

Technology, Media & Telecommunications Practice

Entrepreneurship beyond Silicon Valley

Innovation is accelerating in Europe and beyond, making way for a new generation of start-ups.



In this episode of *The McKinsey Podcast*, Diane Brady speaks with senior partners Kim Baroudy and Massimo Mazza about the state of entrepreneurship in Europe and beyond. An edited transcript of their conversation follows.

Diane Brady: Hello, and welcome to *The McKinsey Podcast*. I'm Diane Brady. Necessity is the mother of invention. Whether that was said by Plato or someone else, it certainly has felt true over the past year. From digitization to vaccine development, the speed of innovation has been remarkable.

But so, too, has the disruption, suffering, and pace of business failures. In this episode, we talk about the opportunities, challenges, and realities for entrepreneurs around the world right now. What is the state of global entrepreneurship?

To answer that question, I'm joined by two people who work with start-ups and entrepreneurs in every part of the planet. Kim Baroudy is a senior partner in Copenhagen who leads McKinsey's Technology, Media & Telecommunications Practice for Europe. Hi, Kim. Welcome.

Kim Baroudy: Hi, thanks for having us.

Diane Brady: Massimo Mazza is a senior partner in New York and global leader of Fuel, part of McKinsey's Technology, Media & Telecommunications Practice. Hi, Massimo.

Massimo Mazza: Hi, Diane. Thank you for having us.

Diane Brady: Massimo, I'm going to start with you to get the big picture. Is this the best of times? Worst of times? What's the state of entrepreneurship?

Massimo Mazza: I am a positive person, so I believe we are probably at one of the best moments in history for being an entrepreneur and setting up a company. I believe that for a few reasons. On the one hand, there are so many opportunities that we are seeing that have been accelerated in 2020.

We should always remind ourselves that what happened with COVID-19 was a great tragedy.

However, there was some innovation that happened. Think about some facts. We are all comfortable working remotely. Zoom calls jumped up 30 times. In a single year, e-commerce has evolved five to ten years. We have seen 90 percent of the global student population actually have some sort of online exposure. There are opportunities in every geography and in many different sectors.

The opportunities are there. We have always said that capital is not an issue, and it's probably also true now. You have very low interest rates. You have investors that are eager to put money into new ventures. We are continuing to see that. We see more of a jump to quality, but the money is there. The capital is available if you have a good idea and if you have a good company.

What also happened in 2020 on the exit side was the phenomenon of SPACs [special-purpose acquisition companies]. This is not new, but it's something that has gained momentum. That gives, on the one side, more confidence to investors to place their money. It presents another exit alternative to entrepreneurs. So that's closed a bit of the cycle. Opportunities, capital, and exit options make it a very good situation.

On the negative side, we have more need for quality. Investors are looking more on unit economics and looking for a clear path for profitability. They are looking for the best companies out there. It's something that makes it a bit more complex.

Diane Brady: So a higher bar, basically?

Massimo Mazza: That's correct, a higher bar. If you think about ride hailing in China, the top companies are having their best year ever, although the total number of rides is decreasing. That's because people go to quality. They want to go to the best in class. That means that the difference between who wins and the average will keep increasing.

Looking at entrepreneurship in Europe

Diane Brady: It's interesting. Kim, here in the US, we think a lot about Silicon Valley. What do you see

happening with entrepreneurship and start-ups right now in Europe?

Kim Baroudy: On the macro level, our track record has probably been less successful. There are many metrics you can look at. If you look at the global or even the US league tables around all the big companies, most of them, or eight out of ten of them, are in some way, shape, or form technology related. If you look at the European counterpart and the league tables here, you would find that that's basically not the case.

Also, if you just look at the top 50 or top 100 companies in Europe, the rotation is almost close to zero. They are getting older and older. That said, we have had a great few years now, where we have seen a lot of exciting cases coming out.

If we talk about the macro level, there's all the usual suspects. There are some ride-hailing companies and also fintechs. We have Adyen. We have Spotify. We have a couple of companies that have now passed the \$50 billion to \$60 billion valuations. We don't have the \$100 billion-plus, and maybe that's fine. Valuation is not the only metric to go for, but it's a good indicator for success.

My observation, at least through the European-centric lens, is that we are accelerating and there's actually lots of exciting innovation coming our way. So I'm pretty optimistic, if you ask on the highest level.

