Recipe for success

Denise Morrison, CEO of Campbell Soup Company, on why innovation is the magic ingredient

Lyndon Rive: how SolarCity made clean electricity affordable

Mindy Grossman on the changing habits of the home shopper

Software tycoon and Shark Tank star Robert Herjavec is driven to succeed
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The concept of entrepreneurship is usually associated with launching and building a business, but as you will see from this edition of Exceptional, some of the most entrepreneurial business leaders have never started a company. So how are they entrepreneurial?

Entrepreneurship is a dynamic mindset, and those who possess it are bold enough to identify opportunities, seek out growth markets and overcome risk. True entrepreneurs are born innovators, learning from successes and failures. And they always push through.

In this issue, we meet two strong leaders who have redefined existing companies by embedding innovation throughout their organizations. Our cover star, Denise Morrison, CEO of Campbell Soup Company, explains how developing innovation teams, bringing new products to market and engaging with younger consumers helped her reinvent the 144-year-old iconic food brand.

HSNi’s Mindy Grossman shares this appetite for innovation. A turnaround force in the world of home shopping, Grossman reflects on how she addressed the adversity she faced in taking over the company and transformed HSNi into an upscale retail empire.

The ability to manage uncertainty is another vital quality of an entrepreneur. When Avinoam Nowogrodski’s software start-up, Clarizen, almost went under in 2008, this ability allowed him to turn his business around. Another entrepreneur we feature, Lyndon Rive, operates in the volatile cleantech industry, where his company, SolarCity, is thriving because of, rather than despite, its unconventional business model.

A level of confidence has returned to the markets after a tumultuous period, and more companies are taking advantage of market optimism and going public. According to a global EY survey of institutional investors, good-quality companies, priced at the right level, run by the right team and with a good story to tell, will always command the attention of the capital markets. In this edition, Joseph Bryant, who founded oil exploration company Cobalt International Energy, talks about how he built this risky business and the lessons he learned from a tough IPO.

Outstanding entrepreneurs are often lifelong learners who seize upon the wisdom of others. Our featured executives and award-winning entrepreneurs share the advice that guides their decision-making and determines the values they infuse in their companies. It’s interesting how many cherish the wisdom of their parents and how they have used their advice to reach new heights in business.

We hope you enjoy this edition of Exceptional and are inspired by the vibrant personalities and rich experiences of the entrepreneurial business leaders we feature.

Herb Engert
Americas Leader, Strategic Growth Markets, EY
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“Value comes in the nooks and crannies of your business that aren’t sexy, that aren’t exciting, that are really mundane”
Robert Herjavec, The Herjavec Group

“Entrepreneurs not only start companies from the ground up; they also transform businesses and create new opportunities”
Mindy Grossman, HSNi

“Leadership is a journey. It’s never something you complete”
Denise Morrison, Campbell

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When Denise Morrison took over Campbell, the 144-year-old business faced an uncertain future with changing customer tastes. But the company’s first female CEO has found a way to make soup hot again.

words Lester Picker, photography Andrew Cutraro

The reinvention of an ICON
What is the recipe for successful leadership of a company with a market cap of more than US$14b? In the case of Denise Morrison, President and Chief Executive Officer of Campbell Soup Company, it is a huge stock of passion, roots in family values, the perfect blend of people, a dash of lofty goals and a large measure of delivering results.

Morrison, who is only the 12th chief executive in Campbell’s 144-year history and the first woman to lead the iconic company, took the helm in August 2011. She is one of only 20 female CEOs of Fortune 500 companies and was named the 81st most powerful woman in the world by Forbes in 2013. Yet when Morrison took the post — after eight years with the company and successful stints at Kraft Foods, Procter & Gamble, Nabisco, Nestle USA and Pepsi-Cola — the accolades had to wait. On her first day in the job, she faced a world of challenges.

A new generation of consumers

Morrison and her leadership team plowed through the data and confronted the hard facts facing Campbell. Due to changing consumer tastes and trends, core soup sales and profits were down; international growth had stalled; new products were failing to address key emerging demographics; and the stock price, sales and earnings per share were flat. It was only by making such a dispassionate assessment that Campbell could emerge with a new strategic vision: the company would stabilize and profitably grow soup sales in North America, expand its international presence, and continue to drive sales in healthy beverages and baked snacks.

“Build on the past to create the future: we need to respect the past and be inspired by it, but not be stuck in it,” Morrison says. “Campbell has always put the consumer first, so that was baked into our DNA. Today, the key is getting our people to understand the importance of innovation to the future of our company.”

Working with IDEO, the Palo Alto innovation company, Morrison observed innovative firms and was impressed by their nimble, team-based approach. Seizing the moment, she acted quickly. She selected Campbell’s people who exemplified that approach from the base business and created similar cross-functional teams that were charged with bringing to market exciting food for the next generation of consumers. Each team now acts like a start-up, with representatives from consumer insights, marketing, supply chain, sales, culinary and packaging.

The innovation teams immediately began reinventing the product development process, which fostered new ideas such as the easy-to-prepare Campbell’s Go soup line. These days, new products are beginning to reflect the influence of global cuisines, not only Campbell’s Go soups but also chef-inspired Campbell’s Skillet Sauces and new varieties of Campbell’s Chunky soups. In the same vein, TV spots for Prego sauces have been created for the Hispanic audience, and at the call centers, Spanish-speaking representatives are handling customer inquiries.

Profile: Campbell Soup Company

US$14b

Current market cap of Campbell Soup Company

“If you don’t have a good reputation, if you don’t do things honestly, people won’t trust you”
**Profile: Campbell Soup Company**

**The leadership journey**

Since childhood, Morrison has been studying leaders and grooming herself for a top job. See box, page 7. For her, it is a long-term process. “Leadership is a journey. It’s never something you complete,” she stresses. “I find that I am a continuous learner. I love to observe people in leadership positions and study the characteristics of good leadership.”

After reading Stephen Covey’s *The 7 Habits of Highly Effective People*, Morrison crafted a personal mission statement that has served her well. “I feel that if you don’t have a good sense of who you are, it’s very hard to get people to follow you, so I spent a good amount of time developing it. My personal mission is to serve as a leader, lead a balanced life and apply ethical principles to make a significant difference.”

As a wife, daughter of aging parents, mother of two daughters and now a grandmother, Morrison is an adept jester as she walks the tightrope of career and family. She is reluctant to talk about the proverbial work-life balance, but does promote the concept of work-life integration. To Morrison, the struggle is to blend the academic, spiritual and physical challenges of life. “I find that when life has those things in balance, it’s a positive source of self-esteem and I can lead better. In terms of applying ethical principles, integrity is everything. If you don’t have a good reputation, if you don’t do things honestly, people won’t trust you, and you can’t lead unless people trust you.”

For Morrison, what matters most as a corporate leader is her commitment to people, both within the company and her consumers. “My idea of leadership of this company is to unleash the potential of our people to do amazing things.”

**New Campbell, new era**

In the ever-changing, frenetic global marketplace, Morrison assigns great importance to being nimble. However, while Campbell has always been a solid company with good earnings, being nimble didn’t come naturally. With Morrison’s arrival, that changed.

The breakthrough teams are an example of agility. When Morrison came on board as CEO, it took two years to bring a new product to market. Now it takes about half the time and Campbell welcomes more consumer input than ever before. While there have always been pockets of agility within the company, the immediate task was to bring that agility to soups and simple meals, another highly successful product line that was in need of refreshing.

To expand into faster growing spaces, Morrison made the strategic moves to shift Campbell’s center of gravity. One such move was the acquisition of Bolthouse Farms, an innovative producer of fresh carrots and super-premium fresh beverages. Internationally, Campbell will focus on Latin America and Asia, with growth coming from acquisitions, as well as partnerships such as the one it recently created in Mexico with a beverage bar brand, to help distribute its product more efficiently.

Morrison also recognized how the influence of digital was changing consumer conversations, so she hired the company’s first chief marketing officer. One of Campbell’s first forays into digital was a contest to create mobile apps that help consumers with mealtime solutions. The company plans to bring the most exciting of these mealtime apps to market this fall to kick off soup season.

Morrison has been gratified by the internal response to all these initiatives.

Inappropriate behavior at any time from a member of staff can tarnish the company’s image in the consumer mind. The company plans to continue encouraging consumers to follow the brand on social media, or risk being left behind. Due to the instant and viral nature of this media, manufacturers need to rapidly impact a product – for better or worse. Companies are still “likes,” many consumers are using their new media voice to speak up. Due to the instant and viral nature of this media, manufacturers need to rapidly impact a product – for better or worse. Companies are still mastering the skill of using social media, but few feel they have mastered it yet.

Companies are creating virtual teams to meet the workforce demands of the future. Due to the instant and viral nature of this media, manufacturers need to rapidly impact a product – for better or worse. Companies are still mastering the skill of using social media, but few feel they have mastered it yet.

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early six years after the words “credit crunch” entered the vocabulary, many people and businesses still struggle to find things to celebrate. While it’s true that, in some ways, the working world isn’t functioning as well as it should, the picture is not as bleak as some would paint it.

The increase in globalization we have seen over the past generation has meant painful changes for some, yet it has brought great opportunity and enterprise to many more. In China alone, nearly half a billion people have been lifted out of poverty.

We think of technological change as benefiting the rich, but the truth is more interesting, particularly for emerging entrepreneurs. Mobile phones, for example, allow migrant workers to send money to their families and enable fishermen to call different ports to see who will give them the best price for their catch.

Yet it’s still hard to escape the sense that things could be better. Today, trust in business and governance is low; millions of people are unemployed; and gridlocked political systems seem unable to address long-term fiscal issues. While there are no simple answers, the solution lies in working together - in people and organizations making changes in their areas of knowledge and expertise.

At EY, we understand the challenges, but we also see the opportunity to build a better working world.

We have long recognized the potential of entrepreneurs, who are the engines of job creation and are key to global economic health. They also have particularly important roles in emerging economies as the state reduces its role. Over the past 26 years, we have celebrated that special contribution through our Entrepreneur Of The Year® program, which now covers more than 50 countries and culminates in the announcement of a World Entrepreneur Of The Year. In June, Hamdi Ulukaya, the founder of Greek yogurt company Chobani, was announced this year’s award winner.

In recent months, we have been looking keenly at the world around EY and speaking with leading thinkers, both inside and outside the organization. We have taken the purpose of building a better working world and placed it at the heart of our plans for the future. We call these plans Vision 2020, because they look clearly at how we will fulfill our purpose over the next seven years and beyond.

As part of our vision, we are improving every aspect of EY. We are going to put changes in place so that we have the highest-performing teams, delivering exceptional client service, worldwide.

“We have long recognized the potential of entrepreneurs”

Mark Weinberger at a glance

• Weinberger joined Ernst & Young LLP’s tax department in the US in 1987 but after several years with the firm accepted a position working in the US Senate. He was subsequently confirmed by the Senate under two presidents.
• He was appointed Chief of Staff to US President Bill Clinton’s Bipartisan Commission on Entitlement and Tax Reform in 1994. Under President Clinton, Weinberger also served on the US Social Security Advisory Board.
• In 1996, Weinberger co-founded Washington Counsel, PC, a law and legislative advisory firm that later merged into Ernst & Young LLP. Weinberger subsequently became head of Ernst & Young LLP’s National Tax Practice in the US.
• In 2001, Weinberger returned to public service when he was appointed by President George W. Bush as Assistant Secretary (Tax Policy) of the US Treasury.
• He joined EY’s Global Executive in 2008.
• In July 2013, Weinberger became the new Chairman and CEO of EY.
“Quote unquote”

Insight and opinion from this issue’s personalities

“My idea of leadership of this company is to unleash the potential of our people to do amazing things.”

Denise Morrison, President and CEO, Campbell Soup Company (page 4)

“We think of technological change as benefiting the rich, but the truth is more interesting, particularly for emerging entrepreneurs.”

Mark Weinberger, new Chairman and CEO, EY (page 10)

“The biggest influence on me was probably my dad, who was a really, really tough guy.”

Robert Herjavec, The Herjavec Group (page 46)

“We would like to see governments be more accountable, bring better infrastructure to companies to enable markets to work, and create legal systems that are more transparent and democratic.”

