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Building a business within a business: How to power continual organic growth

Business building is vital to a company's longevity. To do it successfully, an organization needs the strengths of an incumbent and the agility of a start-up.

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In this episode of the *McKinsey Podcast*, Simon London speaks with McKinsey partners Vaibhav Gujral and Ido Segev about business building. An edited transcript of their conversation follows.

Diane Brady: Hello, welcome to the *McKinsey Podcast*. I'm Diane Brady. With COVID-19, we're hearing a lot about how companies need to reinvent themselves, or disrupt. But how do you build a new business within a business? It could be a new product or service, or maybe it's the germ of an idea that could transform the entire company. Simon London speaks with Vaibhav Gujral, a partner in McKinsey's New York office, and Ido Segev, a partner who specializes in digital strategies, out of Boston.

Simon London: Vaibhav and Ido, welcome to the podcast and thank you for being here.

Vaibhav Gujral: Thank you, Simon.

Ido Segev: Happy to be here.

Simon London: So this is in some ways not a new topic. We're going to be talking about business building, I think is how we would frame it. But people also talk about intrapreneurship within companies, corporate venturing. There's a lot of, you know, literature around this over many years, so maybe, Ido, you take a first whack at this. Why is this a big topic now?

Ido Segev: I think the thing is to recognize that longevity as a successful business is correlated with the ability to reinvent yourself. Maybe, you know, two stats to tee up. The first is, 50 years ago, the average life span of a company in the Fortune 500 was 60 years. It is only 20 years right now. So, you know, companies come in and out of the Fortune 500 list much, much faster.

The second stat is, if you look at the—six of the top ten companies in the largest companies in the world right now are companies that reinvented themselves. So think about Amazon, started in e-commerce, AWS, just as an example. Think about Apple. Think about Google. What they have done over the years, you know, to their business model.

The second thing, I would say, is that the pace of change in many industries is massive right now. The customer expectations are rising and changing very, very quickly. The availability of technology to disrupt an industry is becoming faster and faster. Think capital and changes over time, but there is a lot of capital right now that goes into industries.

The implication of that is that new models are going to emerge, and they're going to emerge in the next, you know, two to three years. And at the beginning, they will be nascent, but ten years from now, those new models are going to be big. If you're an incumbent, you need to think about that, because if you don't, and if you don't invest in actually changing your business model, you won't be able to participate when a new business model comes in. And by then, it might be too late.

Simon London: And to your point, it's not just, you know, the usual suspects in the sense of e-commerce was in the front line of this—you know, publishing, those media-type companies are at the front line of this. So yes, it's not just those sorts of frontline industries anymore.

So Vaibhav, I would guess that the odds of success at doing this are pretty low. So what do we know about the odds? And also what's our advice to clients about what are the key things to try and beat the odds of building a business and getting it to scale?

Vaibhav Gujral: That's a great question. The way to think about the odds of success in these businesses is what would have the odds been if you were a pure start-up, starting this business in that sector, trying to disrupt the same business, versus what are the odds if you're a large Fortune 500 company, investing in any initiative. It doesn't need to be a disruptive initiative. It could be any initiative, right?

> **“Longevity as a successful business is correlated with the ability to reinvent yourself.”**
>
> —Ido Segev

And the reality is the odds are somewhere in between, right? Our research shows that the odds of success of Fortune 500 companies or Fortune 100 companies investing in significant new business builds or ventures is about one in six, which is lower than the odds of, on an ROI basis, initiatives that you're investing in as a corporate but is much better than the odds of success of the average—

Simon London: It's better than VC?

Vaibhav Gujral: It's much better than VC, right? And the reason for that, and to your point, the odds of success is, right, there are three things that are fundamentally different about large companies starting these ventures.

The first is you're starting with some form of "competitive" advantage. That competitive advantage could come in the form of distribution or unique access to customers, or it could come in the form of data or proprietary insight or some form of technology that you've developed where you have a moat or IP privileges around that. Start-ups don't have that, so they don't have access to five million or ten million customers.