You say capital is not a problem. Well, in Europe it actually is—or it was. We've seen nice growth rates. I think the estimate for 2020 is \$40 billion coming into that, which is a really impressive growth rate. But it's still \$100 billion short of the US, which is \$140 billion. And so there are pros and cons here. But we're seeing exciting momentum and acceleration.

Diane Brady: Is it the regulatory environment? Talent? Capital? All of the above? You mentioned Europe seems to be in a bit of a sweet spot, where you're expecting acceleration. What has changed on that front?

Kim Baroudy: So we think about the market structure, looking at the US and Europe, but we should also talk about others. But it's roughly the same size of economies, right? They're both worth \$20 trillion, give or take, if I include the UK in Europe. They're roughly the same population.

'I believe we are probably at one of the best moments in history for being an entrepreneur and setting up a company.'

—Massimo Mazza

We probably have the same number of software developers and all that good stuff.

So they're not that different, even though we try to make them seem that way. We always focus on the negatives. Yes, it is a fragmented landscape. We have different regulatory environments. We have 24 different languages. We have all the challenges that you would look at; we can spend an hour discussing all the problems. But I actually think if we reverse that, you see we have a lot of diversity. More and more of our entrepreneurs in Europe are taking advantage of that.

They are saying, "Well, we actually have a diverse setup, so we have to be able to play in different regimes and environments." If you look at some of the metrics around it, around 95 percent of all the unicorns coming out of Europe are international by default because they're forced to be. If you compare that with the US, it's probably only 60 or 70 percent.

So there are strengths we can build on by being fragmented. Of course, there are other things around culture and funding and all that good stuff. But even the market structure, which everybody has always highlighted as a liability or a negative, I think more and more people are seeing that it could also be a strength, at least in some avenues and arenas.

The fast-growing Latin American market

Diane Brady: Massimo, do you agree?

Massimo Mazza: I do agree. The only additional point I would make is that things can change fast. If you looked at Latin America three or four years ago, it would be exactly what you mentioned now: the top companies being the same, not a lot of movement, fragmented markets.

If you look at what it is today, the largest company, in terms of enterprise value, is actually Mercado Libre. It's not one of the top banks, as it used to be in the past. And it happened very fast. If you look at

the level of capital inflows, we actually see in the last two years a more than five-time increase in growth capital than we had in previous years.

That was because of the decision of a couple of players. They looked at the region, saw the opportunity, created a fund, and decided to put capital in. So things can change fast. It's as true in Europe as in Latin America and in other emerging markets.

If you look at Latin America, there was no local capital for growth. So you had a lot of seed capital from international companies. What happened is that, all things being equal, a company looked to become profitable sooner. They looked to either go for an IPO or be acquired sooner. They were more conservative. They didn't grow fast enough. As a consequence, we didn't have that many unicorns in the region. But things are changing.

Scaling up, quickly

Diane Brady: For some listeners who aren't immersed in this world, maybe just explain that getting series A funding is the point at which you really need to accelerate your growth. Is that correct?

Massimo Mazza: That's correct. And I think your definition is probably better than using a quantitative-metric evaluation because that's country specific. But that's the moment that you have a good product-market fit and you need to go into hypergrowth.

That's the moment where most of the founders come to us and see how we can partner together. That's probably the sweet spot. I'll give you a few examples. One dimension could be go-to-market. How can you dramatically increase your sales capacity, your ability to get to the right client at the right price at the right time in an efficient way?

That's one of the key questions that we get: 90 percent of start-ups at some point have external help for questions around pricing and go-to-market. So that's one important topic. The second one is

‘COVID-19 was a great tragedy, but there was some innovation that happened—we are all comfortable working remotely, and in a single year, e-commerce has evolved five to ten years.’

—Massimo Mazza

international expansion. A start-up normally tends to start being local, knowing a market and maybe knowing a city or knowing a state.

It's difficult for them to decide tomorrow, "I want to expand into three different continents and ten different countries." That's where we help. We have a presence in 95 percent of the GDP of the world. So if a start-up wants to go into Indonesia, we can help do that quickly.

So that's the moment that they typically come to us. But there are situations where they come to us very early on, preseries A. If there is an exciting opportunity, there are ways we can help. We can cover a bit of a broader spectrum. But postseries A, hypergrowth is the sweet spot.

Diane Brady: Let's distinguish between small business—and small businesses can be fairly large—and entrepreneurship. What's the difference in your mind? Is it intention? Disruption?