Jacqueline Novogratz, founder, Acumen (page 64)

“A brand must evolve with its time even if it is grounded in history.”

Bris Rocher, Yves Rocher (page 30)

“We were literally going from my garage to competing with the biggest companies in the world.”

Joseph Bryant, CEO, Cobalt International Energy (page 18)

“I wanted everyone to know where we were going and how we were going to get there.”

Mindy Grossman, CEO, HSNi (page 24)

“It’s a great gift when a client allows us to take ownership of their problem. That is where the real innovation begins.”

Jai Shekhawat, CEO, Fieldglass (page 54)
The solar energy market is notoriously volatile, yet SolarCity is thriving. CEO Lyndon Rive explains why failure is no option.
Lyndon Rive knows how to stand still, he’s not letting on. The CEO of California-based energy company SolarCity drums his fingers on the desktop as he talks and jogs to and from meetings. He puts in an 80-hour workweek, and in his downtime he snowboards, kitesurfs and plays underwater hockey — a little-known sport that involves jumping into a pool wearing a snorkel and hitting a lead puck.

He’s been chosen as one of the top innovators under 35 years old by MIT Technology Review and has set his sights sky-high for his company: to extend clean energy to every American home and business for less than dirty energy costs and give established utility companies a serious run for their money.

Today, solar energy supplies less than 1% of America’s energy needs. It’s barely seven years since South African-born Rive co-founded SolarCity with his brother Peter (the company’s COO and CTO) and their cousin Elon Musk (CEO of Tesla Motors and SpaceX, and Chairman of SolarCity). Yet the company went public in December 2012, bucking the trend for solar energy companies, and its stock has more than doubled.

In recent years, a number of high-profile solar manufacturing start-ups have failed due to an increase in inexpensive panels from China. One of the main reasons for SolarCity’s success is that the company is a buyer, not a manufacturer, of solar panels. While other manufacturing companies were going out of business, SolarCity took advantage of these low-cost solar panels, as well as the ease of installing them, taking the up-front investment out of the equation for customers and charging a monthly fee that undercut the utility companies.

It has gained investor confidence, says Rive, by meeting or exceeding every objective it has put in place. No doubt the interest of investors was also piqued by the fact that, prior to SolarCity, the brothers founded the industry-leading software company Everdream, which they sold to PC giant Dell in 2007 (making Lyndon a millionaire by the age of 30). Still, the success of SolarCity is remarkable given the unconventional nature of its business model.

“We have a guaranteed recurring revenue stream for 20 years”

It is this work ethic that helped shape Lyndon and Peter Rive, as well as their cousin, Elon Musk. Musk has been described as one of the country’s most exciting high-tech entrepreneurs, and it’s easy to see why. His first venture, internet software company Zip2, was sold to Compaq in 1999 for more than US$300m. He then co-founded PayPal, which was sold to eBay in 2002 for US$1.5b. Today, he’s at the helm of both Tesla Motors, an all-electric car manufacturer, and SpaceX, a space launch vehicle company that recently sent supply missions to the International Space Station.

“We’re all very alpha-male-type personalities,” says Rive, “but we relate well with one another. We brainstorm ideas, help each other all the time and set high goals for one another. “Our skills are so different,” Rive says of his relationship with Peter. “His are technology and operations; mine are business, finance and sales. The way we’ve always worked with one another is that I would sell it and he would build it. I make the promises and he delivers them. We argue, but it’s constructive, and we have full trust in one another in our different areas.

“Elon has taken it to the next level,” he continues, laughing. “He’s not just a genius, he’s an incredible genius, and we are fortunate enough that we work a lot with him, so it rubs off.”

Entrepreneurial DNA

Lyndon Rive comes from a long line of entrepreneurs. His great-grandmother was the first female chiropractor in Canada and his mother ran multiple businesses, including a pizza parlor and a small college for health and stress management. She worked long hours and took very few vacations.

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balance sheet, look at our cash flow statement. We own all these systems, and we are building an energy infrastructure. So it’s not obvious to most that we are becoming an energy company.”

With more than US$1b of contracts already locked in for 20 years and plans to multiply its customer base, Rive intends to turn SolarCity into a significant energy company. “We have a guaranteed recurring revenue stream for 20 years,” he explains. “We have cash flow coming to us every month, and if we decide not to invest in future projects, we still have this recurring revenue stream. So we are highly stable – almost as stable as a utility.”

The company’s growth has been fueled by financing from BofA Merrill Lynch and Google, as well as the 30% federal tax credit for solar installation that came into effect in 2005. In fact, Rive admits, SolarCity couldn’t have existed without it. When the tax credit is reduced to 10% in 2017, it will present a challenge to the company, but Rive plans to make up the difference by reducing costs.

Breaking the monopoly
SolarCity currently has more than 3,000 employees and operates in 14 states: Arizona, California, Colorado, Connecticut, Delaware, Hawaii, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Texas and Washington, as well as Washington, DC.

The company chose them on the basis of three factors: how much customers there pay in utility rates, how much utility companies charge for growth, and whether there is state incentive or rebate program.

In the immediate future, Rive sees the company’s biggest opportunities for growth lying in these states. While it has diversified into energy management, SolarCity’s primary focus is still selling electricity, and the market is huge. In the longer term, it plans to expand into further states and internationally, but “where to?” is a question Rive wrestles with, and he admits he doesn’t know the answer yet.

Utility companies have had a monopoly on electricity sales for close to a century, and this is something he hopes to change. “There are many other solar companies,” he says, “but they are not our true competitors. The true competitors are the utilities. Historically, customers have never had a choice. Now we are giving them a choice. I sell cheaper and cleaner. They sell it more expensive and dirty. We’ll see who wins.”

The volatility in the solar industry in recent years has been similar to the real estate cycle. Between 2006 and 2008, financing was readily available. This brought a large number of industry participants, but many were not adequately prepared for the downturn that followed. When the economy crashed and money became harder to find, solar companies needed very strong business plans, and those that were not extremely efficient were wiped out.

Late 2011 brought with it some high-profile bankruptcies in solar manufacturing because cheap panels from China made other technologies obsolete and, during the recession, many new companies lacked the economies of scale to expand into large-scale manufacturing.

Cheaper panel prices, however, helped make solar energy much more affordable. The pain of the solar manufacturers was a gain for solar leasing companies that could secure less-costly equipment. These companies have developed a winning formula for behind-the-meter projects, where the equipment sits on the same site as the person who is using the power produced by the project. This allows consumers the option of getting solar energy without having to buy panels, allowing them instead to pay a monthly lease or per-kilowatt-hour fee.

Another factor contributing to volatility was the federal government’s 1603 Program, part of the Recovery Act, which enabled owners of commercial solar projects to receive a 30% grant in lieu of the Investment Tax Credit for residential properties.

That brought a lot of companies back into the market, and the ability to move from the tax credits was no longer a barrier to entry. Then, when the program expired in 2012, it once again became much harder to finance projects, leading to something of a boom-bust cycle in the solar project developer market.

Today, the number of US states finding solar attractive is growing exponentially, so it continues to get cheaper and traditional electricity continues to get more expensive.

Treasured wisdom: “Enjoy the ups. When you’re working so hard and there are periods where you have successful milestones, it’s easy to think about the next task and forget to enjoy the milestone you’ve just achieved.”

See page 52 for more advice from the judges of the US National Entrepreneur Of The Year Award

The utility companies may want to pay attention. Rive admits he is “extremely competitive. I have to win. Second place is a bad place to be.” He attributes his success to “not taking ‘no’ for an answer, punching through the difficult times, not doing the fun things that your friends have done, and being willing to make those personal sacrifices such as canceling vacations – whatever it takes to get the job done.

“I was fortunate enough that my wife didn’t know anything else,” adds Rive, who married his high school sweetheart 12 years ago. “The only person she ever knew was the guy who runs companies, so in her mind, 80-hour workweeks are the norm. Elon works 100-hour workweeks, I don’t know how – that’s rough.”

Challenges Rive has had to overcome include obtaining a green card to work in the United States, a country he feels fosters entrepreneurial spirit better than anywhere in the world, though it’s ironic he was eventually granted a green card based on the fact that he and his wife were both members of the US national underwater hockey team, rather than his achievement in building a company (Everdream) employing 280 people. Another challenge was getting through the recession of 2008 and 2009.

“I am extremely competitive. I have to win. Second place is a bad place to be.”

“The biggest challenge we have is growing. We’re hiring roughly 8 people a day; we need to ramp that up to about 14. We’re changing an infrastructure that took 100 years to build. This is not like software, where you can easily scale it; it requires infrastructure. Our challenge is to hire talented people.”

The company is focusing on key areas: residential sales and photovoltaic (the method of converting solar radiation into electrical power) installation and operations. It is often asked where the company will go next. “What do you mean, next? This is it! I view the six years before we went public as training for the marathon. Most people who run want to finish and improve their personal time. Very few people plan to actually win the marathon. But we have to win this marathon. We have to get to a point where we are selling more clean energy than dirty energy is being sold. I think we can do it in 26.2 years – that’s the length of a marathon.

“If I could leave this world for my kids similar to the world I grew up in, that’d be a fantastic outcome. Not a better place – that’s too big a milestone,” he says, laughing. “Just not a worse place.”
Refined tactics

While today’s oil exploration is a game of high stakes and high technology, few energy executives understand how high tech can mitigate high risk better than Joseph Bryant, CEO of Cobalt International Energy

In an industry where success is measured in barrels, Cobalt International Energy has yet to turn a profit. Nonetheless, the oil exploration company Joseph Bryant founded in 2005 has doubled in value since going public four years ago, and its current market capitalization is US$11b.

Cobalt has been described as a “risky bet.” Unlike oil giants such as Shell and BP, it is nowhere near being a household name. Yet the sub-salt and pre-salt exploration work it is doing in the deep offshore waters of the Gulf of Mexico, and off the coast of West Africa, is attracting a great deal of attention.

Until relatively recently, this type of exploration was not considered worth the investment, because of a lack of seismic data and perceived low returns. It can cost US$200m to drill a well, without any guarantee of success.

Cobalt has taken the technology other companies use and applied it to deep water, a process that requires a great deal of skill, some guesswork and judgment – and a lot of nerve.

But, as Bryant quips: “The more you surround yourself with brilliant people, the luckier you’ll get.”

When he founded Cobalt, Bryant had to persuade investors he could make the company a success, an idea he concedes was a little “nutty.” To do that, Bryant explained his unique idea that an agile company, armed with the best available information and a disciplined business model, can compete with the world’s largest energy companies.

“A lot of people thought we were crazy,” he laughs. “We were literally going from my garage to competing with the
The second factor was the fungibility of technology. Entrepreneurs can access capital. Back then, unless you were and global nature of capital markets and the way in which resemble the capital markets of the 1970s — the complexity Bryant, four key shifts had taken place. The first was capital Seismic changes
In 2005, the timing was right to form Cobalt. According to Bryant, four key shifts had taken place. The first was capital had been writing since he started work in the oil fields of Nebraska in 1977 with a degree in mechanical engineering, he had talked out of a career as a “ski bum” by his father, choosing instead a career that allowed him to spend his days outdoors. He took a job with the oil company Amoco Corporation. Southeastem changes
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Cobalt went public in December 2009, raising US$850.5m to fund drilling and exploration, capital spending and other expenditures. Joseph Bryant readily admits that his first IPO experience was “very stressful.” “What was tough about our IPO,” he explains, “was that the business model is very difficult for normal investors to figure out because we don’t have a product; we don’t have revenue. The biggest challenge for us was a technical issue, in that we didn’t have proven reserves, which historically were the basis of the typical disclosure package.” The company relied on the technology and the expertise of its executive team to convince investors they would be able to find oil and gas. “At the end of the day, how well you can communicate your story makes 100% of the difference,” Bryant says. “If you can’t communicate it, there’s no point in trying.” Thinking ahead was key to their success. He explains: “We had done all of our legal risk assessments, we have standards that we have always adhered to, and we had all of our accounting standards that made the company transportable from private to public. You can’t have the mentality that ‘I’m a private company, I can do it one way and, if I ever want to become a public company, I’ll do things differently.’ “That doesn’t work. You have to build all of your systems and processes as if you were a public company, because you can’t rebuild that after the fact.”
Profile: Cobalt International Energy

trying to hit a target that’s about the size of a dinner plate! It’s as exciting as the lunar landing missions, and everybody wants to do this.”