And the second is capitalization, right? As a large company, not only can you fund the seed round, but you can fund the series A, B, C round. And as a start-up founder, you spend an inordinate amount of time fund-raising. One of the core things you're doing as a founder and CEO is not just marshaling the product and your team, but spending a lot of time going out there and fund-raising.

And last thing I'd say is that you've got unique expertise and talent that sits in the parent organization. These new businesses are often truly new ventures, but they're not in domains that are completely detached from what the parent is doing.

Beating the odds

Simon London: And then what will we say to clients about how do you beat the odds?

Vaibhav Gujral: So the first thing is, if you've got a really clear and good sense of what your core competitive advantages are and you're leveraging those for building these new businesses, the odds of success, in our view, go up significantly. We've done a ton of research on this—on companies that are following and chasing others tend to not succeed.

Companies that start with a really clear understanding of what their competitive advantage is—it typically falls into either a distribution-type advantage, where you've got unique access to customers. The second type of distinct advantage could be access to data or proprietary insight that you have that others don't have. The third may be some regulatory advantage or structural advantage, based on the sector that you're operating in.

The second, I'd add, is this really needs to come from the top. When initiatives start driven by the CEO and the management team, with a real commitment to success and taking a three- to five-year horizon, versus thinking of this as an experiment, it radically improves your odds of success.

Simon London: So the CEO needs to be out there, being very clear that his is a significant bet, this is not an experiment? This is a multiyear journey, and this is like the future? And if you don't do that, you don't get the buy-in internally, and you don't necessarily attract the talent that you need to scale?

Vaibhav Gujral: That's exactly right. And you know, what comes along with that is a commitment to funding it, right? If you evaluate these initiatives with the same 12-year annual budgeting process, return-on-investment-type lens, many of them would not cross the bar. And invariably, you'll end up in a situation where you're competing for resources six months, 12 months, 18 months in.

A lot of the counsel we give our clients is actually thinking about creating real long-term sustainable businesses where you're generating either equivalent margins once the business is stabilized to your core business or slightly better margins. The reality is, most digital and tech-led businesses, which a lot of these tend to be, over the long run, once you've established the infrastructure platform, people, and talent, will generate a healthier margin than most existing businesses that are trying to disrupt themselves.

Ido Segev: Those who are successful are really, really successful. So we're talking about building billion-dollar businesses and even more, and so, anybody who is thinking about that needs to compare the two, right?

Simon London: Right.

Ido Segev: And you know, there's outsize impact if you're successful. Yes, it's difficult, but it is outsize impact. And frankly, if you're not thinking that big, [it's] maybe not worth going after it to begin with.

Simon London: Yep.

Ido Segev: And acknowledging that the people that you have running your business, as good as they might be, might actually not be the ones that you need in order to launch a new venture. Some of them might, but by and large, I think our experience shows that there are other types of skills that you need in order to be successful, and those might reside outside your organization.

Vaibhav Gujral: The talent point is a fantastic one, because what it also creates is initially a cultural clash between a set of people coming in from very different backgrounds, relative to the industries of the incumbent or the players that are building the new businesses.

Creating the right process for integrating that talent and embracing that culture to change is critically important. Those who are able to do this well are able to drive a reinvention and a dynamism in the core. Those who don't do it well continue to have this sitting in a different building, in an innovation lab, at arm's length, where people in the headquarters building will point to them and say, "These are guys running their experiments," as opposed to truly embracing that cultural change that comes with this.

Simon London: So it's not a choice between either building a new business or reinventing your core business? If you get this right, actually building a new business helps accelerate the innovation in the core?

Ido Segev: That's absolutely right. They feed on each other, and I think strategically both are important, because, you know, many of our clients, they need to focus on the core and the next, you know, two to three years, but if they don't also think about reinventing themselves, they might be out of business—to the point we made earlier—ten years out.

Simon London: Yeah.

Ido Segev: So you need to do both, and there's a lot of reinforcing mechanisms—

Vaibhav Gujral: Just to give you a tangible example on it, we started in the business-building journey a couple of years ago, with a large team in the US. They initially built a new business which over time had 50 to 100 people that were staffed on the team, but the reality is it created the conviction and confidence in the parent to embark on a whole range of new initiatives. And they've got a pipeline of 15 new businesses that are being worked on across the portfolio now.