Kim Baroudy: Good question. I don't think they're that different, to be honest. You can have entrepreneurs inside large companies as well. This is about scaling companies. This is about starting something new and scaling it.

That's basically the philosophy behind this. You can actually do that inside very large institutions.

There's nothing wrong with that, right? What you often see is that it actually happens in very small, real start-ups and in the very large corporates.

The SMEs [small and medium-size enterprises] are often kind of a hybrid between them, so you don't always get these entrepreneurial journeys to the same extent, because they don't have the funding. They don't have the talent. There are many shortcomings, but I'm obviously simplifying here to prove a point.

In the very large companies, you do see entrepreneurial ventures that are very successful. Of course, that's true of the whole start-up scene and scale-up scene. But I think sometimes we forget. We did a study, measuring the presence of unicorns as one metric of success. Europe represented 36 percent of all the start-ups in the world, but it represented only 14 percent of the unicorns.

Diane Brady: And a unicorn, to remind people, is a \$1 billion-plus? Or has that changed? Inflation hasn't made that \$1.2 billion?

Kim Baroudy: We're not that sophisticated. The point here is that we often get these very exciting household names. The US, roughly, gets their fair share. Europe gets half its fair share. And Asia gets two times its fair share. But I think we actually forget the unicorns that are created inside companies.

Because they are not household brands, right? These are new ventures, adjacencies, whatever it is that come about. There, what we're seeing is that we're probably more on par with Europe.

Opportunities for entrepreneurs and investors

Diane Brady: I want to go back a second, Massimo, to the state of entrepreneurship. Kim raises a point that speaks to this winner-take-all mentality we hear about in tech as start-ups become unicorns. If I was part of a team on the ground trying to start up something, it can be a bit demoralizing. So where are the opportunities that you're seeing for companies at seed capital to really potentially be the next unicorns?

Massimo Mazza: In history, we've always had this question: Has everything already been invented? There is nothing more. The large companies dominate the space. Then we come up with new innovation and disruptions.

I think we are still at that stage. What changes is how fast you can get to that position and what that means, in terms of competitive distance, versus the others. Both are really accelerating. If you go back to the Industrial Revolution, there were probably a few companies that were 50 times more competitive than the average. Today, with the disruption of AI [artificial intelligence], if you are really the best, you can be one million times better than the average.

That has a lot of consequences. So if you are that winner, then catching up to you is very, very difficult. But it doesn't mean that there are no opportunities. You have to find that opportunity, be the winner, and be one million times better than the average.

As to where we see opportunities, there are multiple vectors where I'm really excited. One is around food. Food, end-to-end, from designing and engineering food to healthy foods—more and more people are excited about this. It's a couple of trillion dollars of opportunities. How do you make sure that you provide the best-quality food in

an affordable way everywhere in the world? We see start-ups in developing and emerging markets.

Then, on the other side of the spectrum is where and how we consume food. We have seen a boom of food delivery in dark kitchens—online only, with no eat-in restaurant. In the middle, we are seeing disruption in how people get food from supermarkets to their homes. What we will see in the next couple of months is a big shift on the fulfillment space. Microfulfillment centers are booming and will make this chain even smoother, even more productive.

Diane Brady: Microfulfillment. That's interesting.

Massimo Mazza: If you think about how most of your groceries that you order online are actually prepared, in most situations you have a person that goes to a store that looks like a normal store or maybe looks like a dark store, if you are sophisticated, but there is a human being that goes there, picks a product, puts it in a bag, and then delivers it.

The picking, it's quite limited. What if you actually use technology and use what in the past was used in large fulfillment centers? You make it very small. You put it in the back of a hypermarket, of a supermarket. Multiply the picking time by 100.

Immediately, you make the chain much more efficient because grocery delivery has been very expensive due to the delivery cost and the picking time and the picking cost, especially in developed markets, where the labor cost is expensive. What if you can actually use technology to disrupt that? That's something that I'm looking very closely at. I'm very excited about this space.

Different approaches to innovation

Diane Brady: Kim, anything particularly exciting for you?

Kim Baroudy: I just want to add one thing because you also asked about the size. This is an evergreen in Europe, that the winner takes all. We don't like

these very large institutions that are too dominant. There's all kinds of downsides.

