae tech program helps these enterprises in areas such as intellectual property, sustainability, IT and access to the digital start-up market, and it also supports 20 technology-focused business incubators across Brazil. We want to find strategies that aid in employment qualifications, funding and regulatory guidance, which will allow small companies to enlarge their share of the whole production process.

A sporting chance

Cesar Vasquez, Director of Sebrae Rio de Janeiro, on how his government-funded organization is helping Brazil’s small enterprises take advantage of the opportunities presented by the Rio 2016 Olympic Games.
Sergio Argüelles González is a proud man. FINSA, the industrial real estate development firm the affable 52-year-old leads, has one of the largest portfolios of assets under management in Latin America. The Mexico-based company boasts more than 80 million square feet of property and has enjoyed an average annual growth rate of 18% over the past two decades.

But Argüelles is also proud that the companies leasing the space FINSA provides have created 200,000 high-quality jobs for Mexican workers. “I want Mexican workers to enjoy the same benefits as their US counterparts,” he says.

It’s a desire that has been at the heart of FINSA since Argüelles’ father, Sergio Argüelles Gutiérrez, founded it in 1977 in response to Mexico’s growing number of maquiladoras.

Maquiladoras, manufacturing operations in free-trade zones, emerged in the mid-1960s as a counterweight to rising labor costs in the US and the end of the bracero migrant workers’ program that allowed Mexicans to cross into the US to work. The Mexican Government was also running an initiative to attract foreign investment in factories and assembly plants south of the US border to provide employment to locals.

Argüelles’ father, a corn, cotton and sorghum farmer in Tamaulipas State, a coastal territory adjacent to Texas, saw the potential his land offered to the companies planning to open maquiladoras. He founded FINSA and built a manufacturing plant for General Motors on 250 acres of land.

“We didn’t invent the wheel, but we copied what was working in the US. We were doing something that had not been done in Mexico before.”

After working with a Mexican construction company to develop that first industrial park for GM, FINSA soon expanded its portfolio to include other carmakers such as...
more than 60 companies in the industrial sector. A supply park close to the Nissan plant that will accommodate Agüascalientes, where FINSA is developing a 165-hectare manufacturing center for Latin America and an attractive investment destination. “We went to Argentina back in the 1990s, where we had a couple of clients who wanted us to develop for them what we had done in Mexico,” Argüelles says. FINSA drew up a project for a Fiat car plant similar to the supply park it had built for the firm in Puebla, Mexico.

“We were very excited about Argentina, we had some great churrasco steaks and developed some great projects between 1994 and 1997, but we have since sold two, as it’s gotten complicated,” Argüelles says.

He’s referring to Argentina’s economic meltdown, which has caused FINSA to reconsider its future there. “We’ve got plenty to do in Mexico,” he says.

There’s plenty to keep them busy, however. FINSA has two developments in the southern tip of Texas, and the company is also in talks to develop projects in Brazil, Colombia and Panama.

FINSA’s most recent capital injection, from Mexican pension funds, totaled US$250m. It expects to have exhausted this by the end of 2014, open a new fund in 2015 and then consider launching an IPO to fund further expansion.

FINSA also operates a number of subsidiaries, including Ficsa, its construction and engineering design business; Mifinsa, its maintenance services firm, which works with more than 250 companies across a broad range of sectors; and Finsa Energéticos, a natural gas sale and distribution company. A growing area for the company is environmentally sustainable development; it built the first development in the state of Nuevo León to receive LEED certification – a measure of green building practice.

Bright future
The company’s prospects are good. With yields of between 9% and 10%, depending on the location, and an ROI of between 16% and 18%, industrial real estate in Mexico can be lucrative. The expansion of trade, thanks to the country’s growing list of free-trade agreements with other countries, and recently implemented energy sector reforms are other routes to growth.

Outside of the day-to-day, Argüelles is a proponent of social advancement, cofounding the FINSA Foundation, which grants scholarships to students from low-income families, in 2009.

Now in his second decade of leadership, Argüelles is enthusiastic about future business prospects, particularly in the firm’s home market. “My idea is to stay for a while and enjoy what we’re doing,” he says. “And we’re excited. Mexico is the place to invest right now. You can see it in the capital markets, and everyone has their money ready, which is something we’d not seen in 20 years. If you’re young and ambitious, Mexico is the place you need to be.”