That's really powerful. You're using this as a catalyst and as an engine to create a pipeline of new businesses and ideas. Not all of them will go anywhere, but one in five or six will actually go there. And you've created that pipeline of bets.

One of the things most large companies underestimate is they want to get one idea, and they want to try and get that one idea right. The reality is you have to start on the journey. You have to build that talent, and you have to build that DNA. And you'll figure the ideas out.

Simon London: So this is the initiatives-type idea? You need different initiatives like this at different stages of maturity. But I mean, I'm also hearing that when the time comes to say, "Yes, we're going to build a business," you actually have to make a pretty big commitment, and you've got to make clear that this is for the long term, it's going to be expensive, the return profile is going to be very different to standard capex. But, you know, there comes a certain point where you actually need to decide to go big. Is that right?

Ido Segev: I think you need to go in knowing that those ventures take three to five years to break even. On a customer-vantage level, they might actually break even sooner, but basically to recoup the capital expenditure at the beginning takes, like, three to five years.

And I think you also need to have a process to evaluate the progress of the venture that is very different from the way that you evaluate your annual budget—you know, investments. One of the things that I've done with one of my clients is the VC would meet with the intrapreneur on a quarterly basis, and they would go through, like, certain parameters that are very different from what the head of a company would go—the CEO. They would go at, you know, your burn rate. They would go at, you know, how many clients have you acquired. They would go at what's your cost to acquire those, and they would compare those to, like, a set of parameters or metrics that they had in the top-down business case.

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> —Vaibhav Gujral

And then, based on that decision, they would say, "Are we moving from series A funding to series B funding? Are we giving you the next thing? Or what would we want, you know, to see in order to give th—?" That is a very, very different way of thinking about the business and funding the business that you have to embrace.

Vaibhav Gujral: Once you've got the product-market fit right and you've derisked that, you've got to be ready to commit and double down, right? As you're going through stages of whether you think of that, as Ido was describing, a series B—going between series A to series B—the first thing you're trying to do is get the product right and figuring out what customer need you're solving. And you're experimenting with a range of ways to solve that customer need.

But once you've got that product-market fit right, you've got to be ready to double down, because then—otherwise, there was no point in you having embarked on the journey to start with. That said, you know, the savviest players are ones that are smart about capital structure. And it doesn't need to be entirely your capital.

And if you think of these as truly new businesses, which you can potentially separate from the parent over time, and they take on a life of their own, you can bring in other investors. And you've got to make a deliberate choice at some point of do you have all the capabilities and talent and assets that's going to make the business successful, or does that better belong in partnership with others, or can you benefit from the expertise of bringing others in.

Simon London: So we've touched on a couple of elements of this, but I want to double-click on the question of the relationship between the new business and the parent, so to speak. Again, there's a lot written in the literature about how to get this right and how to get it wrong. Ido, what would you say? How do you get this relationship right, and what are the factors to consider? I think the whole premise, you know—to go, if you're an incumbent, to go and build, you know, something, and we talked about it—is the fact that you have some competitive advantage that you could leverage vis-à-vis a start-up, right?

Ido Segev: So you have a customer base. You have a balance sheet. You have distribution. You have stuff that actually could be quite valuable. In fact, start-ups, you know, would die to have that, so that basically suggests, "I can't really be completely separated."

Agility: The start-up advantage

Simon London: So this is the incumbent's advantage? There's a book—actually it was written by a McKinsey guy, right, many years ago—called *The Attacker's Advantage*.

Ido Segev: So this will be the incumbent—

Simon London: The incumbent's advantage?

Ido Segev: Exactly. So what is the attacker's advantage is the agility. The attacker's advantage would be the entrepreneurship, basically, drive. You know, the attacker's advantage would be, you know, "I'm not going to take no for an answer." The attacker's advantage would be "I'm not tied to any legacy systems that are, actually, (a) represent big fixed cost that I need to deal with, and (b) just, like, will constrain me from, you know, what I can and what I want from what I can do." So the question is, How do you actually leverage the competitive advantage that you have, the incumbent advantage, while bringing a culture of agility, a culture of innovation, and marrying the two?

Simon London: Yeah.

