Spoilt for choice
How to see clearly in a world full of options
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It is often said that we can never have too much choice. But the proliferation of options can be bewildering – for both individuals and companies. Do we ever get to the stage where too much choice is simply too much effort? Or should we instead view the range of products and services we have today as a positive?

That is the challenge we have set ourselves in “A question of choice” (page 4), which looks at not only what individuals should do, but also why companies should make a virtue of choice. The stakes are high, because those businesses and consumers that find a “reliable compass” with which to navigate can reap considerable rewards.

Past issues of The Point have often discussed effective procurement, yet the one commodity that many businesses fail to buy in a systematic way is probably the most important of all: people – in particular, attracting talented individuals at an early stage in their careers and converting them to a long-term future with their company. Money alone is not enough to lure the brightest and the best; companies are now using a range of inducements. To see how the smart ones are responding, look at “Grow your own” (page 10).

The perennial question of growth is something that challenges all company CEOs. Some companies favour organic expansion, others prefer the acquisition route and some strive constantly to recruit new customers. Clearly, every firm has to strike its own delicate balance between repeat sales and new ones, but which way are the scales tipping? Read more on this in “Changing the rules” (page 28).

The “sharing economy”, as it has come to be known, is said to generate revenues of around $15 billion a year. And the most prominent sharing-economy industries could be worth around $335 billion globally within the next decade. “Made for sharing” on page 18 explores how this phenomenon will grow from its largely targeted consumer base to one that could bring even bigger gains through business-to-business sharing.

Success on the ground for any foreign business in China can prove elusive. We are therefore fortunate in having Henry Chow, former chairman of IBM in China and a member of Bridgepoint’s Advisory Board, to explain how to maximise the opportunities and mitigate the risks (“When in China…”, page 14).

Elsewhere, we speak to Rodenstock chief executive Oliver Kastalio, under whose leadership the German optical lenses and eyewear manufacturer is building a global presence (“Improving vision”, page 22).

Since our last edition, Bridgepoint has made new investments in the UK, France and the Nordic region, with the acquisition of Azzurri restaurant brands Zizzi and Ask Italian, and eFront, the French financial software group (see “Ins & outs”, page 2). BDC, our small buyout and growth capital fund, made minority investments in Trustly, the Swedish online payments services provider, and MVF Global, one of the UK’s fastest-growing tech companies. Bridgepoint also successfully sold Infront Sports & Media, the international sports marketing company, to leading Chinese conglomerate Dalian Wanda Group for €1.05 billion, having expanded its geographical reach and built a growing sports contract base. I hope you enjoy this issue as much as we have enjoyed putting it together.

William Jackson
is managing partner of Bridgepoint
A taste of Italy

Bridgepoint has acquired Italian-themed restaurants group Azzurri in a £250 million transaction.

Azzurri, whose best-known brands are ASK Italian and Zizzi, specialises in casual dining with an Italian twist – a formula that has been increasingly popular with consumers as economic conditions improve. Now the fastest-growing category of the UK’s eating-out market, casual dining is worth more than £50 billion a year, with chains performing markedly better than independents.

Bridgepoint’s acquisition comprises 136 Zizzi restaurants and 109 ASK Italian eateries, and the deal is focused on expanding both chains while reinforcing their respective brands.

ASK Italian is undergoing a major transformation programme while Zizzi’s restaurants are also completing an overhaul.

As chief executive Steve Holmes explains: “With a new supportive investor, our focus is on the continued evolution of our brands, investment in our estates and the development of our footprint in the UK casual-dining market.”

Azzurri enjoyed a strong 2014 and record Christmas trading, with EBITDA up over 21 per cent year on year to £17.6 million in the 28 weeks to 11 January.

New €4 billion fund for Bridgepoint

Bridgepoint’s latest fund, Bridgepoint Europe V, has secured commitments of €4 billion – ahead of the original €3.5 billion target. In line with the firm’s long-term strategy, the fund will retain Bridgepoint’s ‘sweet spot’ investment focus on midmarket European acquisitions in the €150 million to €600 million enterprise value range but with an ability to exceed this for transactions valued up to €1 billion.

Highlighting confidence in Bridgepoint’s approach, existing investors increased their commitment to the firm by an average of more than 25 per cent.