Staff are recruited for technical expertise, specifically in deepwater oil and gas exploration, and for personalities that won’t disrupt the team. “If we start arguing with each other,” he adds, “that’s the end of Cobalt.”

His core staff have an average of 27 years in the industry, which brings a wealth of knowledge to the table. What happens when they retire, however, is uncertain. Bryant admits that the skills shortage afflicting the industry is a problem he hasn’t solved. For now, he plans to retain industry veterans for longer by keeping them “engaged.”

It’s a risk, but Bryant knows all about managing risk – technological, operational, political and financial. He has to make sure he is investing the right amount of money on the right technology at the right time. For example, he says that spending US$6m on data may seem expensive but when it materially affects the prospects of a US$200m well, it is money well spent.

Making sure that wells are drilled without accidents such as the Macondo Gulf of Mexico oil spill in 2010 means avoiding taking shortcuts at all costs. The spill shut down operations in the Gulf for close to two years, and the political reaction nearly put Cobalt out of business.

Then there was the recession. “We went from nothing to a US$11b market cap in supposedly the worst financial environment in the history of mankind,” Bryant recalls. “That was challenging.” He now recommends anticipating where you might be in several years and making sure you have the resources to get through anything.

Bryant believes two specific traits drive entrepreneurs such as him. “First is confidence. There were a lot of times where we could have thrown in the towel, but quitting never ever occurred to me,” he says. “Second is courage. You’ve got to have the courage to see it through.

“I’m glad that, somehow, I found either the wisdom or the courage to stick with what I was doing. I wouldn’t be here today had I not had the privilege of enjoying all those very, very difficult moments in my career.”

Today, Cobalt’s big challenge is transitioning into production. “We’re at that cusp right now,” explains Bryant, “where we will have production in a few years with the discoveries we’ve made. The challenge is how to achieve that without sacrificing all that we’ve earned to this point in terms of work culture.”

Bryant is often asked about the possibility of a takeover, but he shrugs off the question, saying he doesn’t spend time worrying about things he can’t control.

“What I can control is what I do every day when I come to the office,” he reflects. “And that is to make sure everybody here is creating shareholder value, spending our resources wisely and making sure we will be worth more tomorrow than we are today.”

Viewpoint
Confidence is rising in the IPO market

Jackie Kelley, Americas IPO Leader, EY

The appetite for IPOs has picked up over the past year, according to a global EY survey of institutional investors. Right team, right story, right price suggests that a brighter corporate earnings outlook, stabilization in macroeconomic conditions and in equity markets, and an increased appetite for risk are the factors most likely to improve IPO market sentiment in 2013.

While the number of IPOs was low in 2012 compared with other years, 82% of those surveyed had invested in IPO and pre-IPO stock in the past 12 months.

US exchanges are driving the most global deal activity, with far more IPOs in 2013 than expected. A level of confidence has returned to the markets after a tumultuous few months following the US election and the fiscal cliff, and there are positive signs that the IPO window will stay open. With the country’s housing market continuing to experience recovery, the real estate sector advanced ahead of technology as the leading sector for US IPOs.

The majority of investors are focused on domestic markets. This was particularly true in North America, where 83% are focusing on investment in domestic listings. European investors are more inclined to support listings outside their home region, while very few Asian investors are actively looking at opportunities overseas. Only 9% of Central and South American investors look outside their home region.

Investors generally perceived rapid-growth markets as both more risky and more expensive. Financial services is the industry with the highest appeal in every region. Investors are attracted to the sector due to the high demand for financial services globally and the high level of innovation within it.

Looking at the global picture, the survey results suggest that good-quality companies, priced at the right level, run by the right team and with a good story to tell, will always command the attention of the market. “Right price” featured in 91% of investors’ top three critical success factors influencing IPO performance across all geographic regions and investor types. But investors are also looking for evidence the business model has performed well in recent years and the company itself demonstrates strong growth.

Timing is another important factor. The window for successful offerings is constantly opening and closing, sometimes very quickly. Those companies that are well prepared to go public will be able to launch when the opportunity arises.

More information
To learn more about IPO preparation, visit tinyurl.com/EYIPOCenter. To learn more about EY’s services for the power and utilities industry, visit tinyurl.com/EYoilandgas
The middle-class effect

The global middle class will expand by another 3 billion people in the next two decades. Is your company ready to take advantage of this burgeoning market?

words Johanna Thomas-Corr

Today’s expansion of the middle class is happening in the emerging markets (EMs), with China and India set to become the powerhouses of middle-class consumerism in the next 20 years. But new sources of revenue come with new demands.

Companies accustomed to serving the middle-class markets of the old Western democracies will have to find ways to effectively supply the expanding middle classes of Africa, Asia and beyond. A recent EY report, Hitting the sweet spot, looks at the growth of the middle class in emerging markets and how it will change both the developed and developing worlds.

The demographic growth “sweet spot” occurs when people start leaving poverty and entering the middle class in the millions. For businesses, a practical definition of the sweet spot occurs when significant numbers of people begin earning between US$10 and US$100 per day, thereby entering the global middle-class bracket.

By 2030, the global middle class could constitute 50% of the world’s population – up from 29% in 2008. By then, the balance of geopolitical power is likely to have shifted, as will have the distribution of wealth, making global trade patterns unrecognizable.

Business opportunities will extend beyond consumer goods – the emergence of a new bourgeoisie will also open up the markets for financial services and the health sector, for instance, in entirely new territories. Are you and your company ready to respond?

When the EM countries hit their sweet spots (projected)

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Source: EY, various.

The middle class: size and distribution (millions of people, global share)

Photography: Getty Images

Source: EY, various.
The sell-a-vision success

Mindy Grossman has taken the helm of interactive multichannel retailer HSNi and endured the rough waters of an IPO. In just seven years, she has transformed her company into an upmarket retail empire.
It was the summer of 2008, the American economy teetered on the edge of what would become one of its deepest recessions in history, and Mindy Grossman was attempting a feat few other US executives were even considering at the time: taking a company public. “My CFO and I were running around raising the financing and debt for a company that was all about selling things to consumers in a very uncertain climate,” says Grossman, CEO of Florida-based HSNi. “The day after we went public, the world fell apart.”

Previously a part of New York-based IAC/InterActiveCorp., HSNi, which operates HSN (formerly the Home Shopping Network) and Cornerstone Brands (the mail-order catalog and online company), watched its stock price close at US$10 on its opening day. “It was complete chaos that had nothing to do with our business,” says Grossman, who joined IAC as HSN’s CEO in 2006 after a six-year stint as Nike’s Vice President of Global Apparel. “Our company had nothing to do with our business, it was complete chaos that had nothing to do with our business.”

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Grossman, who started her career in the menswear industry in 1977 and went on to occupy senior positions at Tommy Hilfiger, Warnaco and Polo Ralph Lauren Corporation, also followed her own instincts, focusing only on what could be controlled and blocking out the rest of the noise. But, just four months after the IPO, the firm’s stock price hit a low of US$1.43 – a level below its accounts receivable balance at the time. The firm was operating in a chaotic environment, but Grossman says that HSNi managed to survive thanks to its agility and its status as a “cash-generating machine.”

While a few of the company’s luxury businesses felt the impact of the recession more heavily than HSN did as a whole, the company grew in 2008 and 2009. “We actually came out of this a stronger, more resilient company and have proven the success of our business model,” says Grossman.

Like many entrepreneurs, Grossman has grown with the company she took public. In 2006, she was a Nike executive looking for a new opportunity that would bring her closer to her family and away from a heavy travel schedule.

“My daughter was in her last years of high school and I was doing a crazy global commute,” she recalls. Nike had just installed a new president and CEO (both of whom still run the company), and a glance up the corporate ladder told Grossman her prospects of leading the multinational corporation weren’t favorable. “Being on the succession plan with these very healthy, young guys wasn’t very compelling.”

The assumption in the business community that Grossman would go and run another large fashion company or a similar vertical business was shot down when she learned that IAC Corporation weren’t favorable. “Being on the succession plan with these very healthy, young guys wasn’t very compelling.”

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Grossman realized she had to broaden the audience base. That meant the channel had to stop hawking frumpy trackuits and deep-fat fryers and start luring fashion-forward customers. She also realized that, as IAC Retail’s eighth CEO in 10 years, she would have her work cut out for her. “People were just waiting around for the next leader to come in, so no strategies were being executed sustainably,” she says. “Everything here was just frozen.”

She set out to energize her company from the bottom up, starting with an employee orientation course – just like any other new member of staff. When it came to her turn to

Profile: HSNi

The power of partnerships

HSN has always leveraged partnerships with other companies, but when Mindy Grossman came on board, she ramped up that commitment significantly. Its most recent partnerships include an entertainment alliance with Disney’s Oz the Great and Powerful movie, a merchandising effort with Coca-Cola and a long-term marketing effort with HGT.

“We leverage partnerships to build our brand and our business,” says Bill Brand, HSNi’s Chief Marketing and Business Development Officer. Brand divides the partnerships into three distinct categories: entertainment, merchandise and marketing. Each serves a purpose, he says, and helps HSN better hone its customer acquisition and retention strategies, while keeping those clients engaged and interested in HSN.

When selecting partners, both Grossman and Brand say they look for a good cultural fit and mutual goals. One success is the company’s alliance with HGT HOME Outdoor TV. Rolled out in early 2013, the cross-brand initiative encompasses TV selling, original digital content and HGT personalities who appear on the shopping network to pitch products from plants to lightning to garden tools.

In measuring the benefits of such alliances, Brand says the successful ones help improve awareness of the HSN brand and typically translate into revenue growth by category. “As we become more relevant and increase people’s perception and esteem of our brand,” he says, “that will pay off.”

“We were the first to have a mobile app, a touchscreen wall and a retail gaming platform”

an epiphany. While flipping between Food Network and HSN, she lingered on the latter to catch an appearance by celebrity chef Wolfgang Puck. “Wolfgang’s segment was funny, engaging, informative and just as engaging as Food Network,” says Grossman. “HSN wasn’t about selling; it needed to be an editorial, programmed, lifestyle business that brought stories to life.”

That vision, which Grossman calls her “light bulb moment,” would carry her through those early days in a position outside her comfort zone. “I had no retail or TV experience, and I’d never run a direct-to-consumer company,” she admits. “But I had a vision of what we wanted to do, and I understood brands, culture and the interconnections between them.”

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Exceptional July–December 2013
But, when she first learned she was being considered for the EY Entrepreneur Of The Year® Award, she didn't feel qualified for the honor. “I’m not the entrepreneur,” Grossman recalls saying at the time. “But then I realized that entrepreneurs not only start companies from the ground up, they also transform businesses and create new opportunities.”

She says the National Entrepreneur Of The Year Awards in Palm Springs put her in direct contact with a number of enterprising individuals. The founders of a future HSNi portfolio company were among them. “While in line waiting to receive my award, I met the founders of Chasing Fireflies Children’s Boutique,” she says. “When I got back to my hotel room that night, I called my CFO and told her that I’d just met the women whose business would become our first acquisition.”

The crystal ball
The future looks promising for HSNi. It continues to leverage its huge database by providing customer-oriented content, as well as managing a portfolio of lifestyle brands (including Chasing Fireflies) through Cornerstone – which operates seven e-commerce sites, distributes more than 300 million catalogs annually and has 11 retail and outlet stores. It’s a platform that goes beyond the original “yell and sell” direct TV advertising methods that spawned the Home Shopping Network.

Grossman has been responsible for transforming HSNi into a tech-savvy player in the home shopping space

Treasured wisdom:
“It is important that you have an impact in what you do every day, be driven by a purpose and be passionate about what you are doing.”

See page 52 for more advice from the judges of the US National Entrepreneur Of The Year Award

“I had no retail or TV experience ... but I had a vision of what we wanted to do”

Club (the firm’s original iteration) in 1982. In 2009, its first full-year as a public company, HSNi posted US$2.75b in sales.

Last year, that number was US$3.3b, up 6% over 2011. “We’re at the most exciting inflection point in the company’s history on a number of levels,” says Grossman, who, after seven years of investing in core infrastructure and business repositioning efforts, is braced to leapfrog her company yet again. She is targeting strategic portfolio acquisitions along with more organic growth.