But there's also a lot of upside from these, right? We should be transparent around the pros and the cons of these. If I take the FAANGs [Facebook, Amazon, Apple, Netflix, and Google], and we can have many opinions about them, the accumulated R&D spend they have in a year is three times bigger than the total of Italy, or the total of the tech R&D of Europe.

These large companies, they can buy themselves to momentum. We also see it, by the way, in the pharma industry. I'm not a deep expert there, but you're seeing more and more of the large pharma companies increasingly relying on external innovation. It's not all, and it's not an aspiration in itself, but it comes with a synergy of talent, funding, and infrastructure around these companies. I'm actually pretty excited about many things. There are a lot of verticals where we could get ourselves excited. There are also some other horizontals. Sustainability is one of them. There, we are seeing a lot of exciting innovation and entrepreneurship, both for smaller and bigger companies.

But most of the great ideas come out of the start-up and scale-up scene. These are companies that are coming in, partnering with corporates, and obviously driving innovation themselves. But then they're doing it horizontally and saying, "In a noncompeting world, we will actually help you become more sustainable and ESG [environmental, social, and governance] compliant," and all the upside around that.

I'm very excited about that horizontal. We don't have Google, we don't have the FAANGs in Europe, right? But we do have an ecosystem around sustainability. We could argue the same in a few other places, so there are lots of exciting platforms we can double-click on. But I think all of them will probably grow exponentially.

Entrepreneurship beyond Silicon Valley

Diane Brady: Let's switch a little to the advice for people who are listening who are entrepreneurial. I came of age, Massimo, in a time when if you were really good you were supposed to go to Silicon Valley. Is that still the case?

Massimo Mazza: There are a few dimensions in your question, which are, first, if Silicon Valley represents just the place where innovation happens, where start-ups are developed. The answer today probably is no—that happens in a much more diversified way. We are seeing more and more Silicon Valleys happening in multiple parts of the world. If you are a young talent in emerging markets, your dream was to go to Silicon Valley. We have seen this shift of talent moving from other countries to the US and to Silicon Valley.

Today, we are starting to see more and more Silicon Valleys globally. We are seeing São Paulo. We are seeing Tel Aviv. We are seeing Frankfurt, London, Shanghai. There are many Silicon Valleys that are developing, and this is a trend that is here to stay.

The second angle of your question is, if you're really talented, should you go into venture creating something, and building something new? I think that's still true and probably even more true than in the past. We are seeing the best talent come out of universities.

Ten years ago, 15 years ago, when I graduated, the dream was to go into banking. Let's go into consulting. Let's go into a B-ranked company. Today, we see more and more people who want to go into companies as a step into building their own company. So there is a trend for the best talent to get into disruption much more than in the past. But we've seen them becoming more and more local. And I think that is healthy. It helps you develop economies in multiple companies. It helps you develop a specific solution that you can then export.

If you think about some of the most exciting fintechs in the world, they are not from the US, other than having expanded to the US. If you think about the most exciting logistics disruptors, again, they are not there. And that, again, is healthy. It gives different perspectives and allows homegrown talent to stay local and develop their own countries.

Diane Brady: Kim, go ahead. You were going to mention something?

Kim Baroudy: We were all born and raised looking toward Silicon Valley for innovation and excitement. The facts will also, by the way, confirm that. More than half of the start-ups in the US are in the four superhubs, which are Silicon Valley, New York, Boston, and LA. If you compare that with Europe, the four superhubs are London, Paris, Berlin, and Stockholm. They account for only a quarter of start-ups.

There is a consolidation or concentration around the superhubs in the US. There is a trend that is going the other way now. We actually did an exercise where we mapped all the software developers as an example. They used to go for Silicon Valley because of software development, funding, and a few other things. There are actually as many

software developers and as high quality in Europe as in the US. But they're half the price. And, of course, as we get the learning curve, there are a lot of Silicon Valleys around the world by now.

If you can get access to talent at half the price—and, by the way, just access is obviously a huge value for most of these start-ups—I think you will see a more fragmented landscape going forward, and also in the more digital world, where you can talk more. Funding is increasingly becoming a global phenomenon. So it is not as concentrated as it used be. Still, the facts will point toward the US being more concentrated around the Silicon Valleys and superhubs.

Competing for talent

Diane Brady: Go ahead, Massimo.

Massimo Mazza: One consideration on this one is what will be the impact of remote working? If you ask us this question 12 months down the road, 24 months down the road, what will be the answer? What is interesting when talking to a lot of different start-ups of established companies globally is that there is a big and increased fight for talent that is becoming global.