William Jackson, Bridgepoint’s managing partner, says: “Strong demand from investors has meant that we have exceeded our original target.”

Bridgepoint buys software frontrunner

Leading financial software group eFront has been acquired by Bridgepoint in a €300 million transaction. Specialising in end-to-end solutions for the financial services industry, eFront is the number one provider of software for private equity firms. But it also works with major companies in real estate investment, banking and insurance, amassing more than 700 customers and 100,000 users worldwide.

Founded in 1999 in France, eFront’s solutions cover back-office, middle-office and front-office functions, including fund administration, portfolio monitoring and deal-pipeline analysis.

Bridgepoint partner Xavier Robert says: “eFront is an exciting technology platform with significant scope for future growth. We will work with management to strengthen market share, target new customers, enlarge the product offering and expand into new geographies and asset classes.”
International sports marketing company Infront Sports & Media has been sold to leading Chinese conglomerate Dalian Wanda Group for €1.05 billion. The sale comes four years after Bridgepoint acquired Switzerland-based Infront, which occupies a leading position in its sector, covering winter sports, football, summer sports, active lifestyle and endurance. The company has offices in 13 countries and enjoys partnerships with 160 rights holders in 25 sports. Delivering 4,000 event days and generating revenues of more than €800 million, Infront is also the principal sports marketing organisation in China, where it has fostered that country’s top sport, basketball, and launched a scheme to encourage amateur runners. During Bridgepoint’s ownership, Infront has grown steadily, increasing and diversifying its rights and service portfolio. Bridgepoint partner Xavier Robert says: “Infront has delivered a strong performance on the back of geographical expansion and a growing sports contract base to become a well-diversified, premium sports marketing company.”

Shimtech takes off
Bridgepoint Development Capital (BDC) has sold aerospace component specialist Shimtech, after the company almost doubled earnings since being acquired in 2011. During that time, Shimtech – initially four standalone businesses – has been transformed into an international aerospace group with materially enhanced manufacturing capability and customer recognition. BDC invested in larger facilities, new machines and technology. Staff numbers rose from 170 to 450, new management was appointed and the four original businesses were integrated and rebranded.

Bridgepoint targets tech
Bridgepoint Development Capital has taken a 40 per cent stake in MVG Global, one of the UK’s fastest-growing technology companies. Founded just five years ago, MVF uses proprietary technology, analytics and in-house marketing expertise to provide businesses with high volumes of new customers. It is particularly knowledgeable in the rapidly expanding mobile advertising sector and won the Queen’s Award for Enterprise in 2014.

Bridgepoint buys into online payments boom
Bridgepoint Development Capital (BDC) is taking a €23 million minority stake in Swedish online payments services provider Trustly. Processing €1.1 billion of payments annually in the business, consumer and peer-to-peer markets, Trustly has been growing at more than 100 per cent per annum and is already established in seven European countries. With a focus on mobile devices and cross-border payments, the group’s technology platform is particularly suited to international e-commerce. The European online payments market is expected to grow from €37 billion today to around €65 billion by 2020, and BDC’s investment will be used to support Trustly’s continued expansion in this sector.
Choice is widely perceived to be a force for good: driving competition, encouraging innovation and forcing down prices. Today, however, the sheer proliferation of options can be bewildering – for both individuals and companies.
There is a staggering array of choices for almost anything on the market these days. Consumers are forced to weigh up options on flights, phones, even breeds of beef for the Sunday roast. But businesses are also bamboozled by possibilities, whether they be the cheapest energy tariffs, the most efficient broadband providers or the best office supplies. In each case, hours can be spent analysing the range available; is this an efficient use of manpower or a waste of valuable time?

“There are two different things going on,” explains Tim Harford, author of *The Undercover Economist Strikes Back*. “The first is a choice of products. There are more and more varieties of pasta sauce, toothpaste or breakfast cereal, made possible thanks to globalisation, modern manufacturing and logistics. The second is a choice of tariffs for what is broadly the same product – for example, electricity or mobile-phone services.”

Harford describes this as “confusion pricing”. Computers make it easy for a company to keep track of countless variables and produce an automated bill that is opaque to human beings. The trend has been indirectly encouraged by market liberalisation, as many countries have privatised industries supplying phone services, electricity and heating.