### FINSA by the numbers

<table>
<thead>
<tr>
<th>Founded</th>
<th>1977</th>
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<tbody>
<tr>
<td>40%</td>
<td>FINSA master plans are set aside for residential use</td>
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<tr>
<td>16–18%</td>
<td>The ROI of industrial real estate in Mexico</td>
</tr>
<tr>
<td>2001</td>
<td>The year Sergio Argüelles took over as CEO</td>
</tr>
<tr>
<td>US$250m</td>
<td>FINSA’s most recent capital injection</td>
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<td>25 in 17</td>
<td>industrial parks, Mexican cities</td>
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Profile: Kotak Mahindra Bank

Prudence, simplicity, humility

Uday Kotak, EY World Entrepreneur Of The Year 2014, is one of India’s biggest innovators in financial services, but he’s never lost sight of the modest principles on which he founded his business.

The growth of the Indian economy in the past decade has been impressive, but there are still huge inequalities in this vast country. About 800 million of India’s 1.3 billion citizens still do not have bank accounts, and the Government is actively seeking to increase financial inclusion.

For Uday Kotak, Executive Vice Chairman and Managing Director of Kotak Mahindra Bank (KMB), technology holds the key. He points to the astonishing growth of the Indian telecommunications market: there were just 2 million mobile subscribers in 1997-98, compared with nearly a billion today.

He expects technology to transform the financial services industry and allow the Kotak Group – which offers a wide range of financial products and services – to grow. “The next big opportunities are digital and mobile, and we are focusing on both,” he says. “We foresee both the width and depth of the market expanding, with more customers buying insurance, mutual funds, shares and so on.”

This expansive vision is typical of the man responsible for the remarkable growth of the business that bears his name. From its roots as a small finance company, KMB is now India’s fourth-largest private sector bank in terms of market capitalization, with a net worth of more than INR190b (US$3.1b). Headquartered in Mumbai, it has more than 600 branches in India, as well as international offices in London, New York, Dubai, Abu Dhabi, Mauritius and Singapore.

The bank may be a global player, but Kotak, who was recently named EY World Entrepreneur Of The Year, hasn’t lost sight of the three principles on which he built KMB: prudence, simplicity and humility. “We have deliberately not over-leveraged ourselves, we keep our products simple, and we maintain the understanding that bankers are not masters of the universe,” he says. “These three principles have worked for us in the most difficult of times.”

Lessons from a joint family

Born in Mumbai in 1959, Kotak grew up in a joint family – an extended family arrangement common in India, in which several generations live in the same home, money is pooled and property is held jointly. In Kotak’s case, 60 people ate from the same kitchen.

“The joint family taught me a lot of things,” he says. “The first among them is the principle of capitalism at work and socialism at home.”

For Kotak, a joint family is a microcosm of a nation. It teaches you that a person’s ambition is different from what is important for the family. “The same logic applies to the nation: individual aspirations need to be merged with what is inclusive,” he says. “The joint family is my mentor.”

The turning point in Kotak’s life came in his early 20s, while he was studying for an MBA at Jamnalal Bajaj Institute of Management Studies in Mumbai. During a game of cricket, Kotak was running between the wickets when the ball hit him on the head, and the blow kept him confined to bed for over a month.

“We have to see what is right for society, while also searching for what’s good for business.”

words Swati Prasad _ photography Mallikarjun Katakol
Profile: Kotak Mahindra Bank

The year Kotak Mahindra Finance became a bank

US$3.1B

The net worth of Kotak Mahindra Bank

2003

The number of the 4,000 non-banking finance companies in India that survived the 1990s, including Kotak Mahindra Finance

Kotak Mahindra Bank

he recovered, but he had missed too much to return to college in that academic year. Instead, he joined his family's business, which traded in cotton and agricultural commodities. Soon, though, he realized he was meant for something else. After completing his MBA, Kotak told his father he wanted to start a financial services company. His father convinced the rest of the family of the idea's merits, and in 1982, they provided Kotak with an office in south Mumbai to use as a base.

By the age of 26, he had formed business relationships with Tata Group subsidiary Nelco and the giant Mahindra group of companies. At the latter, he met Anand Mahindra, with Tata Group subsidiary Nelco and the giant Mahindra & Mahindra from making such bulk orders.