‘Funding is increasingly becoming a global phenomenon. So it is not as concentrated as it used be. Still, the facts will point toward the US being more concentrated around the Silicon Valleys and superhubs.’

—Kim Baroudy

Historically, if you wanted to work in a company, you had to move there and stay close to where their offices are. Today, we are seeing competition for talent at the global level. You can stay where you are. You can stay in your country and your city if you like to be there and work for a company on a different continent.

So what will be the consequence of this one? It's still too early to say. But I think we will see changes. We're already seeing if you are in Colombia and you are a great company in Colombia, there will be an attack on your talent from companies in the US and Europe that can pay much more.

You have to find a way to retain them. The other way around, you can immediately find talent in Southeast Asia, India, wherever you want to bring to your company in a way that is very, very different than in the past. So the further we can work remotely in a very effective way will actually make more and more regions, countries, and cities become important for venture and for development going forward.

Kim Baroudy: Massimo's point is only accentuated or accelerated by the new generation that is coming in. They are much more excited about purpose. They're much more excited about the journey. They don't come into a local or a corporate identity as we did 20, 30, 40 years ago. The career planning, if they have any, is 12 to 24 months. And then they move on. This is not to say that's a good or bad thing. It's just to say that the clock speed of this talent rotation is actually increasing very, very fast.

Fostering gender and racial diversity

Diane Brady: Because they have options too, obviously. Is the diversification of talent you're talking about, from the employee point of view, reflected in founders? Because I think many of the founders typically have been two white men. Is that changing at all, Massimo?

Massimo Mazza: So let me start with the good news on this one and then get into your question, which is actually quite critical. So the good news is that Compass is just filing for an IPO. Robert [Reffkin] could be the first Black technology entrepreneur to list. There should be more. When

I reflect on why this is happening, something that strikes me is that normally an investor relies on a track record.

If it's a large company, a listed company, you can take a look at the financials. You take a look at the analysis. You look at the past ten years of history, and then you make your investment. If you're an early-stage company, you don't have that luxury. You don't have a history.

Investors will rely probably on two things: one thing is repeat funders, and the other thing is referrals. But the consequence of this approach is that you perpetuate the practices. And so the fact that, historically, we have more white men funders tends to perpetuate itself. We have to change it.

Diane Brady: Because they have the network.

Massimo Mazza: Correct. We have to fundamentally find a solution to this one. What we have seen in the last 12 months is the creation of diversity funds. They're funds that are focused to minorities, a great first step. It would also be great to have more investors who are minorities.

That will give a different perspective. They will look at things in a different way. And that's extremely valuable. The same way that boards perform much better if they are diverse, the same thing happens for investment communities. That's something that needs to change. We are at the very early stage of this shift, and there is a lot that needs to be done.

Diane Brady: Kim, we've seen a push certainly toward putting more women on boards in Europe. Are we seeing more women in entrepreneurship there?

Kim Baroudy: Yes, we are. But I share Massimo's frustration here. We actually tried to map this in Europe. It's obviously difficult. But our estimate is that anywhere between 15 and 25 percent of start-ups today have female [founders]. The challenge we have is that only 5 percent of the funding is from female founders. So there's a discrepancy there, and for many reasons. It's a complicated challenge.

We are seeing some emerging acceleration and excitement around female entrepreneurs. Like we have at the boards, we're also seeing around entrepreneurship, that there's a huge step-up opportunity and it's being articulated explicitly.

You're even seeing some of the VC [venture capitalist] funds trying to not overallocate but have a fair balance of not just gender but all kinds of diversity in the investment requirements that they're making. So you don't get this mismatch between 20 percent, plus or minus 5 percent, are females, but only 5 percent, plus or minus 1 percent, of the funding is from females.

Partnering successfully with start-ups

Diane Brady: I know a lot of large companies partner with start-ups to fuel their innovation. It's a great way to scale in many cases, for smaller companies to partner with big. What do you find works well, Massimo? And what are the pitfalls of the large companies that are looking to drive innovation by partnering with some of these entrepreneurs?

Massimo Mazza: It's actually difficult to make it happen. If you look at the pure number of how many corporates want to explore having a CVC [corporate venture capital] or partnering with a start-up, then the answer is most of them. In some geographies it is 80 percent. A lot of them look at this. But if you then look at are they being successful, are they able to do it in an appropriate way, then you have more of a mixed picture. Because it's not easy to do it. There are a couple of things that you need to ask if the corporate wants to partner with a start-up or if a start-up looks to partner with a corporate.