“We’re aggressively going after the integration of culture and entertainment in our businesses,” says Grossman (see sidebar, page 27). “We really want to be at that incredible cross section of media, technology, entertainment and commerce. We’ve laid the foundation, and now it’s time to accelerate beyond that.”

More information
To learn more about gamification, read EY’s Performance report “Five things you need to know about gamification” at tinyurl.com/EYfivegamification or email daniel.valerio@ey.com

Ten years ago, you wouldn’t have expected a product retailer to offer a free video game experience to its customers, but that is what we are seeing in today’s internet age. Intent on keeping customers’ eyeballs glued to their websites for as many minutes as possible, retailers are leveraging social networking, gaming and other tools to create unique experiences for customers – in the hope they stay a little longer and buy a little more.

Gamification, the latest buzzword in retail, is the use of game-thinking and mechanics in non-game context to engage users and help them solve problems. It is particularly relevant for retailers that want to stand out or just keep pace with the formidable online giants. Eager to leverage the power of the “second screen” (mobile phones and tablets) and strike a competitive balance, some retailers are looking to gaming as a viable option.

According to a recent survey by gaming platform Gaiya, adding gamification to a site boosts user engagement by almost a third. In fact, gamification boosts commenting by 13%; social sharing to Facebook, Twitter and networks by 22%; and content discovery by 68%.

Of course, gamification goes beyond one person who sits and plays solitaire on their mobile phone, tablet or laptop. Over the past 10 years, in fact, the concept of gaming has become extremely social. Users bring friends, family and even strangers into their online experiences. In doing so, they open up whole new worlds for retailers that create that connection between consumer engagement and sales. Add social networking sites such as Facebook and Twitter into the mix, and the door of opportunity opens up even wider for companies.

Consumers are finding more ways to spend more time on their favorite retailers’ websites. The more time they spend on those sites, the more chances they have to shop. And the more interactions that take place, the better the chances that a retailer will be able to differentiate itself, have its story understood, and build strong, lasting affiliations with those users, leading to more sustained customer loyalty.

The concept of gamification in the retail space is evolving slowly. It is less of a force to be reckoned with and more of a way for retailers to differentiate themselves by giving customers more than they’re asking for. Whether today’s retailers learn how to tap into the opportunity effectively remains to be seen, but it’s a growing option in today’s connected world.
Bris Rocher discusses the original sustainable business that has attracted French women for more than half a century

words Agnès Poirier

In the offices of Yves Rocher, 36-year-old Bris Rocher, CEO of the company founded by his grandfather, keeps his visitors waiting in a sunny little vestibule. On a low glass coffee table, a few books are carefully laid out: all reveal a facet of the iconic French brand.

Yves Rocher’s natural cosmetic products are part of France’s national heritage. Every French family has once enjoyed the thrill of receiving Yves Rocher’s famous little beauty parcels through the post at a time when mail-order businesses were extremely rare. Using plants grown on the family estate of La Gacilly in Brittany to make his products, Yves Rocher was one of the first environmentally conscious entrepreneurs in Europe. A book of photographs shows acres of organic chamomile and medicinal plants in a hilly Breton landscape. Another book, written by Bris Rocher’s uncle, bears witness to the family’s taste for traveling and its commitment to sustainable development through a system of partnerships, along with aid to entrepreneurial women living in developing countries.

“We owe our success to nature, so the least we can do is look after it,” Rocher explains. Sustainable development has been a cornerstone of the brand since 1959, decades before it became a regular item on boardroom agendas. “It is what Yves Rocher is all about: quality natural products that have always been affordable to a very large public.”

Bris Rocher, who became the head of the multibillion-dollar French cosmetic empire five years ago, remembers with fondness the summers when he helped with the harvests at La Gacilly. “I was barely 12; I started early!” After a stint in the accounting department of the company, he moved to Arthur Andersen (now Accenture). “I needed to try my hand at other things, even if I secretly knew that I’d go back home eventually.” In 2003, back in France, Rocher was made Vice-President of the Yves Rocher Group (eight brands active in the markets of cosmetics, clothing and homecare products), and when his grandfather died in 2009, he took over the business, as the eldest of eight grandchildren.

One of the first decisions he made was to consolidate the business. In the 1970s, his grandfather had sold 60% of his company to French pharmaceutical giant Sanofi. “He was very ill at the time, and he wanted to make sure his young family would be financially safe in the event of his death.” Having grown from a small family business to a national brand, the Yves Rocher Group has experienced remarkable growth, with sales exceeding €1 billion in 2012.

A botanical entrepreneur blooms

Yves Rocher discovered a passion for botanics in La Gacilly in Brittany, France, in the 1950s. The story goes that a local healer gave him a secret recipe for a cream made from lesser celandine. He made it and sold it locally, and it was so popular that he started to sell it by mail order. Fascinated by plants and his grandfather’s collection of dried herbs, Yves Rocher taught himself everything he could about botanics and beauty products, using his family’s attic as a laboratory and distribution center.

“We owe our success to nature, so the least we can do is look after it”
Profile: Yves Rocher Group

“Yves Rocher is not your average business,” he says. “Its success is based on true values: loyalty, family, respect for the environment and excellence. You only need to visit La Gacilly in Brittany, a village of 2,000 inhabitants, to understand what the company is about.

“We have 1,000 different species of plants there, botanical gardens that are open to the public, an organic restaurant, and an organic hotel and spa. We also sponsor an open-air festival of photography every summer. As for our factories, all located in and around the village, they employ 3,500 people. It’s not just a pretty picture in a magazine; it’s real, it’s made of flesh, and that is a beautiful thing.”

The Yves Rocher family is composed of a dozen members, who share a concern for the preservation of the environment. Carrying on the ecological values upon which the business was built, the company has recently committed to planting 50 million trees around the world by 2015. “It is a huge task, but not an impossible one,” Rocher says, smiling.

In 2012, Yves Rocher’s sales topped US$3 billion, up from US$2.8 billion the previous year. Today, two-thirds of sales are within the Eurozone. According to Euromonitor data, the company’s French market share is second only to L’Oréal. And a company year-end report from 2011 reveals that one out of three French women is a Yves Rocher customer.

Sustainable development

For Rocher, it was essential that the family and employees regain total control of the group’s destiny. “Yves Rocher is not your average business,” he says. “Its success is based on true values: loyalty, family, respect for the environment and excellence. You only need to visit La Gacilly in Brittany, a village of 2,000 inhabitants, to understand what the company is about.

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Top: Despite its mail order and internet distribution model, Yves Rocher has almost 4,000 retail outlets in 85 countries. Left: Each year, Yves Rocher holds an annual open-air festival of photography. Bottom: As a child, Rocher often helped with the harvests at La Gacilly in Brittany.

“We have two strategic axes: the first is to develop our international activities; the second is to win the battle of mail order online and digital distribution. I owe it to my grandfather, who was a mail-order pioneer.” Rocher says that the company’s e-commerce and e-retailing have not cannibalized classic mail order: “They live in harmony by side and are even profitable.” However, he continues, the group must become a truly digital company. Rocher cites Amazon and Apple as brands to emulate. Both have managed to seize, and now personify, today’s digital zeitgeist. “Talent lies in the ability to follow society’s evolutions and help consumers as they change their ways of consuming.” Looking to the rest of the world, Rocher says, “Our DNA is strong. The Yves Rocher brand is meaningful, and it is grounded in history. We must export our ethos. We must also develop our activities outside the Eurozone to consolidate the future. We have recently bought an Italian brand, Florimar, which is being run by a Turkish family. It is something that makes us proud, to open Yves Rocher in Turkey.”

In parallel, Rocher is opening beauty shops in countries such as Russia. “We were the second company, after McDonald’s, to open shops in Russia just after the fall of the Berlin Wall. The thinking behind it was that, very soon, Russia would embrace capitalism and its middle classes would be hungry for products like ours. We now have 250 shops throughout Russia. China is next on Rocher’s list of countries to conquer, alongside Latin America. “The population is young, and the middle classes are getting more affluent every month. China is, for us, an exciting new market.”

In the cosmetics industry, image is another critical success factor, and Yves Rocher is no different. “You must always be at the top of your game and be aware of how others perceive you,” says Rocher. “A brand must evolve with its time even if it is grounded in history. Traditional doesn’t mean stiff.”

As a result, the logo and the shops got a makeover, but the quality of the service remained unchanged. Rocher often evokes his grandfather’s innate flair. “He had his feet firmly on the ground,” he says, “and his talent rested on two qualities: good common sense and vision.”

We’re all global businesses now. Whether you’re a small family business or a global consumer goods company, you need to think of your product using social media. Some global consumer goods companies are contracting control over social media. Under this approach, one team of experts can share skills and experience with marketers in different countries and subsidiaries. This way social media campaigns can be tailored to different markets while maintaining a common message for brands.

More information

To learn more about dynastic family business models, read the EY report Built to last at tinyurl.com/EYBuiltToLast.

Viewpoint

New markets, new methods

Mark Belschik, Global Sector Leader for Consumer Products and Andrew Cosgrove, Global Consumer Products Lead Analyst, EY

We’re all global businesses now. Whether you’re a small family business or a global consumer goods company, you need to think of your product using social media. Some global consumer goods companies are contracting control over social media. Under this approach, one team of experts can share skills and experience with marketers in different countries and subsidiaries. This way social media campaigns can be tailored to different markets while maintaining a common message for brands.

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Welcome to the most romantic factory in the world, a 14th-century castle in the medieval hilltop village of Solomeo, central Italy, inside, two seamstresses with strong, nimble fingers sew cord into the right shape, fixing it with quick, sure stitches. The term bello, meaning beautiful, peppers their conversation. They are preparing to make some of the highest-quality cashmere in the world.

This is Made in Italy, the luxury clothing enterprise of Brunello Cucinelli, one of Italy’s most enigmatic entrepreneurs. In 1978, Cucinelli, who came from a poor farming family, set up a workshop with a 500,000 lire loan (the equivalent of US$325 today) and made a small collection with 5 styles and 53 sweaters. They sold immediately. The company, like many other successful Italian luxury manufacturers, has weathered the recession exceptionally well. In 2012, it posted a net annual turnover of US$363.3m, a 15.1% increase on the previous year. Cucinelli has 10 boutiques in the US and one in Argentina. According to the Bloomberg Billionaires Index, he has a net worth of at least US$1b.

But wealth is not his priority. Human dignity must be the bottom line, and to that end, Cucinelli distributes his profits among his employees. “I will never make money from the misery of others,” he says, “and I will never humiliate those who work.”

The big picture: Brunello Cucinelli

Little Knitaly

Exceptional July–December 2013
The winner takes it all

After a long bidding process, Rio de Janeiro will host the 31st Olympic Games. The Brazilian city won what is effectively one of the biggest RFPs in the world. What lessons can companies learn from the battle to win and stage the Games?

When it comes to a request for proposal (RFP), there is probably nothing larger than bidding to host the Olympic and Paralympic Games. The bid preparation work alone can take up to seven years, as can gaining the support of significant stakeholders in the hope of host city status. It requires a huge team of specialists, and the budget to deliver the winning bid can run into millions of dollars. As a result, entrepreneurial companies need to justify their offer comprehensively and exhaustively for the right company to deliver on its bid. “If an Olympic city fails behind on its commitments and ends up with delays that could jeopardize the staging of a Games, the consequences can be dramatic,” says Evans. “The same is true if a company wins a bid and then fails to deliver its promises. The consequences for the supplier are potentially irreversible and may have huge impacts on their reputation, domestically and globally.”

Why us?
Key to securing a large-scale bid such as the Olympic Games is making a convincing case as to why your company, rather than any other, should secure the contract. “Companies are becoming more and more aligned on price and quality,” says Evans, “so it is the unique selling points of a company that can help differentiate, and ultimately secure, a win. Without understanding yourself, it is difficult to produce a bid that answers the question, ‘Why us?’”

Evans advises companies to start their bid preparations by doing their homework. This means assessing their strengths, weaknesses, opportunities and threats (SWOT) and those of rival companies. Rio played to its strengths: Brazil is a sporting nation, and Rio a naturally beautiful setting favorable for hosting all categories of sports within a single city.

