The loan arranger

Muhammad Yunus invented the concepts of microfinance and social business. He explains how it all began.
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“Determined entrepreneurs will always find a way to get their business off the ground.”

The entrepreneurs we interview for Exceptional tend to have different ideas about what it takes to grow a company. Depending on who you talk to, what matters most could be anything from creativity to single-mindedness to sheer hard work. But one thing they all agree on is that, in order to grow, you need access to finance.

This idea is summed up by one of the favorite sayings of Muhammad Yunus: “It takes a dollar to catch a dollar.” Yunus, the subject of our cover profile, has done more than most to provide finance to those at the bottom of the economic ladder. Four decades ago, he started a modest money-lending scheme in Bangladesh, in the process inventing the concept of microfinance that has become a global force for good.

At the other end of the scale, serial entrepreneur Alexander Galitsky has traveled the full journey from investee to investor. His latest venture provides capital investment to a wide range of new high-tech companies from Russia and Eastern Europe to help them make the leap into the global marketplace.

Collaboration between entrepreneurs and established corporations is also something we are starting to see more of. While the start-up gains valuable funding, the larger company gets the benefit of the entrepreneur’s creative, risk-taking ethos.

This concept of agile innovation is helping companies to respond to the rapidly-changing demands of consumers in this digital age and enabling entrepreneurs to take their ideas to the next level.

Of course, ultimately, determined entrepreneurs will always find a way to get their business off the ground. Barb Stegemann started her fragrance range, The 7 Virtues, with a US$2,000 purchase of essential oils from Afghanistan on her credit card, while Branko Milutinović and his colleagues got computer game company Nordeus up and running by working 16-hour days for two years solid, for free.

The success of these and other entrepreneurs featured in this issue has enabled them to effect change by stimulating growth. In times of continued economic uncertainty, it is these entrepreneurs and the generations riding in behind them that hold the key to solving hard-hitting global problems such as youth unemployment. We look at the impact young entrepreneurs can have on the economy and examine the opportunities for growth and investment in the countries around the Mediterranean Sea.

That’s also the theme of our Mediterranean Strategic Growth Forum™ in Rome on 16-17 April, and I hope to see some of you there.

Andrea Vogel
Strategic Growth Markets Leader EMEIA, EY
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“My strongest attribute is that I am stubborn.”
Muhammad Yunus, founder of Grameen Bank
Andrea Illy, CEO, Illycaffè (page 34)

“There are economic challenges, and I don’t think we have seen the last of them.”

Uday Kotak, Executive Vice Chairman and Managing Director of Kotak Mahindra Bank

“The next big opportunities are digital and mobile, and we are focusing on both.”

Beyond profit
How a fragrance range helps communities in war-torn countries.

Intelligence
Explore the latest EY events, research and programs.

Wise words
Discover the lessons our entrepreneurs have learned on their path to success in business.
Regine Sixt is one of Germany's most recognizable businesswomen. Married to Erich Sixt, the third-generation CEO of the eponymous car rental company, she has been central to the success of the business since the 1970s. Beyond her work at Sixt, she has won awards for the work of her Regine Sixt Children’s Aid Foundation and for being a role model for women in business.

What are the highlights of your career?
There are many, but one stands out. Early on in my career at Sixt, I took a trip to the US to promote Germany as a tourist destination. When I was in New York, I walked down Park Avenue and looked up at the Pan Am Building [now the MetLife Building]. That’s when I came up with my first big idea for the business – to build a car rental partnership with the airline Pan Am. This was the start of a relationship that opened up the partnership model for us with airlines, hotels and travel agents around the world and helped us grow rapidly.

You’ve said that being flexible in business is important to you. What do you mean by this?
When I started at Sixt I called myself the “fire brigade” because you could put me anywhere and I would quickly adapt to the skills needed. This flexibility has given me a broad understanding of the whole business, from the car rental counter up to board level. You can put me at one of our counters anywhere and I’ll do that work quite happily, to such an extent that I sometimes miss it – when I travel, I often help out at one of our counters at an airport. Today, I’m in charge of international marketing, but I still play a big role in
the day-to-day running of the business. For instance, I recently designed the uniforms for staff at the rental counters.

**How does Sixt balance being a family business and a listed one?**
We listed nearly 30 years ago; it was about raising capital for expansion, not taking the money out of the business for personal reasons. The listing helps to maintain market discipline, but we are a family business and this is crucial to our ethos. As a family business, we take the risk, and that hasn’t been compromised by the listing. We aren’t employees who go home at 5:00 p.m. — we work day and night. We also have the extra responsibility of the family name being the name of the business; we can’t hide behind another name if it isn’t doing well. My two sons, Alexander and Konstantin, who are the fourth generation of Sixts to work in the business, will carry on these responsibilities.

**What distinguishes Sixt from the competition?**
First, we have the most exclusive cars to rent. Yes, we do rent cheaper cars, but we focus on luxury cars like Mercedes and BMWs. We would rather have fewer cars at a price we can make money on, than rent at low prices and lose money. Second, being a family business means we take a long-term perspective. What is important at Sixt is to grow constantly, wisely and smoothly. We have been following these principles since 1912.

**How does a business that is over 100 years old continue to be entrepreneurial?**
We are always looking at ways to innovate, as we did early on with the internet — Sixt was the first car rental company to use it. We also try to work as closely as possible with the staff. I work in an open-plan office with everyone else, and this helps to generate fresh ideas.

**What are your expansion plans?**
The US is very important for Sixt, and we are hugely focused on this market, even though it is sometimes tricky. We opened in the US in 2011 and currently operate in 10 states, but we want to be in every state. We still see good growth in Europe and will continue to expand here as well. As for China, we view it as many other companies do — as a difficult market to crack. If we are to grow there, we will need to go into a partnership or franchise arrangement, and we continue to explore these opportunities.

**Why did you start your Children’s Aid Foundation in 2000?**
In my travels, I saw a considerable amount of poverty and the suffering of children. I knew I needed to do something, and I was in a privileged position to be able to make a difference, as I had both the desire to help and the wherewithal to do so. We finance the Foundation through internal resources, but we are thinking about seeking outside funds to help with the endowment. We have plans to grow it across the world.

**What aspect of the Foundation’s work are you proudest of?**
Probably the work we’ve done with Israel. We Germans have a very special obligation toward Israel, and the Foundation was instrumental in building a medical care center for children there. I’ve also been keen to try to encourage greater cooperation between Israelis and Palestinians.

**You won the prestigious Woman Entrepreneur of the World Award in 2013. What can be done to inspire more women entrepreneurs?**
Role models are important, and the more the better. I speak at forums around the world, such as universities, about the importance of women in the business world. But being a career woman is a challenge. I have tried to balance my career with my family, and I hope I have done it well.

Regine Sixt is passionate about her Children’s Aid Foundation, whose slogan translates as “Drying little tears.”

“The best is yet to come.”
The man who invented microfinance

The modest moneylending scheme Muhammad Yunus launched four decades ago to support Bangladeshi villagers has become a global force for good. He explains how microfinance turns the traditional economic system on its head and puts power in the hands of the people.

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 made small stools out of bamboo by hand, 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,
“I never thought about making it big. The plan was just to help a few people, then a few more.”
speaking through the door. Over time, we convinced her we meant no harm. Thankfully, she eventually relaxed and told us her story.”

And her story was shocking: the woman, who was in her early 30s, bought the bamboo she needed for the stools with borrowed money and repaid it by giving the stools she made to the loan shark. He paid her just 10 cents a day for her efforts, about a fifth of what she estimated she’d earn if she sold the stools herself. “She spoke about it as if it was her job, but in reality, she was a slave laborer,” Yunus says.

The setup trapped her, and many others like her, in an inescapable spiral of poverty and debt.

A shock wave that changed the world
Yunus and his students began collecting similar information from other artisans in the village. After gathering the data, Yunus was stunned by what he discovered. Some 42 women in a single village were being held in abject poverty for an average debt of around 65 cents each.

“We coined the term ‘microcredit’ for the solution we came up with, but we probably should have called it ‘nanocredit,’ because even ‘micro’ is too large,” Yunus says. He was amazed at how little it would cost to change the destiny of these women. When the concept came to him, it was, he says, “like a shock wave.”

“I take the world like a shock wave as well, though that part took several years. The microfinance movement Yunus launched has helped improve the lot of at least 165 million 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 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 counseled business leaders, heads of state and government, and even Pope Francis, who shares Yunus’ worry about growing income inequality.

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

“The world is tiring of the current system, and so social businesses are expanding globally.”

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“It takes a dollar to catch a dollar,” he says, repeating one of his most quoted remarks. “An empty hand cannot catch it, and there are millions and millions of people in the world trying to do it with an empty hand. Nobody gives them a way to get started. That’s where we come in.”

As with most conversations with Yunus, the remarks eventually turn into a critique of capitalism.

“In the capitalist system, nobody does anything unless it benefits that person,” he says. “At its worst, capitalism is a big sucking machine that takes juice from the bottom and cycles it to the top. At the top, life is good. But at the bottom, it is desperate and there is no margin for error. Sadly, those at the top don’t act to help the ones at the bottom.”