**Two models**

Julian Birkinshaw, professor of strategic and international management at London Business School, says: “It turns out that there are two very different sets of circumstances when we get a proliferation of choice. One is when a new market or technology is emerging, and lots of different companies are experimenting with different business models and offerings. You see this in the mobiles world, in social media, in video-on-demand, in renewable energy, etc. Eventually, out of this ferment of competing offerings, a dominant standard typically emerges – an established way of working – and then things calm down.” Ultimately, he argues, the market settles and the viable business models kill off the non-viable ones.

The other situation arises when an industry has become so established or mature that companies seek out ways of deliberately confusing their customers through obfuscation – Tim Harford’s “confusion pricing”.

“Financial planning, for example, is full of a bewildering array of products that are designed to get us to pay more for a service than we actually should,” says Birkin-
shaw. “Phone payment plans and energy and electricity plans are the same – the product is actually a commodity, so companies seek to find confusing ways of selling us different plans in order to de-commoditise their offerings.”

**Spoilt by choice**
At an individual level, such dizzying possibilities can have a negative psychological effect. “Having so many or too many choices can lead to what we call decision fatigue,” says Dr Tara Swart, neuroscientist and chief executive of neuroscience consultancy The Unlimited Mind.

“This can affect our willpower, concentration and attention,” she says. “It has the same effect on individuals’ brains – whether from a consumer or business perspective – and can lead to poor decision-making.”

The condition is all too familiar. Consumers researching options online for a flight, a dishwasher or a pushchair may give up after being presented with too much choice. And businesses trying to decide on phone tariffs, laptops or facilities managers can find the process simply exhausting.

As options proliferate, there may come a point at which the energy and time required to obtain the right information to be able to distinguish between certain choices outweighs the benefit of that extra choice. “At this point”, writes Barry Schwartz in *The Paradox of Choice*, “choice no longer liberates, but debilitates. It might even be said to tyrannise.”

To cope with this often-overwhelming situation, Swart recommends a few different strategies. “There are things we can do to channel our brainpower to what is most important. We can simplify our life as much as possible, delegate choice or even do a digital detox, abstaining from email, social media or the web for a certain period,” she says. “There is also a question of degree. Enough choice but not too much seems to be key. Depending on the
complexity of the situation, we can make a conscious decision to limit our choices to a certain number.”

Overall, however, despite the sometimes confusing and demotivating effects of choice proliferation, the current environment does offer certain benefits.

**Transparency and trust**

“One of the undeniable powers of the internet is that it enables transparency, so there is ready access to information about whatever product or service you are interested in,” says Birkinshaw. “You still need ways of interpreting that information, and you need a way of deciding who to trust,” he adds. “But, broadly speaking, people are much better off today than they were 20 years ago.”

Tim Harford agrees, saying that the choice of products we have at our fingertips should be viewed as mostly positive. “It is occasionally confusing, but typically we enjoy both the variety and the ability to get exactly the kind of muesli or washing powder that we wish,” he points out. “There’s an oft-cited experiment where people were offered lots of samples of jam, and too much choice seemed to dramatically demotivate them. But several attempts to replicate this effect have found nothing. Also, many very popular companies, such as Amazon and Starbucks, offer lots of choice without seeming to suffer.”

The real problems come with confusion pricing. “Confusion pricing seems to be pretty successful in blunting competition: if customers don’t know which company is offering a good deal, then all companies can relax about their pricing,” argues Harford. “Confusion pricing doesn’t really offer us more choice, just a lack of clarity about how expensive the choices we make are. Studies have shown consumers manifestly failing to switch to better deals even when that is their specific objective.”

**Turning to advantages**

For companies willing and able to invest time in research, however, the breadth of choice can be beneficial. As Tamara Heber-Percy, co-founder of boutique travel website Mr & Mrs Smith, explains: “Some products out there are great and make businesses’ lives easier. Some of the new technology around reaching customers at the right time and place is really astounding. It’s about finding the right ones for your business at the right time for you.”