It touted Brazil’s economic stability, alignment between its three levels of government, popular support and prior success in hosting a major sporting event (the XV Pan American Games Rio 2007) to its advantage. However, the city also faced its weaknesses: limited infrastructure and transportation options, bureaucracy, complex tax structures, issues with security, and a lack of accommodation. Evans advises turning weaknesses into strengths — in other words, propose to speed up development and don’t run out of time. By committing to address them, stakeholders meet all deadlines and don’t waste time focusing on “maybe” competitors but instead concentrate on the ones that have already announced their intention to bid.

Hitting all the technical marks isn’t enough. There has to be a compelling, emotional connection to the bid that enables a company to stand out. Focusing on becoming the first Games in South America was vital to Rio’s success. In a presentation to the IOC, Carlos Nuzman—who is now President of the Rio 2016 Organizing Committee, but was at the time leading its bid — displayed a map of the world showing all the previous Olympic host cities. South America’s blank image caused a major impact. “Imagine the power of the Olympic Movement reaching 65 million under-18s in Brazil and 180 million young people across the whole of South America,” he said in his pitch.

Five ways to win an RFP

1. Ensure you have the resources. A bid may seem appealing, but could it stretch your company too far?
2. Don’t hide your weaknesses. By committing to address them, you’ll underline how serious you are about the bid.
3. Understand your competitors’ strengths. Imagine their potential bid strategy and understand how to counter their strengths.
4. Keep to schedule. Ensure all stakeholders meet all deadlines and don’t run out of time.
5. Be different. Make your company stand out from the competition for a compelling reason. Then shout about it.

In these areas as part of the bid. Putting weaknesses on the table and committing to address them can demonstrate to the client how serious the company is about the bid. It’s also important to understand competitors’ strengths and imagine how they might bid. Knowing their weaknesses can help strengthen the bid focus. However, companies shouldn’t waste time focusing on “maybe” competitors but instead concentrate on the ones that have already announced their intention to bid.

Responding to an RFP with the potential to elevate your business into another gear is both daunting and exciting,” says Antonio Evans, so it is the unique selling points of a company that can help differentiate, and ultimately secure, a win. Without understanding yourself, it is difficult to produce a bid that answers the question, ‘Why us?’”

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The Brazilian Government was quick to support the bid and the IOC acknowledged this when it chose the city. “Aligning stakeholders for an Olympic bid is not just about getting a few City Hall people behind the bid,” explains Evans. “It is about getting some of the most significant and powerful stakeholders in a city or country to support what will become the most important RFP response they may ever have to develop.”

Timing is key
Aligning stakeholders in a company may take longer than anticipated and, if some of those stakeholders are sub-contractors, delays can soon mount up. It’s vital to get your bid on a tight schedule, with all stakeholders aware of the deadlines.

Timing the bid is as important as having a flawless proposal
As with the Games, a commercial bid should only be considered if the time is right for the company and there is a high chance of success. The RFP may look very appealing and stakeholders may get excited about responding, but will rushing into a decision to bid cause more harm than good? A failure to win due to a lack of preparedness or experience may make the key stakeholders not to bid for new RFPs in the future.

Using time effectively is also essential. Planning the bid process and meeting the deadlines of the RFP are critical to the success of the bid. No one wants to drop out due to something as elementary as running out of time or forgetting to submit two copies of the bid.

Closing the deal
Using key people and relationships to promote the RFP helps answer the “Why us?” question. “To win, you need to be surrounded by star players,” says Leonardo Gryner, the Organizing Committee’s Chief Operations Officer. High-profile personalities and opinion leaders can play a fundamental role in conveying ideas, values and beliefs. David Beckham emerged as an important ambassador for London 2012, and Rio invited soccer legend Pelé to join its bid team at the final vote in Denmark in 2009.

“Timing the bid is as important as having a flawless proposal”

Building on solid foundations, a company must maintain its focus throughout the RFP, submitting its bid in a controlled and confident way. Last-minute submissions can cause unnecessary stress within the bid team, and if submitting in person, this can often be reflected in the people delivering it. Once the bid is submitted, the promoting doesn’t finish. There may still be skeptics who need convincing. Your city or company may have the best technical bid in the world, but if the message of “Why us?” is not refined and delivered effectively all the way up to the announcement, then there is still the possibility of losing. As the Rio team showed, it pays to keep working until the last possible moment.
Now the consumer has much more knowledge and power

surpass desktop imminently, because there are 1.5 billion desktop computers worldwide, compared with about 950 million smartphones at the moment.

Hyek: But at the current growth rates of smartphones and tablets, there may be more mobile devices used to access the internet than traditional computers by 2014. This creates exciting growth opportunities, especially for interactive services delivered to mobile devices from an intelligence center in the cloud and for the increasing role of voice-based user interfaces.

How do companies keep pace in such a fast-evolving sector yet maintain their core qualities and values?

Hyek: Tomás spoke before about the increasing power of consumers to share what they think is good or bad. Information is widely available and harder to control, and any customer can affect your brand. In order to keep pace with what your customers and competitors are saying about you, using advanced listening technology should be one of a company’s top priorities. Plus, companies’ organizational structures must facilitate accelerated adaptation to technology and rapid response to customers and the market. For these reasons, plus today’s technology-enabled transparency, it is critical that companies and their employees know what their values are and stick to them.

Pat Hyek is the Global Technology Industry Leader and head of the Global Technology Center (GTC) at EY. In this role, Hyek connects teams of EY professionals and clients around the world to share knowledge, experience and points of view on how the technology industry is helping businesses grow, manage and protect their businesses.

Tomás Diago founded Softonic in Barcelona in 1997. The company, which is based on his final degree project, provides an online software and apps guide. Having successfully pursued an international expansion strategy, Diago has sought to adapt to the individual needs of customers from around the world.

What developments in the software industry are providing opportunities for growth?

Hyek: Companies are focused on how to take advantage of an increasingly mobile world. But that means integrating five technology “megatrends”: smart mobility, cloud computing, social media, big data analytics and accelerated adaptation, which is the process of companies adapting to technology’s new and transformative possibilities. This is unlike anything before because it is happening in one big concurrent wave, and so fast that it is hard to predict what the outcomes will be.

Diago: For example, PCs and tablets are converging and will lead to a brilliant new platform. Softonic is an online software-discovery portal but we are transforming it into a software apps guide. One of our challenges at Softonic is to create customized, unique experiences for our users, which is where the big data concept excites me.

Hyek: But with so much more digestible information available, concerns about the privacy of information and how governments deal with privacy remains a challenge. Another challenge with cloud, big data and smart mobility is the need for companies to look beyond their traditional rivals at potential competitors from the technology world. Companies from all industries should learn from how technology companies captured retail and advertising sales, for example, and think about how their industries might be similarly disrupted.

Will mobile app downloads outgrow desktop software downloads?

Diago: Softonic generates 5.3 million downloads every day, 1,200 million of which are mobile apps. Mobile app downloads have grown much more than desktop, but desktop downloads are still on the increase in emerging countries. I don’t believe that mobile will independently, leading to a new class of entrepreneur. This further accelerates the pace of innovation.

What challenges will tech and non-tech companies face with regard to these developments?

Hyek: One of the GTC’s current industry studies is looking at how technology innovation continues to affect the media and entertainment sectors. Of course, internet technology has already transformed those sectors, but we believe many more changes are still to come. The key challenge for companies is to adapt to this change at the speed of its customers. Agility and a deep understanding of the customer are today’s linchpins for success. Accelerated adaptation to new technology will transform businesses and allow them to connect closely with customers, deliver rapid product development and lead to more flexible business models.

Diago: On top of that, the increasing power of internet communities means consumers can now share information on what is good and bad. Companies used to be able to control consumer thinking with advertising, but now the consumer has much more knowledge and power. We have noticed this and have had to adapt to it.

Hyek: We believe many more changes are still to come. The key challenge is to adapt to change at the speed of customers. The challenge is to avoid being a disruption victim rather than a disruptor.

Hyek: I agree, one of our core values and critical success factors is innovation. We strongly believe in it and for that reason we keep investing our profits into innovation. We operate on a long-term view, which is why values are an essential part of our organization, making short-term gain not relevant to the company. Our success is based on people. If the people who work at Softonic are happy, then the company is successful. We do not rely on machines; we rely on people, and they are our biggest asset and essential for our ongoing fast growth.

More information

To find out more about the latest trends and insights in this exciting sector, please visit EY’s Global Technology Center ey.com/technology

“Now the consumer has much more knowledge and power”
Avinoam Nowogrodski, CEO of cloud-based project management company Clarizen, has come out on top despite a competitive market and tough economic forces. Now, he’s eyeing up the competition.

Avinoam Nowogrodski is not afraid of saying his goal is to take on Microsoft. As the founder and CEO of Clarizen, an online project management software company, his biggest competitor is Microsoft Project, which has an annual turnover of US$1b. Challenging the world’s largest software maker is “an aggressive approach,” he concedes, but, like a proud father, Nowogrodski is confident of his product and is convinced it will improve the way companies manage their operations and personnel.

Helping companies simplify project management, Clarizen provides a virtual environment in which businesses can track and manage their operations, tasks, resources, budgets and communications. Alerts are sent whenever a deadline is looming, and every aspect of the project can be supervised using the software.

“Collaboration” is the word the Israeli entrepreneur repeatedly stresses, because the act of people working together has always captured his imagination. He says he is fascinated by “how work gets done,” which may sound
Exceptional Profile: Clarizen

Nowogrodski believes that great entrepreneurs must be able to manage uncertainty

Prosaic, but when Nowogrodski warms to this theme, he speaks with the kind of spiritual zeal that transcends an interest in seemingly mundane procedural matters.

“The process of how work gets done is only one aspect, but collaboration is important because collaboration is what makes work happen,” he says. He explains that several decades of experience in the high-tech industry in both Israel and Europe drew his attention to “the low level of participation of workers in the decision-making process and in the overall function of companies.”

If anyone understands the concept of collaboration being easier to talk about than to achieve, it is Nowogrodski. He has four children and runs a company employing 120 workers between its Israeli headquarters in Hod Hasharon, near Tel Aviv, and eight other offices across the world, including one in San Mateo, California. But to the 53-year-old CEO, the idea of many workers cooperating is not a lofty ideal. By allowing workers to participate in visible discussions, he believes the whole process can be managed in a clearer way. This approach informed the company’s name: Clarizen, for clarity, and the Buddhist concept of zen, suggesting peace of mind, or focus.

Because Clarizen is a private company, Nowogrodski will only give an estimate of its sales – tens of millions of US dollars annually. While 60% of its customers are in the United States, and the nation remains the most lucrative sales destination, Clarizen’s customer base spans 67 countries.

Improving technology

Nowogrodski started Clarizen in 2006 with just four workers and raised US$50m from Israeli and American investors in a competitive market for cloud-based businesses. His school peers may be surprised by his success – Nowogrodski only just got through high school and was more interested in fixing the neighbors’ lawn mowers than in doing homework. Raised in an agricultural community in the heart of Israel, he grew tomatoes as a teenager and got a matriculation diploma as a car mechanic.

His love affair with technology started in the 1980s, when he studied electrical engineering by day and worked as a security guard at night. His ambition was kindled while working near the offices of a high-tech company, where he discovered he enjoyed improving technology. The job took him to Germany, where he moved into sales before starting his own company in 1995.

He created SmarTeam Corporation, a leading provider of collaborative product life-cycle management (PLM) solutions that enable clients to collaborate on product information. After 10 years – during which time Nowogrodski held the role of CEO – SmarTeam was sold to the French giant Dassault. He could have taken a management position in the larger technology company, but he went back to square one and started a new business – a career move not uncommon in Israel’s lively start-up community.

“People in Israel have the confidence to learn and the guts to be open,” he says. “It’s something to do with the history of the country. Israelis have been required to think outside the box.”

Nowogrodski had to rely on his guts and his heart as an innovator when Clarizen ran into problems in 2008. The company stumbled by failing to reach critical mass in terms of reputation and customer growth. Unable to raise funds, Clarizen almost went under.

Nowogrodski cut 50% of the company, reduced salaries by 20%, and managed worked six months without salary to turn the business around.

