Talent in tandem

Why Regeneron’s Leonard Schleifer and George Yancopoulos are the perfect pair to run the US$30b biotech giant

Andra Rush’s mission to create jobs in a challenged Detroit

How Tobias Lütke built Shopify into Canada’s top tech start-up

Ross Perot, Jr., steps out of his famous father’s shadow
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Whether it’s due to a past failure, a new opportunity or simply a desire to try something different, it’s a rare entrepreneur who hasn’t been through some sort of transformation.

This issue of Exceptional features stories of reinvention. Our cover stars, Leonard Schleifer and George Yancopoulos, are certainly familiar with it. They both moved from academia to the business world to build a pharmaceutical company — with no small measure of success. But to get to this point, they’ve had to go back to the drawing board over and over again, all in the pursuit of good science.

Andra Rush reinvented herself when she left her job as a nurse and started a trucking business with three vehicles, a credit card and a loan from her parents. But perhaps her most important reinvention is the one she’s trying to undertake for the city of Detroit. She’s creating jobs, transforming lives and improving communities — and it’s earned her the recognition of the White House.

Serial entrepreneur Frank Eakin defines “reinvention.” He’s done business in areas from electricity and shipbuilding to Cajun food and film, and he was instrumental in ensuring the historical accuracy of the Oscar-winning movie 12 Years a Slave.

We also take a closer look at the US IPO market. After a period of stagnation, it’s been revitalized thanks in no small part to the venture capital industry.

Exceptional has had a little reinvention itself: we’ve introduced a new section, Inspiration, that will whet your appetite for the fantastic interviews and analysis that follow.

I hope you enjoy this issue.

Herb Engert
Americas Leader, Strategic Growth Markets, EY
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“Exceptional is a collection of the best business thinkers and makers, who share ideas and experiences that will help us all to build a better world.”

Ruth Ottjer, Chemi-Pharm (page 58)

“The way to succeed in this industry is to constantly experiment and test.”

The age in years of Swiss luxury watch brand Chopard (page 50)

“With a shared vision that we weren’t going to be like any other company.”

George Yancopoulos (right), Regeneron

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Inspiration
Ideas, facts and figures from the world of business

Business pioneers Madam C. J. Walker
From orphaned daughter of former slaves to self-made millionaire

Madam C. J. Walker’s story is a remarkable one. Born Sarah Breedlove to former slaves on a Louisiana plantation in 1867, she was orphaned at age seven and picked cotton to earn money. Two marriages and a daughter later, she met her third husband, Charles Joseph Walker, and changed her name to Madam C. J. Walker.

After developing a scalp condition that made her hair fall out, she tried various remedies and eventually started working for another black entrepreneur, Annie Malone, who sold some of those products. That, in 1896, inspired a business empire.

She opened Lelia College in Pittsburgh to train her “hair culturists” and in 1910 moved to Indianapolis, where she built a factory, a salon and another school. She even went abroad to market her products in Central America and the Caribbean. But she was also politically active, working to make lynching a federal crime. She believed strongly in empowering black women to become economically independent, lifting them above the racism and sexism of the early 20th century.

Walker died in 1919 at her custom-built mansion on the Hudson River in New York. She is considered to be America’s first self-made female millionaire, but her legacy goes beyond mere money: she inspired a new generation of black female entrepreneurs.

My first job Steve Swoboda
Founder, COO and CFO, SpotXchange, Inc.

“I worked as a dishwasher at a restaurant when I was 14. My hardest job was working as a laborer in a steel fabricating shop in Fort Collins, Colorado, in the summers and Christmas breaks during college. Those experiences made me want to pursue my education and get a career that worked my brain, not my body.”

After hours Natalia Luis
Vice-President, M. Luis Construction Co.

Dream vacation destination: Go to as many corners of the world as I can and see them through the eyes of my children

Book you read recently: Last Child in the Woods by Richard Louv

Passion outside work: First my family, then volunteering on boards of organizations in my community and the world, specifically those that work to protect women and children

Lip service Arianna Huffington
“Money and power by themselves are like a two-legged stool – you can balance on them for a while, but eventually you’re gonna topple over.”

– from Thrive (WH Allen, 2014)

Snapshot The global IPO scene
Top three regions by global funds raised, Q2 2014*

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
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<tr>
<td>Asia-Pacific</td>
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<tr>
<td>Europe</td>
<td>40%</td>
</tr>
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<td>US</td>
<td>23%</td>
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How do you say ... in formal Japanese?

<table>
<thead>
<tr>
<th>English</th>
<th>Japanese</th>
<th>Phonetic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hello</td>
<td>こんにちは</td>
<td>Konnichiwa</td>
</tr>
<tr>
<td>How are you?</td>
<td>お元気ですか?</td>
<td>O genki desu ka</td>
</tr>
<tr>
<td>Thank you</td>
<td>どうもありがとう</td>
<td>Dōmo arigatō</td>
</tr>
<tr>
<td>I don’t speak Japanese</td>
<td>日本語を話せません</td>
<td>Nihongo o hanasemasen</td>
</tr>
<tr>
<td>I’m fine, thanks. And you?</td>
<td>はい、元気です。あなたは?</td>
<td>Hai, genki desu. Anata wa?</td>
</tr>
<tr>
<td>I’m not sure.</td>
<td>すみません、分かりませんでした</td>
<td>Sumimasen, wakarimasen deshita</td>
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</table>

Book club
Quick and Nimble
Adam Bryant
(Times Books, 2014)

Through interviews with more than 200 CEOs, New York Times writer Adam Bryant looks in detail at what keeps companies – even very large ones – “quick and nimble.” His answer, in a nutshell, is culture. He points to the tech sector as being particularly adept at creating spunky, innovative workplaces. Tech companies tend to grow quickly, bringing cultural challenges to the fore, they often apply the same creative thinking to their workplace culture as they do to their products and services, and they are constantly on the lookout for ways to keep their talented, in-demand employees happy and challenged.

Bryant writes: “As the old-school approach of command-and-control leadership fades, companies in all industries will inevitably move in the same direction as these tech firms, and try to tap into the deeper passions of employees.”

Did you know?
Martin Cooper of Bell Labs made the world’s first mobile phone call on 3 April 1973.

Exceptional July—December 2014
Regeneron isn’t your typical biotech giant. From the very beginning, it has been fueled by scientific research and its charismatic co-founders, Leonard Schleifer and George Yancopoulos.
The magic of the 25-year collaboration between Leonard Schleifer and George Yancopoulos is not obvious at first glance. Yes, it’s a classic entrepreneurial success story: two guys from Queens, New York, build Regeneron Pharmaceuticals into one of the most profitable biotech companies in the world, accumulating business and science accolades — not to mention personal fortunes — along the way.

Look closer, though, and you see that Regeneron operates differently than other biotech giants. For one thing, there is the sparky working relationship between Schleifer and Yancopoulos. It sets the tone for the company’s informal, ideas-driven culture.

But perhaps the key difference is the partners’ shared and strict dedication to scientific innovation. Science comes first. Products and profit follow. “When we started out, we were doing amazing, innovative science,” says Yancopoulos, now Chief Scientific Officer. “And from the very beginning, we had a shared vision that we weren’t going to be like any other company.”

Regeneron’s financial statement looks similar to that of any other biotech giant: it posted US$2.1b in revenue in 2013. However, it took more than two decades to get there. “Nearly every other biotech company starts with the idea to create one drug or cure one disease. And nearly all of them fail,” says Yancopoulos, now Chief Scientific Officer. “We set out to build a company based on broad technology and a huge pipeline of research. The world thought we were the stupidest guys in the world — such a pipe dream was so far outside anyone’s perception of reality.”

Not everyone thought they were stupid. Back in 1988, Schleifer, then an assistant professor of neurology at Weill Cornell Medical College, convinced Merrill Lynch to invest US$1m in his fledgling company. At the time, Regeneron was focused on regenerating nerve cells – and showing promise of finding a treatment for Lou Gehrig’s disease. And while Schleifer wasn’t a traditional MBA type, he was brimming with scientific knowledge and ideas, which Merrill Lynch clearly recognized.

“Business can be learned, while science is a far rarer commodity,” Schleifer, now CEO, says. “Smart people got that.”

The scientific community was an easier sell. Regeneron’s first board included three respected scientists: Joseph Goldstein and Michael Brown, who shared a Nobel prize in 1985, and Alfred Gilman, who became a Nobel laureate in 1994.

A year after getting funded, Schleifer boosted Regeneron’s scientific credentials further by hiring Yancopoulos, then a 28-year-old superstar professor earning US$35,000 a year at Columbia University. Yancopoulos accepted the position only after his father, a Greek immigrant who lost his fortune to the Nazis, interviewed Schleifer at an Italian restaurant.

Building a reputation
Regeneron made its scientific mark immediately. The company’s first paper was published in 1990 in the journal “Science” (topic: cloning of a novel neurotrophic factor) and became the most cited neurobiology paper of the year. The company went public on Nasdaq in 1991 and launched the clinical development of the Lou Gehrig’s disease treatment a year later.

But that drug failed in trials. In a moment of dejection, Yancopoulos called Roy Vagelos — a longtime, celebrated Merck executive who happened to have recently left the pharma giant. He also happened to be the personal hero of both Yancopoulos and Schleifer. Yancopoulos remembers his father holding up a Greek-language newspaper to show his scientifically gifted 15-year-old son an article about Vagelos.

Schleifer admired the executive’s success as both a scientist and a business mind. “When I was starting out as a physician scientist, early investors would say to me: ‘You can be CEO for a while, but doctors don’t make great CEO.’”

In 2013, Forbes magazine named Regeneron No. 4 in its ranking of the most innovative companies. Chief Scientific Officer George Yancopoulos says, “I think it should be No. 1!”

While the top leadership has been committed from launch to a culture of new ideas and scientific advancement, how is that mentality instilled in an organization of 2,300 employees? It is nurtured in multiple ways. Regeneron has a strict commitment to removing all forms of bureaucracy. Every employee is encouraged to challenge others’ ideas and carve their own path. The sense of collaboration is so strong that when an innovation is celebrated, the team often has a hard time pinpointing its originator.

The devotion to science and patients is also strong. At a recent all-employee meeting, the entire Regeneron staff was introduced to patients who benefited from the company’s products. The only people who received standing ovations that day were the patients.

“There is only so much leadership that can come from George and me,” says CEO Leonard Schleifer. “What we do is value and incentivize innovation. ‘People come here and realize very quickly that this is the right place to be. People check in, but they don’t check out.”
Profile: Regeneron

Regeneron’s headquarters is in Tarrytown, New York, “less than an hour away from it[s founders’] childhood home of Queens.

CEOs,” he recounts, “I held Vagelos out as a model for what I aspired to do.”

In 1995, Vagelos signed on with Regeneron as Chairman, a position he still holds today, at age 84. While Vagelos has not our mission,” Schleifer says.

But that’s not our mission,” Schleifer says.

The company has long had a generous stock options program, which has made many of the founding employees very wealthy. Vancopoulus is quick to point out he drives an 8-year-old Honda Pilot, while Schleifer admits to owning a “2013 car.”

“Financial success was part of our exaggerated sense of fairness, and the employees who are doing all this stuff should reap rewards. But that’s not why we do it,” he says.

Equititarian approach

This culture of fairness is recognized across the industry. For two years in a row, based on reader response, Science has ranked Regeneron as the No. 1 employer in the global biopharmaceutical industry in its annual Top Employers Survey. It’s therefore not surprising to learn that most of Regeneron’s 20-member senior leadership team has been with the company for between 15 and 25 years.

When asked what makes it such a special place, both Schleifer and Yancopoulus insist it is their devotion to science that trickles down into the culture of the company. The company offers many benefits: bike-to-work and lunchtime walking programs; an annual “chuey Hawaiian shirt” party, poking fun at one of Regeneron’s leading scientists’ affinity for the garment; and the B&B series, open to all employees. This open forum to discuss current science will drive future funding and success.

This and other contracts afforded Yancopoulus years and failures. His office sports a framed poster of an Albert Einstein quote: “If we knew the answer, it wouldn’t be called research.”

Eventually, the lessons gleaned from this research led to Arcalyk, a treatment for inflammatory disorders, which came to market in 2008, and Zaltrap, for cancer, in 2012.