Heber-Percy admits she gets “blasted” several times a day by technology suppliers telling her about the latest piece of technology or software that promises to transform her business, rejuvenate her website or give her insights she could never imagine possible. “It’s a challenge to stay true to what the business needs and not get wowed,” she says. “That fear of missing out – or, rather, the ‘fear of being left behind’ – is prevalent in all businesses, but especially those that rely on technology.”

One of the key problems around choice is rather personal: whose job is it to make the decisions? Assessing what is available takes time, but the legwork is vital: it can have a serious impact on a company’s bottom line.

“Evaluation is crucial and should be the responsibility of the key account holder: whoever will be in charge of how that product or service performs,” says Heber-Percy. “But technology evolves so quickly that there is always a new option around the corner. And how do you know that the company you are looking at does what it promises? So research is important. First, I look for a site I trust that curates the product I’m looking for, just like Mr & Mrs Smith does for hotels. We started the business partly because we found that there was too much choice and misrepresentation in...”
Technology evolves so quickly that there is always a new option around the corner. And how do you know that the company you are looking at does what it promises?”

A helping hand
In many cases, increased choice can be attributed to technological advancement. As use of the internet has become second nature, it has become deceptively simple to check the range of available offers on almost any product or service. Increasingly, however, both consumers and businesses are looking for guidance to help them navigate this new universe of choice.

“People don’t have the time to spend hours reading every hotel review on TripAdvisor: they want someone they trust to do the hard work for them. I think there will be more companies and services emerging that do this well: the antidote to a world of excessive communication.”

Trusted curators can be extremely valuable, as evidenced by the success of Mr & Mrs Smith. But the proliferation of choice is also expected to prompt an increase in the quantity and quality of price-comparison websites.

“Expect them to become much more sophisticated,” says Harford. “Behavioural economist Richard Thaler has been pushing for companies to be legally obliged to send your bill in a machine-readable format. That would mean you could upload your mobile-phone usage into a price-comparison website and it would find the tariff that is best for you, given your usage patterns. Expect an arms race between the obfuscating price-setters and the clarifying price-comparers.”

In the meantime, the range of choices is likely only to increase. Navigation may boil down to good discipline, curation, deliberate reduction or old-fashioned testimonial. But those businesses and consumers which find a reliable compass could reap considerable rewards.”

Once she has done her research, Heber-Percy goes back to the seemingly old-fashioned method of looking for testimonials: which companies use that service or product already, and whether she can speak to them.

“I try to go through my own channels rather than get a reference from the company itself, and LinkedIn is good for this,” she explains. “I also talk to several providers and ask how they are different from their competitors.”
Grow your own

Paying top dollar for inexperienced graduates may seem like a waste of corporate cash, but developing talent in-house may in fact prove cost-effective in the long run.
Successful companies take procurement extremely seriously, managing their supply chains meticulously to prevent shortages of crucial materials. But businesses have traditionally been far less methodical about ensuring an adequate supply of one of the most vital commodities of all: talent.

“Skills are not always easy to pick up at short notice,” says Matthew Sigelman, chief executive of Burning Glass Technologies, which develops software to match people with jobs. “But one of the best ways to avoid a skills bottleneck is to ensure that you attract high fliers earlier in their careers and work to develop their abilities to fit the company’s needs.”

Some firms have recently started to take this principle to heart. Aldi, the discount supermarket chain, made headlines by offering new graduate recruits a starting salary of £42,000, rivalling the pay offered by top investment banks. Since the firm aims to promote largely from within, it is keen to attract the best brains on offer from the very start.

“At Aldi, we want our area managers to develop with the company,” says Ruth Doyle, regional managing director at Aldi. “And as we expand year on year, we need high-level candidates who can support and deliver this growth. So it’s crucial that we recruit dedicated candidates that see a future with us.”

False economy
Aldi’s decision stands out – particularly as discount grocers are not traditionally associated with lavish pay. But there is compelling evidence that the Germany-based chain is on to something: skimping on graduate salaries can prove a false economy.

A 2012 study of 5,300 employers by Matthew Bidwell, a professor at the University of Pennsylvania’s Wharton School, found that outside hires typically get paid 18 to 20 per cent more than insiders to do the same job. Yet newcomers are also 61 per cent more likely to be laid off and 21 per cent more likely to resign.