“The ability to manage uncertainty is the key to a great entrepreneur,” says Nowogrodski. “When there is a crisis, I don’t give people attitude; I try to be measured. Don’t just ask yourself what you can do, ask what you can stop doing and what you can give up.”

Having survived the crisis, he knew he had to make an audacious move: take on the main player in the market. In 2008, Clarizen offered discounts to customers who made the switch from Microsoft.

Clarizen has since developed a reputation as a young gun in the marketplace. The company now boasts more than 2,000 corporate customers and receives praise from tech commentators as early recognition of the importance of integrating a mobile feature into its software. Revenue doubled between 2011 and 2012. Nowogrodski says 220 companies start using the software every day, and 150 are translated into paying customers every month.

That Clarizen has overcome its troubles and since expanded speaks volumes about Nowogrodski’s tenacity and ambition. In the coming years, he intends to take Clarizen through an IPO while strengthening its leadership ranks.

“It’s not about getting rich quickly,” he says. “There’s nothing wrong with that, of course. But the real drive is to make a difference to people’s lives.”

Treasured wisdom: “My mother told me: ‘Be open and learn. Try to keep testing yourself.’” See page 52 for more advice from the judges of the US National Entrepreneur Of The Year Award

Viewpoint
Israel’s flourishing tech sector
Yael Naftaly, Assurance Services Partner, Ernst & Young Israel

Israel’s technology sector is striding ahead thanks to a potent recipe of domestic and foreign investment, government support and embedded entrepreneurial culture that favors risk-taking. Israeli technology companies are well positioned to generate further growth by exploiting transformative “megatrends” disrupting the industry, in particular cloud computing and big data analytics. The fast-growing cybersecurity domain has also attracted big investment.

Domestic mergers and acquisitions (M&As) demonstrate the strength of the sector, especially when compared with technology firms in other markets. Venture capital-backed M&As among Israeli technology firms were valued at US$2.9b in 2012, up from US$2.4b the previous year and the highest annual total for a decade. The trend continued into the first quarter of 2013 with transactions worth US$765m taking place.

This success contrasts with a decline in technology M&A in the US during 2012 and subdued short-term prospects for M&A in the global technology market as companies struggle to contend with macroeconomic uncertainty. Longer term, global technology M&A is likely to pick up as companies buy up complementary acquisitions to address ongoing trends.

Israel’s technology ecosystem has been carefully cultivated through government incentives, such as research and development grants. An innovation-driven business community has proved crucial to the sector’s growth, and Israel boasts a large pool of experienced serial entrepreneurs lending their strength to continued expansion.

Private investment is also key, with Israeli technology companies proving adept at raising money from both domestic and foreign venture capitalists. In 2012, the Israeli software sector alone raised US$222m from venture capitalists, which accounted for more than 20% of venture capital investments throughout Israel during the year.

Flexibility is an added strength, opening up opportunities in markets far beyond Israel’s borders. By basing their research and development operations within Israel and running sales operations from abroad, Israeli firms gain instant access to global markets, offering even greater opportunities for investment and product distribution.

The value of Israel’s technology sector has most often been realized through M&A activity, but more IPOs are on the horizon, with between four and six firms likely to list in 2013 or 2014, mainly in the medical device and software sectors. As technology companies worldwide attempt to make the most of rapidly changing trends, Israeli firms are well placed to remain at the vanguard of the sector.

More information
For more information about EY’s services for the technology industry, visit tinyurl.com/EYTechnology
Race to the top

Robert Herjavec started life in North America as an immigrant child who struggled to fit in. But with extraordinary drive and visionary thinking, he’s speeding toward cybersecurity domination.
When Robert Herjavec was 12 years old, he came home to tell his mother about a particularly miserable day at school. A Croatian immigrant who struggled with the transition to his new home in Canada, Herjavec had been picked on by the other kids and was feeling sorry for himself. "It's one of my most vivid memories," says Herjavec. "I was sitting there and complaining to my mother in this tiny little kitchen. At the time, my dad used to walk to work because he wanted to save the money from the bus fare. He came home and stood there as I was talking, then he looked at me and said, 'Never complain.'"

That instruction would become a guiding principle in Herjavec's life. "It really, really stuck with me. You've got to just keep going," he says, recalling a seminal moment that sparked his mind behind The Herjavec Group (THG), Canada's largest IT security company, with annual sales of US$155m. He's the serial entrepreneur and cybersecurity mogul is the driving force behind The Herjavec Group (THG), Canada's largest IT security company, with annual sales of US$155m. He's the mind behind The Herjavec Group (THG), Canada's largest IT security company, with annual sales of US$155m. Herjavec, above, stands next to the smashed-up hood of a Ferrari that he crashed.

"The biggest influence on me was probably my dad, who was a really, really tough guy," says Herjavec. "Starting your own business is really hard, ... [but] whenever I feel down on myself I always think, 'This is nothing.' My dad was in jail [for speaking out against Marshal Josef Tito's regime], left the country at 37, came to a country where he knew no one and swept floors. I mean, that's hard."

Herjavec didn't head straight toward entrepreneurship. He graduated from university with a degree in English literature and political science and worked in an eclectic array of jobs (waiter, retail salesman, TV field producer, collection agent) to pay the bills. When he found himself under-qualified for a job selling computer components, he offered to work for free to gain experience and, at night, waited tables at an upscale restaurant. Sensing the burgeoning tech industry could be his path to wealth, Herjavec soaked up all the knowledge he could.

"Sometimes you need to know when to let go of the steering wheel!"

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"The biggest influence on me was probably my dad, who was a really, really tough guy," says Herjavec. "Starting your own business is really hard, ... [but] whenever I feel down on myself I always think, 'This is nothing.' My dad was in jail [for speaking out against Marshal Josef Tito's regime], left the country at 37, came to a country where he knew no one and swept floors. I mean, that's hard."

Herjavec didn't head straight toward entrepreneurship. He graduated from university with a degree in English literature and political science and worked in an eclectic array of jobs (waiter, retail salesman, TV field producer, collection agent) to pay the bills. When he found himself under-qualified for a job selling computer components, he offered to work for free to gain experience and, at night, waited tables at an upscale restaurant. Sensing the burgeoning tech industry could be his path to wealth, Herjavec soaked up all the knowledge he could.

"Sometimes you need to know when to let go of the steering wheel!"
Treasured wisdom:
“Every day, someone wakes up with the sole intention of kicking your ass.”

He could. In 1990, he launched his first company, BRAK Systems, on a shoestring out of his basement. Over the next 10 years, he grew the business into Canada’s biggest Internet security software provider. “I was always absolutely, blindly driven,” he says. Herjavec went on to sell that company for a reported US$100m to AT&T and a second company to Nokia for US$250m. He then briefly retired, spending three years with his wife, Diane, and three young children in their sprawling mansion in Toronto’s exclusive Bridle Path neighborhood. But two successful ventures did not quell Herjavec’s famous mansion in Toronto’s exclusive Bridle Path neighborhood.

Over the next 10 years, he grew the business into Canada’s biggest Internet security software provider. Herjavec sees the company growing to US$250m and by moving aggressively into infrastructure, servers and storage. His office is filled with the toys and trappings of a successful tech tycoon. A motorcycle is perched in one corner of the room near a custom-made Fender guitar emblazoned with the Shark Tank logo. On one wall is a bookcase full of trophies and awards, while another is dominated by a huge painting of a shark suspended in a glass tank.

There’s also the smashed-up hood of a Ferrari that Herjavec crashed while motor racing. With his passion for racing taking him to tracks around the world, Herjavec was recently named the Ferrari Challenge Series’ “Rookie of the Year.” He says it’s yet another way he pushes himself to succeed. “As life gets easier for me in many ways, I try to continue to make it hard. Car racing is the ability to control your emotions in the middle of a hurricane.”

“Every time we start a race, there’s always a part of me that says, ‘What am I doing?’” he continues. “People think courage is the absence of fear, but I think courage is the ability to work through the fear.”

One fear Herjavec faces with THG is being able to stay ahead of the curve in the ever-challenged field of security technology. THG provides secure content management solutions for large companies, from email security to intrusion prevention to database security. In an era where security breaches can affect millions of consumers, anticipating the next hack is essential.

“People think courage is the absence of fear, but I think courage is the ability to work through the fear.”

“This is the only technology that, the minute it’s invented, someone in the world wants to break it,” he says. “When someone invents a new phone system, nobody goes out and tries to break it — they try to make it better.”

“But as soon as someone invents a better way to do online banking, someone’s trying to hack it. So that fundamental challenge never goes away. You’ve got to be on top of this stuff all the time.”

Customer service is also a cornerstone of THG’s success. Herjavec says building a thriving business isn’t necessarily about coming up with bigger, better, newer products all the time; rather, it’s knowing how to provide value for your customers.

“People misunderstand value,” he explains. “People want big, bold ideas and it’s very rare that you’ll invent a better mousetrap and make a million dollars. When we started out, we were selling the same product you could buy from 20 different people, but we were still different. We would answer the phone on the second ring. Every one of our competitors had automated voicemail. We always answered it live.

“Value comes in the nooks and crannies of your business that aren’t sexy, that aren’t exciting, that are really mundane. That’s where the opportunity is.”

When it comes to how he motivates his staff, Herjavec says being a visible presence in his offices is of huge importance. “A long time ago, I read a saying, ‘You can never see the CEO too much,’” he says. As an “action-driven guy,” THG’s leader says he can sometimes create crises where they don’t exist.

“When our business is doing well, I feel there should always be something I need to fix,” he says. “So what I do now is try to step away from the business during these periods. Sometimes you need to know when to let go of the steering wheel.”

THG continues to expand its reach through acquisition and by moving aggressively into infrastructure, servers and storage. Herjavec sees the company growing to US$250-US$500m in revenue in Canada, but “we have to go to the States; the market’s just so big,” he says.

No matter how far the business goes, Herjavec can never forget where he came from.

“I say to my wife, ‘If I had told you 10 years ago that we would be here now, would you have believed it?’ and she says, ‘Not in a million years,’” Herjavec reflects. “And we always think about the future and wonder: ‘What would be extraordinary 10 years from now?’

Viewpoint
Navigating choppy waters of change
Colleen McMorrow, Partner and Canadian Strategic Growth Markets Leader, Ernst & Young LLP

The best of exceptional entrepreneurship is the ability to work through fear and make breakthroughs in tough times. No entrepreneur can afford to be complacent, nor be afraid of the rough seas of change. Since the financial crisis took hold five years ago, entrepreneurial strategies have had to evolve. Companies that want to thrive in this “forever changed” operating environment need to focus more than ever before on four key areas. Customer reach
You can’t grow without customers. Meeting customers’ changing and diverse needs depends on knowing who they are, where they are and what they want. Think global and go where the customers are. There is no comfort in the growth zone and no growth in the comfort zone. And put technology to use. Innovations in services and operations are as important as product innovations in meeting future consumer needs. Innovation must be embedded into the very foundation of a company’s business model.

Cost competitiveness
High wages and the costs of doing business, as well as significant new regulatory burdens on various sectors, are set to impact profit. But cost-cutting initiatives have already been exhausted for many, so where do they go from here?

This new environment calls for remote workforces to replace cumbersome bureaucracies, low-overhead models to replace splashy campaigns, creative and non-traditional systems of financing to fuel growth, and risk-taking tempered by circumspection.

Operational agility
Many companies see room for improvement in bolstering productivity within their operations. Entrepreneurial businesses taking advantage of productivity opportunities that currently exist — whether in talent, advanced technology or structural changes — can position themselves to seize opportunities during volatility that their slow-moving competitors cannot.

Stakeholder confidence
Maintaining strong stakeholder relations is an important part of business and, for many entrepreneurs, an important part of securing financing for growth. This is especially important in today’s market. Telling and selling the growth story and meeting the expectations are more important than ever before.

More information
For more information, email colleen.m.mcmorrow@ey.com. To learn more about opportunities for entrepreneurs in Canada, visit eyca.com/ca/key
The best advice, some cherished wisdom

Most great entrepreneurs are lifelong learners. And they appreciate the wisdom of others. A number of EY National Entrepreneur Of The Year® judges — many of whom are entrepreneurs themselves — share some nuggets that contributed to their business success.