But every pharmaceutical company aims for a blockbuster drug, and Regeneron’s big hit came along in November 2011: Eylea, a medicine that treats macular degeneration – the leading cause of adult blindness. It currently brings in US$1.8b in annual global sales.

Blockbuster drug achieved – yet Regeneron isn’t resting on its laurels. “If your mission in life is just financial success, we’re there and should close up shop and be done. But that’s not our mission,” Schleifer says.

The company grew up just a few miles from each other, both from nausious immigrant families that thrived on spirited debates and the exchange of ideas. “George and I fight all the time about ideas,” says Schleifer.

“Ifight isn’t a good word. We debate,” Yancopoulus counters. “When we start out with an idea, we may not be aligned, but we are both committed to what is fair and the truth – whether it’s scientific truth or business truth. Eventually, through argument, the truth comes out. That is what this business is all about. If you are wrong in science and medicine, it comes out in the end.”

In the early days of the business, Regeneron researchers would hang out in ‘Yancopoulous’ living room, eating, drinking and discussing science. But it also took some innovative business deals on Schleifer’s part to afford the failures and long timeline of their vision. One of the most important is Regeneron’s partnership with pharmaceutical company Sanofi to develop and market a number of potential therapies, including a cholesterol-fighting agent that is being pegged as the company’s most promising next product.

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This kind of unpretentious policy is clearly an offshoot of the palpable affection between Schleifer and Yancopoulus. The former says he has three heroes: Roy Vagelos; Al Gilman; and Yancopoulus, whom he calls “the greatest scientist of his time.”

Yancopoulus is just as complimentary about his friend and business partner: “Anyone who knows Len knows that business is in his DNA.”

Viewpoint

The biotech boom

Glen Giovannetti, Global Life Sciences Leader, and Dave DeMarco, Northeast Life Sciences Leader, EY

Drug development has always been a challenging enterprise, but in recent years the risk involved in successfully developing and launching a new drug has increased. Big pharma has lost its luster with investors in the past decade, suffering from decreased R&D productivity. Health care payers have also raised the bar on reimbursing for drugs, requiring companies to demonstrate their products’ value in real-world settings, which is an important new challenge for the industry, investors have taken note.

The biotech industry – where many of the new innovations in drug development originate – has had its own challenges, including access to funding for R&D. However, investor enthusiasm for the sector has returned recently: since the beginning of 2013, more than 75 biotech IPOs have closed.

Much of this vibrancy is being fueled by the spectacular success of a few leading companies: Regeneron, with its runaway success in Eylea; Celgene, which is up 20% this year alone due to its bone marrow cancer therapy; Biogen, whose multiple sclerosis medicine Tecfidera was approved in 2013 and is expected to soon reach blockbuster status; and Gilead Sciences, which is up 50% this year on the success of Sovaldi, its oral treatment for hepatitis C. The last time the biotech market experienced such vibrancy was 2001, with the mapping of the human genome. But when that project did not immediately produce the promised slew of miracle drugs, investor disillusionment followed.

The past few years’ blockbuster products have turned that disappointment around and reignited investor interest as targeted therapies enter the market – realizing some of the fruits of the genome mapping project two decades earlier.

Today, both pharma and biotech face pressure from other macro trends, including a shift by payers toward pay-for-performance. Instead of just selling products, medicine makers are increasingly compensated based on improved outcomes for patients, which may require companies to offer more comprehensive solutions that change patient behavior – for example, in terms of drug adherence and monitoring their conditions – strategies that change patient behavior – for example, in terms of drug adherence and monitoring their conditions – strategies that require entirely new kinds of innovation. The “me too” products that drove big pharma profits a few years ago don’t work today.

The entire drug sector is undergoing reinvention: Innovative science will drive future funding and success.

To meet these challenges, new approaches to innovation will be necessary, including more partnering among the various players in health care in “holistic open learning networks.” The goal of such networks is to connect drug firms, providers, payers, patient groups and IT firms that can share relevant data to gain insight and minimize redundant research.

More information

To learn more, email glen.giovannetti@ey.com or dave demarco@ey.com, or visit ey.com/lifesciences.
Redefining hospitality

Chris Nassetta, President and CEO of Hilton Worldwide, and Howard Roth, EY’s Global Real Estate Leader, discuss how Millennials are changing the face of the hotel sector and why technology is the way forward.

G reater disposable income, low-cost airlines and mobile booking sites have made travel accessible to more people than ever before. Combine this with increasingly tech-savvy and knowledgeable customers, and accommodation providers are racing for innovative ways to enhance the customer experience. In light of this, and drawing on knowledge from a combined 60 years in the real estate and hotel industries, Chris Nassetta and Howard Roth discuss current trends, challenges and predictions for the future.

What trends are you currently seeing in the hotel and hospitality industry?

Nassetta: I think there are many trends that are positively affecting the business. Today, travel and tourism is the biggest industry in the world. It makes up 9% of global GDP and it’s also the largest employer: 1 in 11 jobs in the world is in this industry. There’s an expectation over the next 10 years that 75 million new jobs are going to be created. In the past 20 years, the middle-class population has doubled, and over the next 20 years, it’s expected to double again. Tourist arrivals over the past 20 years have also doubled and are expected to double again in the same period. If you look at the hotel business just in the US, there are 13.7 million rooms for every 1,000 people. If you look at many of the other regions, and particularly the emerging markets, there is less than one hotel room per 1,000 people. That means there is huge potential for growth.

Roth: Broadly, hospitality has been on the upswing. There are more capital flows coming from east to west, with growing middle classes, a more affluent Millennial generation and demand for faster, more customized service. There are a lot of accommodation providers moving toward a “lifestyle” or boutique style of accommodation to cater for changing demographics. Over the next 5 to 10 years, we will see mobile continuing to be a hot platform, as well as social media and digital innovations as tools to engage customers and build loyalty.

We also see many companies deploying analytics tools to gain insight into consumer preferences. By using this information to create differentiated experiences, they hope to motivate customers to visit more frequently, stay longer and spend more. Sustainability remains at the forefront of many customers’ accommodation considerations and should be important for hoteliers, too.

What were the main challenges for Hilton in moving from a private to a public company?

Nassetta: When I joined Hilton, from an organizational point of view, it was very dysfunctional. The performance of the company was mediocre at best. I recognized that there was immense potential, but that it was not in any way being optimized. We immediately focused on a plan to address all of the issues identified as part of the underwriting thesis. It started and continues as a cultural revolution.

That meant rebuilding the organization and getting people aligned around core principles, our vision, mission, values and a set of key strategic priorities that would guide everything that we did. It involved gaining intense alignment of the organization, optimizing the performance of the enterprise, continuing to strengthen and expand the portfolio of brands, and expanding our footprint with a focus on international growth. In the six years since the acquisition, we have become the fastest-growing major lodging company in the world, with growth in rooms at 37%. We have the largest pipeline in our history, with nearly 200,000 rooms, and more new rooms under construction than anyone else in the industry. Most importantly, we’ve received a great reception upon our return to the public markets and are feeling very positive.

Roth: We have seen a lot of hotel companies go public. Recent hotel IPOs in the US have largely been driven by major private equity players. Several years of steady revenue growth and limited additions to supply have enhanced investor confidence, particularly where a dynamic growth story like Hilton’s exists for the future. Other large private owners have clearly taken notice, and we see this hotel IPO trend continuing for large portfolio owners with appropriate economics and growth stories.

How is the industry changing as the customer base shifts to the so-called Millennials?

Nassetta: That is a great question and a very important one. I would say we’re like everyone else in the business in that we are thinking about shifting demographics but want to continue to appeal to a broader set of customers across all age cohorts. Each of our brands is designed to cater to customers across different price points and travel needs. There is no one brand that is our Millennial brand, or Generation Y brand – every one of our brands needs to appeal to a broad audience base. We have not yet launched a lifestyle or boutique brand, but we are in the process of developing something in that space. Proportionally, that brand will probably draw more Millennials, but if we do it right, it will be like our other brands in having a fairly broad appeal.

Roth: There are a number of accommodation providers now tweaking their offerings for the Gen Y customer. Predicted to be the core customer within the hospitality and travel industries over the next 5 to 10 years as they enter into their peak earning, spending and travel years, this demographic will benefit the majority of airlines, hotels and travel companies.

More information Visit ey.com/realstate to find out more about the latest trends and insights in the hotel sector.
Profile: Rush Group

Andra Rush has put her heart and soul into revitalizing the fortunes of the Motor City and its people through manufacturing — and she’s caught the President’s attention in the process.

On a visit to Detroit a few months ago, US Labor Secretary Thomas Perez learned about a little miracle in a desolate neighborhood on the west side of this equally desolate city: the first new automotive manufacturing plant in decades had been built within the city limits.

He learned that the plant, known as Detroit Manufacturing Systems (DMS), was a joint venture between automotive supplier Faurecia and the Rush Group, led by President and CEO Andra Rush, a fierce proponent of Detroit’s auto industry. Through DMS, she had created hundreds of manufacturing jobs in this struggling city — and the plant was still growing.

Perez asked for a tour of the plant. On that tour, he, along with other officials, sat down with a few DMS employees. Rush wanted Perez to understand what these workers’ struggles had been before DMS hired them.

“One had been homeless,” says Rush, who grew up about half an hour away from the Detroit city limits. “One hadn’t had a job in four years. Another was 59 years old and thought he would never get a job again.” She beams whenever she tells this story, for it is a perfect illustration of her ambition to help turn around Detroit’s fortunes.

Rush, a Mohawk Native American, founded her first company, Rush Trucking, in 1984 as a 23-year-old while working full time as a nurse and studying for her MBA at night. Her vision, which began with a van and two secondhand trucks, has mushroomed into a company that brought in US$138m in revenues in 2013. In 2001, she created another venture, Dakotta Integrated Systems, which, among other things, builds overhead systems for vehicles. Her combined ventures, known as the Rush Group, make her one of the United States’ most powerful Native American business owners.

Rush is using her clout to help revitalize Detroit’s manufacturing sector, with a particular focus on job creation, which she believes is a potent tool for fighting crime and revitalizing communities.

And so, when Ford approached Rush Group with the opportunity to assemble interior components for several of its vehicles, Andra Rush knew exactly where she wanted the new plant located.

“When Ford approached us, I said what would motivate me is that it had to be in an underserved community and we had to hire people who were unemployed or underemployed,” Rush recalls. “My dream was to create opportunities in underserved communities.”

She had her work cut out for her. In the late 1940s, Detroit started losing manufacturing jobs as automakers fled for the suburbs and other locations around the US and abroad.
Since 1950, this metropolis, once America’s fifth largest city, has lost approximately two-thirds of its population. As a result, it is beset by stratospherically high levels of crime, illiteracy, corruption and unemployment. Tens of thousands of vacant or abandoned buildings dot its landscape, and it is often cited as America’s poster child for urban decay. In 2013, in a striking sign of how far the city had fallen, Detroit filed for bankruptcy.

Rush believes that Detroit’s rebirth depends on its ability to attract more manufacturing jobs. A thriving auto industry is innovative. It is a great way to have employees to write to their elected federal representatives. Rush describes the auto industry as a pillar of the economy. For every job created by an automaker, she says, an additional seven jobs spring up within the industry. She believes that if the government hadn’t bailed out General Motors and Chrysler, the United States’ economy would have been plunged into a depression.

**Smoothing a rocky path**

In 2008, she caught a glimpse of how the future might look for suppliers like her and the rest of the auto industry. With so much uncertainty looming and the auto industry ailing, she was forced to lay off 800 Rush Group employees a few weeks before Christmas. But through the government bailout of GM and Chrysler, along with concessions made by suppliers like her, Rush was able to hire almost every one of those workers back the following year.

DMS, which assembles dashboards for several Ford vehicles including the F-150 and the Focus, has approximately 700 employees, with about 500 of them living in Detroit. Employees say Rush works hard to create a nurturing environment where there’s room for advancement. Bullish on the future of American-made vehicles, she has sent employees to suppliers like hers to attend the White House to learn about retraining programs.

**The DC experience**

As Rush sat in the First Lady’s box, President Obama told the story of DMS’ remarkable growth. Companies like DMS, he said, demonstrate the importance of retraining programs.