“Companies have a tendency to underestimate the expense of bringing in outsiders and also how hard it is to integrate them,” says Professor Bidwell. “Workers promoted into jobs show significantly better performance than those hired into similar jobs for at least the first two years.” Add in the savings on pay, and it would appear that cultivating talent at an early stage can offer substantial benefits.

Nonetheless, when it comes to hiring, many companies prefer the thrill of the new. “They exhibit an irrational preference for novelty over certainty,” says William Bliss, president of Bliss & Associates, which advises companies on how to cultivate future leaders. “There can be this perverse attitude of ‘better the devil you don’t know’. It may be that firms underestimate homegrown talent because they have been able to witness any mistakes or shortcomings of these employees. The deficiencies of outsiders, by contrast, are harder to discern – until they actually start work.”

This can prove an expensive management bias. “An excessive preference for recruiting external candidates can lead to disaffection among existing staff, sapping morale and leading to defections,” says Bliss.

Expensive business
Staff churn can also be a big money loser. Bliss calculates that the cost of replacing a disaffected member of staff can amount to 150 per cent of that original employee’s annual compensation. This includes lower overall productivity while a position remains vacant; the difficulty of bringing a newcomer up to speed with internal processes; management time lost during the interview and recruitment process; and the costs of advertising the role or appointing outside recruiters.
The financial damage can quickly mount up. “Let’s assume that the average salary of an employee is £50,000, so the cost of turnover is £75,000 per employee who departs the company,” says Bliss. “For a mid-sized company with 1,000 employees and an annual turnover rate of 10 per cent, that cost comes to around £7.5 million a year.”

Clearly, if employees are motivated to stay on board, recruitment costs can fall dramatically. However, this strategy only makes sense if there is a sufficient pool of high-potential employees for a company to draw on. And competition for such early-stage talent is heating up. A survey of graduate hiring by High Fliers Research shows that the median salary of graduates starting in the UK in 2015 has topped £30,000 for the first time, up from £23,000 in 2005.

“Being willing to pay top dollar for the best talent at an early stage – as Aldi is clearly doing – may end up actually saving money over the long run,” Bliss says. “Companies are less likely to need to attract more expensive experienced managers later in their careers – who are less certain to work out anyway. And that’s aside from having a good pipeline of managers who know the company and have been trained in its culture.”

**Perking up**

However, cash alone is not enough to lure the brightest and the best. “This is far from a purely financial equation, and the priorities of young workers have evolved over recent decades,” says Sigelman.

From the 1990s onwards, technology firms have been in the vanguard of developing perks designed to seduce young workers from top universities. Google, for example, has tried to steal a march on rivals by offering a campus-like experience to new recruits – including on-site doctors, free meals, massages and car washes. SeatGeek, a search engine for the best-value concert tickets, employs an official social planner to organise staff bonding activities – including table-tennis tournaments, group outings and drinks.

While such gimmicks have their role, Sigelman believes that the lure of the technology sector goes beyond cheap food and drink. “Technology firms have enjoyed a reputational tailwind for many years,” he says. “But I don’t believe that perks have contributed too much to their recruitment success. Instead, it is the fact that this sector is seen as socially progressive and trendy, offering high status, flexibility and the opportunity for career growth.”

Less fashionable industries may find it difficult to emulate the technology sector’s buzz, but they can certainly offer flexibility and career growth. “The employers that are most appealing to graduates are able to offer a clear path towards an exciting career, combined with an indication of how they will help them get there in terms of training,” says Sigelman.

**The extra mile**

This message is echoed by Sarah Allen, executive director of human resources at investment bank BNY Mellon. “It has become increasingly important over recent decades to offer the opportunity for continuous learning and new experiences,” she says. “That can be as powerful a motivation
Outside hires typically get paid 18 to 20 per cent more than insiders to do the same job. Yet newcomers are also 61 per cent more likely to be laid off and 21 per cent more likely to resign as pay and promotions for many millennials.”

This logic does not just apply to university graduates. Starbucks recently announced that it would pay for its workers to gain additional qualifications from Arizona State University’s online degree programme. Under the deal, employees who work at least 20 hours a week will have half of their tuition paid for the first two years, while the final two years will be paid in full.