Ido Segev: And what I advise to my clients, you know, to do is a couple of things. I say, "This starts from the top, and it can't be buried," right? So we talked about that, because if it's a priority for the CEO, they will make sure that they deliver the right level of engagement, that they prevent, you know, the rest from, you know, the—too much engagement.

The second thing is, like, how do you bring new types of skills and talent to the organization?

I think the third thing that I advise my clients to do is basically try to set the governance in a way—we talked about it earlier—in a way that looks like, you know, how a VC would work with a start-up, right? So it impacts the frequency of meeting. It impacts, you know, the type of people that you put on the board, you know, to work with the start-up.

And then the fourth thing is, as a CEO, you need to work and be very attuned to the head of the whatever, like the venture, and take feedback that they have.

Simon London: Yeah, yeah.

Ido Segev: Be ready for them to say, "Look, you know, you are not letting me go as fast as I can. You are—you know, the procurement organization is not letting me onboard basically vendors that I just need for the success of this."

Simon London: Right, because I'm getting resistance. C-minus-two or C-minus-one level or something? The CEO needs to know?

Ido Segev: Exactly. And then escalate those quickly and solve them, right? You know, I think if you—at the beginning, there's going to be so much of those tactical but yet really important, you know, challenges. Allow the head of the new venture to escalate that and then act on it. And if you act on it quickly, I think the belief that you can move faster, you know, will grow exponentially. What do you think?

Vaibhav Gujral: The simple philosophy behind it is that if you're creating something new, you have to wait till it grows up to stand on its own feet before you release it and fully unleash it to the rest of the organization.

And the reality is that you've got new talent coming in. These are—ideas are more nascent. Often the needs that you're solving, by definition, are new market opportunities that will take a longer period to test. So you're going to cause organ rejection if you release it to the parent too quickly.

At the same time, if you leave it separate for too long, you're going to create organ rejection at a later point, where this thing has become too large and starts competing for interests, relative to the parent.

Other businesses—you may realize at a certain point that you've gotten to a sufficient stand-alone business, but the new ideas you've come up with are much better as add-ons to existing service lines, and putting them in the hands of your sales force or digital distribution channels is really valuable.

So you've got to take them and merge them with the right aspects of the parent at the right point.

Ido Segev: I also think that to the extent you have a view of five years out what you'd want to do with this, is it basically—is the new business basically a Trojan horse to then roll in the old business to the new business? If you have the foresight or some view initially of where you want to take this, it might actually impact decisions that you make around how to build this and how to set the governance.

Simon London: The other attacker's advantage that people talk about, and this was the—well, Clayton Christensen sadly has just passed away—but one of the Clayton Christensen insights, as I understand it, was the return profile on the capital is going to be very different. Even the profit margin of what the new venture is doing is going to be very different.

And this is one of the reasons why historically, you know, big companies have struggled with what Professor Christensen called the "disruptive innovation"—sort of lower-margin kind of disruptors coming in from below. And a big company will say, "Oh, that's low-margin business. I don't want to deal with that. Look, I've got all this great high-margin business."

So presumably—like, we've touched on this, but the financial metrics, how you're measuring success of this new venture—certainly be clear about this is not standard capex?

Vaibhav Gujral: That's exactly right. I think there are two important things to keep in mind on that, right? One is you've got to look at what the margin profile would be of the business, once it is successful and operating, and not what the margin profile of the business is likely going to be over the first one or two years that you're setting it up.

And then you have to look at that stand-alone economics of the business a couple of years out to say, "Is that structurally more attractive, potentially, than our core business?" And in many industries, if you reinvent the business model and you go from—you know, take the simple example of banking. You go from having banking branches to actually having a model that is predominantly without branches. You've structurally reduced a bunch of costs that you weren't incurring. So if you can get that right, you will have a fundamentally lower cost in operating model in the future state, once you've got scale. You can't evaluate the margin along the way, because the margin's actually going to look a lot worse. So particularly in capital-intensive industries, where you've got a large installed base and infrastructure, it's very hard to envision what that margin is going to look like.