The bank of villages
Yunus had firsthand experience of that phenomenon early on. Back 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 from one village to another and to another, and soon I couldn’t afford it. “So I went to the loan manager at my local bank,” he continues. “He was not a stranger to me. I had my own account there, and he knew I was a professor at the university. I explained what I was doing and asked him to loan me money so I could help more people.”

But the loan manager balked, saying he could not help because the bank would not lend money to poor people. “He told me, ‘They are not creditworthy,’” Yunus recalls. “I told him to try it, and I promised the bank would get its money back. I said I would guarantee all the loans. Eventually, the bank agreed to try it on a small level, but the bankers remained concerned that they would not get their money back.”

Meanwhile, as the initiative spread, Yunus’ loans were getting larger and larger. “Eventually, the bank set a cumulative credit limit for me at US$300,” he says, “but that was far too low. For a while, I tried to disregard the limit, but they insisted. I would point out that the money had been repaid so far, but they kept thinking failure was right around the corner. They delayed the paperwork and did everything slowly. Sometimes the loan would be approved, but the money would not be made available for months.”

It didn’t take long for Yunus to realize that a business model that relied on traditional banks was too limited, so he decided to set up his own bank. In 1983, seven years after his first microloan, he established Grameen Bank – the name means “Bank of Villages” in Bengali.

### Yunus’ principles of social business

- Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access, and environment) which threaten people and society; not profit maximization.
- Financial and economic sustainability.
- Investors get back their investment amount only. No dividend is given beyond investment money.
- When investment amount is paid back, company profit stays with the company for expansion and improvement.
- Environmentally conscious.
- Workforce gets market wage with better working conditions.
- … do it with joy.

### US$27

The first loan Muhammad Yunus made, which was split between 42 women in a single village

### 23,000

The number of staff employed by Grameen Bank in Bangladesh, serving 8.5 million borrowers

### 165 million

The number of people around the world who have been helped by microfinance loans

The world of microfinance – and Yunus’ life – would never be the same again.

The concept was as simple as it was revolutionary. Borrowers are required to form groups of five, and a borrower committee screens the loan proposals of the members belonging to the group.

“If someone wants to borrow money, they go to the chair of the committee, not to the bank,” Yunus explains. “The would-be borrower says he wants to buy some chickens, for example, and the committee helps work out a plan: How many chickens? How will they be fed? How will the plan work? Then they approve it or they...
Five decades of big ideas

2010s
- April 2013: is awarded the US Congressional Gold Medal.
- October 2010: appears as a character on The Simpsons.
- 2009: is awarded the US Presidential Medal of Freedom, the nation’s highest civilian honor.
- 2009: formulates his seven principles of social business (see panel, page 9).
- 2006: is awarded the Nobel Peace Prize.

2000s
- 1997: Grameenphone launches its Village Phone project, which will go on to bring mobile phone ownership to 260,000 rural poor in more than 50,000 Bangladeshi villages.
- 1989: Grameen starts to diversify into separate organizations working in areas such as fisheries and irrigation.
- October 1983: Yunus’ operation becomes a fullyfledged bank, Grameen Bank.
- December 1976: secures a loan from the government-owned Janata Bank to lend to the poor.
- 1976: introduces the idea of microfinance, loaning US$27 of his own money to 42 women in the village of Jobra.

2000s
- 1979: don’t. In the end, the loan is between the bank and the borrower. But the committee makes the decision.”
- Grameen Bank has now grown far larger than Yunus could have ever imagined, operating across the world – including in the US, where the system is used to help the urban poor.
- “I never thought about making it big,” he says. “The plan was just to help a few people, then a few more, then another village and then another. My strongest attribute is that I am stubborn: I kept seeing how we could reach more people, and it grew and grew.”

The rise of social business
While Yunus is still passionate about microcredit, his focus has slowly shifted to a new area he calls “social business” – economic enterprises launched with a social objective, rather than profit, as their top priority.

“There was a study that showed that the 85 richest people in the world have more wealth than the bottom half of the world’s population, or 3.5 billion people. This is not a problem that can be solved by tinkering with the system. You need a counter force in order to reverse that trend. That is where social business comes in,” says Yunus, who developed his famous seven principles of social business at the World Economic Forum in Davos in 2009 (see panel, page 9).

The first multinational company to get involved in social business was French yogurt maker Danone, which developed a special kind of yogurt with nutrients to help poor children at risk of malnourishment. Now there are more than 60 such companies, including France’s Veolia Water, which provides clean drinking water to poor areas, and BASF, the German chemical giant that developed low-cost mosquito nets to help prevent the spread of malaria.

“These are new kinds of ventures because they don’t make money for shareholders,” Yunus says. “Some are very profitable, but the profits are reinvested. Backers can recover their initial investment but no more. The world is tiring of the current system, so these businesses are expanding globally.”

As is the movement Yunus founded. According to the latest figures, Grameen Bank now employs 23,000 staff to run nearly 2,600 branches of the bank covering all the villages of...
Bangladesh, serving 8.5 million borrowers, 97% of whom are women. And one thing that links them all is “16 decisions” defined early on by Yunus and Grameen borrowers.

The decisions – including participants vowing discipline, unity, courage and hard work; promising to produce their own food and otherwise improve their living conditions; keeping families small; and educating children – have taken on an almost scripture-like role among Grameen dependents. Those applying to participate in committees or work for one of the Grameen companies must memorize the 16 points and be able to recite each decision by its number.

“We started out with four back in 1984 and added two more and then two more,” Yunus says. “We decided to stop at 16, because otherwise the list might never end. It’s very impressive that people who cannot read or write can memorize this list. It’s serious, but also very popular, and it shows the dedication of the people involved.”

The Grameen methodology has spread to almost all countries in the world, while Yunus’ idea of social business has expanded into industries as diverse as telecommunications, health care, nutrition, textiles, renewable energy, fisheries and software.

Now 74, Yunus would be excused if he decided to rest a little. But he goes forward with the same energy that has always driven him, lecturing, writing and otherwise spreading the word. And he also allows himself to look back and reflect.

Does he ever think about what might have happened if he hadn’t made that first contact in 1976?

“It’s difficult to say,” he offers modestly. “Maybe something similar would have come along anyway.”

Do the frustrations he endured along the way add up?

“Sure, there are frustrations, but it’s worth it because of the good that gets done,” he replies.

And finally, what is he most proud of? Yunus pauses for a moment to consider the options, because the culture that spawned the microcredit movement was profoundly changed by it. In particular, a woman’s role in Bangladeshi society is radically different.

“I couldn’t go inside that first house because of the traditional role of women,” he recalls. “Now, that isn’t so. Women participate in almost every part of life. When you go to Bangladesh today, the women are open and ask questions: Where are you from? What do you do? Is your family worried about you being so far from home?

“We helped foster many transformations, but the empowerment of women may be the greatest.”
Avoiding a lost generation

With the power to overthrow states and drain economies, youth unemployment has become a global priority. What’s more, getting Europe’s unemployed youth into work could unlock €150b of value – and the solution could lie in encouraging entrepreneurship among the young.

words Mark Alexander

The casualties of the global economic meltdown come from every walk of life, but those under the age of 25 have been dealt an especially hard blow. Global youth unemployment has reached 16.1%, with the plight of the young evident in almost every community around the world. The issue is of such concern that the World Bank recently set up a groundbreaking global coalition to address the challenges of youth unemployment. Describing it as a “global priority,” the World Bank’s Global Practices Vice President, Keith Hansen, had a stark warning. “One billion people will enter the job market over the next decade,” he explained, “and the global economy will need to create 5 million jobs each month simply to keep employment rates constant.” Left unchecked, the problem of youth unemployment will only increase. It has already triggered monumental change, says Jeremy Liddle, entrepreneur and President of the G20 Young Entrepreneurs’ Alliance (YEA) Australia. “The Arab Spring was, to an extent, created by youth unemployment,” he explains. “Civil unrest and political instability can be one of the results, and drug use and rising crime rates are big problems, but there is an economic case as well.” In a communiqué to the G20’s leaders, finance ministers and central bank governors, the G20 YEA has called for measures to increase youth employment and promote entrepreneurship. To support its recommendations, the group quoted findings from the Business 20 forum that showed that “the economic opportunity in Europe’s unemployed youth has a potential value of €153b per annum or 1.2% of European GDP.”

Creating jobs for young people

At the core of any solution will be the holy grail of job creation, and Liddle knows where to find it. “Companies that go through rapid growth have the potential to solve the youth unemployment problem,” he says plainly.
“These are generally younger firms that hire a disproportionate amount of youth. They create more jobs for young people, and better-quality jobs. That’s why the G20 YEA has focused on promoting ecosystems that generate high-growth entrepreneurs.”

A study of entrepreneurship by the World Economic Forum found that the top 5% of all companies analyzed (in terms of job creation) contributed to 72% of their countries’ aggregate total revenue and, more significantly, 67% of all jobs. Supporting Liddle’s assertion, the report identified these companies as “young and presenting high rates of growth.”