**The DC experience is something Rush won’t ever forget—and nor will those around her.** “My father has not stopped smiling,” she says. “My education, my success and my career have been the result of pursuing something I’m passionate about, making you a better person and a better parent,” she says.

Rush’s success both locally and further afield—the Rush Group has 2,700 employees in several states and Canada—has gained her the admiration of city and state officials. She’s also had plenty of media coverage: in 2004, Inc. Magazine named her one of its “25 entrepreneurs we love” and hailed her again in 2013, when it ranked her No. 20 in its list of top job creators.

**“If you are learning and pursuing something you’re passionate about, it makes you a better person and a better parent,” she says.**

Viewpoint

Jeff Henning, Global Automotive Markets Leader, EY

The Great Recessions, which practically brought the North American auto industry to its knees, was particularly devastating for its auto suppliers. Many were forced to lay off large numbers of employees. In some cases, and in more vulnerable ones, suppliers had to shut down.

But the downturn also brought out the best in the auto supply industry. Despite the challenges posed by the harshest economic climate in 75 years, many responded by becoming leaner, more efficient, agile, financially disciplined and innovative, which paid off in two ways. First, it guaranteed their survival for years to come. Second, it set them up to thrive when the economy began to turn around. As a result, auto suppliers are in better financial shape today than they were before the recession.

Some risks remain—as is the case with all industries in North America’s turbulent manufacturing sector. The auto industry is evolving rapidly and competition among car manufacturers is hyper-intensive. But suppliers are well positioned to prosper as long as they remain flexible, fast-thinking and smart about innovation and overseas investment.

Such acumen and agility will serve suppliers well as the auto industry steps up its focus on its next great frontiers: existing growth markets such as Brazil, China and Russia, and a new crop of rapid-growth markets, including several countries in Africa, the Middle East and Southeast Asia. To be successful in these markets, which are characterized by both growth and volatility, suppliers must take a long-term view and a deliberate approach when deciding where and how to invest in these opportunities.

To ensure overall success and create added value for automakers and their customers, suppliers must also continue to explore strategic partnerships with other companies both within and outside of the automotive industry. Some of this is driven by innovations in smart technologies that are transforming how people view their cars and their notion of mobility. Increasingly, consumers see their vehicles as another device in their growing portfolio of smart devices. For this reason, many automakers are building a new kind of relationship with customers in a variety of areas, including infotainment, security, roadside assistance and other “digital” services. And this has partnership implications for suppliers.

Automakers are also becoming more creative in regulatory matters, such as safety and fuel efficiency, and believe suppliers are critical to these innovations. Suppliers that are savvy about collaborating with other companies, seeking new revenue streams, and generating innovative ideas and products will make themselves indispensable to automakers. They will generate above-average margins and stand head and shoulders above their competitors.

**More information**

To learn more, email jeff.henning@ey.com. For more on leading practices for the automotive industry, visit ey.com/automotive.
Evaluate, examine, execute

For privately owned companies looking to sell, thorough preparation can maximize profit and minimize stress.

words Rich Mills and Jim Rice, Transaction Advisory Services, EY

Evaluate

The first step in the evaluation process is to structure the deal to achieve your strategic goals. Owners must decide how involved they want to remain on the board, cash out to start a new venture or simply retire. This decision will drive the sale process and purchase agreement terms.

Examine

To help reach these goals and increase bidder competition, you should consider a broad group of buyers, including foreign buyers, buyers from different sectors and private equity firms.

Execute

The next step is to build a team with a broad range of skills. The management team must have M&A experience and feel empowered to negotiate. It must also have the time to drive the process and respond quickly to buyer demands while continuing to run the day-to-day operations and manage employee morale — bearing in mind that the sale process can last four to six months.

The wider divestiture team — including finance, tax, IT, legal, sales and HR — must have the backing of management, aligned resources and a clear understanding of accountability.

Execute

This new approach calls for a change in how companies prepare for divestment. According to EY’s Global Corporate Divestment Study 2013, 88% of executives who recently divested felt they left money on the table, and half of these admit that changing their preparation process could have significantly changed the deal outcome.

They may have benefited from what EY calls the E3 approach:

• Evaluate your exit alternatives, the ideal buyer pool and the capabilities of your internal resources

• Examine your business from a buyer’s perspective: accentuate the positives and create defendable arguments for perceived risks

• Execute with a well-developed value proposition that can withstand buyer scrutiny

The E3 checklist

Evaluate

• Does your team understand bidders’ needs, and can it effectively manage multiple bidders?

• Is your team considering the deal from multiple angles, such as finance, tax and HR?

• How will you manage employee communications and external stakeholders’ expectations?

Examine

• Are your pro forma adjustments well balanced and supportable? Where are the information gaps?

• Do you understand your balance sheet and off-balance sheet items for which buyers may seek a price reduction?

• Have you evaluated working capital to avoid price erosion in the post-closing adjustment?

Execute

• Are you prepared to articulate potential buyer synergies?

More information


37% 36% 41% 45% 50%

Which of the following steps do you take to enhance the value story of a divestment?

Support the market/product/growth story with independent review/due diligence

Develop an M&A plan for potential investors

Provide a view on potential areas of synergy opportunity to buyers

Provide early assessment of potential synergies to each likely buyer

Develop a range of potential upside scenarios

Support the cost reduction story with an independent review/due diligence

Source: EY’s Global Corporate Divestment Study, January 2013

The E3 checklist

88% of executives who recently divested felt they left money on the table, and half of these admit that changing their preparation process could have significantly changed the deal outcome.
Tobias Lütke says the internet is the great equalizer, giving small producers and retail giants the same opportunities to connect with consumers. So why is Shopify’s CEO taking this energetic e-commerce company into the world of bricks and mortar?

Running counter to the typical corporate mold, or even a typical career path, is true to form for Lütke. He began programming in his native Germany at 13 and dropped out of school at 17 to take advantage of an apprenticeship-training model with local software companies. His passion for snowboarding propelled him to vacation in British Columbia, where he met his future wife. He moved to Canada to be with her and continued to work remotely for his German employer. When that company went under a year later, Lütke felt burned out and in need of a change. He parlayed his passion for snowboarding into an online retail store called Snowdevil, which he co-founded with friend Scott Lake in 2004. But, frustrated and dissatisfied with the e-commerce platforms available at the time, Lütke fell back on his programming skills. He took advantage of what was then a new and little-known open-source web application framework – Ruby on Rails – to build a custom e-commerce platform for Snowdevil.

Two years later, it was obvious to Lütke and Lake that this platform had the potential to become a business all its own. Lütke continued to tinker with it and brought in fellow German Daniel Weinand to serve as Creative Director, while Lake handled the operational side as the first CEO. Shopify was born.

Shopify’s user-friendly platform allows retailers of all sizes to create and operate customized e-commerce sites easily.

“We’re trying to build the largest start-up ever without becoming a big company.”
and affordably, complete with secure shopping carts that process credit card payments from around the world. “When Shopify came on the market, I think it was the first time that someone who actually ran an online store was involved in the creation of software to run online stores,” says Lütke. “We had this real focus on simplifying [e-commerce] to make this software accessible to a range of people.”

Eye-catching proposition
Shopify’s winning formula hasn’t gone unnoticed. In the past four years, the company has raised US$122m in venture capital, and in April 2014, it reached a major milestone: 100,000 retailers around the world now use its platform.

The internet, Lütke says, has become the great equalizer, freeing small or new businesses from the heavy overheads typical of traditional brick-and-mortar storefronts. “Welcome to the rest of human history,” he says. “Everything that can be started on the internet will be started there and go from there. … Today, a business that’s barely six months old may have six different sales channels.” It’s been a heady ride since 2006, with Shopify weathering the growing pains that come with rapid success. Making e-commerce easy and accessible to everyone became Lütke’s passion, but Lake had more diverse interests and stepped away from the business to pursue other opportunities in 2008. That’s when the role of CEO came to rest on Lütke’s shoulders.

US$122m
The amount Shopify has raised in venture capital

100,000
The number of retailers worldwide that use Shopify’s platform

13
The age at which Tobias Lütke wrote his first line of code

Shopify hires with talent and potential in mind, rather than formal training and credentials.

Beyond commerce
While the melding of Shopify’s e-commerce and POS offerings is the current focus, the company has plenty of other strings to its bow. It also develops HR, talent management and recruitment software, as well as a platform called Unicorn that serves as an internal social media channel where staff can recognize, praise and reward each other’s achievements.

Given the company’s skills in software development, its people often prefer to design their own applications for use within the business instead of purchasing solutions from third-party software vendors. “That’s why there is a real culture here, because we’ve picked our very own way of doing things,” Lütke says.

Shopify’s culture is best described as a start-up that refuses to grow up. Even now, with a team of 400, the -
Exceptional Profile: Shopify

company’s emphasis is on maintaining a transparent workplace. Every employee has insight into operations and board meetings and has the opportunity to be heard through regular town halls. The workspace is open and informal. Toys, collectibles and visual pop-culture references are everywhere. Video-game tournaments are common (Lütke is big into strategy games like Starcraft). When visitors step off the elevator, they are greeted by a poster featuring a pretty sci-fi comic book heroine, who welcomes them to the “Shopify mother ship.”

The company emphasizes hiring talented individuals with potential, rather than focusing on experience and formal credentials, and allowing them to grow into their roles. This is supported where needed with professional and management coaching. It’s an approach favored by the management team because most of them were themselves first-time executives. “In every case, a great story of personal growth,” Lütke says.

He prefers to “paint people a broad picture of where things need to go,” then step back and allow his team to figure out how to reach their destination.

“Trust people and give them autonomy to build things, and check in once in a while,” says Lütke.

While this approach has worked so far, success is never an excuse to grow complacent: Shopify still faces erosion of the middlemen and check in once in a while to make sure everyone is going in the same direction,” he says. “But after a while, once that engine gets running, you no longer need to do that.”

His team is always vigilant to the arrival of “fast followers.” This is common in the internet software business: start-ups that take the best of what the incumbents in their market space have to offer and package it into a new offering with a fresh twist.

Lütke’s strategy for staying ahead of the imitators and maintaining momentum is to keep abreast of how commerce is evolving in response to drivers like social media.

“Commerce is fundamentally a manifestation of the zeitgeist — what else is going on in society,” he says. “The company that would do well in our space, is above everything else, able to react quickly to these new realities. Change has to be fundamental to a company’s culture, or there is no way it can survive.”

Social animals

For example, Lütke says social media has led to “the erosion of the middlemen” — namely, traditional big-name retailers. Producers of goods can now interact and transact directly with their customers. “Apple is a great example of a company that was able to wipe out the middleman and build that relationship direct with its end users,” he says.

Most of the retailers using Shopify’s platform lack that kind of scale and brand recognition, but they have, thanks to the internet and social media, the same opportunity to reach their customers.

For Lütke, social media is all about telling a story, and a great story is as vital to successful online retailing as an easy-to-use commerce platform. And with Shopify’s customers ranging from a temporary-tattoo retailer to luxury electric-vehicle maker Tesla, there are plenty of interesting stories to tell.

“We want to empower even the smallest start-up that just got its funding off of Kickstarter and is now going to build its electric skateboards in China,” Lütke says. “We need to tell its story to people. ... It’s the story that makes retail work, not shelves full of product that people have no relationship with.”

Canadian tech talent: innovating for growth

Leading companies recognize that it’s not enough to simply evolve products anymore. Companies must listen to consumer demands and be willing to take innovation even further. In Canada, we’re seeing a new era of technology powerhouses — all pushing the boundaries of innovation and creating change across industries.

Canada has the distinct advantage of a diverse culture. And we know that when we tap into this diversity, the possibilities are endless. Canada’s strong education environment is also providing the foundation on which this diverse talent pool can thrive. Programs across the country are equipping the next generation of visionary entrepreneurs with the skills and experiences to be successful in a global marketplace. They’re also creating new centers of excellence.

Canada’s leading technology companies are emerging from these tech hubs. Kitchener and Waterloo on the east coast and Vancouver in the west are putting Canada on the global tech map. We’re seeing some real visionaries come out of these centers. Hostsuite Media, Desire2Learn, Vision Critical Communications and Shopify are among the companies leading the charge.

They’re at the forefront of new technologies like cloud computing, social media, mobility and e-commerce — some of the biggest game-changers across all industries. Companies at every stage of the growth agenda recognize the importance of adopting these technologies to do better business and serve their customers.