But often you can get to a new ways of delivering it. And if you take the attacker and disrupter mentality, the start-up doesn't have any of those assets, so they're trying to be as nimble and as scrappy and as smart as they can in an asset-light way. And the same way Airbnb created one of the largest hotel chains in the world without actually having any hotel rooms, you start to create and think about how you solve customer needs without creating the same and replicating the same cost base, right?

The second important point is you have to have strict guardrails around what stage gates need to be crossed and is it working or not. The biggest fallacy in large corporations is once you've started something, there is a huge bias to continuing it and talking about how it's working and pointing to different metrics over time.

Simon London: The sunk-cost fallacy?

Ido Segev: Uh-huh.

Vaibhav Gujral: That's right. And if you're a start-up, if you are not generating cash or if you're not generating very strong leading indicators of what will drive cash, whether it's users or revenue per user, you're not going to get funded when you're in the next round, right?

And you have to have the same mentality of not changing the metrics that you're measuring as you're going along to prove that this is successful, and only funding and continuing to fund it if you truly believe it's on that trajectory and margin profile.

We often construct a reverse P&L with the key assumptions as we get started on these initiatives, because you have to know which assumptions you have to prove and derisk along the way, so you can get to that margin profile that you need.

Simon London: This is very nerdy, but I'm going to ask you to double-click on reverse P&L—just explain it.

Vaibhav Gujral: Reverse P&L is constructing a P&L for the business, perform a P&L for the business, so you can construct a clearer view on what the valuation of that new entity would be, and then backing into what core assumptions need to be true in order for that P&L to come true, both on the revenue side—

Simon London: So would this be looking sort of three or five years out? Going that far? Or just sort of next year?

Vaibhav Gujral: It's going ten years out but then backing into a more deliberate view on the first five years and what key assumptions you need, both in terms of users, how much money you're making off of each customer or user, whether you've got the right ramp and you've got the right acceleration on it, and whether you've got the right cost structure.

> “The economics of a new venture, particularly digital ones, are very fixed-cost heavy. And the way to actually make it work is by scaling.”
>
> —Ido Segev

Simon London: Gotcha.

Vaibhav Gujral: It’s very hard to predict all of these things as you’re going along the way, so you have to make sure that you’re testing assumptions along the way. And if those assumptions change early on and you realize that you need more service intensity or you need more customer support stuff, you have to factor that into your P&L and think about how much money you expected the business to make, versus what it’s actually making.

Ido Segev: You asked a question around the financial profile, the economic profile of those ventures. And I think Vaibhav, you know, mentioned many of them are very fixed-cost intensive. You know, the way you make money on fixed-cost-intensive ventures is by scale.

And that actually means once you build the product, you need to be ready to actually, like, drive the hell out of it and, you know, do the marketing. And one of the things that I find—so some of my clients, you know—some organizations actually don’t do well is they’re not hitting the pedal to the metal.

Simon London: Right.

Ido Segev: You need to be ready to drive the market, and you need to be comfortable with the marketing expense associated with scaling those businesses, because without it, it will never scale. And for many organizations who are not as used to, you know, driving marketing at that scale, you know, they see the marketing budget and they say, “Well, this is a bit scary.”

Simon London: “Oh, we’ll cut that in half”?

Ido Segev: Exactly. But then it’s a self-fulfilling, prophecy, right? So you don’t spend on scaling this. It won’t scale. And then it just dies.

Talent: Creating a business-building team

Simon London: Yeah, yeah. Can we just talk a little bit more about talent? We’ve mentioned it a couple of times along the way here, but what does an ideal business-building team look like?

Ido Segev: I think first of all you need, you know, those intrapreneurs—so people who build businesses, people who build businesses, people who will not take no for an answer, people who when, you know, the problem gets tough, that energizes them and [they] say, “Ah, I’m going to figure out how to, you know, solve this.”

I think the second thing is you need people who understand customers, you know, that can understand what does the customer need, what is a customer pain point. You know, they have the empathy toward the customer. And they actually use the customer-centric design as a framework for problem solving and building product. You know, it’s not, you know, people necessarily who know what’s the product P&L and therefore what would be most profitable for that. So that’s, you know, I think the second thing.

The third piece is you need engineers. And you need top-notch engineers who, by the way, if they are entrepreneurial and they have the customer empathy, that’s even better.

