

2020 season recap: Building and scaling new businesses

Listen to learnings on business building from *The Venture's* 2020 episodes.



In this special episode of *The Venture*, we provide a season recap of all the learnings from past episodes with leaders from incumbents True Digital, Jardine Matheson, and Globe Telecom; venture-capital firm Sequoia Capital; and digital attacker Carro. Andrew Roth and Tomas Laboutka from Leap by McKinsey share an approach for business building and the nuances incumbents need to consider when they're building and scaling new businesses. An edited transcript of the podcast follows.

Podcast transcript

Andrew Roth: From Leap by McKinsey, our business-building practice, I'm Andrew Roth, and welcome to *The Venture*, a series featuring conversations with legendary venture builders in Asia on how to design, launch, and scale new businesses. In each episode, we cut through the noise to bring practical advice on how leaders can build successful businesses from scratch.

For this episode, I'm excited to bring back Tomas Laboutka from Leap by McKinsey, who was also our very first commentator in episode 1 with Aaron Tan of Carro. Tomas and I are both entrepreneurs and have been in Singapore for some time, launching e-commerce and data companies. Now we help incumbents launch new businesses to innovate amid constant disruption. Tomas, welcome back.

Tomas Laboutka: Thanks, Andrew. Very excited to help wrap up the first year of *The Venture*.

Andrew Roth: And what better way to do so than a season recap of all the learnings from our first five episodes, with leaders from incumbents True Digital, Jardines, and Globe Telecom; venture-capital firm Sequoia; and start-up disruptor Carro? It's been our experience that there's a recipe for business building, and there are nuances incumbents need to take into account when they're doing the building. Can you tell us a little about McKinsey's approach to business building?

Tomas Laboutka: At McKinsey, we always come up with a very rigorous approach to understanding problems and choosing the right frameworks to grasp complex issues like business building. For example, when it comes to digital business building, it's important to apply a specific process.

During the breakout stage, it's all about generating and prioritizing the right ideas. It's the stage where you know you want to build something that will outperform your competitors and lean on your built-in advantages, but you don't really know what it is yet.

Then it's about creating a blueprint where you need to generate a business idea but have no minimum viable product (MVP) that customers will really love. You assemble a team to validate the key assumptions to determine whether the business you want to build makes sense and will attract customers.

Next you need to validate the value proposition by demonstrating customer love. Once that's done, you build the business around that idea, settle on the technology and product design, and then you launch.

When you reach the fourth stage, you've brought your product to market, gained some initial traction, and want to scale the venture to make sure you don't end up in the MVP graveyard. During this first and critical year for start-ups, you need to ensure you've attained product-channel fit.

The final stage is when you need to decide, "Am I going to merge this new venture with my mother company? Am I going to sell it? Am I going to let it continue on its own trajectory?"

Andrew Roth: Let's go through each of these stages as you described them. To get started, you need to really decide where to play, so before jumping into design and deciding how to validate a particular value proposition, we really want to take a wide-area view of the playing

field. Incumbents often find it challenging to achieve liftoff, even from here, to get enough capital and enough of a runway to try something ambitious.

In some of our episodes, we've come across this debate around cloning versus creating, so let's explore that. We have a clip here from our episode with Carro founder and CEO Aaron Tan. Let's listen and then discuss it.

Aaron Tan: *So I don't think that there is a need to be super-innovative and come up with something that is entirely unique. I think there are gaps in the market, but not all gaps are equally translatable.*

And that's where you come in as an entrepreneur and ask, "Where's the opportunity? What's the risk like? Is this a potentially big enough opportunity in Southeast Asia? Does this need exist in Southeast Asia? And if so, is there an incumbent? And if not, why?"

Andrew Roth: I'm definitely in this camp that believes you can out-execute the competition and localize a concept that doesn't exist yet in a market like Singapore or Southeast Asia. What are your thoughts on Aaron's comments? And how do incumbents approach this?

Tomas Laboutka: I do see some of the incumbents trying to overcomplicate things, telling themselves, "We have to invent something that nobody's ever thought of," or "I'll reinvent the wheel all over again from the first bolts." And this is where a lot of momentum is lost.

What you hear from the clip with Aaron is, "Hey, you know what? Don't overthink. Look at the models that worked somewhere else. Then get very close to the customer, and the moment you have an advantage, just go for it. Adjust the model based on the local market and execute fast." And that, I believe, is a recipe for success, rather than trying to reinvent the wheel.

Andrew Roth: Like you said, you don't have to overcomplicate it, and it doesn't have to take that long. In just four weeks, you can come up with a portfolio of potential ideas that are inspired by looking outside the market at start-ups that are getting massive scale and valuations, and then see how you might be able to localize it.