“That kind of training perk sends the message that a company is interested in lifelong learning and career development, which can be a very effective way of becoming a ‘sticky’ employer,” says Sigelman.

Offering international experience can be another powerful draw for young workers. BP, the UK-based global oil giant, makes much of this in its efforts to appeal to potential high fliers. New graduates are given a global assignment within two years of joining the firm.

“The oil industry has suffered its share of reputational setbacks in recent years, and none more so than BP after the 2009 oil spill,” says Tom Biracree, an analyst at consultancy firm IHS. “But like the banking sector, it can still benefit from its global scope in attracting the top talent. The potential for global mobility is something that many young people value as much as a fat pay cheque.”

Journalism, another profession in relative decline, also makes much of its international potential. Over recent decades, the Financial Times has made rotations in foreign bureaux a regular feature of its graduate scheme.

For industries with tarnished reputations, a convincing programme of social responsibility can also be key.

“It is important that companies are viewed as being good corporate citizens,” says Bliss. “Top talent are more likely to be attracted to a firm when they share its social values.”

When trying to attract graduates, Royal Bank of Scotland, which was forced to accept a government bailout after the 2008 financial crisis, highlights its success in bringing down carbon emissions by around six per cent in 2013. Financial firms also increasingly advertise their involvement in providing assistance to poor nations and community charities.

Senior mentorship programmes can also lure top talent – and these do not cost a penny.

“They can have the powerful effect of integrating employees within a company and showing that a firm is looking after its staff’s long-term career development,” Bliss explains.

In 2014, the number of graduates hired by firms featured in The Times’s Top 100 Graduate Employers rose by 7.9 per cent on the previous year. Economic recovery plays a key part in this trend, but companies may also be increasingly keen to secure high-potential employees early.

With growing demand comes mounting competition to snap up the best talent. And perhaps that is not surprising. As so much is at stake, it makes sense for firms to take a more methodical approach to attracting the next generation of senior leaders. Making sure that skilled staff are there when you need them has become as crucial as ensuring a smooth supply chain.
In my opinion
When in China...

As the second-largest economy in the world – and the most populous – China is widely regarded as a premier destination for business. But success on the ground can prove elusive. Henry Chow, former chairman of IBM in China, explains how to maximise the opportunities and mitigate the risks.

China has changed enormously during my lifetime. In the past, the government was responsible for everything and everyone. State-owned enterprises (SOEs) were created to provide employment, profit was unimportant and the economy was run by central planning. Today, the situation is very different.

I would suggest that modern Chinese businesses can be divided into three categories: red, blue and in-between. The reds are the SOEs. They are state-owned but many are now listed on the stock market and are expected to stand on their own feet. They behave much like Western companies, with one key difference: they are still run by government officials at a senior level. This means that chief executives have the unenviable task of serving both the business and the government.

The blues are the multinational corporations, which have become established in China and operate their Chinese subsidiaries like Western companies. The best among these have spent time, money and effort training local people so that their businesses are run by Chinese managers who have acquired Western expertise and professionalism.

In between are the private enterprises. In the past, the smartest people became government officials, the next rung down became farmers or industrial workers and the least able guys became businessmen. Today, it’s completely different.

A lot of the wealthiest people in China are involved in private enterprise. These businesses have adopted similar corporate structures, accounting systems and compliance procedures to those in the West. However, many are still run by the first generation of entrepreneurs, who tend to act like Chinese emperors. In other words, they make all the decisions and find it hard to delegate.

Across all three categories, there is a strong desire to succeed, much as in the West. But there are
differences, principally because Chinese businessmen and women are a little bit different from their Western counterparts. The gaps are closing but some cultural distinctions remain.

With that in mind, I would say there are certain key points to bear in mind when doing business in China.

**Not a numbers game**

It is easy to be seduced by numbers. China has more than a billion people, it is the second-largest economy in the world, has enjoyed annual GDP growth of around 10 per cent for the past 20 years and is likely to continue delivering above-average annual growth. That all sounds very attractive, so a lot of businesses make the assumption that China has a huge accessible market.

But if you divide GDP by the number of people in the country to get the income per capita, the numbers are distinctly average. Businesses cannot assume that everyone will buy their products so it is important to have realistic expectations and targets about what your business can accomplish in China, and how you will position yourself in the market.

