

Taking the Pulse of Entrepreneurs

Building a business in a slow-growth economy takes insight. We asked two Ernst & Young entrepreneurship leaders what's working now.

Editor's Note: Recognizing the needs of entrepreneurs is a constantly changing skill. Particularly in a weak global economy, fast-growing companies require a different and global perspective framed by many years of experience working across many sectors. We asked Ernst & Young's Gregory Ericksen and Maria Pinelli, leaders in the firm's global Strategic Growth Markets practice, to reflect on how entrepreneurs are faring, and what factors will determine their success in future months and years. Here is a summary of our conversation with them.

During the past year, business leaders across a multitude of industries and economies have been dealing with the fallout from the global financial crisis. Yet in a recent Ernst & Young-sponsored global survey of 3,100 leading entrepreneurs, a large majority of respondents—two out of three—said they were focused on pursuing new market opportunities. They are looking ahead to find future sources of growth through acquisitions, investments in new products and services, and hiring talent.

Why? These executives recognize that an economic slowdown is the perfect time to pursue new market opportunities. Recessions favor the temperament of entrepreneurs, who are naturally innovative especially in times of crisis. Some of the world's leading companies were born during economic slumps. By developing new products and services, revamping organizational processes, or adopting fresh approaches to partnerships, companies large and small can take advantage of crisis and transform their businesses.

Entrepreneurship is important not only to the personal fortunes of risk-takers. Innovation supports macroeconomic growth. It creates jobs and builds communities. It reduces income disparity and gender inequality. And it knows no borders. Economies in emerging countries and regions—China, India, Brazil, and the Middle East, among them—are being driven and transformed by entrepreneurs, who are creating services to meet customer demand in huge populations. There is plenty of room for entrepreneurs in these markets: for every 1,000 people there are 60 businesses in developed markets and only three in emerging markets.



Gregory Ericksen
Ernst & Young's Global Vice Chair,
Strategic Growth Markets



Maria Pinelli
Ernst & Young's Americas Director,
Strategic Growth Markets

Ernst & Young has been a leader for more than 30 years in serving companies in all stages of development, and we have observed four common themes among the most successful of these companies.

1. **You're never too big to innovate.** Some corporations—including 3M, Hewlett Packard, and BMW—have built their corporate culture around innovation. For others, innovation arrives as an outside threat as more nimble competitors disrupt established businesses, forcing them to adapt or cede share. In a recession, companies often sacrifice new product development by cutting R&D and shelving plans for products that have little chance of generating short-term profits. That can prove to be very shortsighted thinking, and the companies which stay on top often do so by reinventing their businesses constantly.

2. **There's power in disruption.** Entrepreneurs are willing to disrupt traditional ways of seeing the world, willing to draw on new ways of thinking about familiar problems, and willing to fail. PC makers, for example, were dismissed initially by the mainframe industry; PCs ultimately replaced mainframes. Amazon.com disrupted traditional brick-and-mortar retail and Dell Direct shook up the whole PC industry with its direct-to-consumer model. FedEx turned package delivery upside down and Craig's List has wreaked havoc on newspaper's once-profitable classified

advertising business. All these ideas were initially dismissed, yet ultimately all prevailed.

3. **Innovation emanates from within.** R&D is not innovation's lone driving force; rather innovation emanates from culture and leadership. When a company is young, fresh thinking is encouraged. Later, as the business matures, it tends to focus on managing growth, rather than finding new sources for it. That's when leaders have to go the extra step to identify good ideas and to push them forward, even without ample testing or data to back them up. Larger companies can afford to spread their bets among more ideas and scale up successful ideas in ways that small entrepreneurs can only dream about.

4. **Get a bigger table.** Innovation also is the result of inclusive, diverse thinking. The more unique ideas there are at the table invariably will result in more creativity and thinking. Inclusiveness is about fostering a global workplace culture and valuing diverse perspectives.

Entrepreneurial thinking isn't optional. Many of the industry leaders of today won't be market leaders tomorrow. For instance, half of the Fortune 2000 turns over every five years. It's the same for Germany's HDAX (50% turnover) and the UK's FTSE 350 (50%) and South Korea's KOSPI 200 (49%). In India, the Bombay 200 turned over 91% in the past five years.