This focus on entrepreneurship highlights that those who are most affected by youth unemployment could themselves facilitate change. An EY report, Avoiding a lost generation: ten key recommendations to support youth entrepreneurship across the G20, explores this principle in more detail. Raising capital

While a range of topics is explored in the report, a central theme is funding. As Liddle points out, access to growth funding, in particular, presents one of the greatest challenges, but also one of the greatest opportunities in terms of job creation. “If you’re an entrepreneur looking for between US$200,000 and US$5m, that is Series A capital raising, and that is really difficult,” he says. “You’re going to be dealing with accomplished investors, venture capital firms or corporate investors who will put your business under intense scrutiny. That’s the real issue.”

With those kinds of pressures, it’s surprising to learn that very few companies seek help when it comes to raising capital. “In the US, the SEC’s data says that only 12% of companies raising Series A funding formally engage advisors,” Liddle says. “The biggest need is for companies to find an experienced corporate advisor who can walk them through the process.”

This emphasis on supervision is underlined in the first recommendation in the EY report, which highlights mentoring as a condition for funding. It suggests that investment without mentorship is a fruitless undertaking.

Money alone won’t make things better. Education will. Liddle suggests absorbing the lessons of those who’ve gone before you is the way forward. “There is no reason to reinvent the wheel when you can learn from the best,” he concludes. “It’s rare that something new hasn’t already been done before. You can shortcut the process by learning through best practice.”

Five recommendations to policymakers

1. **Capital without mentorship is lost capital.**
   
   Message: Create funding mechanisms that make mentorship and financial education a condition of funding.

2. **Access to alternative funding is critical.**
   
   Message: Create strong relationships with venture capitalists, incubators and business angels and provide incentives for them to develop initiatives that enable alternative sources of capital.

3. **Targeted tax and business incentives are highly important to supporting young entrepreneurs in scaling their businesses.**
   
   Message: Encourage investment in start-ups by offering tax benefits.

4. **Support global mobility for young entrepreneurs.**
   
   Message: Change visa rules and offer funding support to attract top international talent.

5. **Encourage a national, regional and local culture of entrepreneurship.**
   
   Message: Bring talent together by fostering hubs, incubators, accelerators and networks.

**More information**

To read all 10 recommendations in full, go to [ey.com/lostgen](http://ey.com/lostgen) and download **Avoiding a lost generation.**
“I honestly never thought we’d fail – I suppose most people think that, but 90% still do.”
Every day, 5 million people log in to Top Eleven — the world’s most popular cross-platform online sports video game. The CEO of the company behind it, Serbian entrepreneur Branko Milutinović, attributes its success to a combination of passion, inspiration and sheer hard work.

“There are many lists of the world’s high-tech hotspots, but Belgrade doesn’t feature on any of them. Nevertheless, the Serbian capital is where Branko Milutinović set up internet gaming company Nordeus in May 2010. Just 18 months later, the European Tech Tour Association named it one of the 25 hottest European high-tech companies.

This meteoric growth is largely due to Top Eleven, an online football management game that now has 100 million registered users around the world, more than 5 million of whom play every day. Its interoperability between different devices was a Nordeus innovation and its defining feature.

Its creator is typical of a new generation of Serbs who benefited from an excellent education system dating back to the Communist era and who now capitalize on the opportunities offered by freedom and globalization. The success of his company is based on energy, enthusiasm, vision and, perhaps most of all, hard work.

“For two years, we worked 16 hours a day, every day — no weekends, no Christmas, no New Year,” says the tall and relaxed Milutinović, casually but neatly dressed in a polo shirt, sitting in his office in Belgrade. “It's basically about changing your life and accommodating it to starting a business.”

Nordeus is the product of the enthusiasm of Milutinović and two friends, and Top Eleven stems from the CEO’s lifelong love of both computing and football. “When I was a kid, my parents foresaw where the world was heading, 

Photography Courtesy of Nordeus

Playing to win

Exceptional  January-June 2015
and in 1989, we got our first computer, a Sinclair ZX Spectrum,” he says. “It was a different time, when a personal computer was a rare thing in this part of the world. It’s changed now; the millennials grew up with smart devices, but I was the odd one out back then.

“Games were the first thing that I encountered, but I enjoyed creating things as well,” he continues. “I wrote my first code when I was around 7 and built my first game when I was about 10. It was something that inspired me. Ever since, I’ve been playing with computers.”

Milutinović’s father was selected for the Yugoslav youth football squad, but he gave up the game to pursue a career as a lawyer. His love of the game remained, though, and Branko was “kicking a ball from when I could walk,” though he excelled more at basketball as a player. “Sport is one of the things I’m most passionate about,” he says.

“We left 9-to-5 jobs to work 16-hour days for nothing.”

Milutinović’s ambitions took him to an engineering degree at one of Serbia’s elite universities, where he met one of his future business partners. “We were the first pair allowed to submit a joint thesis, developing a really cool computer game designed to help mentally challenged children learn about road safety,” he says. It was ahead of its time in Serbia, so they moved to Denmark to develop their careers with Microsoft in Copenhagen.

But the itch to create something unique never left them, so they returned to Serbia to start Nordeus. The intensive programming work that went into the creation of Top Eleven was only part of a transformative experience.

“We came back against all the odds and all the advice,” says Milutinović. “We left 9-to-5 jobs to work 16-hour days for nothing. We honestly never thought we’d fail — I suppose most people think that, but 90% still do. But from day one, we knew that, even if we did fail, the experience would be life-changing in terms of building a team of people that you want to create something great with and learning various aspects of business. It’s a great learning opportunity more than anything else.”

Most of the team were sports fans as well as keen gamers, and they set out to create a game they themselves would want to play. They were also keen to build a unique product...
amid a huge range of football games – a true multiplayer game that could be played by friends and on different devices.

“I’m proud that we were the first company in the world to develop a truly cross-platform gaming experience, where you can play on a laptop and pick up where you left off on a phone or tablet,” Milutinović says. “This is now an industry standard. We were very small at the time, so it was an even bigger accomplishment.”

International expansion

The technology has continued to evolve; the programming behind Top Eleven is now almost completely different from when it was launched. Milutinović is particularly proud of the platform’s capacity; multiple new players can now be added without the company having to work around the clock to accommodate them.

In September 2014, Nordeus achieved a landmark, hiring its 150th employee. Its workforce, which includes 20 nationalities, is spread between the headquarters in Belgrade and offices in Dublin, San Francisco, Skopje and London. The first two were natural choices, as tech hubs with international talent and as places where the company’s biggest partners – Google, Apple and Facebook – have large offices. Skopje, capital of another former Yugoslav country, Macedonia, was chosen for its untapped talent pool; Milutinović says Nordeus has some “amazing individuals” there.

London is Nordeus’ newest base, having opened in November 2014. “We’ve hired some established pros to join our London office, and that’s one of most exciting things going on in the company at the moment,” Milutinović says. “We’re planning on building one of best studios in the UK.”

Nordeus is also focusing on developing new games outside the field of sports and on further geographical diversification. This will involve more talent acquisition.

“The idea is to be even more capable of responding to changes, instead of living in one niche,” Milutinović explains. “We’re trying to engage the world, and to do what is needed to address different categories and different markets, while developing the company’s resources. We have people who are passionate about more than sports, and we want to give them a new challenge: to build something that they would really enjoy playing and to engage a different audience.”

Ultimately, Milutinović and his team continue to be inspired by the same goal as when Nordeus started: delivering products that will be enjoyed by gamers like themselves. “We’re proud that something we are building is enjoyed by millions of people in every corner of the world,” he says. “It’s different from what you can achieve in other workplaces.”

Top Eleven’s top manager

In 2013, Nordeus cemented its status as a leader among online football games when it signed José Mourinho, manager of English Premier League team Chelsea, to be the face of Top Eleven. Mourinho’s image has become a major part of the visual identity of the game and “the Special One” guides new players through the Top Eleven tutorial and gives tips and tactical advice.
The big picture: Ambassador Theatre Group
A class act

words Hannah Stodell  photography Johanna Ward

Rosemary Squire, OBE, recalls the moment when she knew she wanted to work in theater. “I was 16, stood on the steps of the Nottingham Playhouse, and I said to my best friend, ‘I want to be a theater manager,’” she says. “I just loved the storytelling – the way it could make you think about life differently.”

Forty years on, Squire has become the most powerful woman in British theater, presiding over Ambassador Theatre Group (ATG), the world’s largest, alongside her husband, Sir Howard Panter.

ATG has acquired a portfolio of 40 venues in the UK and on New York’s Broadway in the last two decades, but it hasn’t always been a smooth process. In the 1990s, Squire had to use her car, parked outside London’s Duke of York’s Theatre, as a makeshift desk – only to then have to sell it to help pay staff wages.