But these aren’t the only areas where we’re seeing new technologies change the business landscape. Advancements in remote operating systems and resource extraction are shaping the future of Canada’s mining and metals and oil and gas industries as well. These technologies are reducing operating costs and environmental impact — giving companies significant competitive advantages in the global market.

These breathtakingly fast and continuous technology developments spark equally fast-changing customer behaviors, market opportunities and competitive threats. Staying ahead of the curve means understanding top trends. In the year ahead, that includes cloud, data analytics, mobility and social business.

Underlying each of these trends is the importance of the user experience, which can mean the difference between success and failure to the competition. Companies must innovate new ways to improve the customer experience. That means providing seamless, easy-to-use technologies that give consumers what they want: everything — and fast.

Canadian companies are already providing innovative solutions to these big tech trends.

More information
To learn more, email Martin.Lundie@ca.ey.com. For more on opportunities for entrepreneurs in Canada, visit ey.com/ca/eye.
Disrupting the status quo

Victoria Hale is CEO of Medicines360, a nonprofit pharmaceutical company dedicated to giving all women access to effective and affordable contraception. The social entrepreneur tells us what drives her and why she’s not daunted by being a David in an industry of Goliaths.

“Why I want this to be a proof of concept of what can be accomplished.”

Interview Molly Bennett

There are so few players engaged in the women’s health space. That was one of the main drivers for us: there needed to be another player. In addition, there was a push from the reproductive health community in the US to give women more access to contraception and to make the best contraceptives more affordable – we’re talking about the long-acting ones like implants and IUDs.

Medicines360 is a sustainable social enterprise, which means it funds itself without philanthropy and operates like a traditional business. Our initial funding came from an anonymous individual, but our June 2013 agreement with [pharmaceutical company] Actavis gave us US$50m, and we’re operating mostly on that now. Our main cost is an enormous clinical trial of the IUD we’re developing: multiple years, thousands of women. It will be on the market in 2015.

We met with nine companies regarding our IUD, and Actavis just stood out. They had been in the women’s health space for quite a while as a smaller player, and they wanted to play big. Most importantly, they really got our mission – you absolutely need that connection. But as with any relationship, you have to put effort in. It’s almost as though you get married without fully knowing each other and then you have to work it out.

We will sell our IUD to both insured and uninsured women on a sliding scale. The price will be guided by our research into what women are willing to pay out of pocket for contraception. In some communities that’s not very much, but in other communities it’s quite a bit because there’s increasingly a realization of how expensive children are. It’s an investment in not having a child until you’re ready. That’s what this is about.

It isn’t daunting to be a small player in an industry of giants. That’s part of my character: I like the pharmaceutical industry a lot – I even love parts of it. People who work in pharmaceutical companies are passionate about doing something for humanity, but the business models can make it hard for that to happen. I really want to help them figure out how to take care of more people and how to do it in a way that makes business sense.

I don’t believe giving away medicines for free is the way to achieve real impact. I worked in developing countries where the poorest of the poor told me, “If it’s free, it must not be a very good product.” Some of our patient assistance programs that are about donating drugs for free are moderately effective, but I think they could be more effective if we just figure out how to sell for less.

We’re going to be partnership-driven when bringing our product to developing countries. We’re working with nonprofit organizations, like Marie Stopes International and Population Services International, that not only have experience working with governments and bringing new reproductive-health products to developing countries, but are also philosophically aligned with us in terms of the empowerment of women, human rights and a focus on health. We want our products to be used well and for these countries to be pleased overall that our products were brought there.

It does annoy me that Medicines360 has to exist. The US is so backward in reproductive health. I read a book about Margaret Sanger, who was arrested for the first time at her birth control clinic almost 100 years ago, and we’re still having the same discussions: whether a woman should be consulted about contraception, whether she can get it, whether she can afford it – which is a question now but wasn’t then – and it’s very bothersome. But I needed to get over that and move forward, and here we are with what is potentially a very disruptive model.

I want this to be a proof of concept of what can be accomplished and demonstrate that you don’t have to lose money taking care of the underinsured or uninsured. In the US, universal health care is still a big deal – we’re fighting over it in Congress every day. But I’m trying to rise above all of that and focus on women and their needs. And hopefully the change will ripple from there.

We will move beyond contraception at some point. About six months ago, our board decided that we would open up to all of women’s health: urogenital issues, bone, menopause – all that stuff.

Social entrepreneurship is a spiritual pursuit for me. I’m looking for the fulfillment and the joy that comes from being a healer: a pharmaceutical professional who does healing in a larger way than is done right now. That is extremely rewarding.
Profile: Eakin Films & Publishing

The Oscar-winning movie 12 Years a Slave came about thanks in part to Frank Eakin and the life’s work of his mother, Sue. But there’s more to this serial entrepreneur than film: his interests also include shipbuilding, energy — and Cajun food. He tells us what ties it all together.

The creative impulse

The Oscar-winning movie 12 Years a Slave when it was published in 1853. She discovered his book at age 12 and spent her life researching his story and the places and history around it. “I don’t remember a time when I didn’t know about Northrup,” says Frank Eakin. His mother was a prolific writer but is best known for her annotated version of Twelve Years a Slave, first published in 1968. Her research on Northrup was the foundation of her civil rights activism. Both Eakin’s parents were publicly passionate about equality in 1960s Bunkie, Louisiana, and race riots define Eakin’s memories of the time. “I remember escaping out a classroom window when a riot broke out,” he says. “My family was considered oddballs. I didn’t have many dates.” The family’s home was burned down twice. Eakin left to attend an arts high school in Baton Rouge, where he was active in the school radio station. As a college student, he launched a Cajun food distributor on a whim, which prompted a professor to reach out. “He knew I was someone who could raise money, and his son was a recent high school graduate trying to produce an independent film he wrote.” Eakin was intrigued that this gifted, floppy-haired kid with zero credentials was optimistically pursuing moviemaking. He passed and the project did not find funding, but the kid’s next project raised US$1.2m and became the cult indie flick Sex, Lies, and Videotape. That kid, of course, was Steven Soderbergh. “That planted the seed for what I understood could be done in film,” Eakin says.

Serial entrepreneur

But first, Eakin became a powerhouse entrepreneur. He sold the Cajun food distributor and got involved in the turnaround of distressed oilfield operations, working with his brother, who owned a boutique investment firm. In 1993, Eakin bought Newpark Shipbuilding for US$13m and grew it into the fourth-largest commercial ship and rig repair operation in the nation. It was doing US$100m in sales by the time he sold his interest in it in 1999.

Next, he moved on to the energy sector in Texas, which was deregulating electricity. “I like to research the heck out of a topic, and when I learned there were 20 million utility meters in Texas, I saw an opportunity,” he says. Electricity Club markets electricity directly to consumers at a 20% to 45% discount off the legacy utility’s rates. But potential customers can be resistant to switch, so to address this pain point, Eakin has gotten creative with marketing. One example: approaching large companies with package deals that include discounted residential electricity services for the customer’s workers. “That really embeds...”
Eakin to explore film further. When his daughter was a teenager, he noticed the selection of G- and PG-rated movies at the local Blockbuster was woefully scant. Around the same time, the Wall Street Journal reported a lack of family-friendly live-action movies. To Eakin, that signaled an obvious gap in the market. Meanwhile, he was involved in the family theater in his Houston suburb, the Woodlands, and set out to apply the economics of community productions to film. And so, in 2007, Eakin released the feature film that he wrote and produced, The Bracelet of Bordeaux, a family sci-fi caper made with the help of 200 local children, 17 animals, a teenage director of photography and US$80,000 of Eakin's money.

"It had a lot of elements that appeal to kids: cute animals and one of the few examples of a girl buddy mystery adventure," Eakin says. "But still we weren't making a Disney-quality film, and so we had to differentiate." The Bracelet of Bordeaux mini DVD was packaged with a children's book, which snagged a distributor's attention. The film was shown in 100 theaters nationally and has since been distributed by every major American movie rental outlet, including Blockbuster, iTunes and Netflix. Last quarter, five years in, the movie was downloaded 10,000 times.

Hollywood beckons
The same year, a university press published Sue Eakin's final edition of Twelve Years a Slave in a run of 500 copies. She passed away two years later, in 2009. Not long after, Eakin heard Brad Pitt's production company was making a movie based on the story and offered to share some of his mother's research materials. Eakin then applied his methodical approach to a new industry: publishing.

New York publishing giant Penguin had exclusive movie tie-in book rights to Twelve Years a Slave. Eakin secured the audiobook tie-in rights. He also had rights to his mother's version of the title, which was edited down to a consumer-friendly length. Eakin hired famed Roots actor Louis Gossett, Jr., as the voice actor talent and set out to beat the big boys in e-book sales. From the moment the books hit Amazon, Eakin's e-book outsold Penguin's by a landslide. On 3 April 2013, nearly five months after the movie opened, Eakin's version of the e-book ranked No. 898 in Amazon's Kindle sales while Penguin's version was No. 310,362. "It just shows you that the little guy can do it," he says. Eakin's audiobook No. 1 on Audible's historical title list.

The key to this success was a simple yet ingenious marketing position. Eakin's e-book was priced at 99 cents to compete with all the other Twelve Years e-books (there were many, since the original book is now in the public domain), but he then increased margins on the audiobook, which syncs with the e-book and costs US$19.95. "It's like giving away the razor to sell the blades," he says. "But the biggest advantage was that traditional publishers with hundreds of titles in their catalog do not dedicate significant resources to promoting a single title, which an independent publisher like Eakin Films & Publishing can. You have to be very strategic about it and live and breathe the book like we do," Eakin says. "But the little guy can beat the big guy. We proved it."

The victory was also personal, of course. When the movie won an Academy Award for best picture, director Steve McQueen in his acceptance speech said: "I wish to thank this amazing historian, Sue Eakin, who gave her life's work to preserving Solomon's story."

"When I heard that, it was so meaningful," Eakin says. "My mother was a historian through and through. And so, in 2007, Eakin released the feature film that he wrote and produced, The Bracelet of Bordeaux, a family sci-fi caper made with the help of 200 local children, 17 animals, a teenage director of photography and US$80,000 of Eakin's money."

serial entrepreneurs: fueled by new ideas
Mike Karaman, EY Entrepreneur Of The Year ™ Americas Program Director

Serial entrepreneurs are very different from first-time entrepreneurs. They’re energized by the thrill of starting something new, as opposed to launching a business and then running it for years or even decades. This approach has its challenges, however. The first is recruiting and retaining talent. Serial entrepreneurs who come through the Entrepreneur Of The Year program multiple times surround themselves with tremendous leadership talent. They get their idea on the table and bring it to life and then allow others to advance the business. Their challenge is therefore to find people who will stay true to the original vision but who have the skills and experience to hone and perfect the idea and then bring it to market. Attracting talent can be easier after the first business, however, especially as successful management teams tend to stick together and may migrate to new ventures together.

Another challenge is boredom. Serial entrepreneurs tell me that when they get bored, they know it’s time to move on. It’s one entrepreneur who had a long list of patents reflecting ideas he had thought of over the years. Some things he would develop, while others he would still be on the list waiting until he finished his latest project; then he’d come back to the list and start all over. Again, this highlights the need for a strong leadership team that can take over, leaving the serial entrepreneur to focus on either innovating within that business or thinking of another great idea that will spawn their next company.

Both serial and first-time entrepreneurs face the challenge of finding early investors. In this, however, serial entrepreneurs have an advantage: they are likely to have already proven themselves with other successful ventures born of their ideas, and can often tap known networks and sources for their funding. It can be hard to attract funding for a constant stream of new projects, but it becomes easier the longer the serial entrepreneur has been in business.

Finally, serial entrepreneurs must be persistent and persuasive because they need to get a lot of ideas into the market. Occasionally they’ll be laughed out of the room, but they keep coming back. Sometimes the craziest ideas turn out to be the really great ones. Serial entrepreneurs may get told “no” 100 times, but they’ll try the 101st time to get somebody interested in their idea.

Like first-time entrepreneurs, serial entrepreneurs are not afraid to fail and learn from their mistakes. They know it’s part of the job and don’t let it slow them down.