And at the end of those four weeks, incumbents really need to have this sort of portfolio approach to business building. Because, in the past ten years, a lot of them have tried one MVP at a time. And then all of a sudden, two, three, or four years have gone by, and they haven't seen any major liftoff from their business-building efforts. What are your thoughts on the portfolio idea of business building?

Tomas Laboutka: That's an interesting one. Actually, before you even get to the portfolio, you have to decide if building a business is a priority. We ran a business-building survey earlier this year, and among incumbents, the percentage indicating a desire to build new businesses rose from 30 percent to more than 50 percent at the end of last year. So, I think the determination to do this and do this right is the first step.

As for doing a portfolio or single idea, I struggle with this. I think there's merit to doing a portfolio at the beginning, and then test where you have the highest resonance with the market. But I also think you want to double down on one thing and go as far as you can before you start diversifying.

Andrew Roth: Let's dig into the next stage, which happens once you narrow down what you want to commit to and build.

We've had several conversations on this. With Glenn Estrella, entrepreneur in residence at 917Ventures, Globe Telecom's corporate incubator, we discussed some of the things to make the blueprint part really stick, such as

how to approach your team and caring about your customers. Let's have a quick listen to what Glenn says.

Glenn Estrella: *It's the Filipino word "malasakit." The English translation is caring. You really care. It's not just enough to be passionate about something; you have to care. If you care for something or someone, whether it be your customers or your company, you'll act accordingly.*

Andrew Roth: Glenn mentions caring about the customer, caring about your employees. And when it comes to caring about the customer, there's been a lot of investment around design in the last several years. What's your take on design? How have incumbents been able to really adopt it? And how far do you think they've come with it?

Tomas Laboutka: I think what we've seen over the years in design is a transition from that creative guy in sneakers walking in the office and making a nice logo to something that's at the very beginning of ideating through the validation and all the way to the build. It's an integral and crucial part of business building.

This ultimately means you're able to empathize, you're able to listen to the pain points, and you are able to care about what the customers want. That's really the crucial skill set. You're able to translate signals from customers into specific features and specific solutions that you build into your business, and you run this loop over and over again.

This is where we see the most mature organizations moving, but I don't think we're there yet across the board. What have you seen across the incumbents over the past years? And how does that resonate with you, Andrew?

Andrew Roth: Design, at the end of the day, is a capability. It's a craft, not a phase. Sometimes incumbents treat design like a phase. You do something in the first month or two, and

then you're off writing code and building the platform or launching the business.

It's got to be something that endures beyond the blueprint and build stages and into really scaling the business. I think the heavy lifting with design is to empathize with customers, to observe and listen to them and stakeholders.

Tomas Laboutka: It's very interesting when you link it to value. Within McKinsey, we analyze the business value of design and have found an organization's designs actually increase the financial performance significantly.

And I think this is the point where you really start winning over leaders of organizations and not just those that intuitively get it, because it's already embedded in the culture, as we heard from Glenn.

When you put a number behind it, you can say, "Look, if you have this capability in your team, and you're rigorous about constantly translating the signals and the messages from the customers, you're going to improve and increase your financial performance." And that, I think, is where we really start driving it home.

Andrew Roth: That's a great segue, because linking the value of design to something quantitative takes us to building the new business. And the reason it's important to link the value of design to output in the build stage is getting to product-market fit, which has many different definitions.

But incumbents often focus on launching the new business, rather than obsessing on initial traction or some kind of predictable revenue or growth or product-market fit. Let's hear a clip from Bernd Vindevogel, chief analytics officer at True Digital Group, and react to that.

Bernd Vindevogel: *If you think about the original idea of setting up a start-up spin-off outside of the corporate, that's actually*

largely driven by the problem of scale. So the spin-off is set up to solve this problem of scale, which makes it a bit different from a real start-up, as for a real start-up, growth is number one. It's the primary objective. A start-up has to find a way to break even, to profitable self-funding. There's no other choice. And nobody would argue about getting too big. Now for a corporate spin-off, it's a fine balancing act. Of course, growth is important. You have to go forward. But if the spin-off becomes too big too fast, you will find yourself in the same situation you were trying to solve in the first place.

Andrew Roth: Bernd's basically saying an incumbent that launches a start-up will often do it as a spin-off. What was interesting about True Digital is that they built their analytics business as an almost completely separate organization, where they accepted market pressure to prove themselves. So it wasn't just proving themselves internally; it was proving themselves externally to achieve some traction. And I think that was a clever way to show they could get to product-market fit.

What are some indicators you look for when you think of a start-up, whether it was one of your own or with an incumbent? What are some leading indicators of traction or product-market fit?