The turning point came in 1995, when ATG secured its second London theater, the Ambassadors, and bought its first regional complex in Woking, near the capital. “It moved from being a cottage industry to a proper company, and we built it up opportunistically,” Squire says.

And build it up she has. In 2013, ATG made its US debut with the acquisition of Broadway’s Lyric Theatre. The group now has its sights on more venues across the US, Europe, Asia-Pacific and Australia, where it has just acquired its first theater.

In 2014, this hunger for international expansion saw Squire become the first woman to win the EY UK Entrepreneur Of The Year™ award. She acknowledges that it is challenging being a female entrepreneur with children, though, as is being married to your business partner. “We’re married to each other and to the job,” she says. “My mother has been my backstop, and that enabled me to focus on my work.”

Exceptional  January–June 2015 19
Profile: Almaz Capital
About a decade ago, Alexander Galitsky was sitting in a Moscow coffee shop, sketching out some ideas for his nascent venture capital outfit, when a small boy selling cuddly toys came into the café. Seeing that the child was about the same age as his own son, Galitsky started talking to him and ended up buying a fluffy bear.

“I didn’t know what to do with the bear, as I had to go to some important meetings,” Galitsky says. “I looked around and there was a guy with gray hair sitting with a pretty lady. I asked if I could gift this bear to his lady.”

The man agreed, so Galitsky handed over the toy and went back to his work. A short while later, he saw some movement out of the corner of his eye. “I looked up and the lady was standing there with the toy, the guy was there and some other guys had appeared,” he recalls.

He began to get nervous. “The guy turned over a page in my notebook, wrote down a phone number and said, ‘If you need oil, call me,’” says Galitsky, laughing both at the memory and at the idea that he could ever have been persuaded to become a Russian oilman.

He never called the number. “I was always interested in technology,” he says. “Even though it sometimes brings in less money, it is more fun.”

Radical career changes
Technological expertise is the thread running through Galitsky’s long career, which stretches from the Communist era to Vladimir Putin’s Russia, jumping from pure science to investment, entrepreneurship and innovation.

At the dawn of the 1990s, Galitsky was a successful Soviet space engineer, leading the development of computer programs for the Salyut-90 and Courier systems that were part of the USSR’s response to the US “Star Wars” program. When the space race ended, he turned entrepreneur, founding five successful high-tech companies including ELVIS+, a pioneering virtual private network, and ELVIS Telecom, one of Russia’s first internet service providers.

He switched careers again at the beginning of the 2000s, moving into venture capitalism. Almaz Capital, which he set up with investment from US-based multinational networking company Cisco Systems, has attracted capital.
The threat from the skies

Alexander Galitsky has donated to the B612 Foundation, which works to strengthen the planet’s defenses against asteroids, and says he remains “pretty heavily involved.” For a while, he let the nonprofit organization use Almaz Capital’s offices in Silicon Valley.

For Galitsky, the appeal of research into asteroids lies in its scientific foundations and because it speaks to a longer-term horizon than political causes or the rise and fall of political parties. He also admits, however, that his interest in the topic was piqued by watching Lars von Trier’s film *Melancholia*, in which the plot unfolds while a rogue planet approaches Earth on what will be an apocalyptic collision course.

Astronomers have highlighted the years 2029 to 2032 as a particularly risky period for asteroid impacts, according to Galitsky. “If you know this a reasonable time ahead, you can do something,” he says. “If you know this too late, then it could be very dangerous.”

He measures success in terms of the number of business proposals he and his partners receive. “There has been a huge change over the last 10 years,” he says of the number of start-ups in Russia. Indeed, applications to Almaz have soared from about 10 a week in 2004 to at least 100 a week in 2014.

An international outlook

Galitsky’s interest in the fate of Russia’s technology industry has also drawn him into what he describes as “volunteer work” at the Skolkovo Foundation, a state-sponsored venture designed to be the Russian equivalent of Silicon Valley.

The project is already a success, he says, and could play a key role in fostering international cooperation. “One or two years ago, Skolkovo was very important, since it was a way to foster trust within the technological world between the West, the East and Russia. Right now, it is important to retain this trust,” he says, referring obliquely to the current tensions over Ukraine.

Galitsky has strong links to several areas: Ukraine, where he grew up in the northwestern city of Zhytomyr; Russia, where he studied and launched his career; and the US and Europe, where he has spent much of the past two decades. “Absorbing all this culture changes you. You become more cosmopolitan, more global,” he says. “But you lose some sort of common ground with your motherland. I became too international.”

He has not always been so cosmopolitan. He recalls some of his bafflement when he first encountered US and European business practices. In 1992, he was invited to the US by a venture capital firm – the first time he had heard of that particular branch of the finance industry.

“I found that just 20 people were managing US$1b and I thought there was something wrong, since 10,000 people...
are usually working to make a couple of billion dollars,” he recalls. “I looked at them and thought they were speculators — people who sell nothing for big prices.”

But he adapted quickly, and as the Soviet Union collapsed and science funding was slashed, he slipped into the world of business. His most successful investments include virtualization company Parallels, Russian search engine giant Yandex, and video messaging service Qik, sold to Skype in 2011 for US$150m. (See panel, above.)

A history of taking risks
Entrepreneurialism and risk-taking were apparent in Galitsky at an early age. As a teenager, along with a group of friends, he began making electric guitars, which were scarce in the USSR. The guitars were of such quality that they were even able to sell them — which got them into trouble with the authorities.

“To do private business was illegal in the Soviet Union,” Galitsky explains. “When we started to do this, we were stopped by the police.”

He attributes a lot of his success to his scientific background. “If you are able to study physics, then you are able to learn business, but it is more difficult to do it the other way round,” he says.

His interest in science and technology has also given him a wider perspective than most businesspeople achieve. Aside from diving, skiing and spending time with his family, in his free time Galitsky has become interested in asteroids and the plotting of their movements. The hope is that, one day, humans will be able to avert a disaster like the one that wiped out the dinosaurs. (See panel, left.)

But when it comes to his own business, he stresses the importance of focus: “As an entrepreneur, it’s easy to become unfocused because you have a lot of ideas.”

So what does it take to be a successful entrepreneur? “A strong personality, consistency, honesty with yourself, ambition. And an ability to sacrifice. You must be ready to sacrifice five years of your life for each new company.”

“For some people, it’s worth it — everything is worth it.”

Big deals
Almaz Capital’s realized exits include:
• nScaled — disaster recovery-as-a-service platform, acquired by Acronis in 2014
• Vyatta — software developer for IP networks, acquired by Brocade in 2012
• Qik — video messaging service, acquired by Skype in 2011
• Yandex — search engine, launched an IPO in 2011

Recent investments include:
• Content Analytics — e-commerce analytics platform (funded with dunnhumby Ventures)
• StarWind Software — storage virtualization company
• Cinarra Systems — developer of analytic technologies and mediation platforms for the mobile industry (with Cisco)
• If You Can — educational game developer (with Greylock Partners)
• Nival — independent game developer
• GridGain Systems — provider of software for big data applications
• Sensity Systems — creator of light sensory networks from LED lighting (with Radar Partners and Mohr Davidow Ventures)
Analysis: Agile innovation

Create, incubate, activate

In the digital age, companies must respond rapidly to ever-changing consumer demands. As a result, a growing number are embracing agile innovation – collaborating with entrepreneurs and start-ups to identify and develop new ideas.

Words David Burrows

For many years, large companies could rely on traditional innovation processes centered on steady product development by research and development (R&D) teams and working to a defined budget.

Not any more. The rapid evolution of technology has fundamentally changed consumer behavior. In the digital age, expectations are higher and demands require an instant response. As a result, there is unrelenting pressure on companies to put innovation at the heart of their business.

To meet this need, major corporations (including the likes of Walmart, Diageo and Unilever) are embracing the concept of agile innovation – harnessing the expertise of start-ups and entrepreneurs to think outside the box. Agile innovation is about collaborating in order to accelerate speed to market, re-evaluate business models and transform consumer experiences.

It might seem difficult to grasp why a company with a huge R&D budget would need to work with start-ups and entrepreneurs to achieve its strategic goals. But, as David Jensen, EY’s Global Innovation and Digital Strategy Leader, points out, such companies aren’t set up to accommodate agile innovation.

“It is a cultural challenge for most large companies,” he says. “They tend to be risk-averse and focused on gradual product development and reducing costs. They have established shareholders to placate and are often fixated on quarterly results. Entrepreneurs and start-ups, on the other hand, are risk-takers – less bureaucratic, inherently agile and profit-driven. They are focused and are willing to experiment, make mistakes and learn from them to get where they want to be.

“In an agile environment, you have to act quickly and make swift choices. Start-ups help large companies develop a sense of focus, narrowing choices down.”

Andrew Cosgrove, Global Consumer Products Lead Analyst at EY, agrees. “It is much easier for large firms to focus on saving a pound in costs than to be open to new ideas and grow a pound in revenue,” he says. “There are many companies that have become more efficient but, at the same time, less relevant to their consumers.”