More information
To learn more about the impact of entrepreneurship in the US, visit ey.com/key.
From the ground up: building the Olympic Games

It may look like any old construction site now – albeit one situated in a stunningly beautiful Brazilian landscape – but over the next two years, it will be transformed into a state-of-the-art sports center. This is Barra da Tijuca, heart of the Rio 2016 Olympic and Paralympic Games. When complete, the site will be home to the Olympic Park, the Olympic and Paralympic Village, and the Athletes’ Park, among other facilities.

Work on many structures is scheduled to be finished in 2015, so it’s all hands on deck. Barra will make use of existing facilities, some of which were built for the 2007 Pan American Games, and update them for the Olympics and Paralympics. But spectators will also be treated to brand-new, purpose-built structures, including the 16-court Olympic Tennis Center; the 18,000-seat Olympics Aquatics Stadium; and the low, elegant lines of the Olympic Velodrome.

There’s plenty of work going on outside the confines of Barra, too. There has to be: there will be seven million tickets available, meaning a potentially huge spike in tourist numbers for Rio de Janeiro, which welcomed two million international visitors in 2012. Getting around the city will certainly be easier, with a High Capacity Transportation Ring that will see the train and metro systems renovated and a new Bus Rapid Transit system installed. Officials say that the use of public transit will grow from 12% of total trips to 60% by 2016. But don’t forget those on two wheels: Rio currently has 150km (93 miles) of bicycle lanes and has pledged to increase this to 450km (280 miles) by the start of the Games on 5 August 2016.

It all adds up to what residents and officials alike hope will be a positive legacy for Rio that lasts long after the fireworks of the closing ceremony have faded away.
Growing up the only son of a famous billionaire businessman, Ross Perot, Jr., could have easily been outshone by his father’s success. But, determined to make his own mark, the property developer has expanded the Perot fortune, forging a new future for his entrepreneurial family.

On his own terms

Many years ago, Ross Perot, Sr., was quoted as saying, “There is no better place to live than in your son’s shadow.” He was referring in part to the difference in size between himself and his only son, Henry Ross Perot, Jr. But these days, the famously diminutive billionaire who found prominence as an independent presidential candidate in 1992 (and again in 1996) could easily be referring to his son’s success as an entrepreneur.

For Perot, Jr., growing up with a famous and hugely successful father used to bring the inevitable accusations of piggybacking, but these days he has less to prove. He has diversified the family businesses, moving away from their early IT specialization, focusing instead on blockbuster real estate deals such as the AllianceTexas airport project, which helped transform north Fort Worth, Texas, as well as the American Airlines Center in Dallas.

In 1988, he founded Hillwood, which is now ranked among the top 10 real estate developers in the US and is the top residential developer in Perot’s hometown of Dallas-Fort Worth. As Chairman of the Board, he led the sale of his father’s publicly traded IT company, Perot Systems, to Dell Inc. for an astonishing US$3.9b in 2009.

“A Perot cannot be afraid to take risks.”

On a personal level, he is no slouch either, spending almost eight years flying F-4 Phantom jets in the U.S. Air Force Reserve. And at 23, he was the first person to circumnavigate the globe by helicopter. Perot attributes much of his success to the example his father set for him. “My father will always be my hero,” he says. “He pioneered two successful companies that paved the way for the technology services industry and has devoted much of his life to helping people in need and those who serve our nation in the armed forces.

“While we share the same set of values,” he adds, “we can — and do — have different business interests. Dad has been there to give me career advice along the way, but he has always let me call the play. His legacy certainly influences my role as a leader.”

Perot describes this legacy as a willingness to persevere and take risks while maintaining strong values and ethical standards. His parents instilled these values in
him and his four younger sisters, who grew up around their father’s hugely successful Electronic Data Systems (EDS) from its creation in 1962 to its sale to General Motors in 1984 for US$2.1b. “I watched EDS being built in our living room at night, which was an amazing learning opportunity for a kid,” he remembers.

A future in flight

At first, though, it seemed that Perot’s destiny lay in A future in flight opportunity for a kid,” he remembers. and thinking about the vision and tenacity needed to see the project through to what it is today. While Victory Park formally opened during difficult economic times for the city – and the nation – one can see how that project has helped the downtown transformation we are seeing in Dallas today.

Further afield

Texas may be home, but in recent years, Perot has diversified into other states, most notably California. AllianceCalifornia is a development similar in scale to the AllianceTexas project but is based in San Bernardino County, just east of Los Angeles. Perot is also partnering with international groups to bring foreign investment into the US and to expand overseas, leading to ventures such as oil exploration in northern Iraq. Looking ahead, he believes his companies will continue to innovate. “I am optimistic about the future,” he says, “and think we will continue to be surprised by both the regional and US economy. We will continue to focus on industrial development at AllianceTexas and AllianceCalifornia, where we still have millions of square feet remaining for development.

“One of the biggest challenges we will face is continuing to take risks when the market presents itself,” he adds. “We will also have to remain focused on recruiting and retaining top talent. Our success is dependent on our people, and I am proud of the strong organization we have built over the past 25 years.”

The top talent he mentions could, of course, include the next generation of Perots – a prospect he is excited about. “My goal is that we provide them with the education and leadership skills they need to be successful and to carry on the tradition of developing and empowering smart, hardworking people and enabling them to achieve great things,” says the father of four.

The Perot family is a close-knit group, and each member participates in some way in the development. “That said, we have also always had great flexibility when it came to pursuing other interests and managing our business affairs,” Perot adds. “I guess the only hard work is figuring out which family member will be responsible, and next-generation planning.

Perot says there were “a thousand reasons why people believed we couldn’t build Victory Park in Dallas.” Some observers think the original plan of 31 high-rise and mid-rise buildings on 75 acres was a higher density than Dallas could absorb and that the expensive retailers and fancy restaurants were too grand for the demographic.

Whatever the reasons, Perot prefers to focus on the positive aspects of the experience. “I learned the importance of having a strong vision and that every great master-planned development needs solid and lasting partnerships to be successful,” he explains.

“The team and great partners we recruited had the vision and tenacity needed to see the project through to what it is today. While Victory Park formally opened during difficult economic times for the city – and the nation – one can see how that project has helped the downtown transformation we are seeing in Dallas today.”
How VC is turbocharging the IPO market

The US IPO market is on the rebound, thanks in part to venture capital: 64% of US listings in Q2 2014 were VC- or PE-backed. Jeff Fagnan of Atlas Venture tells us why venture capital adds so much value to both the IPO market and the companies in which it invests.

Q: What is driving venture capital’s engagement in the US IPO market?
A: The most direct answer is simply for us to deliver returns to our investors. IPOs have been historically, and always will be, one of the most exciting and potentially lucrative means to company exits and, ultimately, return on investment. A buoyant IPO market also raises M&A prices and activity. Two things are currently driving increased VC engagement in the US IPO market. First, with the improving economy and flight from fixed income, Wall Street once again has an appetite for venture-backed growth IPOs. Second, because of the economic conditions of the past few years, VCs realized the need to have companies in their portfolios that have performance and potential attributes that match the criteria that Wall Street is favorable toward. Today, many VCs are in a good position with respect to the second point – in contrast to the dot-com boom – as today’s companies are less valued for what they “could be” and more valued for their proven performance, market potential and sustainability. IPOs no longer happen on momentum stories but rather because of solid performance and high growth. The exciting thing for investors and entrepreneurs alike is the abundance of opportunities due to the heterogeneity of innovation today. So much of today’s innovation is a result of colliding disciplines.

Q: What do VCs expect when their investees go public?
A: An IPO is simply the start of the next stage of the journey. It is not the end destination. We look to stay in our IPOs for a considerable period of time. When a company IPOs five years after its Series A funding, it doesn’t mean its best years are behind it – but rather is a signal that the company has an enormous runway to achieve its ultimate promise and the best is yet to come.

Q: What value do VCs bring to companies undertaking IPOs?
A: Most important in my mind is the pattern matching that comes from a string of recent successful IPOs. VCs also can help build out the board and audit committee, select bankers, help perfect the narrative and story presented to Wall Street and be forecasted as strong institutional shareholders.

Q: Why do you think companies that are VC-backed typically outperform those that aren’t?
A: First and foremost, it’s important to note that all of the credit for this level of success should be given to the entrepreneurs and leadership teams of the company. VCs are just there to help when needed. Often we have helped the pre-IPO company attract and retain a management team and establish stability. One of our key jobs as a VC and board member is to consistently meet with, review and help the company ensure it is doing everything possible to succeed. This process results in a certain level of fiscal responsibility that helps to establish precedent and success once the VC-backed company goes public.

Q: How do you decide which exit strategy is right for a portfolio company?
A: We always build companies to stand alone as independent sustainable entities. We believe there are no shortcuts and you can’t build a company destined to sell. The truth of the matter is that founders and management teams usually dictate the exit strategy...
Q&A: Jeff Fagnan, Atlas Venture

“...the enthusiasm we are seeing for VC-backed companies to focus on the next phase of innovation.”

**Q**

Why is the US market so active right now, especially compared with others?

**A**

After a prolonged recession that affected most markets and sectors, the US economy and stock market performance is far better than international markets at this time. One of the most fascinating and rewarding aspects of being a VC is taking advantage of the macroeconomic factors occurring around the globe. When the public markets aren’t as favorable, it’s a great time for VC-backed companies to focus on the next phase of innovation and disruption. That way, once the markets open up again, this innovation is already in the market and the pent-up demand for new IPOs to invest in reaches a palatable level. I believe we’re just starting to experience this now.

**Q**

Angel investors and crowdfunding have been fairly active in early-stage investing. Is this set to continue?

**A**

Absolutely. The funding game has been forever changed thanks to both of these emerging sources of capital. The days of investors in ivory towers and opaque decision-making is finally fading away. We embrace this change. One example we’re proud of at Atlas is AngelList, where we’re founding investors and early supporters. We’re also placing greater emphasis on initiatives like Boston Syndicate, in which we believe will have a tremendous impact on the startup ecosystem. The emergence of more angel investors and crowdfunding platforms is clearly great for the startup ecosystems, as it means cash – the lifeline – is more accessible.

**Q**

How has the role of VC changed, with other sources of funding available to entrepreneurs?

**A**

With the likes of AngelList and Kickstarter in essence democratizing access to capital, VC has become a contact sport, meaning we need to be out there connecting with and partnering with the entrepreneurs we invest in or want to invest in. Thanks to the aforementioned new sources of capital, entrepreneurs now have more choices than they did previously. Transparency and true partnerships are now critical. The result is a net positive for everyone, as today’s successful VCs and entrepreneurs are much better aligned. VCs now need to be an active part of the fabric of the community, supporting not only individual entrepreneurs and their companies, but the entire ecosystem.

**Q**

What is the one key piece of advice you give your portfolio companies?

**A**

Resilience is the most important attribute for any startup. All of our successful companies have had near-death moments. For example, Iosion Systems almost shut down in its early days, as it struggled to get product/market fit. The company later became a blockbuster IPO and sold to EMC for US$2.3b in 2010. And we almost sold BIP for cents on the dollar in 2008 when the market collapsed and customers were scarce. Today, the company is the leader in next-generation endpoint security and well positioned for a 2015 IPO. It takes almost a pathological level of conviction to survive the startup rollercoaster.

**Q**

Viewpoint

Jeff Grabow, US Venture Capital Leader, EY

IPOs are a natural outcome for some venture capital-backed companies and facilitate the completion of the venture cycle. They provide liquidity to investors and employees and allow VCs to return capital to their investors. However, in the last venture cycle – from 2003 to 2013 – IPO activity was sluggish. During this period, there were only 408 VC-backed IPOs in the US compared with 1,275 from 1993 to 2002. This means there is now a large backlog of new companies waiting to access the public markets. While there has been limited access to the IPO market during the last venture cycle, many companies continued to raise venture capital – more than 8,600 in the US alone in the past five years. The recent resurgence in IPO activity marks the possibility of a new age of venture-backed IPOs. We therefore expect the number of VC-backed IPOs to rise in the short to medium term.

To learn more about the venture capital industry, please email jeffrey.grabow@ey.com or visit ey.com/vccenter.

**Source:** EY global IPO trends Q2, 2014

**To read the full EY global IPO trends report, visit tinyurl.com/IPOtrendsQ2.**
Jim Dixon has tried to leave CompuCom, but he never seems to get far. He tells us why he’s been CEO twice over and is now relishing his role as Executive Chairman.

words Karen Nielsen, portrait Justin Calhoun
There and back again

Jim Dixon joins CompuCom as CEO.