Number one is, the CEO of the corporate needs to be convinced, and this should be a priority. It should be something that is on the top of his or her mind, on top of the mind of the board. If it's not a priority, it's just a recipe for failure. Make sure that the person who will be allocated to take care of this venture is one of the top performers at the corporate.

At the beginning, this will represent a drop in cash flow, a drop in the revenues of the large company. So if you consider it as a special project, and you put someone young in charge, someone that is not a top talent, then it will not work. The corporate should feel that it is difficult to take out the person that you put as being responsible for this partnership.

The second element for me is to make it clear what the mandate is. What are you looking for with these? Because if you are looking for the same risk-return profile of your corporate, then it will not work. These start-ups will need cash at the beginning. They will have a profile that is different.

If you're in it for increasing your revenues in the next two years, it probably is not the right thing. If you want to make sure that you are where the disruption will be, if you want to make sure that you disrupt instead of being disrupted, then it's the right thing. You have to have a window and horizon that is several years, not several months. The incentive that you give to people that work in this partnership should be different than the one that you give to your traditional executives because what you expect from them is different.

The last point is around culture. At times, you see this weird situation where you have the series A, series B groups in the company. If you're working, it can be both ways, by the way. The one that says, "Ah, if they work in the entrepreneurial area of the company, the one that's in the CVC or the one that does partnership with the start-ups, then they have all the cool benefits. I can go to work in a T-shirt and bring my dog, or all these stereotypical things. And if I am the other side, I have the meetings, I have the reports. I have 300 emails to write."

Diane Brady: No Ping-Pong table for you!

Massimo Mazza: Exactly. So having the right culture, setting it up the right way, it's very critical. So people, mandate, and culture would be for me the critical point to make it work. But it's difficult.

The acceleration of e-commerce

Diane Brady: We talked about the disruption, largely for business, but a lot of these big companies have also gone remote, they've seen a huge amount of disruption. Has that increased the appetite for working with entrepreneurship or having entrepreneurs within your own company? What are you seeing?

Kim Baroudy: Absolutely. Obviously our footprint is pretty large. When we think about some of the sectors that were hit hard—it could be retail or sports or whatever it is—they are trying to reinvent themselves very, very quickly.

Massimo referred to the major acceleration of e-commerce. You could draw the same parallel in sports. We closed down all the arenas around the world. And e-sports is coming up or gaming more or whatever. We're actually seeing a lot of pretty innovative and exciting new journeys there. They can never be scaled. Or not never, that's a big word.

Diane Brady: Rarely.

Kim Baroudy: Around the culture, to take a classic executive in a big corporate who has been very successful in that world and then say, "Now you need to scale this thing," and it's going to burn cash for the next two years, and they're used to a monthly or quarterly steering.

By the way, whenever they start the entry ticket, it is always \$100 million, because everything is big in a big corporation. It's a completely different philosophy. But what you have seen in COVID-19 is a quite impressive acceleration for some of these companies. This is not all internal innovation and entrepreneurship. They actually often have to partner with start-ups and scale-ups to make this happen and become successful. I've seen classical brick retailers build e-commerce platforms in less than 12 weeks.

That was unheard of two years ago, right? It would take them 12 months because first they need to

decide, they need to work with partners. But, really, the sense of urgency has been so high. Now, they're seeing this work. So they're saying, "OK, but how can we leverage this momentum and new muscle that we have trained to building new ventures with external parties or not?" So I'm actually pretty optimistic about the acceleration we will see in the next 24 months.

How entrepreneurs can seize the moment

Diane Brady: There is this sense of urgency, Massimo. What advice do you have for entrepreneurs who are listening to this right now as to how they can take advantage of this momentum?

Massimo Mazza: Clearly, it depends on what stage you're in. But some advice would be, one, if you're at the early stage, what Kim mentioned is totally true. Companies 12 months ago were probably scared and they were winding down investment. Now they're excited.

They see that it works and they want to explore new things. So if you sent an email 12 months ago and you didn't get an answer, send it again. Because now companies are much more open and receptive to disruption and to change. So don't take one failure, don't take one event that is negative, as definitive. It's not. Go back and try again, and try now.