Larry Lenihan
CEO and Managing Director, FirstMark Capital, New York, New York

You want to learn how to lead people. Coach a baseball team of 10-year-olds. When you win, it’s not about getting more out of the top three players; it’s not about burying the bottom two. It’s about getting the most out of the people in the middle. And that’s what a good leader does.

Rob Moore
President and COO, Big D Construction, Salt Lake City, Utah

Take care of your customer, or someone else will.

Laurie Cunnington
President, Ward Williston Oil Company, Bloomfield Hills, Michigan

Don’t be afraid to be in a man’s world. If you work really, really hard, you can make it.

Mary Ellen Sheets
Founder, Two Men and a Truck, Lansing, Michigan

Don’t listen to negative comments. Everyone made fun of me. Ha ha ha — look where I am now.

Chuck Davidson
CEO, Noble Global Energy, Houston, Texas

When the spreadsheets and all the analysis and all the details don’t align with your gut, take a timeout and think it through until you can get your gut to align with the analysis.

Jim Reynolds
CEO, Loop Capital Markets, Chicago, Illinois

Never use two words when one word will do.

Adele Oliva
Partner, Quaker Partners, Philadelphia, Pennsylvania

Pick your partners very, very carefully. It is a long road, with a lot of speed bumps, and you want to make sure the person next to you, or the people on your team, are people you trust, people you admire and people who are going to perform.

Jose Mas
CEO, MaxTec, Coral Gables, Florida

Don’t fall in love with the business. You tend to want to look at your business with rose-colored glasses all the time. Be realistic as to where your business is and the things that you need to do to fix it.

Laurie Cunnington
President, Ward Williston Oil Company, Bloomfield Hills, Michigan

Laugh, believe, take chances, and trust yourself.

Jeff Yabuki
CEO, Fiserv, Brookfield, Wisconsin

Don’t talk — listen.

Mary Ellen Sheets
Founder, Two Men and a Truck, Lansing, Michigan

Don’t listen to negative comments. Everyone made fun of me. Ha ha ha — look where I am now.

Deepak Sindwani
Partner, Bain Capital Ventures, Boston, Massachusetts

Focus, focus, focus.

Adele Oliva
Partner, Quaker Partners, Philadelphia, Pennsylvania

Pick your partners very, very carefully. It is a long road, with a lot of speed bumps, and you want to make sure the person next to you, or the people on your team, are people you trust, people you admire and people who are going to perform.

Leah Brown
President and CEO, A1o Clinical, Cary, North Carolina

We have to separate our business from ourselves. Even though our businesses may not be doing well, that doesn’t mean that we’re not doing well. And you arrogant guys out there, just because your businesses are doing good, that doesn’t mean you are doing good in many places.

Chuck Davidson
CEO, Noble Global Energy, Houston, Texas

When the spreadsheets and all the analysis and all the details don’t align with your gut, take a timeout and think it through until you can get your gut to align with the analysis.

Howard Brodsky
Co-CEO, CCA Global Partners, Manchester, New Hampshire

When I was 26, a mentor saw a stack of messages on my desk and said, “What are those?” And I said, “Those are messages my secretary took.” He said, “Get rid of that. I don’t want any filters for what you hear. I want people to tell you what’s going on.” It was great advice, and to this day, my secretary doesn’t take any phone calls. I take them directly.

Wayne Goldberg
President and CEO, La Quinta, Irving, Texas

Never forget that a fish rots from the head.

Mary Ellen Sheets
Founder, Two Men and a Truck, Lansing, Michigan

Don’t listen to negative comments. Everyone made fun of me. Ha ha ha — look where I am now.

Chuck Davidson
CEO, Noble Global Energy, Houston, Texas

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Through a combination of vision and grit, Fieldglass CEO Jai Shekhawat has become a pioneer in managing the contingent workforce. And it didn’t hurt that he was ahead of the curve in basing his solution in the cloud.

n an industry where being first to market is a cardinal virtue, Fieldglass CEO Jai Shekhawat is a case study in planning for the long term. Over the past decade, his Chicago-based technology firm has become the industry leader in helping companies manage their contingent workforce — not by offering something entirely new, but by building a sustainable competitive advantage.

“The real originality comes at the micro level, in the details,” says the 50-year-old entrepreneur, whose cloud-based software streamlines the procurement of temporary workers and outsourced services, allowing companies to track the cost and performance of suppliers. When he talks about the primacy of a sound business model, Shekhawat acknowledges the benefit of hindsight. When he founded Fieldglass in 1999, he thought he was introducing the first technology platform of its kind. “I went to an industry trade show and noticed these other companies presenting their own solutions,” he says with a smile.

While the presence of five advanced competitors was daunting, Shekhawat studied the nascent industry and realized there were important gaps remaining. For instance, one firm offered an online talent exchange that only handled one-off assignments. Another was established by a staffing agency — something Shekhawat saw as an inherent conflict of interest for an application that employers rely on to compare suppliers and drive down costs.

What the market needed, he believed, was a technology solution that took a supply-chain perspective of talent. This insight grew out of his own professional journey, in which he had been both supplier and buyer of outsourced talent.

The son of an Indian naval officer, Shekhawat spent his childhood moving from one coastal town to another — and even to Russia for a year and a half. His first steady job after college was as a software developer for Tata Burroughs in New Delhi, where he worked on various contract assignments. When the firm hired him out on a project in Georgia, Shekhawat naturally thought he was headed for the Soviet republic; only later did he realize he was going to Atlanta. He concedes that either destination would have satisfied his intrepid nature — “When you’re young, everything’s an adventure” — but he has remained in the US ever since, gaining citizenship in 1997.

He would later become an executive at Syntel, a firm that undertook offshore IT projects for large US firms, before earning an MBA from Northwestern University in Chicago and joining McKinsey & Company as a strategy consultant. It was there that a young Shekhawat experienced the other side of contingent labor issues, helping a major client manage its non-employee staffing needs.

He began envisioning an application that brought value to both sides of the transaction — what’s now referred to as a Vendor Management System (VMS) — after first hearing about the problem from his former boss. That meant making it easier for the hiring manager to evaluate talent and process requisitions and giving suppliers the ability to plan for future demand. “It allows the parties to operate the supply chain in a collaborative way,” he says.

Street-fighting man

The existence of several competitors wouldn’t be the only hurdle for Shekhawat’s new venture. Just months after the launch of Fieldglass, the dot-com bubble burst, making investors extremely wary of technology start-ups. Despite signing deals with big names such as Verizon, AIG and

“Executives have to be entrepreneurs, too”
business research firm Aberdeen Group, contingent workers now comprise about a quarter of the total workforce. With the ability to cut non-employee labor costs by as much as 15% to 20% in the first year, VMS is a compelling solution.

Along the way, Shekhawat’s knack for seeing the big picture proved invaluable. When some of his competitors decided to add an on-site program office capability – actually screening candidates and evaluating suppliers – Fieldglass kept its focus on technology, preferring not to compete with staffing firms that provided the same capability. As a result, these firms became more inclined to bring the company’s software with them into new deals.

“We decided to partner with them, not compete with them,” explains Shekhawat, whose organization now enjoys an industry-leading market share, with more than 200 clients in close to 80 countries.

Fieldglass was also ahead of the curve in terms of a global strategy. Since its inception, the company has cut costs substantially by having part of its development team in India. In recent years, the firm has also opened field offices in London and Sydney to expand its reach.

Shekhawat says that serving international clients means adapting to the needs of each market, whether that requires incorporating new languages into the software or addressing local labor regulations. While the process can be painstaking, Fieldglass is seeing enormous dividends. “It took a while to show results, but now we see almost a third of our new business originating overseas,” he says.

Know your competitors

Despite a diverse resume and influential influences such as Desai, Shekhawat insists that much of what he’s learned about business comes not from the boardroom, but from the athletic club. He is a long-time enthusiast of competitive squash. While two Achilles tendon repair surgeries have slowed him down a notch – he’s eased back on longer events in favor of club tournaments – he retains an obvious respect for the game. “It’s all about positioning and denial of resources to your competitor – the whole idea of strategy, really,” he says.

In 2010, the hobby produced a much more tangible benefit. It was through a squash partner and former McKinsey colleague that Shekhawat helped secure a buyout from Chicago-based private equity firm Madison Dearborn Partners, which valued Fieldglass at US$220m.

For the former software programmer, the deal was a reminder of how far he had come. As a youth, Shekhawat says he never dreamed of moving to the US or starting his own business, a possibility that was closed off to many Indians at the time because of the country’s bureaucracy.

In America, he says, he was free to pursue his aspirations. For an organization that has enjoyed three consecutive years of more than 30% revenue growth, the goal is to keep the momentum going. The sizable investment from Madison Dearborn is playing a big role. “It’s changed our mindset into thinking bigger,” says Shekhawat, who recently received the EY Entrepreneur Of The Year® Award Midwest Region.

To sustain the company’s growth, it needs to continue expanding in regions such as Europe and Asia, which have yet to embrace VMS on a large scale.

Fieldglass is also trying to sell clients on untapped spend categories, such as project-based work. Many organizations have been slow to consolidate such expenses, largely because tracking detailed requirements and deliverables is more complex than handling time-and-expense transactions. As much as anything, Shekhawat believes lasting success will come from listening to clients and continuing to make his widely embraced solution even better.

“It’s a great gift when a client allows us to take ownership of their problem,” he says. “That is where the real innovation begins.”

Treasured wisdom: “My dad once told me: ‘When in doubt, do the more honorable thing.’”

See page 52 for more advice from the judges of the US National Entrepreneur Of The Year Award

Cloud computing enters a new era

Cloud computing services, including software-as-a-service, have been around for several years but never grew beyond a small fraction of total industry revenue. However, over the past few years, a dizzying array of cloud services over the Internet has emerged. Consumers and businesses have embraced a multitude of cloud services, from mature sales-force management services to email and photo editing to the latest smartphone applications and the entire social networking phenomenon.

Further research projects an imminent inflection point in the adoption of cloud services by organizations both large and small, and forecasted growth rates for cloud computing spending are significantly higher than the overall IT market.

Virtually all new software offerings are available as cloud services regardless of whether they are also available via traditional on-premise solutions. Moreover, we have seen the largest enterprise software companies offer their software products and on-consumption services or as cloud services, and, in some cases, even migrating their products completely to cloud offerings.

For business organizations, the core elements of cloud offerings have always been attractive: pay-as-you-use instead of installment and, as well, as the inherently increased flexibility cloud solutions provide. Cloud computing services generally shift major up-front capital expense from the buyer of IT to the provider of IT services – a strong incentive in a world that continues to struggle with economic uncertainty and more restricted access to capital. Of note, this shift also enables companies to further manage their investment risk by rapidly implementing and trialing new solutions before making long-term commitments.

These factors combine to lower IT barriers (and risk) to business change, including barriers to entry for start-up businesses, whether entrepreneurial or inside an established organization. The same factors also enable small and medium-sized companies to take advantage of sophisticated applications and a breadth of functionality that previously could only be afforded to large enterprises only, and to do so at much lower cost.

While security has often been cited as a reason IT managers are hesitant to adopt cloud services, many believe cloud security will become one of the primary drivers for adopting cloud computing. The reason for a shift of security from obstacle to driver is that vendors offering cloud services are expected to invest far more in the development of their security infrastructure and expertise than any typical enterprise.

More information

For more information about EY’s services for the technology industry, visit tinyurl.com/EYtechnology

Profile: Fieldglass

Fieldglass by the numbers

30+% year-over-year increase in revenue in 2012
7 consecutive years of profitability up to and including 2012
20% increase in Fieldglass’ global workforce in 2012
78% annual customer spend
78 countries where Fieldglass has users
15 languages supported by the firm’s VMS platform
3 years in a row that Fieldglass has ranked top for customer satisfaction by Staffing Industry Analysts in its net-promoter survey
2013 Codie Award winner for Best Human Capital/Talent Management Solution

GlassSmithKline, the organization struggled to add clients and raise fresh venture capital for several years. Shekhawat’s experience at Syntel – and lessons learned from his founder, Bharat Desai – would help sustain him during those challenging times. One of the most important messages: always give it your all. “Business is hand-to-hand combat, it’s a street fight,” Shekhawat says. “You do whatever you can to get customers and build products.”