A capital idea

Kotak felt the next big thing in India would be the capital market. “We were like a frog in a well — we needed to find out how the world works,” he says. “That’s when I reached out to Goldman Sachs.” In 1995, the US-based giant became a minority partner in the investment banking and broking part of the business. It was Goldman Sachs’ first joint venture anywhere in the world and ran for 10 years. By 2000, Kotak had decided to enter the banking business. Thanks to a change in the regulations, in 2003, Kotak Mahindra Finance, the group’s flagship company, became the first NBFC to receive a banking license from the Reserve Bank of India.

Today, the majority of the group’s customers are based in urban India, but most of its lending is to rural areas of the country. “Our total lending, excluding wholesale, is split 50:50 between semi-urban and rural India,” says Kotak.

“We borrow from India [urban areas] and lend to Bharat [rural areas]. The surpluses are all in urban India. And Bharat is where you can lend for smaller items — tractors, seeds, fertilizers and so on.” Kotak acknowledges that the power of a bank is huge. “That’s why banks must always remember that it is other people’s money and not let the power get to their heads,” he says. He concludes by referring back to the lesson he learned early in life about capitalism at work and socialism at home. “The opportunity in India is huge,” he says, “but we have to see what is right for society, while also searching for what’s good for business.”

Viewpoint

Banking on technology

David Jensen, Global Innovation and Digital Strategy Leader, EY

Technology is the game changer in the banking industry. The past may have been about lunchtime queues at local branches and paper receipts, but the future is about banking at the touch of a screen from anywhere in the world.

Without a doubt, disruption by new market entrants is accelerating innovation and change within the banking sector, not only enhancing the customer experience but also increasing expectations. For evidence of the shake-up, you need look no further than companies like mobile payment specialist Square. Square users can make instant payments via their phones, as their debit or credit card is linked to their handset or tablet. Users can also make money transfers to any email address in a matter of seconds.

Other companies have identified opportunities in payment technology, and respected brands outside the financial sector have been quick to develop digital payment solutions as well.

But perhaps the most interesting area to watch is the emerging markets. In India, for instance, many people have never had bank accounts. It is entirely conceivable that, in the near future, their first banking experience will be through a mobile phone — effectively leapfrogging traditional methods of banking.

In these developing markets, major multinational banks looking to introduce mobile innovation face more barriers than locally based start-ups, largely because of regulation and licensing issues. Wherever you look in the world, traditional banks are under pressure. The big question is, how should they respond?

Traditional banks may need to rethink their relationship with their customers and look at ways to disrupt the market. Many are already collaborating with retailers and offering loyalty programs, but they could also move into other spheres, such as insurance. Their focus could increasingly be on financial well-being rather than just plain banking services, and they are certain to position themselves to leverage the latest data and technology to broaden their range of offerings.

Perhaps complacency has been an issue in the past. Historically, customers have seldom switched banks, but now the convenience factor offered by market entrants is changing the landscape. If a customer experience is enriched and a move to a new provider is swift and painless, major banks could lose ground unless they raise their game.

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Contacts
EY Entrepreneur Of The Year Americas Program Director
Mike Kacsmar
+1 732 516 4128
michael.kacsmar@ey.com

EY Entrepreneur Of The Year Americas Program Leader
Carrie Hall
+1 404 817 5740
carrie.hall@ey.com

IPO and Advisory Leader
Jackie Kelley
+1 949 437 0237
jacqueline.kelley@ey.com

Americas Family Business Leader
Carrie Hall
+1 404 817 5740
carrie.hall@ey.com

Strategic Growth Markets
Tax Leader
Mike Kacsmar
US Venture Capital Advisory Group Leader
Jeff Grabow
EY Americas Program Director
+1 732 516 4128
michael.kacsmar@ey.com
+1 408 947 5607
jeffrey.grabow@ey.com

Strategic Growth Markets
Tax Leader
James Markham
+1 916 218 1904
james.markham@ey.com

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Muhammad Yunus (page 42)
“My strongest attribute is that I am stubborn: I kept seeing how we could reach more people, and it grew and grew.”
Quote/unquote

Insight and opinion from this issue’s personalities

“The greatest enemy of innovation is success.”
Randall Stephenson, AT&T (page 36)

“Anything you can believe, you can make happen.”
Naomi Whittel, Reserveage (page 26)

“As leaders, I think we have a role to play around taking a higher stand on sustainability.”
Chip Bergh, Levi Strauss & Co. (page 14)

“We redefined our category, and that’s something every company and every business executive should do from time to time.”
Daniel Birnbaum, SodaStream (page 48)

“People often think things happen by accident. But you have to plant the seeds.”
Robert Kraft, Kraft Group (page 6)
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