The second advice is for later-stage companies. What we've seen with most of the companies that we talk to is speed is critical and it's becoming even more so. So how do you make sure that if you have a great idea, if you have a good product market, you don't limit yourself to one country?

Don't limit yourself to one area. Think, "How can I do it as fast as I reasonably can?" 'Reasonably' means in a way that is not reckless. But make sure that you don't lose opportunities. Think broad and think big, on how to go global. The last one is always there and it's around talent.

‘Whether you take fintech, artificial intelligence start-ups, autonomous cars, or blockchain, I actually think that the acceleration of innovation and the scale-up and commercialization of these things is going to be even faster the next two to three years.’

–Kim Baroudy

The fight for talent is here to stay. It's becoming more and more exacerbated. Whenever you have good people, find a way to retain them. What Kim mentioned is spot-on. You don't retain them today with compensation. That's one piece. It should be good enough.

You retain them because you are a great leader. They respect your leadership. They respect who you are as a person, who you stand for. Make sure that your company has a clear view of what they represent on top of just what they sell.

What young talents want is a sense of belonging. This is especially important now when people work remotely. So imagine that, historically, being at the workplace was your way to create a community. Today you don't have that. So what will happen in the future?

We will probably see microcommunities that form around maybe a satellite location of the company, maybe your neighborhood. But if you are able to take advantage of this need of belonging to retain your talent, it's critical. Make sure that you capture, retain, and nurture your top talent.

Diane Brady: It seems like another entrepreneurial opportunity there. Kim, what advice do you have?

Kim Baroudy: The last five years have been a fantastic ride for many of these entrepreneurs. The next five years are going to be even more exciting. Some of them are looking into this and saying, "Now it's going to slow down. And this whole COVID-19 thing." I think it's contrary, right? For whether or not you take fintech, artificial intelligence start-ups, autonomous cars, blockchain, whatever it is, I actually think that the acceleration of innovation but also of the scale-up and commercialization of these things is going to be even faster the next two to three years than it was in the last two to three years.

Don't start preparing for a slowdown. Always prepare for an acceleration. Of course you need the brakes too, you need compliance, and there's funding—I understand that. But I've seen many start-ups in the last six to 12 months, because of COVID-19 or all kinds of things, starting to hit the brakes because they are getting into scenario planning and they're almost listening too much to the old-school companies.

Don't do that. Accelerate your way. Of course, you need to navigate so you actually stay on the road and capture and commercialize the opportunities. Then it's all about acceleration. Some of the most exciting companies that we will see will be created and scaled in the next five years.

We're looking into connectivity and automation and artificial intelligence and IoT [Internet of Things] and all of these very exciting functions that will impact almost all the domains and industries. So just embrace them and accelerate. That would be my main advice.

Diane Brady: May we live in interesting times. Massimo, any other points you'd like to add just to help those of us who are not entrepreneurs see around the corner? Because you're on the front lines where we're not.

Massimo Mazza: If I have to pick two of them that will really be disruptive, one is blockchain. And it's blockchain hitting the main road. So we have seen it already for a while, but now it's becoming real—the way that it's disrupting real-estate logistics, how you seal contracts, the way that you store files, the way that you validate events. That will be a big one that we will see in the next couple of years. It's getting out of the circles of tech geeks into the real space.

The other one, if I want to push myself even further, it's actually metaverse and how the virtual spaces,

virtual realities, will finally become a thing that most people will use. We have been talking about these for the last 20 years. But now it's becoming more real.

We see some fashion designers that do their new collections exposed in virtual worlds and not in Milan or in Paris. We are seeing a concert, the largest concert that ever happened, online in a virtual world. It didn't happen in an arena. So this one is another big disruption. We've taken a little bit longer to get on board, but it's there and it's happening. So these will be my two longer-term big bets.

Diane Brady: Exciting times ahead. And good to have your perspective, both of you. Kim, Massimo, thanks very much for joining us.

Massimo Mazza: Thank you.

Kim Baroudy: Thanks for having us.

Diane Brady: If you're hungry for more, please check out the new *McKinsey on Startups* podcast from Fuel. Until next time, I'm Diane Brady. Thank you.

Kim Baroudy is a senior partner in McKinsey's Copenhagen office, and **Massimo Mazza** is a senior partner in the New York office. **Diane Brady** is an alumna of the New York office.

Designed by McKinsey Global Publishing
Copyright © 2021 McKinsey & Company. All rights reserved.