Tomas Laboutka: I really love the way Bernd's thinking about this, and I think it was a very clever way to ensure the company's success. It's really about pushing it into the water and making sure that it can swim and reach product-market fit, which can be broken down into a few indicators.

One that I really love to look at is net promoter score (NPS), finding out how many people really love you and would recommend you to their friends or colleagues. But if you invert that to ask what percentage of customers would really miss you if you go out of business, the metrics get really interesting. I've seen numbers like 40 to 60 percent, but it has to be significant.

The second indicator is looking into your ability to scale without burning a lot of cash. For example, looking not just at product-market fit but also product-channel fit, that point where you're able to acquire customers at a rate that's sustainable and the economics work so you continue growing. But there are quite a few more. Andrew, what's your take?

Andrew Roth: What I look for in terms of traction or product-market fit is some evidence of predictable growth, especially from a customer experience. The famous Facebook example was when they realized they were going to really scale and beat MySpace. They knew in a predictive way that each new customer who connected to seven friends within ten days would become high-growth or very sticky customers. And each business has some kind of North Star metric like this that can be measured to predict the sticky core customers.

Tomas Laboutka: What's really amazing is if you get really close to the customers and study their behavior, you start understanding that tipping point. I remember when Uber and Grab were launching in this region, and they were obsessed with users trying the app three times. If you try it the first time, you walk away. The second time, you're not sure. But the third time, you're in, and that's the product-market fit.

And you hit it when the experience becomes part of your daily routine. And that North Star metric is really key when looking into product-market fit, because it's going to be different for you, and it's going to be different for me.

Andrew Roth: That's a great segue to the next phase, which is, once you have product-market fit, how do you really scale it? And getting to product-market fit is not easy. So, for the small number of incumbents that get there and show some kind of predictable traction, how do they really raise the volume and scale?

Let's hear a clip from Pieter Kemps, a principal and investor at Surge, Sequoia Capital's accelerator for early-stage start-ups in Southeast Asia and India.

Andrew Roth: *Even though you're not pushing the portfolio company on their revenue, you are looking at the economics of growth.*

Pieter Kemps: *That's correct. And it has to be said that there is a trade-off and a strategic perspective there. We have a lot of companies where we know what the monetization lever is going to be, but at the board level, there's sometimes a conscious decision to delay that and say, "Hey, let's continue to focus on growth. We think we're doing well on growing some of these leading indicators." And we'll wait. We'll delay that gratification of revenue and consciously decide when to switch that on.*

And very often in these markets, it's very important for an investing business to quickly build supply or demand and go for some sort of market-share grab. This might mean delaying revenue a bit longer than normal, but many examples inside and outside our portfolio have proven that it's a good strategy.

Andrew Roth: This is a big topic between start-ups and incumbents: chasing growth versus the profit and loss (P&L). I like what Pieter says about start-ups obsessing about revenue while the board advises them to hold off and pursue market share instead. Where do you fall on this growth versus P&L debate?

Tomas Laboutka: That's a really big one. I think when you build a business, you have to commit. You have to start orienting yourself toward that North Star and really focus on the right product-channel fit.

The challenging part here is that it's easy to fall into start-up mode, raising a lot of money and burning through it to buy customers, but not profitably. I don't accept that premise—buying growth at all costs.

I think what really matters is tapping into a channel that scales. Now, a lot of incumbents start with the advantage of a customer base. But once they scale that base, that's where they stop, and that's also where the business stops.

This is something that we've seen over and over again. It's really one of the key hurdles underperforming businesses struggle with, even though it's very obvious. Where are you seeing incumbents get it right? How should they be thinking about this?

Andrew Roth: I think incumbents have a lot of advantages. Even when they launch a new business, they'll begin with a huge database of customers. It may not be related to that new business but can definitely be a channel to help them acquire customers.

Where I see incumbents stumble is when they try to buy growth, because I don't agree with that either. You'd be surprised by how many incumbents don't take advantage of channels like a referral program. In the last two businesses we've launched in Southeast Asia, we implemented a referral program, which drives somewhere between 20 to 30 percent of all new daily customers.

It becomes a massive channel, because you're relying on your own first-party data to drive growth, and you're not doing anything complicated. I guess it's like an Uber type of referral program, where both sides get some kind of benefit. But I'd love to see incumbents adopt some of those methods versus just trying to buy growth.

Tomas Laboutka: The first level is not to buy growth. The second is leaning into your product-market fit. But then you have a third stage, and this is the point where you can be a lot more thoughtful about growing. This is where you really look into your market, into the right team processes, and learn how to run agile marketing campaigns. Andrew, I know

you're very passionate about this topic. What's your take on this?