Adapt or die

Agile innovation is about ignoring fear of failure and, instead, cultivating a culture of experimentation that enables you to respond quickly to the market. Those companies that fail to respond, no matter the quality of their product, will struggle to survive. Cosgrove points to Kodak as a case
in point: “In many ways, Kodak was the pioneer of digital, but the company didn’t move its operation in an agile way, and soon its business model was no longer fit for purpose.”

He explains that there are no significant barriers to entering a market any more, as social media gives new brands instant access to consumers at low cost. He cites an oral hygiene brand called Orabrush (a tongue cleaner) which follows a “reverse marketing model” as an example.

“Walmart promoted this product in its stores in response to massive demand on social media,” Cosgrove says. “Orabrush really understood how to create compelling content, affordably, that could go viral. Film students were tasked with making ads, and thousands of consumers posted photos of their tongues before and after using the product.”

**A fresh perspective**
By collaborating with start-ups, large companies can get a fresh perspective on their operation. In many cases, ideas will be developed outside their R&D departments — circumventing normal rules and processes. For example, alcoholic beverages company Diageo set up an incubator called Distill Ventures to identify and develop craft distilling and boutique brands. Qualifying companies receive funding, access to expertise and cash flow. Diageo has an option to purchase the most successful and bring them into the main business.

Some 50% of consumer products and retail company executives interviewed for EY’s report *Delivering agile innovation* agreed that failure to collaborate puts them at a disadvantage. So the motivation is there — but finding the right partner can be a challenge. The benefits for the start-up are clear: they acquire funds they would otherwise struggle to find, they get exposure, and they have the opportunity to grow their business. However, while many are happy to share their intellectual capital, they don’t always want to surrender control of their project to the larger firm.

From the other side, large companies may be comfortable with the idea of collaboration but often want entrepreneurs to do things their way. This is why it is so important to agree on a road map from the start, defining how the relationship will work and ensuring clear communication between both sides.

As Jensen explains: “Collaborations are not happening en masse yet, but that should change. Companies have to work out how they can accommodate two different working styles. Sometimes there is a cultural mismatch and a different work ethic.”

“In an agile environment, you have to act quickly and make swift choices.”
David Jensen, Global Innovation and Digital Strategy Leader, EY

Clearly, a degree of compromise may be called for. There is also a need for senior management to drive the initiative, as Cosgrove concludes. “You need the leadership to make it clear within the organization that agile innovation is a priority and to encourage teams to work outside ordinary operating parameters,” he says. “It has to come from the top; otherwise it won’t gain traction.”

**The nine principles of agile innovation**

- **Create**
  - Make the case for being agile.
  - Cultivate an agile culture of experimentation.
  - Think simple, act fast.

- **Incubate**
  - Identify the right team.
  - Determine the appropriate framework for each collaboration.
  - Maintain open, frequent communication.

- **Activate**
  - Adapt processes and break rules as necessary.
  - Define and measure success.
  - Iterate and work incrementally.

**More information**
Visit ey.com/CP-innovation to read more about agile innovation.
The growth of the Indian economy in the past decade has been impressive, but there are still huge inequalities in this vast country. Its largest corporations may be making waves in global markets, but about 800 million of India’s nearly 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 1 billion today.

He expects technology and mobile telecommunications to transform the financial services industry and allow the Kotak Mahindra Group – which offers a wide range of financial products and services – to expand its footprint.
The next big opportunities are digital and mobile, and we are focusing on both,” he says. “We foresee higher penetration and a significant part of the Indian market getting included. 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 who has been 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 INR205b (US$3.3b) as of 30 September 2014.

Headquartered in Mumbai, Kotak Mahindra Group has a wide distribution network through branches and franchisees across India and international offices in London, New York, Dubai, Abu Dhabi, Mauritius and Singapore.

Kotak Mahindra Group may be a global player, but Kotak 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. This is 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.”

According to 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 his head, and the blow kept him confined to bed for over a month.

By the time he’d recovered, 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.

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

Kotak with an office in south Mumbai to use as a base. The rest, as they say, is history.

By the age of 26, in 1985, Kotak had formed business relationships with Tata Group subsidiary Nelco and the giant Mahindra Group of companies. At the latter, he met Anand Mahindra, the Harvard Business School-educated grandson of the group’s founder. The two joined forces to form Kotak Mahindra Finance, a leasing and hire purchase firm, in 1987.

A clear vision

In June 2014, Uday Kotak was named EY World Entrepreneur Of The Year at an awards ceremony in Monaco. He was selected from 60 finalists, each of whom had already been named Entrepreneur Of The Year in their home countries. He was the second Indian to win the prestigious award, following in the footsteps of Infosys Technologies Ltd. founder and Chairman N. R. Narayana Murthy in 2003.

“Uday shone through for the way he created a new bank in a challenging and highly regulated environment,” said Rebecca MacDonald, founder and Executive Chair of Just Energy Group and Chair of the judging panel. “We were impressed with his strong focus on inclusive growth, providing low-cost services to rural customers that have a tangible impact on people’s lives.”

Maria Pinelli, EY Global Vice Chair – Strategic Growth Markets, agreed. “Uday is a wonderful example of an entrepreneur who, with a clear vision and strategy, took on established institutions by rewriting the rules of his industry to build something from scratch,” she said.

Speaking at the ceremony, Kotak said: “The most important thing about entrepreneurship is conviction. Once you are convinced you have a business model and are committed to superior execution, the rest follows. ... Chase a dream and, even more importantly, execute that dream.”
During my first trip to the US, I noticed that a lot of brands — such as Goldman Sachs, JP Morgan and Merrill Lynch — were built around family names,” says Kotak. “I realized that institutions need to be built beyond individuals. Since then, my dream has been to build an institution that outlives me.”

Surviving — and thriving — in the ’90s
The Kotak Mahindra Group’s story developed in parallel with the opening up of India’s financial services sector. With Kotak at the helm, the group knew how to seize opportunities. The case of car loans is a good example. Until 1989, Citibank was the only company that provided vehicle financing in India. At that time, cars were in short supply and customers had to wait a long time for the vehicles they had ordered through dealers. Kotak saw a huge opportunity there.

“We started ordering nearly 2,000 cars a month and offered immediate delivery to our customers,” he says. “Our only condition: take the car loan from us.” This business model was a runaway success — and one that Citibank could not copy, as US regulations prohibited it from making such bulk orders.

“Through the tough times, our principles have enabled us to emerge stronger.”

Kotak felt the next big thing in India would be the capital markets. “We were like a frog in a well – we needed to find out how the world worked,” 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.

In 1996, Kotak entered into another joint venture for car financing, this time with Ford. These partnerships helped the group build up its capital and learn how international business is conducted. The group diversified into asset management in 1998 and later also entered the insurance business.
“My dream has been to build an institution that outlives me.”

All this was taking place against a backdrop of financial turmoil in India. Having already been rocked by the 1992 securities scandal in which stockbroker Harshad Mehta was charged with numerous financial crimes, India’s economy was further battered by the Asian financial crisis of 1997. “For us, it was trial by fire,” Kotak recalls. Only 20 of the 4,000 non-banking finance companies (NBFCs) in India survived this tumultuous decade. Kotak’s was one of them.

“Our core strength has always been managing risks,” he says. “And through the tough times, our principles have helped us to emerge stronger.”

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 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 phone, as their debit or credit card is linked to their handset or tablet. They 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 via 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 certainly in a position to leverage 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.

More information
Visit ey.com/digital to find out more about doing business in the digital world.
Unlocking the potential

The diverse countries surrounding the Mediterranean Sea offer opportunities for growth, and a new spirit of cooperation will help to make them more integrated as a region.

words Eric J. Lyman
Many of the economies in the Mediterranean region are struggling to emerge from the impacts of the worldwide economic crisis or political disarray — or, in some cases, both. But, paradoxically, that means there are significant opportunities for companies looking to do business in the region.

Mediterranean countries face a number of challenges: subdued internal demand, an uneven business environment, low levels of innovation and investment, infrastructure problems, higher energy prices than their competitors, and difficulties accessing affordable materials, qualified labor and capital.

Donato Iacovone, EY Mediterranean Region Managing Partner, asserts that this is a good point for the recovery to start: “The region has faced challenging times, but we are beginning to see markets move again. After a deep crisis such as the one we’ve experienced, it’s normal that prices are low and companies are hungry, so opportunities are emerging, both domestically and abroad.”

“I’d like to see this area become a well-functioning single market.” he continues, “an improved business environment with a renewed energy and climate policy, better access to finance — in particular for SMEs — skills development, support for entrepreneurship and, externally, an ambitious trade policy.”

Iacovone hopes to see Mediterranean countries emerge from this difficult period stronger and more integrated with each other than they were before the crisis. “Sector-based cooperation is the key to economic integration and stability,” he says. “The opportunities available are many and varied, and they require the right kinds of partnerships — in particular now that the trend is switching from manufacturing to service industries.”