So we surveyed 3,100 strategic growth companies, country winners and finalists from the Ernst & Young Entrepreneur Of The Year award,

to distill the unique actions they were taking during the global economic slowdown. We can break down their insights into six areas for better structure and understanding of issues and opportunities:

- **Customers.** Seizing the opportunity to expand customer base and sharpen market differentiation is the top priority for today's leading entrepreneurs. They focus on core niches in existing markets as well as in new, neglected or overlooked areas. They are helping their ailing customers (renegotiating contracts) and managing their business to adapt to the realities of customers that are either falling behind or failing in these tough times. And customers are helping innovators define new and expanded goods and services.

- **People.** Entrepreneurs are concentrating on keeping their key people—those who cannot easily be replaced. Yes, they're considering outsourcing, relocating and even reducing workforces, like everyone else in this environment.

up, private capital has turned to these growth companies.

- **Risk.** There's a split over whether to increase or decrease risk exposure—though the majority of respondents have retained enthusiasm for measured risk. Whatever the risk-taking attitude, there's an overwhelming recognition that companies need processes to recognize and deal with problems before they can threaten the strategic direction of their company. Thinking like an entrepreneur about one's business or industry is often one of the best ways to discover risk.

Of course, private enterprise doesn't work in a vacuum. Policy makers can help foster entrepreneurship. They can, for instance, design tax policy that includes R&D credits, along with tax credits for new workers, immediate expensing of capital assets and tax credits available to lenders to lower the cost of finance. Immigration reform would enable qualified people to go where the markets welcome and need them. Lowering



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But entrepreneurs are still investing in training, rewarding and acquiring the right people. They are taking advantage of the market for talent.

- **Transactions.** There is a broad recognition that these are the times when fortunes are made and new leaders rise to the top. In order to broaden customer bases or enter new markets, many see a marked increase in potential mergers and acquisitions—at attractive prices.

- **Operations.** Many entrepreneurs are deferring longer-term capital expenditures and generating short-term cash to invest in initiatives to take market share from those focused on simply surviving.

- **Finance.** Entrepreneurs are maintaining strong channels of understanding and communication with all key sources of capital and also are accessing new or alternate channels to capture opportunities. While mega-deals have dried

trade barriers would allow businesses to connect across global markets. Simplified and standardized procedures and requirements would remove roadblocks that increase the cost of doing business, an entry barrier for many growing businesses.

We've seen time and time again that economic downturns are a proving ground. Companies that cannot adapt to the new circumstances will be replaced by exceptional companies with the agility to adjust to the new reality. Where others see crisis, entrepreneurs spot opportunity. ■

Ernst & Young: Championing Entrepreneurship

For decades Ernst & Young has embraced entrepreneurship. It recognizes and celebrates innovation and entrepreneurship at all levels of the economy, all corners of the world, and throughout all industries.

Now in its 23rd year, Ernst & Young's Entrepreneur Of The Year (EOY) is the world's most prestigious business award for entrepreneurs. EOY is now in 135 cities and 50 countries. It covers 90% of the world economy. Since 1986, more than 15,000 entrepreneurs have been honored. Past winners include Dell Computer, Cirque du Soleil, Infosys, Amazon, Starbucks and Home Depot. This past year 770 judges sifted through 5,000 nominations and picked 1700 finalists and 900 winners. Companies in the 2009 World Entrepreneur Of The Year had average revenue of \$1.3 billion and achieved growth in a turbulent economy.

Ernst & Young has been a first-mover in many industries that created the world we know today. Its philosophy has been based on an understanding that entrepreneurial, innovation-based companies have different needs—from venture capital fundings and initial public offers to collaborations with larger companies and meeting the challenges and complexities of growth.

Ernst & Young embraced those on the leading edge technology in the 1960s, well before there was a technology industry. It focused on biotech literally at its birth, working with the founders of pioneering companies such as Genentech and Amgen. And today, Ernst & Young is taking a similar approach to Cleantech today, because it believes solar, wind, biomass and other renewable energy sources have a great deal of potential because of their operational cost and deployment structure.

Ernst & Young is a leader in serving the high-growth market and increasingly is focusing its attention on growing companies and industries in emerging and developing countries. According to Ernst & Young research and projections, the largest economies 20 years from now are likely to be the US, China, India, and Brazil, and therefore the firm has set deep roots in all those markets.

Ernst & Young also operates with an awareness that markets throughout the world turn over dramatically on a regular basis (half the Fortune 2000 and 59% of the Russell 3000 turns over every five years). The market leaders of today will not necessarily be the leaders of tomorrow. The firm plans on retaining its leadership position by finding and advising future markets leaders through their growth cycles, and building close relationships with first mover groups, such as venture capital and private equity investors.