Andrew Roth: Definitely. I could talk about this all day long. Because of COVID-19, we're seeing these massive shifts in customer preferences—the way they consume media, the way they consume digital services, and the way they discover new services. And, as you mentioned, incumbents have to adopt this agile-marketing way of working.

It's definitely a new capability. And the best way to think about this new capability is that marketing teams, or what we now call growth teams, have to manage different types of backlogs.

Marketing backlogs are your list of campaigns across paid, owned, and earned media, while your product backlog is about developing a referral program. Your research backlog requires a finger on the pulse of the customer, which teaches you how to tweak the product and features, as well as the content and the types of campaigns you're launching. Then there's the tech backlog, which we could spend an hour on, because there are so many new things and acronyms to demystify.

But scaling is about nailing the new ways of working around agile marketing and then experimenting, just like in the building phase, where you have to be very lean. You need to be lean in the scaling stage, too, but with a different type of team that's independent and attacking these different types of backlogs.

Tomas Laboutka: So true. I recall this fantastic research we did on new business building, which showed that the moment you get the right talent occupying the critical roles, you're twice as likely to succeed.

Marketing talent has evolved so rapidly in recent years. It's not just some creative guy doing banners. You need to combine creative with deep analytics, data, tech, and engineering, all

at the same time. This is a completely different ballgame.

Andrew Roth: Yeah, exactly. And this is the kind of team that gets excited obsessing over the numbers of all these leading indicators to growth, whether it's lifetime value of the customer, customer churn, or cost of acquisition.

And once an incumbent has launched this very successful start-up, that takes us to branching out, which is unique to incumbents. Because if they build something successful, they have to decide how it's going to enable the core business. Let's hear from Anne O'Riordan, Jardine Matheson's group director of digital, on this topic.

Anne O'Riordan: *Back in February 2018, Astra invested about \$150 million in Gojek's Series E fundraising round, and we did a follow-up investment in March 2019.*

Astra owns a large portion of the offline transportation market in Indonesia. But with the rise of ride sharing and online transportation services that Gojek pioneered in that market, it was an opportunity for Astra to learn. As the two companies got to know each other, they realized there was an opportunity to bring the offline and online together.

Astra and Gojek launched a company called GoFleet, an online automotive-rental marketplace. Gojek provides the customer base, online platform, and services, while Astra provides the cars, trucks, maintenance, and insurance services. So for Astra, it's an opportunity to participate in that growing new economy with capabilities they've been honing for years.

Andrew Roth: Anne's referring to Indonesia's Astra, a large automotive conglomerate in which Jardines is a major investor. I like Anne's point that a large organization like Astra

combined with Gojek to launch GoFleet and, at the end of the day, learned from GoFleet on how to expand the core business.

And I think it's a good way to think about branching out. Because when an incumbent launches a new business, it can do so in a way where the CEO and the board give space to the start-up, while creating an opportunity for the start-up to give back to the core business. You don't need to think of start-ups in your marketplace as disruptors, and you can find ways to launch new things with them and accelerate those learnings within the core business.

Tomas Laboutka: Yeah, that's right. I think a couple of points are very interesting—the first one being to try and capture value by investing in a superstar unicorn. That's the easiest step.

The second one is to start learning by telling yourself, "This is not just about participating in a revenue increase. I can actually learn quite a bit from this unicorn."

For me, the really intriguing part is when we hear Anne talking about what I call the third stage of value capture, when you start looking into the prospective synergies within your company. This is when you consider creating new ventures or new types of collaborations that further enhance your existing strengths by combining them with the new built-in advantages of the company that you either invested in or built.

This is the highest level of maturity that we've seen, and this is really when you start reaping

the biggest benefits of your newly minted venture.

Andrew Roth: I agree, and I think this is a great place to wrap things up. What Anne's saying about joint ventures and the ecosystem reminds me what Aaron said about not overcomplicating business building. Why shouldn't they do a joint venture with a unicorn to accelerate the speed to market, learnings, and new capabilities for the core business? We don't need to overthink business building. It's really about making decisions, making commitments, and then going big where you can.

Tomas Laboutka: That's right. And I was just reading about how Carro was looking into getting a wholesale digital-banking license. Talk about disruption.

Andrew Roth: They just keep jumping into new areas. It'll be exciting to do more of this, Tomas. We've been able to launch this podcast this year despite the obstacle of being in quarantine, so I'm looking forward to 2021 and more of this with you.

Tomas Laboutka: Absolutely. Looking forward to it, my friend.

Andrew Roth: You have been listening to *The Venture* with me, Andrew Roth. If you like what you've heard, subscribe to our show on Apple Podcasts, Spotify, or wherever you listen.

Tomas Laboutka and **Andrew Roth** are associate partners in McKinsey's Singapore office.

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