He leaves CompuCom to found Broadreach Consulting Inc. and Executive Consultants Inc.

CompuCom goes private; Dixon becomes CEO for the second time.

He leads the sale of CompuCom to Court Square Capital Partners.

He leads the acquisition of Gentronics North America.

CompuCom is sold to Thomas H. Lee Partners; Dixon steps down as CEO and becomes Chairman.

He retires as Chairman and returns as Executive Chairman.

“Im Dixon isn’t one to shy away from a challenge. The garrulous Louisiana has led CompuCom Systems not once, but twice through reinvention phases that helped transform the former hardware reseller into an IT outsourcing leader with revenue of more than US$2b.

It’s a big leap considering he started out selling mainframes for IBM in the 1970s. Dixon, 67, has seen and spearheaded much of CompuCom’s development. His tenure there spans two decades, first as CEO from 1988 to 1996 and again from 2004 to 2013, when he passed the torch to Tony Doye, the former President and CEO of Fujitsu North America. Dixon now serves as Executive Chairman.

He joined the company as CEO when Safeguard Sciences purchased CompuShop, which was at the time a chain of retail computer stores and a division of Bell Atlantic. After turning it around and transforming it from a retail organization into a large account reseller, he led the merger of CompuShop and two other companies and CompuCom as CEO.

The impact of mobile and cloud computing

Integrating CompuCom’s cloud and mobility offerings into its IT outsourcing services has been a focus for Jim Dixon and CEO Tony Doye. The company is investing in mobility and how to service a company and its end users, who use desktop computers, laptops, smartphones, tablets and other devices.

CompuCom’s answer is to deliver a similar service to Apple’s Genius Bar. Staffed with technicians who can service any device, within its larger client organizations.

“The company polled IT professionals earlier this year and found that 49% identify cloud adoption as the top IT trend for 2014. They also said that cost reductions and accessibility to technology with less friction will be the biggest drivers of cloud technology.

CompuCom’s Chief Technology Officer, Sam Gross, says: “Cloud computing is a natural evolution of IT service delivery, and today, every provider of enterprise services or hardware is by necessity a cloud service provider.”

The company is investing in mobility and how to service a company and its end users, who use desktop computers, laptops, smartphones, tablets and other devices.

CompuCom already had an office in India that now employs more than 100 people. In 2007, Dixon directed the sale of CompuCom to private equity firm Court Square Capital. A year later, he led the acquisition and integration of Gentronics North America, which was CompuCom’s foray into outsourcing for retail businesses, and opened doors in Canada and Mexico City through building global service centers there.

“Not every CEO has the chance to work at a company in both its public and private incarnations. Dixon says once CompuCom went private, he still approached the business as if it were public. “Once a quarter, we have a conference call and communicate to all the creditors how we’re doing,” he says. “It helps, and hurts, to be in business for a long time.”

“Im Dixon says. “The business had changed and become more competitive. Growth margins were down, and it was getting hard to make the same level of profit. We had to reinvent ourselves.”

The veteran leader was under the gun to turn around a company he says was “maybe a little late” to embrace change. “It helps, and hurts, to be in business for a long time,” he says. He set to work transforming CompuCom from hardware reseller and system integrator to IT outsourcing services provider. CompuCom already had a good set of customers that trusted the company and liked its service, and it had a small call center, but it needed to offer a broader set of service capabilities and a wider base.

Expansion plans

Platinum and CompuCom’s first move was therefore to acquire GE IT Solutions, picking up some hardware business and, more importantly, US$220m in outsourcing services that added contracts and a means to build on them. Next came a new call center in India that now employs more than 500 people. In 2007, Dixon directed the sale of CompuCom to private equity firm Court Square Capital. A year later, he led the acquisition and integration of Gentronics North America, which was CompuCom’s foray into outsourcing for retail businesses, and opened doors in Canada and Mexico City through building global service centers there.

“We started piecing things together and morphed ourselves into IT outsourcing,” he said. “We still resell hardware, but today about 75% of our profit margins come from outsourcing services. We haven’t done any more acquisitions since then – not that we aren’t looking.”

Not every CEO has the chance to work at a company in both its public and private incarnations. Dixon says once CompuCom went private, he still approached the business as if it were public. “Once a quarter, we have a conference call and communicate to all the creditors how we’re doing,” he says. “We run an open book. We used things that...”

“It helps, and hurts, to be in business for a long time.”

Jim Dixon likes to remind associates that they’re there because of customers.
“When you put customers first, what makes it work is a strong people culture.”

worked for us before. We like to keep our investors informed and happy.” But he concedes it’s easier to make decisions as a private company “without the public scrutiny.”

CompuCom is vying for its share of a US$288b worldwide IT outsourcing market and has stiff competition from Tier 1 players like HP and IBM. But Dixon contends that, since it only focuses on the infrastructure part of IT outsourcing, which is its core business, CompuCom can do it better — and at a more competitive price.

“We provide IT services better than a Tier 1, and we do it at the value of a Tier 2 because we are more responsive and customer-centric, and we also don’t have the overhead costs that others do,” he says.

If a customer contacts CompuCom’s call center with a shrunk-wrapped software problem, it’s typically solved 90% to 92% of the time on the first call, a record that’s well ahead of the industry standard, he says. In 2013, Gartner ranked CompuCom number 1 out of 30 companies in its Magic Quadrant for end-user outsourcing and its ability to execute. CompuCom operates 15 service centers globally and supports more than 4 million end users and 400,000 mobile devices in North America.

“It’s our business; it’s what we do,” Dixon says. “We know how to take costs out for our clients and maximize their level of customer service.”

The trend has moved away from mega outsourcing — where large players such as IBM or HP/EDS would do it all, from application development to business process outsourcing (BPO) to infrastructure outsourcing — to what is now known as best-in-breed in a specialized area or “tower.”

“It’s who’s best at delivering a particular line of business, and that helps us because that’s where we play,” Dixon says. “We only focus on IT infrastructure outsourcing and are not trying to be all things to all people. We just strive to be the best in the areas in which we deliver.”

A well-defined business model has helped CompuCom remain profitable, but Dixon says if the company doesn’t “deliver the best customer ‘sat’ in the world, there is no other reason for us to be here.”

He’s a big believer in the inverted pyramid, which puts customers at the top, followed by the associates who touch the customer, corporate support staff and, lastly, company leaders. “When you put customers first, what makes it work is a strong people culture,” he says. “The people are the ones who make it happen.”

Every two weeks, associates see the words printed in the middle of their electronic pay stub: “This check made possible by our good customers.”

“We like to remind them that the only reason we’re in business is because of our customers,” says Dixon. He doesn’t just talk the talk. During his stint as CEO, the Louisiana native estimates he helped serve up about 35,000 pounds of shrimp on his cross-country shrimp boil with associates. Despite tremendous growth in that time — the company had about 400 associates, most of whom he knew by name, in the 1980s and now has more than 12,000 — Dixon strives to stay ahead of the curve on issues that affect both CompuCom’s associates and its customers.

He still meets with a minimum of two customers a week on average to learn about their top concerns and challenges.

“You get to talk to customers and find out what they’re doing and where their challenges are,” he says. “If you listen, they will tell you. They are the people in the know.”

This customer contact is present at all levels of the organization. In CompuCom’s sales division, it doesn’t take long to make a decision because leaders delegate authority to those who work directly with customers. CompuCom also relies heavily on customer surveys to determine satisfaction and whether they would refer the company to others. Each month, customers receive a Stoplight Report, where they rank their service red, yellow or green. Every manager who services the account receives a decision on how to phone the next morning. If there is a red or yellow rating, it’s sent up the chain of command. This way, everyone is immediately involved in fixing the customer’s issue.

“I used to ask [the managers] what they’re doing about fixing the problem, but today I get five or six emails saying ‘I’m on top of it,’” he says.

Dixon’s job as CEO was to build the company’s culture and, using the core values of win–win, integrity, excellence and respect — all with a sense of urgency. “Couple that with the inverted pyramid’s customer on the top and the word ‘associate,’ and you’ll understand our culture,” he says.

On-the-job training

While Dixon has a bachelor’s degree in Mechanical Engineering from Louisiana Tech University, he credits IBM and his early business experiences with setting the tone for an illustrious career.

“When I graduated from Louisiana Tech University, IBM had an internship program with Tech University. I was infatuated with computers and what they did, and luckily I was hired. IBM, at least back then, put you through a yearlong training program, almost like a master’s degree in Computer Science. I’ve never been through such rigorous training, which included the business side as well as computers.”

After five decades in the industry, Dixon’s plan was to transition Tony Doye into the CEO role. In May 2013, Dixon become Chairman and retired a year later. Doye spent his first days transitioning the sale of the company to private equity firm Thomas H. Lee Partners, which purchased it in April 2014, and assembling his management team.

When Dixon was asked to assume the newly created role of Executive Chairman, his wife accused him of “skipping down the driveway” to a car waiting to pick him up. “I still play the ‘sheila’s trying to get me home for dinner (once his current winds down),” he says. “I thought for a long time [I would retire at 60], but I’m having too much fun, so why retire? I get paid and enjoy what I’m doing every day, and I love the company and our customers.”

When he does finally retire, he plans to do some consulting with private equity firms, work with the industry trade association CompTIA, travel, play golf, spend time with his grandchildren and write a book. “I might start another business,” he says. “You never know.”

Profile: CompuCom

US$288b

The value of the global IT outsourcing market

4 million

The number of end users CompuCom supports in North America

35,000

How many pounds of shrimp Jim Dixon helped serve at his employee shrimp boils

Cloud computing is no longer an emergent technology. The rate at which companies are adopting private, hybrid and public clouds is accelerating. What’s driving this is the explosive growth of data from analytics and the need to protect against security and privacy threats.

Open Data Center Alliance says 97% of major organizations are either using cloud or plan to move to it soon. Annual spending is expected to surpass US$707b globally.

Cloud computing is a disruptive force that can help improve the current array of hardware and software available as services over the Internet. It allows companies to transform their business models and compete through improved agility, while lowering technology costs.

While its adoption grew nearly 100% from 2010 to 2012, some companies are reluctant to embrace it due to security concerns.

The reality is every organization uses cloud services, whether it knows it or not. Many business units are choosing to seek out cloud services independently, without IT’s involvement. What results is a fragmented IT environment that’s tough to manage, difficult to operate and nearly impossible to secure.

When an organization has multiple business units contracting with multiple vendors, it’s a challenge to manage the disparate cloud environments, creating complexity and cost.

Digital transformation requires collaboration between business unit leaders and IT. Cross-functional collaboration between marketing, finance, HR, operations and IT is required for a cloud strategy — and related big data strategy — to work.

When IT is a partner in a cloud strategy, it improves contract negotiations, establishes key performance indicators for vendor management and allows for a better governance system.

The best place to start is for business units and IT to have an honest conversation about the capabilities and resources necessary to meet the business’s objectives. This makes it easier to determine how the cloud fits into the overall IT operating structure.

Ultimately, every organization should establish a governance model that sets standards for managing cloud services. A big driver in securing a cloud-first culture is finding deep IT talent to manage this tsunami of transformation. The industry is struggling to keep pace, so it may be necessary for existing staff to acquire new skills as they transition from operators and technicians to vendor managers and governors.

These skills include understanding not only contractual obligations and service management, but also new and emerging technologies and processes that may help to better manage cloud services.

When an entire organization embraces an integrated strategy, it will receive the full cloud benefits of business model innovation and improved IT service delivery.

More information

To learn more about key issues in today’s cloud technology environment, visit ey.com/cloud.
Under attack and unaware

The changing nature of cybersecurity has resulted in a greater need for top-down leadership. But often, by the time the boardroom accepts that a threat exists, it’s already too late.

Under attack

Cyber crime is expensive. According to figures from the Ponemon Institute, the mean annual cost to US companies of data breaches rose from US$8.9m to US$11.6m between 2012 and 2013. That’s an increase of 26% in just one year.

Companies must be prepared to defend against this threat, but the tricky first step is to admit that the problem exists. While this may sound simple, making the leap from theory to practice can be a challenge.