Simon London: By which we mean software engineers?

Ido Segev: Yeah. I think it's tough, you know, to find, you know, the two first talent categories that I mentioned, but software engineers in this day and age—the competition for that is very, very, very tough.

And you know, the—you want the people who otherwise would go to Google or to Facebook, to—you know, you want them to build your products, so that would be either the third category that you need on the team.

And then I think it—to the point we talked about earlier, it can't just be these guys, right? Because they don't have with them any of the parent or the incumbent advantage, you know, with them. So you know, these guys need to be supplemented with some, you know, people from the parent company—people who bring whatever, like the risk mindset if you're building a bank, or people from procurement, or people from legal. You know, you name it.

Simon London: And presumably, there's something around just knowing how to get things done in the parent company as well? I mean, that's an art in itself in a big organization—just to know who to talk to, to unlock a certain asset, to take advantage of these competitive advantages, as you say.

Vaibhav Gujral: Yeah, that's exactly right. I think pairing the new venture with a set of folks from the parent organization who know how to get things done in the parent is really critical. And ideally, you want to embed some of these folks early on into the management team of the new venture.

It's one of the hardest challenges you're going to have as you're building this out is tapping into the right people networks and a lot of domain knowledge and expertise, which may not be explicit but is implicit. So knowing who those savvy operators are and placing them onto the management team of the new venture early on is critically important.

Ido Segev: I'll give you an example that sounds mundane, but it's critical. So with one of my bank clients that built a new venture, you know, early on, there were a lot of third parties that needed to be onboarded—new system, new marketing solutions—you know, you name it. And if you know anything about banking, you know that onboarding new vendors is a long, long process.

Simon London: Yes.

Ido Segev: You know, it could take three, six, you know, months—you know, time sometimes—

Simon London: Yeah, and legitimately. I mean, there's compliance reasons—

Ido Segev: Yeah, of course. But what they did in that situation, they said, "Okay, we are now going to have, you know, somebody or someone from third-party risk, you know, sit in this venture and get it done." And get it done in five weeks, right, because you can't do it in five days. You have to have—to your point on compliance, but get it done. I think that is the kind of mindset that you need to do.

Simon London: Get it done?

Vaibhav Gujral: I think the important thing, which is the crux of the talent question, is you have to solve for great intrinsics versus solving for great résumés. And what underlies the best people in these environments are ones who will have creativity and vision, because they'll come in with ideas and they're not looking for direction or the path to be laid out for them. Often people who've got great résumés but worked in large organizations but weren't actually the ones coming up with the ideas, they were taking other people's ideas and executing them—they find it hard in these environments, because it's not as clear what you need to do. So you have to have that creativity and vision. You have to have agility and the ability to be okay with ambiguity, be okay with change.

And the third is ambition and hunger, right? This is not a nine-to-five, nine-to-six job. The best people are going to be ones that are willing to really be switched on 24/7, thinking about where they could take this venture. That's the hardest one, because often you can't create the same incentive structures that you have in pure start-ups. So you have to have people who have that desire and ambition and hunger but to do something and to drive change and impact, versus it being purely monetary or financial returns.

Simon London: I'm going to be devil's advocate here, because that's just—when you mentioned financial incentives, that's just where I was coming to. Like, is it really realistic to expect XYZ healthcare company or XYZ insurance or bank to attract the caliber of people who would go to, you know, the latest hot Silicon Valley company, whether big or small, just because there's not going to be the kind of stock options available? You're not going to be sort of immersed in that same culture of start-up-ness or hot tech that you are. So is it realistic, and you know, what do you advise clients? What can and should they do to try and make it happen?

Vaibhav Gujral: I think it absolutely is. I think to assume that everyone who is ambitious and creative and wants to see change in the world wants to work in a 10 or 20 percent start-up or a tech company is a narrow view, right, of the world. There are a whole lot of incredibly talented, ambitious people who want to drive change and leverage platforms that many of these larger organizations have, that from the outset derisk, right?

And we talked earlier about improving the odds of success where you're going in. You know you have assets and capabilities that give you a huge head start, in terms of driving change in the world. So two years in, you could be running a new company that has changed a sector.