Collaborate and grow

EY’s first pan-Mediterranean Strategic Growth Forum™ takes place in Rome on 16-17 April 2015. The event seeks to bring together influential and far-sighted business leaders from the greater Mediterranean region — Southern Europe, North Africa and the Middle East — to map out greater economic cooperation in the region’s future. This will help to match know-how and capital with needs across the region to help spark economic growth; to better enable countries in the Mediterranean to compete with large emerging markets such as China, India and Brazil; and to make the region more economically resilient in the future.

But these differences shouldn’t obscure opportunities. These include capital from parts of the Middle East seeking investment, expert know-how from Southern Europe, indebted European governments selling assets, infrastructure investments in North Africa, and a burgeoning worldwide e-commerce sector that companies in the greater Mediterranean region can tap into, with the right help.

“The key to unlocking the potential in these areas is collaboration and interconnection.”

Donato Iacovone, EY

“Rather than focusing on the diversity among the countries of the Mediterranean, we should regard them as having complementary strengths,” says Iacovone. “For example, North Africa has key strengths in agriculture, mineral and chemicals, tourism, and the production of consumer goods. Meanwhile, Turkey is the 10th most attractive destination for FDI in Europe, in particular for real estate, hospitality, construction, energy and heavy industry, which are key markets for the whole Middle East area as well.

“As for the more developed economies, such as Italy, Spain and Portugal, the fragmentation that still exists in many sectors, including energy, transportation and services, needs to be replaced by integration and a solid digital infrastructure. The information and communications technology sector will be a key driver of growth in Europe in the coming years.”

Iacovone says that, with the right reforms, these markets have incredible potential: “Stabilizing economic governance and reducing debt are the key elements for investors. Cooperation among government and private companies will be crucial, and public-private partnerships are likely to benefit countries like Italy, for example. We are on the right path to see noticeable progress on these fronts.”

Promising opportunities

Sectors that offer promising opportunities in the region include:

- **Energy** — whether infrastructure in North Africa and the Middle East or the development of green energy sources throughout the entire region
- **Real estate** — tapping into state asset sales in Southern Europe, the development of sustainable cities throughout the region and increasing public-private partnerships
- **Telecommunications** — improving the speed and reach of digital communications
- **Retail and e-commerce** — allowing companies in one country to find markets in others and fostering low-cost growth
- **Life sciences and health care** — new uses of technology in health care, and improving access to health care regionally

“The key to unlocking the potential in these vital areas and in others is collaboration and interconnection,” Iacovone concludes. “Every country wants to restart growth. To a significant degree, these economies are all suffering because of outside factors, and having greater access to other markets and the strengths they represent will help turn things around much more quickly.”

More information

Go to ey.com/sgfmed to find out more.
The perfect blend

For Andrea Illy, coffee is much more than just a drink. The Illycaffè CEO is a coffee connoisseur on a mission to perfect the company’s products.

The first time coffee touched Andrea Illy’s lips, the taste immediately etched itself in his memory. “It was just a little spoonful, very sweet, with a lot of sugar and a little milk,” remembers Illy, who was not yet 3 years old at the time, “but it still had a memorable coffee flavor. Good coffee, however you prepare it, has a flavor that can enrich the whole room, not just the palate. It’s still a wonderful memory for me.”

Not surprisingly, his tastes have evolved since that fateful day. Now 50, the third-generation patriarch of Italy’s famed Illycaffè empire takes his coffee with no milk or sugar – “Illy coffee has a naturally sweet aftertaste,” he says. His favorite drink is made with the company’s iperEspresso capsules – 30ml (just over an ounce) of coffee prepared in 25 seconds at precisely 90°C (194°F). “I drink four cups a day,” he says. “Coffee has always brought me great joy.”

The story reveals two of the most important traits of Illycaffè’s Chairman and CEO: an attention to detail and a great passion for coffee.

words Eric J. Lyman, portraits Sakis Lalas
The original Illy white espresso cup was designed by Matteo Thun in 1992, based on an idea by Francesco Illy. With its elegant simplicity, it is a design icon in its own right, but Illycaffè took it a step further by introducing the Illy Art Collections. Since 1992, the cup has become a blank canvas on which more than 100 artists around the world have expressed themselves. They include famous names such as Jeff Koons, Robert Rauschenberg, Julian Schnabel and Marina Abramović. Each artist designs six cups and saucers, and the collections have become highly collectible among art lovers.

**Artist’s impression**

“We have to learn. Every time there’s a new challenge, we have to adapt.”

“Everything Illycaffè does is geared toward brewing the best coffee possible.”

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**Profile: Illycaffè**

**Espresso pioneer**

Francesco Illy, Andrea’s grandfather, was born in 1892 in what is now the Romanian city of Timișoara but was then part of Austria-Hungary. A World War I veteran, he arrived in Trieste, a port city tucked away in Italy’s northeastern corner, to stay with a sister after the fighting stopped. The city had been part of the Austro-Hungarian Empire until it was annexed by Italy after the war, and even today it retains a distinct Viennese atmosphere compared with most of the rest of Italy.

It was in Trieste that Francesco learned the coffee trade, and he soon became one of its greatest innovators. After founding Illycaffè in 1933, he developed a method for maintaining the roasted flavor of coffee longer so that it could be exported, and he invented a machine that made espresso using pressurized water instead of steam (see timeline, opposite). He called the bulky contraption an “Illetta,” and it is considered the precursor of today’s modern espresso machines.

The Illetta helps to illustrate one of the characteristics that makes the company different from many of its rivals. Illycaffè does not just roast and grind coffee beans – although it does do that as well; Andrea Illy speaks with enthusiasm about the 12-minute roasting process his grandfather pioneered. The company also produces coffee machines and even a line of espresso and cappuccino cups designed by established artists and seen by critics as collectible art (see panel, below left).

Illycaffè has every step of the coffee process under its expert control: the production of the beans in places as far-flung as Ethiopia and Brazil; the roasting in Trieste; the way it is shipped, crafted and preserved; and even the look and feel of the cups it is served in. The company works directly with specific growers in 20 countries (most of its rivals simply buy coffee on international commodity markets) and has established a University of Coffee, which provides Illy-standard training to coffee growers, baristas and even serious coffee lovers at nearly two dozen locations around the world.

“This comprehensive process is the mission of the company and the dream of my grandfather and my father,” Illy says. “We want to delight lovers of goodness and beauty all over the world with the best coffee nature can provide.”

Preparation is as important as the raw materials, and Illy says the company has jettisoned some outlets for lacking the requisite fervor for top-notch coffee. “A place doesn’t have to be fancy to serve Illy coffee, but it must take the process very seriously,” he explains.

“To make a proper coffee, everything has to be perfect. Espresso is so complex. A cup of espresso is at once an
infusion and an emulsion; there are tiny particles that contribute to the feeling within the mouth. If just one element is off — if the grinder blades are wrong, for example — you can completely spoil the quality of the end result. Without a trained barista, a really good one, it is literally impossible to reach a good result.”

The iperEspresso that Illy prefers is the shortcut: a prepackaged capsule of Illy coffee inserted in a special machine that removes a lot of the guesswork, making it easier to reach the high level of quality that would normally require a specially trained barista.

Illy uses the ancient Greek word eudaimonia to describe Illycaffè’s philosophy. He describes it as meaning “happiness through polysensual sensory pleasure combined with intellectual inspiration.”

“That’s what good coffee is,” he says. “You drink it with other people — it’s a social, sensory pleasure.”

Seamless transition
Illy cautions that the business side of the equation is not his main calling — “I am a trained chemist in the first instance” — but when he discusses the company’s plans and challenges, he shows the same acumen that he exhibits when talking about coffee.

Illycaffè remains a family-run company, and although there have been no serious discussions about going public, he recognizes the need for companies of a certain size to have professional management and governance. He also knows the company needs to continue innovating in order to stay relevant. “We have to learn, learn, learn,” he says. “Every time there’s a new challenge, we have to adapt.”

“My main accomplishment has been to turn a family company into a professional corporation.”
Some of the world’s most successful businesses are run by families. Hearst, Mars and Ford, to name but three, are dynasties that have been 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 new study published by EY and Kennesaw State University’s Cox Family Enterprise Center shows that 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 on not only growing their companies but also 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 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 item on 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.

Why cohesion matters to family businesses

Paolo Zocchi, Family Business Leader, EY Italy

And what are the challenges on the company’s horizon? Illy ticks off three big ones without even pausing to think.

“There are economic challenges, and I don’t think we have seen the last of them,” he says. “I also worry about the fabric of society, where tolerance is disappearing. And, of course, the environment, which we are abusing without worrying nearly enough about important issues like climate change.”

What about the future of the company? Ernesto Illy, Francesco’s son and Andrea’s father, took over the company in his time, and Andrea, along with sister Anna and brother Riccardo, took over from Ernesto; Riccardo is Vice-President of Illycaffè, while Anna works closely with coffee growers around the world. “The fourth generation is already on board,” Illy says, referring to the three siblings’ nine children, including his own three daughters.

In fact, among all the company’s successes and all his personal accomplishments, the “seamless transition” between generations is what Illy says he is proudest of.