Recognizing that a problem exists can get you out of the starting blocks, but in reality, when it comes to cyber attacks, you’ll likely be at the back of the pack.

“Given the scale, expertise and funding of cyber attackers today, we have to assume our clients’ defenses have already been breached,” says Ken Allan, EY Global Information Security Leader. Allan doesn’t hold back when it comes to his clients’ defenses: “We know they have been or not. Once you adopt the position that you are going to be breached, and indeed probably have been, then you can look at ways you can contain that breach and learn from it in the future.”

Cyber crime is on the rise, and its broadening reach is affecting a growing number of businesses. Recent estimates suggest the global cost of online criminality has reached more than US$30bn annually. In 2013, US retail giant Target admitted that credit and debit card information of 40 million of its customers had been compromised during the final days of the holiday season. A few weeks later, the personal information of 70 million more customers had been stolen. Responding to the breach has cost Target a reported US$61m, according to its fourth-quarter report to investors, and prompted the resignation of its chief information officer.

This is just one type of cyber crime affecting businesses worldwide. Other cases include hacking, intellectual property theft, tampering with research and development results, and malicious software that can be used to steal sensitive information or cause damage to software present in the system.

It is clear that Allan’s forthright assertion is not so out of place. “It’s not a sensationalist statement,” he says, discussing the inevitability of security breaches. “It is a statement that is more likely to be true not.”

Preparing for a breach

The idea of accepting the probability of a security breach may be unsettling, but it follows a trend identified in EY’s 16th annual Global Information Security Survey, which highlights the growing risks associated with online security. Of the 1,900 client organizations questioned, just under a third said the number of security incidents had increased over the past 12 months and nearly three-quarters admitted information security policies were now being reviewed at the highest organizational level.

“Certain sectors, such as financial services, have been working with this problem for some time, and other sectors are starting to catch up,” Allan explains. “Boardrooms are now very much focused on how well prepared they are to deal with a breach. Many are concentrating on the idea that their organization could suffer a catastrophic loss.”

The largest sector represented in the survey’s findings operates in banking and capital markets, followed by technology firms. Perhaps more interesting is the different ways that cyber crime can affect established companies and early-stage start-up businesses.

“Conventional start-up businesses have the opportunity to get it right the first time,” says Allan. “They can create a business culture that totally accepts dependency on digital and make that a key part of their business ethos. More established firms might have to overcome entrenched practices that are perhaps not in keeping with today’s challenges.”

He concludes: “The opposing view is that fast-growing start-ups, which are focused on market entry and returning a profit, may have other business drivers vying for their attention. However, in the case of technology start-ups, an attack in the early stages could likely derail the venture completely. Since most of these businesses are founded on some form of innovation, that is where most emphasis should be placed when it comes to protection.”

Security strategy

For both start-ups and established businesses, identifying the company’s “crown jewels” and focusing protection on them should be the cornerstone of any security strategy. In terms of combating cyber threats generally, one of the leading practices identified in EY’s survey is the significance of boardroom support to establish clear charters for information security and long-term strategies. According to the survey, innovators in this field pay particular attention to data protection and intelligence threats, while those following behind focus on the ability to respond to specific computer incidents.

As Allan suggests, allocating security resources is a key step and should be guided by mission-critical components of the business. While this often means direct investment toward software solutions, there is another resource that Allan believes is often overlooked.

“If we’re dealing with an organization that employs 100,000 people who have all been properly trained in identifying possible security risks, we have, in effect, 100,000 security departments,” he says, “if they haven’t been trained at even the most basic level, then we have 100,000 security risks.”

Cyber criminals often target users of Skype, Windows and Facebook using an exploit tool to infect computers with malware disguised as Windows licenses, Facebook account verification emails, Skype voicemail notifications and spam messages. Increasing use of the cloud has also opened up more opportunities for cyber criminals, who are using account fraud, account hijacking and the use of stolen credentials to gain access to cloud-computing resources.

Training staff about phishing attacks, for instance, and what to do when they see one, has the potential to make a greater impact than all the security software packages put together, argues Allan. Of course, to make this feasible requires top-level endorsement and support.

“You have to have senior executives setting the tone,” he concludes. “Unless they are saying that the business is dependent on being properly prepared to deal with a cyber attack, then the rest of the organization won’t take cybersecurity seriously. It’s that simple.”

The average cost of cybercrime around the globe

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Cost of Cybercrime</th>
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<tbody>
<tr>
<td>US</td>
<td>US$11.6m</td>
</tr>
<tr>
<td>Germany</td>
<td>US$7.6m</td>
</tr>
<tr>
<td>Japan</td>
<td>US$6.73m</td>
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<tr>
<td>France</td>
<td>US$5.19m</td>
</tr>
<tr>
<td>UK</td>
<td>US$4.7m</td>
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*According to the 2013 annual Cost of Cyber Crime Study by the Ponemon Institute.

Visit ey.com/giss to download EY’s 16th annual Global Information Security Survey.
Chopard Co-President Karl-Friedrich Scheufele reflects on how he fused personal passion with business know-how to lead the luxury Swiss watch and jewelry brand to new heights.

Where time is a luxury

Words: Eric J. Lyman; Photographer: Oliver Tjaden
“Chopard could offer me a chance for creative expression, and at the same time it was a business. It turned out to be an ideal fit.”

This year will mark the 25th time Karl-Friedrich Scheufele has competed in Italy’s iconic Mille Miglia classic car rally—a 1,000-mile romp from Brescia, in northern Italy, down into the center of the country to Rome and back, all on rural roads. Each time, his participation has gone without serious incident—with one exception.

That year, Scheufele was barrel-rolling down a country road, with his wife in the passenger seat, when the car hit a patch of oil at a traffic circle. “The car spun and, for a moment, there was the surface of an elegant sculpted wood desk to avoid as it went into a brief tailspin.”

Surprisingly, his goal was not always to run Chopard. Scheufele’s single-minded focus locked in. Once he came on board in 1985 as Co-President with his younger sister, Caroline, the company was transformed as Scheufele’s single-minded focus locked in. Within a few years, Chopard expanded into high-end jewelry (Caroline oversees this part of the company).

So far, it has come one of only a small handful of Swiss watchmakers to make its own L.U.C. mechanical movements (named after company founder Louis-Ulysse Chopard) when it opened a new division in Fleurier, Switzerland, in 1996. The company was also an innovator in opening up its own branded boutiques that feature both the line of timepieces and fine jewelry, first in Hong Kong and now dotting Asia, Western and Eastern Europe, and the Americas.

“The combination of watches and jewelry is not so common,” he says. “But it gives people two reasons to come into one of our stores. And in terms of production, I think the jewelry experience has helped make our watches more beautiful, and the watchmaking experience has helped make jewelry production more precise.”

Under its new co-presidents, the company also began to engage in a series of high-profile and highly personal sponsorships. First, in 1988, came the Mille Miglia classic-car rally in which Scheufele is now a veteran participant. The company even produces a special limited edition watch to commemorate the Mille Miglia each year.

A decade later came France’s famed Cannes Film Festival, where the prestigious Palme d’Or (the festival’s top prize) was designed by Caroline Scheufele. And...
“Family must prove itself like everyone else, and we all abide by the rules we have put in place.”

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The test of time

Scheufele is a well-known collector. He collects watches (almost exclusively Chopard watches or antiques); classic sports cars like those used in the Mille Miglia rally; and wine, where he prefers the great reds of Bordeaux and Burgundy.

“Collecting helps give you an understanding of what lasts, what stands the test of time,” he says. “I take pride in thinking that a watch we make today could be a family’s prized possession for 30, or 50, or even over 100 years.”

It is not a surprise that Chopard embraces cutting-edge technology — “We use sophisticated computers connected to milling machines that would have been unimaginable when I did my apprenticeship,” Scheufele recalls – but at Chopard, the connection with the past is at least as important.

The primary reason for this is Chopard’s museum where Scheufele often sits, with its beautiful wooden furniture and collection of classic timepieces that in a few cases date back to Scheufele’s grandfather, is a source of pride in the company.

“We’re actually building a new museum, 30% larger, so that we can display more of our collection,” Scheufele says. “It’s important. We should look to the future, but one should never forget the past.”

Keeping time for more than 150 years

1860 Louis-Ulysse Chopard opens his workshop in Sonvilier, Switzerland.
1937 The business relocates to Geneva, led by Chopard’s son, Paul Louis Chopard.
1943 Paul-Andre Chopard (Louis-Ulysse’s grandson) takes the helm of the company.
1963 German watchmaker and jeweler Karl Scheufele buys the company as the fourth generation declines leadership.
1975 Chopard develops additional focus on ladies’ watches and jewelry.
1983 Chopard’s first international boutique opens in Hong Kong.
1985 Caroline and Karl Friedrich Scheufele become co-presidents.
1988 Chopard is named sponsor of the Mille Miglia classic-car rally.
1998 Chopard becomes partner of the Cannes Film Festival and designer of the Palme d’Or award.
2002 Chopard is named official timekeeper of the Monaco Grand Prix Historique.
2010 Chopard celebrates its 150th anniversary with a new collection.

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Luxury brands move into the digital age

Luxury brands appear to have emerged fairly unscathed from the recent downturn in the global economy. In the US, their consistently strong performance is remarkable given the recession was characterized by the collapse of the real estate market and many financial institutions – both of which fueled significant wealth and sustained much of the luxury market’s client base. If this weren’t going to take a bite out of the luxury goods market, it’s hard to say what would. At the core of a luxury product is a message of superior value and the exclusivity that comes with shopping for and owning highly admired brands. However, luxury brands today face one of the most complex challenges they may ever have encountered.

How do products based on the virtues of quality craftsmanship, style and best-in-class customer service deliver these critical messages across digital and social media with the same consistency as in their physical locations? And without an effective digital strategy, how will these brands connect with the next generation of consumers, the so-called Millennials? Now in their 20s and early 30s, Millennials are graduating college and progressing in their careers. They grow up with computers, cell phones and social media, all of which have become integral parts of their lives. Until now, however, sales of luxury products have been driven by the in-person experience: the look, the feel, the quality and the educated sales force that helps consumers understand why these products are worth their high prices. The challenge for these brands is to create a luxurious experience in the digital space that connects with Millennials. How do they blend what they have traditionally done for decades into, say, an app or a social media strategy? It’s not a simple task, but it’s not one they can ignore.

That being said, some aspects of digital media naturally lend themselves to the marketing of luxury brands. Millennials, and all those wedded to this exploding digital age, love to share experiences, make recommendations and use social media to provide meaningful feedback in real time. Luxury brands that adhere to their core values and think creatively should be able to use digital technology to help tell their brand stories, perhaps to people they would not have had access to in the past. Emerging markets, such as China, Brazil, Russia and India, have shown a high demand for luxury brands, and digital provides all sorts of ways to reach consumers in these countries and elsewhere.

We expect that the world’s greatest brands will find their place in the digital space – and, quite possibly, prove that a digital experience can also be a luxurious one.
The potential within rapid-growth markets has attracted foreign money in droves. But as monetary policies change, local market knowledge and the ability to adapt are a company’s most valuable assets.

**Words: Mark Alexander**

**Regular: Doing business in rapid-growth markets**

**Back ing a winner**

The most lucrative fragrance market in the world is in Brazil. It is valued at US$6b, and Brazilian consumers soak themselves in three times the volume of fragrances as their nearest rivals in the US. These notable findings, published by the Canadean Group, not only suggest Brazilians are more scented than any other nation, but that rapid-growth markets (RGMs) now present more alluring opportunities than many established ones, with much of this onus falling on services such as communications, culture and recreation.

**Granular look in order to understand where to place big bets**

“Over the past few years, interest rates in advanced economies have been at historic lows,” Rogers says. “Governments and private enterprises in RGMs were able to borrow these funds at low interest rates and expanded rapidly as a result. Now that some advanced economies are growing again and there is a possibility of interest rate rises, that money may start to flow back into advanced economies. If this is the case, the cost of borrowing will increase, and RGM governments and business managers will have to be more cautious about their expansion plans.”

In addition, the idea that all emerging middle classes are the same and represent untold opportunities may not be entirely true. “A growing middle class is certainly pertinent to consumption, but it isn’t necessarily the only criterion,” Rogers says. “The quality of the middle class in terms of the amount of discretionary income families have is a key factor.”