Simon London: So you have to persuade them again that "our odds of doing something very cool here are pretty high"?

Ido Segev: Yeah.

Vaibhav Gujral: We are incredibly uniquely positioned to do something different and drive impact and change much faster. And if you have that conviction, you can attract great talent that has the right hybrid, right? But you have to appeal to a motivation that is different than the person who's solving purely for the stock options.

Ido Segev: I think there's talent out there who has appetite to disrupt, you know, any industry, right? So no industry is boring; let's just put it this way. So it's now a matter of how do you make sure that they come to you versus, you know, do it on their own or do it with someone else.

Avoiding the pitfalls

Simon London: So what are the common failure modes, is probably the best way of putting it? When you look at big business-building initiatives that fail, what are some of the common things that we see that could have been avoided? I mean, Ido, how would you answer that?

Ido Segev: Well, you know, there are a couple that come to mind. The first is around expectation. And so, you know, I think this is expecting the new venture to be ROI-positive in the first quarter of its existence. It sounds banal, but it's very, very common that there's a lot of pressure to show standard ROI metrics very quickly.

The second I would say is around what I would call "cultural contamination." So this is building a new business but having a lot of the parent culture basically creep into the new venture and disable it from moving fast—from, you know, thinking differently, you know, et cetera.

The third is killing it with bureaucracy. What do I mean by that? Two examples. You as a new venture would probably need to hire people very, very quickly. The standard hiring processes of many incumbents are very, very slow. If you tell, you know, a new venture, “Hey, you need to adhere to existing processes,” they won’t be able to hire, you know, quickly enough. Another common example of killing it with bureaucracy would be onboarding new vendors that, you know, are critical for the success of this.

And then the last one that I would think—that I could think—about is not scaling quickly enough. I think we talked about the fact that the economics of a new venture like that, particularly digital ones, are very fixed-cost heavy. And the way to actually make it work is by scaling.

Vaibhav Gujral: I think the scaling point is a critical one, because if you don’t have a clear view right from the outset on what is the thing that you were testing and, once that has worked, where you can take it, then—and you’re figuring that out after the first stage of the process—you’re never going to get the return profile that you would expect as a true start-up-type venture. You have to be ready to hit the pedal hard and go into hyperscaling mode, once you figure out it works, because not only are you leaving dollars on the table, chances are you’ve proven the idea for five other people, and you’re going to—

Ido Segev: Yeah, and they’re trying competition. So if you’re actually not scaling faster than others in creating a mode for yourself and leveraging that first advantage that you have, it’s a missed opportunity.

Simon London: So it sounds almost like there are a couple of leaps of faith? And this is probably true of, you know, whether it’s an entrepreneurial start-up or a, you know, business built within a big company. First you have to have the leap of faith to say, “We’re going to do this. We don’t know exactly where it’s going to go, but we’re going to do this. We’re going to do it at scale. We’re going to take it seriously.”

Vaibhav Gujral: That’s exactly right. You have to create a catalyst for change. And you have to have a leap of faith that it’s pointing the direction of the company forward. And that is a real leap of faith and often is not going to come from looking at quarterly market indicators, and it’s not going to come from looking at what’s going on in other industries. It’s going to come from looking at disruptions, and it’s going to come from imagining what the future could be.

Vaibhav Gujral: You have to take a leap of faith that the capital investment, management attention, time, et cetera, is worthwhile, because the return profile for the first one or two years, as we’ve discussed, is going to be different. You have to have a leap of faith that if you’re taking a medium-term horizon on the business, not only are you going to make the business much stronger from a growth and economics perspective, but also position yourself in—future-proof yourself against—potential disruption and what competitors might do.

Simon London: Vaibhav and Ido, thank you for making the time. That was a lot of fun, and I learned a lot. So thank you.

Vaibhav Gujral: Thank you, Simon.

Ido Segev: Yeah, thank you.

Vaibhav Gujral: My pleasure.

Vaibhav Gujral is a partner in McKinsey’s New York office, and **Ido Segev** is a partner in the Boston office. **Simon London**, a member of the publishing team, is based in Silicon Valley.

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