“When my father was 65, he decided to step back from the day-to-day operations and stay on as Chairman,” he recalls. “So the generational change took place under his guidance. Now we are doing the same thing with the younger generation.

“My main accomplishment,” he adds, “has been to turn a family company into a professionally run corporation. We are building something that will be further transformed by future generations.”

And what would Francesco Illy think if he could see the company today?

“I think my grandfather would be happy we were able to evolve and still maintain the values of the company that he established,” Illy says. “That is something I hope we will never compromise.”
The sweet smell of social enterprise

Canadian entrepreneur Barb Stegemann works with suppliers in countries ravaged by war and poverty to produce The 7 Virtues fragrances, helping local communities in the process.

words Hannah Stodell, portrait Nicole Lapierre

After her best friend was wounded while serving with the Canadian Army in Afghanistan, Barb Stegemann launched The 7 Virtues fragrances to support trade with nations experiencing war or strife. Four years later, and with an investment from the TV show Dragons’ Den, she is helping local communities realize their potential through economic empowerment. Her tongue-in-cheek slogan is “Make perfume, not war.”

When I was visiting my friend Captain Green in hospital, I thought, how can I take on his mission when I’m not a brave soldier or a world leader? I thought, there’s got to be another way. I spent the first two years of his healing journey working on my book, The 7 Virtues of a Philosopher Queen, which is based on the notion that women can harness their buying power to reverse issues of war and poverty. I felt women deserved to have this knowledge if we’re going to compete in business or run for office. It’s not really about gender; it’s about certain virtues and stoic principles, and the name for the fragrance company came from that.

We sourced our first oil, made from orange blossoms, from Afghanistan. The country produces 90% of the world’s opium, and it goes against Islamic law to grow the illegal poppy crop. Giving farmers the alternative of orange blossom (and rose for one of our other fragrances) respects their faith, and that’s key to building a healthy community. We also source oils from Haiti, Israel, Iran and Rwanda. Our suppliers are getting paid better; they have their faith, honor and dignity; and we’re directing other buyers to them.

I started the company with a US$2,000 purchase of oil on my Visa card, and we have since invested US$250m in communities. Social enterprise isn’t measured on the books of my company, but on the books of my suppliers and my partners. By bringing in big buyers that can buy entire fields and employ entire communities, we can do some heavy lifting, so it’s very exciting to form these new partnerships.

Women know how to juggle everything. I think that’s a real gift in business – as long as we don’t get distracted. You’ve got to have the bandwidth to process ideas. I find all my answers on a walk through the park and get all my frustrations out in my kickboxing class. I come back recharged, and I can get the rest of my work done with clarity.

My long-term ambition is to make The 7 Virtues a global brand. I also want to touch more countries and tell their stories. The countries seem to pick me. Congo came to us with fair trade vanilla, which is being tested right now, and Kenya came to us with fair trade frankincense and myrrh. We need a cavalry of business to trade with nations that are rebuilding. For every negative story we hear about a country, there are thousands of citizens doing wonderful things who need buyers. We need to shine light on them.

More information
To find out more about The 7 Virtues, go to the7virtues.com.
Intelligence

In the know

**Global Family Business Survey**
The EY and Kennesaw State University’s Cox Family Enterprise Center Global Family Business Survey launches in early 2015. The survey covers key themes such as:
- Succession
- Governance
- Technology utilization
- Cyber risk
- Sustainability
- Corporate social responsibility (CSR)
- Single family office
- Branding
- Philanthropy
- Ethics

The survey takes into account the responses of 1,000 senior-ranking family business leaders of the world’s largest and oldest family-owned businesses. Detailed reports will be released throughout the year.

[ey.com/familybusiness](http://ey.com/familybusiness)

**Cyber threat intelligence – how to get ahead of cybercrime**
Cyber threat intelligence (CTI) provides specific indicators that can be used to locate and mitigate current and potential future threat-actor activity. The report explains how CTI improves an organization’s ability to anticipate breaches before they occur and its ability to respond quickly, decisively and effectively to deal with confirmed breaches.

[ey.com/cybersecurity](http://ey.com/cybersecurity)

**EY IPO leaders’ insights**
For your IPO to be successful, you must make the right judgment on countless decisions – and you only have one chance to get it right. EY’s IPO leaders from across Europe, the Middle East, India and Africa have set out the key stages of the IPO journey – from the decision to go public to the critical post-IPO work that is needed to ensure continued success.

[ey.com/IPO-leaders-insights](http://ey.com/IPO-leaders-insights)

**Competition, coexistence or symbiosis?**
This report examines the changing role of the chief marketing officer and chief sales officer as digitalization, proliferating channels and growing customer power transform global commerce. It draws on a survey of 800 sales and marketing leaders and C-suite executives, as well as a further 20 in-depth interviews.

[ey.com/dna-csмо](http://ey.com/dna-csмо)

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“It takes a dollar to catch a dollar.”
Muhammad Yunus, founder of Grameen Bank (page 6)

1 billion people will enter the job market over the next decade (page 12)

On the shelf

Performance journal
This quarterly journal highlights the latest insights from Performance. New articles include the cross-sector applications for analytics and the rise of the chief commercial officer.
ey.com/performance

Reporting magazine
The latest issue of Reporting looks at valuing sponsorship deals, ethical business and conflict minerals reporting.
ey.com/reportingmagazine

Tax Insights for business leaders
This periodical magazine examines global tax and business issues, with contributions from tax experts, corporate leaders and influential policymakers.
taxinsights.ey.com

In the diary 2015

Strategic Growth Forum™
16-17 April, Rome, Italy
EY will be hosting its first Mediterranean Strategic Growth Forum on 16-17 April 2015 in Rome, Italy. The countries of the greater Mediterranean region have historically benefited from close trade ties and strong economic relationships with their neighbors. However, there remains significant untapped potential across the region that can only be unlocked through enhanced collaboration. Join us to discuss the future of the economy in the region.
ey.com/sgfmed

World Entrepreneur Of The Year™
3-7 June, Monte Carlo
World Entrepreneur Of The Year is held annually in Monaco. Winners of the EY Entrepreneur Of The Year™ Program from around the world will gather to compete for this prestigious title. Along with the opportunity to network with the world’s best entrepreneurs, the program will include panel discussions and inspiring keynote speakers.
ey.com/weoy

Family Business Summit
3-4 June 2015, Monte Carlo
The Family Business Summit returns to Monte Carlo. Now in its second year, the Summit – which takes place during World Entrepreneur Of The Year – will once again feature panel discussions and inspirational keynotes addressing the key issues that face global multigenerational family businesses. The event, titled Sustaining growth and entrepreneurship through generations, will also feature the launch of 2015’s Family Business Yearbook and announce the winner of the EY NextGen Award. For more information and to request an invitation, please email Francesca Ambrosini at fambrosini@uk.ey.com.

Get involved

Become a Mara Mentor
Mara Mentor is an online community that connects ambitious entrepreneurs with experienced business leaders and online resources. It aims to empower youth in their business endeavors and help drive economic growth and future prosperity.
mentor.mara.com

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Doing business in Sudan has never been straightforward. Its vast size — until recently, it was the largest country in Africa — and underdeveloped infrastructure present supply chain and distribution challenges, and sanctions and trade restrictions have also limited growth opportunities.

What’s more, the south of Sudan became an independent nation in 2011, leading to further challenges. With it went much of the country’s oil, as well as 8 million people and their buying power.

Yet somehow, the family-owned DAL Group has not only survived but thrived. “We’re having to do pretty much everything ourselves, such as investing in many of the existing shops and in retail distribution,” says Ihab Daoud Abdellatif, Managing Director of DAL Food. “But it’s not stopping us growing; we get used to it and are able to find solutions.”

DAL Group is Sudan’s largest conglomerate, with a workforce of more than 7,000. The company operates across multiple sectors, including agriculture, engineering, real estate, medical services, education and automotive. DAL Food is the largest part of the group in terms of business volume.

A prime example of DAL Group's innovative approach to growth is its investment in rail transportation, an efficient way of moving goods in such a big country. “We have our own trains, wagons, trucks and depots all over Sudan, which gives us regional presence and helps in overcoming logistical challenges,” Abdellatif explains.

“We see our operations and capabilities, which vary from supplying to...
When you first start, you feel you can do it alone, but then you learn that it’s all about your team.

A proud heritage

The story of DAL Group reflects Sudan’s journey from British colony to proudly independent nation. The group’s roots were planted in 1951, when two British businessmen founded Sayer & Colley, which sold engineering products. It was awarded the Caterpillar dealership for Sudan, and in 1966, that dealership was transferred to the newly created SUTRAC, run by Daoud Abdellatif, Ihab’s father. The British owners retained a minority share.

In the 1970s, Abdellatif bought out the original owners. When he became too ill to run the company, his son Osama took over and renamed the company DAL Engineering (after his father’s initials), leading the company’s diversification into agriculture, property and other areas.

Ihab Abdellatif says his father deserves credit for establishing the firm as a mainstay of the Sudanese economy.