According to an insight report by McKinsey & Company, in many developing markets, such as China, India and Turkey, 40%-45% of the middle class’ household income is spent on food and transportation, compared with 25% in the US, leaving middle-class consumers in those RGMs with less disposable income.

EY’s report predicts that RGM expenditure in services such as communications, culture and recreation will grow at almost twice the pace of expenditure on food. But what these households want may be very different from the consumer demands seen in previous periods of rapid economic development. “Businesses must start taking a much more granular look in order to understand where to place big bets,” Rogers suggests. “Middle-class RGM consumers differ. Some are very open to foreign brands; some are not. Some have increasing levels of discretionary income; for some it is flat. Companies need to better understand the RGM consumer by market to know where the best chances for success are.”

**What to expect**

It is inevitable that the opportunities created by long-term demographic and economic change will define what happens next. The question is: which market should you back? “China still tops the list,” says Rogers when asked to pick the top performers. “Growth will be there, just not at historic levels. Poland is also looking good. Labor productivity is up, the Government is doing a good job of balancing the country’s finances and growth has been steady. “Finally, Indonesia has succeeded in managing enormous change over the past 15 years. The country elects a new president this year, fresh and capable of taking Indonesia to the next level. Indonesia’s growth is second behind China, so it is difficult not to take note.”

From EY’s findings, RGMs will increasingly look to their own markets to drive demand, with their new middle classes buying a wider range of consumer goods and services. Capitalizing on this requires sound local knowledge and the ability to adapt. “Understanding what drives consumer behavior and how it differs between various RGMs has been overlooked,” Rogers warns. “Some companies have relied too heavily on their brands, believing the brand is loved at home and so will be adored abroad. In some cases, little effort is made to understand whether or not the consumer is interested in the brand or product in its current state.”

She explains that companies also need to push decision-making capabilities to local levels, rather than concentrating them at headquarters, to allow speedy responses to fast-moving markets. “Equally, several multinationals have underestimated local competition,” says Rogers. “These competitors know the market, understand local tastes and can make decisions quickly. They also often have a lock on distribution and channels.”

This year will be decisive as we see how markets react to potentially tighter monetary controls and as political events run their course. What is certain is that the commitment to learning and adapting to local conditions should pay handsomely in years to come.

**More information**

Visit ey.com/emergingmarkets to download the quarterly EY Rapid-Growth Markets Forecast.

**Adapt and prosper**

In India, Danone realized that in order to ensure quality and consistency, it needed to own and control distribution. While not common practice for the company, this investment has made Danone a trusted brand in India and well positioned to capture growth in the yogurt category. A joint venture with Japan’s Yakult brand (pictured) has been another good investment, with sales increasing by 60% year on year.

In Ukraine, the brand decided to push decision-making capabilities to local levels, rather than concentrating them at headquarters, and allow quicker responses to fast-moving markets. “Equally, several multinationals underestimated local competition,” says Rogers. “These competitors know the market, understand local tastes and make decisions quickly. They also often have a lock on distribution and channels.”

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**25 rapid-growth markets**

Together, they represent a significant proportion of the world economy.

| Argentina | Brazil | China | Colombia | Egypt | Ghana | Indonesia | Malaysia | Mexico | Nigeria | Pakistan | Peru | Philippines | Poland | Russia | Saudi Arabia | South Africa | South Korea | Thailand | United Arab Emirates | Vietnam | Vietnam | Ukraine | United Kingdom | United States | Vietnam | Zambia | Zimbabwe |

Source: EY Rapid-Growth Markets Forecast.

EY: Doing business in rapid-growth markets

EY’s latest Rapid-Growth Markets Forecast, the top 25 RGMs are expected to grow by an average of 4.7% this year and 5% in 2015. Compare this with European Commission forecasts at 1.5% and 2.0%, respectively, and you can see why these rampant markets have such appeal. If any further persuasion were needed, EY’s report calculates that, by 2022, there will be 200 million RGM households with annual incomes exceeding US$35,000, representing a larger consumer market than the US.

**Proceed with caution**

While the principle of economic growth coupled with growing middle classes should provide perfect conditions for foreign investment, Kristina Rogers, Global Emerging Markets Leader for Consumer Products at EY, explains that small interest rate rises in advanced economies have made those markets somewhat more attractive this year, perhaps diverting foreign direct investment away from RGMs.

**The global middle class is growing. But that doesn’t always mean increased consumption.**

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Superbugs may sound like a fantasy of science fiction, but in hospitals across the world, they are very real and a force to be reckoned with. Dr. Ruth Oltjer has dedicated her career to obliterating them.

One of the most aggressive of these superbugs is methicillin-resistant Staphylococcus aureus (MRSA) – a bacterial infection that is resistant to antibiotics. If carried on the skin, MRSA can cause boils and abscesses, but if it gets into the body, infecting tissues and organs, it can be fatal, causing blood poisoning or endocarditis – an infection of the inner lining of the heart.

“The solution to the problem is often easy; proper cleaning and infection control systems,” Oltjer says. “However, according to the World Health Organization, it is often hard to achieve this in developing countries such as in Asia, Africa and, not long ago, even in Estonia.”

During the early 1990s, after working with hospital cleaning chemicals and disinfectants that caused skin irritations and made her asthma flare up, Oltjer realized there was a gap in the market for quality, allergen-free disinfectants. “Every day, when I washed my hands,” she says, “I longed for products that would not harm people.”

Initially, it was out of personal need that Oltjer began buying more benign chemicals from a UK producer. But soon colleagues in Estonia, as well as in Lithuania, began inquiring about how they too could source some. Moving her medical practice to the evenings, Oltjer studied for an MBA and set up a company in partnership with the UK suppliers under a private label to import the disinfectants to Estonia, and so Chemi-Pharm was born. Import volumes grew rapidly, and in 2000, Oltjer began producing the disinfectants herself as a cost-cutting measure. She also added custom-made products to the company’s range.

Infectious innovation

Today, the company has offices in Estonia, Latvia, Singapore and Malaysia and produces more than 100 products for more than 5,000 loyal customers in 20 countries across the world. Half of the company’s production is exported, mainly to Russia but also to central Europe and Asia, and 85% of Estonia’s hospitals use Chemi-Pharm products. In 2012, turnover went up by 60%, due to a rapid increase of exports to Poland.

“Clean care

When the use of disinfectants caused Dr. Ruth Oltjer more harm than good, she decided to do something about it. Through that action, this Estonian entrepreneur is saving thousands of lives.
**A life in business**

Chemi-Pharm wasn’t Dr. Ruth Oltjer’s first encounter with the business world. When the political climate in the Soviet Union started to change at the end of the 1980s, she and her husband, Andres, started a cooperative that sold gas, and before that she had a small business breeding German shepherd dogs. Following Estonian independence from the Russians, in 1995 she was one of the first to set up a family doctor practice in Estonia, and then in 1997 came Chemi-Pharm.

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Dr. Ruth Oltjer says, explaining how they used stem cells and silk proteins to create anti-aging creams, “The way to succeed in this industry is to constantly experiment and test. Plus, you really have to believe in yourself.”

Oltjer is investing heavily in R&D and hopes to take her products to Western Europe and North America, as well as expand operations in Asia, with a specific focus on markets with high MRSA infection rates. According to Oltjer, hospital-acquired MRSA infections may kill as many as 7 million people per year – almost the population of Rio de Janeiro, or slightly less than that of London. The exact numbers may be higher, but there are no conclusive statistics, partly because of the lack of hospital records in the developing world. In these hospitals, disinfection is often not taken seriously, or not conducted properly. “Every year I travel to Asia and visit the hospitals to see how they are following the guidelines to sanitize the surfaces and what they do to prevent MRSA. I see a lot of improper use [of disinfectants], and there are cases when the patient dies within two weeks of surgery, or visits the hospital for years without ever getting better,” Oltjer says.

Oltjer attributes her business success to her grandfather, Hendrik Ilves. “When you have that — that you are doing the right thing and have the right goals. You have to believe in yourself; you have to be convinced that you are an entrepreneur is an easy one, but it is definitely exciting. But the demands of the day, the stress, the pressure sores. Chemi-Pharm starts to develop a cream that could ease his condition.

2010  Oltjer’s father falls ill and gets pressure sores. Chemi-Pharm starts to develop a cream that could ease his condition.

2012  Chemi-Pharm launches its first cosmetics range, Domina Elegans.

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Oltjer believes that, if Chemi-Pharm can help those countries to improve hospital hygiene by providing efficient and safe disinfection products and medical training, the hospital infection rate could be reduced significantly and thousands of lives could be saved.

**Labor of love**

An entrepreneur by chance rather than intent, Oltjer says she does at times miss her medical practice. “I studied so hard to become a doctor that it is a bit sad I have no time to see my own patients. But then again, the work that I do at Chemi-Pharm still enables me to save so many lives.”

Oltjer attributes her business success to her grandfather, who ran a textile company. She says it was his advice that steered her away from economics and toward medicine, instilling in her a business acumen. “If I look back, there was no other possibility but entrepreneurship for me. It feels like everything has just happened naturally and in a logical order in my life,” she says.

“For a doctor, international communication and product development is not routine work,” she says. “But I would not have it any other way. I would like to recommend to others to follow their gut feeling. I am not saying the life of an entrepreneur is an easy one, but it is definitely exciting. You have to believe in yourself; you have to be convinced that you are doing the right thing and have the right goals. When you have that – go for it!”

**Viewpoint**

**Big changes in the life sciences sector**

It is a time of change for the life sciences industry. Driven by patients and more focused on outcomes than ever before, companies in the sector are facing increasing pressures and challenges. Countries such as the US, China, Germany, France and the UK have all recently passed substantial legislation that is accelerating the transformation of global health care from a volume- to value-based marketplace and significantly affecting the life sciences sector. Organizations that adapt to these reforms are likely to be the leaders in the coming years. But despite the challenges of reform, pricing pressures, heightened regulatory scrutiny, persistent economic slowdown and changing demographics around the world, it is an exciting time for life sciences.

Technologies and ideas once in the realm of science fiction come to life as human ingenuity and creativity moves forward. Patients, health systems and patients are much more influential than they have been in the past.

This varied sector, comprising pharmaceutical, biotechnology and medical technology, is changing rapidly with the instance of more personalized medicine and health models, genome sequencing, and more scientific and technological discoveries. With the prevalence of social media and instant access to health data, the global public is taking more interest in their own health care. Health and wellness apps and new health technologies, including “wearables” that measure activities, heart rate, calories burned and sleep patterns, are allowing consumers more control. They are also evidence of the growing importance of prevention, as the global population is increasingly aware of the connection between healthy eating, fitness and life longevity, with more focus than ever on food and fitness trends.

While technology is empowering individuals to have more control over their health, it is also enabling hospitals and health care providers to be more efficient by using electronic health records and telehealth, mobile and remote health. These opportunities are bolstered by demand from a large aging population and rising incidence of chronic disease, which, while unfortunate for individuals, creates a market for the industry.

The demand from the market is there, and on the other side, the science is making incredible progress, producing technologies we would never have imagined 10 or 15 years ago. Who knows where the next decade will lead?

More information

For more information, email Patrick.Flocelldh@ch.ey.com or visit ey.com/lifesciences to download recent reports.

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“Because so few succeed in film, I saw it as an intriguing challenge to build a model that worked. Even if my movie failed, it would be OK because I was going to learn a lot.”
Frank Eakin, Eakin Films & Publishing (page 28)

“We have more engineers per capita in southeast Michigan than anywhere else in the country. Detroit’s rebirth will be tied to manufacturing.”
Andra Rush, Rush Group (page 14)

“Most companies are under the misimpression that what is right is the highest-ranking system. We’re in the science and truth businesses, which are governed by the laws of the universe.”
Leonard Schleifer, Regeneron (page 06)

“If there is a consensus on how to do something, it’s probably wrong.”
Ross Perot, Jr., Perot Companies (page 34)

“While my father and I both have had the privilege of leading successful businesses, the foundation of that success lies in recruiting and empowering the right people.”
Tobias Lütke, Shopify (page 20)

“Diversity is the key to success.”
Chris Nassetta, Hilton Worldwide (page 12)

“The zero-sum game is a lie. There does not have to be a loser if you are open to more.”
Victoria Hale, Medicines360 (page 26)

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