So he made sure his early leadership team was cut from the same cloth. Having personnel with a broad skill set and the ability to take on various challenges was key. “The founder sees things strongly enough to launch the business, but executives have to be entrepreneurs, too,” he insists. By the middle of the decade, the organization’s cloud-based platform and culture of empowerment were starting to pay off. Fieldglass made its first profit in 2006 and in 2007 doubled its largely blue-chip client base.

Two broader trends in the industry certainly helped. The increased recognition of VMS among large corporations put wind into the firm’s sails and raised fresh venture capital for several years. According to Alex Bender, West Region Technology Industry Leader, EY

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Divest strategically and deliver

Divestments can be as important to corporate development as acquisitions. But how can companies avoid leaving value on the table?

“Keeping ahead of their competitors, divestments are proving a game changer.”

Moreover, with sellers looking to uncover the best deals in the market, competition and prices are both on the rise, with 40% of respondents stating that a high degree of buyer competition in the M&A process has recently driven up values.

“The number of acquisition opportunities available to strategic and financial buyers is low,” explains Paul Hammes, EY’s Divestiture Advisory Services Leader in the Americas. “So when they come up for sale they inevitably attract a lot of interest and often sell for high multiples.”

However, the conditions for completing transactions appear increasingly complex. The report found that boards, regulators and shareholders are seeking greater assurance regarding the strategic and value creation objectives from divestments. In response to this, 50% of those surveyed report an increase in the level of preparation required when approaching a divestment.

“Divesting effectively and efficiently has always been an option to build value,” says EY’s Pip McCrostie, Global Vice Chair, Transaction Advisory Services. “In today’s economic environment, ensuring a divestment is strategically effective is no longer optional.”

Leading practices

Companies seeking to maximize the reward from divestments should conduct structured and regular portfolio management. By frequently reviewing their portfolio, companies can consider divestments as a proactive strategic tool, rather than a reactive move to free up cash or pay down debt.

While most respondents believe their most likely acquirer will be from the same country and sector as the one in which they operate, companies risk losing opportunities by not considering the full range of potential buyers. By looking at candidates from adjacent industries, or from overseas, sellers can strengthen competition for an asset and potentially generate a price that exceeds expectations.

Providing a strong growth and value story to potential buyers is also integral to a successful divestment. Sellers must provide tailored information to each buyer regarding how the business could fit with the buyer’s business and help it achieve its strategic objectives. Only 50% of respondents carry out independent reviews or diligence, develop an M&A plan for the asset, or identify upsides and synergy cases. But buyers are more wary than ever about the growth potential of businesses being offered for sale, so it’s essential that key messages are communicated early and clearly.

Another key to divestment success is preparing rigorously. Particularly in an unstable economic environment, effective preparation helps sellers bolster buyer confidence, gain control over the deal, and realize greater speed and value.

While respondents recognize that preparation should be an ongoing activity — not something that starts just prior to an asset sale — only 38% consider their project management to be effective. And half of those surveyed admit that changes to the preparation process, such as establishing protocols for information sharing and confidentiality, could make a significant difference.

The divestment process does not end with the sale. Sellers need to consider the impact of separating an asset on the remaining business. Employee placement, regulatory requirements and transition services agreement negotiations are just some of the separation planning matters that need to be considered ahead of an agreement being reached. Indeed, more than half of respondents identified a clear separation road map as the most difficult aspect of divestments.

The study reveals that appetite for divestments is growing but that sellers often fail to explore the avenues required to maximize value. A combination of good planning and coherent communications can better equip companies to accomplish their goals in today’s uncertain economy.

The conditions for completing transactions appear increasingly complex.

“Putting a high price on people”

An EY survey of more than 100 executives with experience in global corporate divestments concludes that management of human capital can make or break a deal. Some 85% of respondents in Human Capital carve-out study identify employee retention as the major driver of carve-out success.

Carve-out divestments are becoming increasingly complex due to the involvement of multiple countries, cultures and regulatory bodies. But the study’s respondents say they have been able to expedite their sale, maintain control over the process and maximize deal value by following several leading practices.

Sellers should plan rigorously ahead of any negotiations. Sellers should strengthen their negotiating power by providing financial information that is based on actual employee data. And they can expedite the process by understanding the carve-out business’s HR needs. Successful sellers should provide comprehensive employee details, such as benefits and demographics that have been comprehensively reviewed from a buyer’s perspective.

By fully considering labor and employee concerns, a company can go some way to maintaining operational stability through the divestment process. Regular and open dialogue with the workforce builds goodwill. The implementation of measures such as work council consultations, in which companies inform employees how the transaction will impact them, can be highly effective.

The survey underlines the importance of managing the employee mindset and keeping workers focused on business operations and customers. While many companies think this can be achieved by paying stay bonuses, making managers accountable for employee retention is often a more effective strategy.

An HR team can be of critical importance to carve-out success because they best understand labor relations and financials.

Further, while respondents believe the use of an HR playbook would greatly help them understand all necessary activities and process interdependencies, only 28% admitted to regularly using it.

Sellers can entice buyers by highlighting market opportunities and asset performance, as well as by incorporating the right professionals into the right roles. The outcome of any deal will depend on the consideration given to the needs of employees, contractors and customers. Never forget, people are the most important part of any business.

More information

To access the report, visit tinyurl.com/EYcorporateinvestmentstudy
Europe has gone through a challenging time, but there are signs of improvement. Can the region regain its poise and attract foreign investment to aid its recovery?

Words Mark Alexander

Europe’s attractiveness will improve in the next three years. Fewer than a quarter of those quizzed in the survey believed the recuperation process would take at least three years to complete, while another third thought it would be at least five years before things started to look up. Easing this process is perhaps where Europe’s politicians can have the greatest influence. According to the survey, they should focus efforts on maintaining economic stability, encouraging research and development and promoting competitiveness. There were also calls for economic integration, reduction in regulations and a renewed focus on innovation. Without doubt, 2012 was a year in which Europe was shaken by a crisis that caused general unease around the world. However, investors yet to establish themselves in Europe show the greatest signs of confidence, with 60% of BRIC-based respondents and 45% of North American executives believing Europe will become more attractive in the coming years. While there are certainly signs of improvement, Europe has some way to go to recover its composure. European ministers’ blood pressure more than a debate on the Eurozone. It has been a difficult time, but more generally, Europe has been battered from all sides by government-led austerity measures adding to widespread uncertainty and weakened consumer confidence. If ever there was a perfect economic storm, this is it. Europe’s recession deepened in the final three months of 2012 with the economies of the 17 euro nations shrinking by 0.6% in the fourth quarter. These figures were worse than had been forecast but not entirely surprising. After all, this was the third consecutive quarter on Eurozone GDP and the fifth on the trot where no growth or a decline was recorded. Life in Europe had been challenging and the figures proved it.

But are things really as bad as they seem or is Europe still one of the world’s prime locations for doing business? The result is resoundingly the latter, according to EY’s 2013 European attractiveness survey, which draws on the insights of 808 international decision makers and market leaders from sectors such as industry, energy, consumer goods, pharmaceutical and telecommunications.

Conditions have been tough and investors have understandably sought markets where growth persists in spite of the global downturn. In 2012, this approach resulted in developing countries overtaking developed nations as the leading recipients of Foreign Direct Investment (FDI) – a factor that helps nations to achieve a sustainable high trajectory of economic growth and so a good indicator of a country’s economic state and potential. It was a momentous shift. The 3% drop in FDI to developing economies was modest compared with the 32% fall in FDI projects in developed nations.

However, things are not as bad as they seem: during the same period, Europe has benefitted from the creation of 170,434 much-needed new jobs through FDI initiatives, representing an 8% jump in year- on-year figures. Despite the turmoil, Europe’s economies were also still seen as relatively secure places to do business where high-quality infrastructure combined freely with an educated workforce.

With this in mind, investors directed most of their interest toward Western Europe, plowing three-quarters of all FDI projects into this established and predictable region. The UK held on to its leadership position, fighting off competition from Germany – but only just. While this emphasis will not surprise anyone, the fact that more than half of all resulting FDI jobs were created in Central and Eastern Europe might. As it to prove this point, Poland overtook Russia in 2012 to become the leading destination for FDI projects in Europe. This new interest in Poland can be accounted for due to its large domestic market, EU membership, and cheap, skilled domestic labor market, all of which created a fast growing, opportunity-rich country. Further afield, the research also shows that foreign investors are optimistic about the future, with the majority predicting that foreign investors are optimistic about Europe’s recovery, half of those quizzed in the survey believed the recuperation process would take at least three years to complete, while another third thought it would be at least five years before things started to look up.

Easing this process is perhaps where Europe’s politicians can have the greatest influence. According to the survey, they should focus efforts on maintaining economic stability, encouraging research and development and promoting competitiveness. There were also calls for economic integration, reduction in regulations and a renewed focus on innovation. Without doubt, 2012 was a year in which Europe was shaken by a crisis that caused general unease around the world. However, as EY’s 2013 European attractiveness survey shows, there are a number of positive signs. Inward investment took a hit, but early indications show that confidence is returning and interest in Europe is on the increase. With confidence key to the recovery, it’s now up to Europe’s policy-makers to deliver the goods.

More information
To download a copy of EY’s 2013 European attractiveness survey, visit ey.com/Issues/Business-environment.
In the know

Shoot for the moon: with the right board, the sky’s no limit

For the CEO of a high-growth company, the question is simple: as you shoot for the moon, do you want it in the command module? As corporate governance evolves, the need for an active, informed and diverse board is crucial to a successful expansion of a company. Learn why high-growth companies should make the investment and how they should go about building a strong board at ey.com/shootforthemoon

Growing forward: 9th Global Capital Confidence Barometer

Executives are steadily trending toward an investing agenda, but are companies being bold enough? This biannual study, in conjunction with The Economist Intelligence Unit, highlights a current disconnect between confidence and M&A activity. Learn more about why now is the time to invest and grow at ey.com/ccb

Women: the next emerging market

It is forecast that by 2028 women will control almost 75% of discretionary spending worldwide – highlighting their vast influence over the global economy, the political landscape, businesses and society. However, there is a wide gap between this potential and present-day reality. Learn the actions that business leaders can take to harness women’s unique talents and skills to propel the global economy. For more information, visit ey.com/women

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Turning the corner: global venture capital insights and trends 2013

Last year was tough on venture capital (VC) investment, but signs point to improvement in 2013. Explore the key challenges for VC investment, and discover why 2013 is expected to bolster venture capital (VC) investment, and discover 2013. Explore the key challenges for VC investment.

In the diary

2013 Strategic Growth Forums

Hear inspirational speakers and make valuable connections:

- Mexico City 24-25 October
- Palm Springs 13-17 November
ey.com/sfgrowthevents

Celebrating great entrepreneurs

Entrepreneur Of The Year Awards are held in more than 140 cities. ey.com/eoy

- US national awards gala 17 November

Considering the Brazilian market?

2013 CEO Summit Brazil 28-29 October. Gather with Brazil company leaders and entrepreneurs to learn about business opportunities in this exciting emerging market.

Israel leading the way

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On the web

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In our publications

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Using material drawn from EY’s Think Tank for Business Performance & Innovation, Performance is a quarterly journal with an established reputation as a forum for discussing practical and theoretical business issues. performance.ey.com

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The projected infrastructure budget for Rio 2016 (page 36)
A new entrepreneur pipeline is where entrepreneurs actively try to solve problems of market and government failures to bring services to the poor? Is there a local business community that is willing to put time, money and skill into building a new model with us? And is there local talent we could hire to support this work?

When we started Acumen, I don’t think we understood that we were actually asking all systems to change. We would like to see philanthropy move toward being more risk- and accountability-oriented. We would like to see the banks lend without always demanding collateral as high as 200% from social enterprises and understand the economies in which they are operating. We would like to see governments be more accountable, bring better infrastructure to companies to enable markets to work, and create legal systems that are more transparent and democratic. And we would like capital systems to change, to enable more experimentation, more building of systems that start with the perspective of the poor and insist on accountability as well as sustainability. We want everybody to change!

We recognize that’s a tall order, but that’s what we’re working toward.

The ROI of patient capital

In 2001, Jacqueline Novogratz founded Acumen to support entrepreneurs in developing nations. Twelve years later, the company is making a difference.

“I underestimated how much could be done with a single company”