“My father was a civil servant, so he very much believed in Sudan and his contribution to the nation; he was then involved in politics for some time, and eventually he turned to business,” he explains. “His generation believed in their role in making Sudan a better place, and that generation is the one that won independence for Sudan. So their connection to the country was very strong, and his children inherited that.”
manufacturing to distribution, as something that give us a competitive edge,” he explains. “It would be difficult for someone to recreate the systems we have developed over the years, which are based on years of experience and a unique understanding of the country.”

Adding value
In recent months, Abdellatif has been busy integrating what were previously four business units – agriculture, dry food, dairy and beverages – into a single, coherent agri-food company. Part of his strategy has been to acquire state-of-the-art manufacturing equipment and increase the proportion of raw materials that are sourced locally.

“It’s a journey for us,” Abdellatif says. “We still need to import quite a bit, but maximizing local sourcing is a strategic priority for us.”

He is also eyeing opportunities overseas. “We don’t only want to export; we feel we should be using our knowledge of operating in a challenging environment to develop businesses in countries similar to ours,” he says. “That’s not to say our focus on Sudan is any the less.” Indeed, DAL Food is building a factory to spray-dry gum arabic, a basic ingredient in food and beverages that Sudan, which produces most of the world’s supply, has historically exported in its raw form.

Abdellatif is particularly proud of Zadna, DAL Food’s brand of sorghum flour. This essential ingredient, used in traditional Sudanese bread and porridge, was increasingly being replaced by wheat products until Abdellatif had the idea of making sorghum more convenient to use.

“Consumers used to go to a small mill, grind the sorghum and take it home,” he explains. “It had a short shelf life, just two to three weeks, and it wasn’t the easiest product to use.” So DAL Food developed a technology for the commercial milling of sorghum – the first company to do so in Sudan.

With this industrial breakthrough, the company successfully revived a traditional household favorite. Says Abdellatif: “We will continue to invest in leading-edge technology in Sudan as long as it gives our consumers the convenience to enjoy their favorite traditional food affordably.”

Learning to lead
Devising innovations in food technology is a long way from Abdellatif’s training as a civil engineer. After completing a master’s degree in Management Science in London, he returned to Sudan and went to see his brother Osama, Chairman of DAL Group, with a view to joining the business their father had founded in the 1960s. Many people who join their family firm have to start at the bottom and work their way up, and Abdellatif was expecting to do the same.

Instead, Osama announced that his brother’s first venture into the corporate world would be as a General Manager of DAL Group’s new agricultural services company. “All we had when we started was some machinery and assets, and I was asked to lead,” Abdellatif recalls. “It was a huge challenge. I had no experience in management, nor in agriculture.”

Fortunately, his first degree gave him the tools to tackle the job. “Being an engineer was a good training for management,” he says, “because the way engineers think about their surroundings is very logical, and in management you also need to be very logical.”

Another skill he had to learn was people management. “When you first start, you feel you can do it alone; you have
developed the flour itself and trained 5,000 bakers and even passed legislation. We took a different approach.”

**CSR: a way of life**

As he has grown into management, Abdellatif has embedded corporate social responsibility (CSR) in the company’s way of doing business. “I’m passionate about CSR and social partnerships,” he says. “I believe it’s a way of creating uniqueness, and there’s a good feeling when you create a business with ethical values.”

One example is DAL Food’s bakery development project. “When we started in the bakery industry, there were many challenges,” Abdellatif explains. “Bakeries were using potassium bromate, a harmful ingredient that has been linked to cancer. The Government tried hard to stop them using it and even passed legislation. We took a different approach.”

Investing in a bakery development center, DAL Food developed the flour itself and trained 5,000 bakers and housewives every month in safe baking techniques, transforming the entire industry as quality and hygiene measurably improved.

Meanwhile, in the dairy industry, DAL Food commits to buying farmers’ milk at market price while giving them technical and veterinary support. The milk collection model is a perfect example of how CSR and social partnership have been integrated to create a business model that the company and the community are very proud of.

Positive feedback from these initiatives has encouraged Abdellatif to do more, creating a positive cycle of giving. “We’ve introduced the idea of social partnerships to link our brands to traditional food because that will always be the most popular in any country,” he says. DAL Group has also launched projects aimed at preserving the heritage of Sudan, including archiving, cultural forums and events at which they record traditional music.

Despite the challenging business environment, Abdellatif is positive about Sudan’s future. “I’m optimistic because I feel that we’ve passed the most difficult times,” he says. “I think the opportunity is there to reduce Sudan’s isolation and allow it to play its full part in the international community.” And you can be sure that DAL Food, with its focus on innovation, will be ready to capitalize on whatever opportunities present themselves.

“**There’s a good feeling when you create a business with ethical values.**”

**Viewpoint**

**Leadership in developing markets**

Ali Eltilib, Director, Assurance, EY MENA

From a macro perspective, access and connectivity are two key challenges when it comes to managing a large conglomerate business in developing markets. This has improved significantly since the economic crisis, but we have a long way to go to make it easier for companies to trade with more partners, both inside and outside their regions.

Legal and market infrastructure are still evolving in these markets, and that may create hesitation in the minds of businesspeople wanting to invest there. For example, within the Gulf or the Arab League you have a number of countries with very different types of environments in which to do business. When you look at each country on its own, it probably doesn’t represent a very attractive proposition to investors outside of the region, but when you put them all together, you start to get a very different picture. You have a sizable market, and intra-regional trade opens up huge opportunities.

The political and economic will needs to be there to make it easier to do business in developing markets. Once you have that, legislative and structural reform is needed to encourage investment, such as harmonizing the customs union to allow cross-border opportunities. We need to instil confidence in the global business community to facilitate trade and investment in these markets.

An obvious challenge to investment in developing markets such as Sudan is political, social and economic unrest. However, there are huge upsides. Sudan has been crippled by sanctions for many years and was affected by the recent split of the country, but it still has huge resources and a young, strong consumer base that longs to have a lot of what the rest of the world has. However, businesses that can see the opportunities there need to appreciate that what works in the global business community to facilitate trade and investment in these markets.

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**More information**

Contact ali.eltilib@ae.ey.com for more information about doing business in developing markets in the Middle East and North Africa.
Unimpressed by the triathlons in which he was competing, English-born Will Dean co-founded 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 over 10- to 12-mile courses, complete with barbed wire, ice-filled waste containers, puddles of mud and live electric wires. They are encouraged to raise money for charity, and have brought in more than US$6.5m to date in the US.

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.

What is camaraderie so important to Tough Mudder?
I wanted to create something that’s more about a group dynamic, working together and not taking yourself too seriously. I looked at non-traditional running events – mud runs, obstacle courses – and I thought there really wasn’t anyone doing this very well.

You’re a former counterterrorism officer for the UK Foreign and Commonwealth Office. How did that prepare you for Tough Mudder?
I joined 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 operating environment and a huge impetus to get answers quickly. You had some really bright people, not too much conventional wisdom, and a lot of willingness to take risks and think outside 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.

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 important is social media to the brand?
Facebook is one of our primary advertising channels, but also a huge word-of-mouth channel. We’ve created something people identify with and define themselves by − 5,000 people have had our logo tattooed on them. That says something about how people engage with our product. Tough Mudder is about team, great obstacles and charity − all things that people want to talk about on social media.

You’ve never needed outside investment. Why is this?
One of the nice things about our business is that we get paid in advance by charging entry fees. At 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 the right strategic partner could allow us to take our business to the next level.

How do you stay innovative?
New obstacles are a huge part of our business. We have a dedicated research and development facility in Pennsylvania that is somewhere between Willy Wonka’s chocolate factory and the CIA Skunk Works. We do all our alpha testing there. Ultimately, it boils down to having the right people and the right context. You have to align their incentives and let them get on with it. As you get larger, people get more conservative. Encouraging people to push boundaries can get harder, and you have to set the right tone from the top.

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

“I have to set myself very clear goals, and challenges that scare me.”
“The most important skills are vision and endurance.”
Branko Milutinović, CEO, Nordeus
(page 14)

“I got the most valuable lesson of my life from John Gage of Sun Microsystems. An idea costs nothing, he said – it’s the implementation of the idea that costs money.”
Alexander Galitsky, Managing Partner, Almaz Capital (page 20)

“Nothing stands still. Tomorrow, everything could change. So if you want to stay relevant, you have to be able to change yourself.”
Andrea Illy, Chairman and CEO, Illycaffe (page 34)

“Exceptional January–June 2015”

“Our entrepreneurs provide some insight into the business advice and lessons learned that inspired their success.”

“If there’s diversity in the boardroom, it makes everybody more creative.”
Rosemary Squire, co-CEO, Ambassador Theatre Group (page 18)

“If something looks too good to be true, it is.”
Uday Kotak, Executive Vice Chairman and Managing Director, Kotak Mahindra Bank (page 26)

“The main skill of a successful entrepreneur is creativity – seeing the world through a different lens.”
Ihab Abdellatif, Managing Director, DAL Food (page 42)
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