My own experience shows how tricky this can be. I joined IBM in the 1960s and became CEO of the company in China in 1995. At the time, I was tasked with taking revenues from $200 million to $1 billion in three years and gaining a 25 per cent share of the market. Clearly, this was very ambitious.

I got to $1 billion in four years, not three, but my market share was 10 per cent. I was really pleased to achieve the revenue target, but I had to acknowledge that the market share was less than half of my target. That just shows how challenging it can be to forecast the pace of growth in China. But you need to learn from such experiences, rather than think that the sky has fallen in.

I would also suggest that companies readying themselves for China should use a rifle-shot approach rather than scattergun approach. They should think carefully about their value proposition, their approach and, crucially, their choice of partner.

**Labour of love**

Every business knows that it has to find a local partner, and, keen to get going, they rush into it. But it’s important not to believe in love at first sight. Do not get engaged to your first date! But in business, as in life, it is easy to get married but much harder to get divorced.

Those wanting to set up shop in China should spend time looking for the right match. They should check out several candidates, seek advice and do their own informal and formal due diligence. This process can take up to a year, but it is worth it. Otherwise, companies can end up with joint ventures that are run as two separate businesses with a Chinese CEO and a Western CEO. This can be highly damaging.

It is imperative to have a local presence. Flying people in from a Western HQ will never work in the long term. Once businesses have decided that they want to operate in China, the most important factor is developing a local team. Chinese staff understand the way government works, they understand the culture, they understand suppliers and they understand clients. They will help to build trust between your business and the people that matter.

Whether your company is large or small, you need a solid Chinese team and solid Chinese leadership. And the only way to find the right people, develop them and keep them is by investing time and resources.

That does not imply that you need to mollycoddle your Chinese team or that you should expect lower standards when dealing with Chinese businesses. On the contrary, I think that anyone dealing with Chinese enterprises (apart from certain SOEs) should expect a similar level of
It is imperative to have a local presence. Flying people in from a Western HQ will never work in the long term.

It is imperative to have a local presence. Flying people in from a Western HQ will never work in the long term. professionalism as they do from Western companies.

I remember, for example, when appraisal systems were first introduced to China 20 years ago. Some managers were reluctant to do them. Some felt that it was unfair on their comrades; others were worried that their colleagues would “come and get them” if they made any negative comments.

Now, even the government believes that appraisals work. Of course, there can be differences in approach – and this is where local knowledge can be so advantageous. Some Chinese businessmen are very straightforward but some are more conservative so you need to be a little more subtle than in the West. Nonetheless, you should demand the same standards as in the West.

Trust and cooperation

Looking back, IBM’s growth in China highlights the way in which Western companies can be successful there. From the start, IBM realised that, if it wanted to develop a strong business in China, there were certain steps that it had to take.

First, it had to keep Chinese officials informed about industry developments both locally and around the world. And it had to show that it was not just interested in making money – it also wanted to help develop an IT industry in China. We took time investing in the business, cooperating with Chinese officials and showing them that our presence was mutually beneficial.

This strategy worked. Western IT companies were able to establish themselves in China, and they helped to create a local industry. Ultimately, Lenovo, the Chinese PC group, became the largest in the country. And in 2005, IBM sold its PC business to Lenovo. That company is now the largest PC manufacturer in the world.

It appears seamless, but at the beginning, when IBM first moved into China, it was all about building trust and cooperation and doing the necessary research. And that remains true today.

Same principles apply

China is a vast country, which is often divided into three markets. The coastal region is almost on a par with middle-income countries in the West. The inner region is very agricultural, and the Western region is still at an early stage in its development.

Companies wanting to do business in China should be aware of these gradations – particularly companies that sell consumer goods and services. They need to think about whether they will do better in first- and second-tier cities, and they should almost always start slowly.

It is finally worth remembering that, while some industries have significant private-sector involvement, others are still ultimately controlled by government. This means that business and politics are intertwined.

Things are changing, but this blurring can affect the ability of foreign companies to get ahead. I am confident that China will reach a point where commercial success does not depend on whether businesses are perceived to be on the right side, politically. I am hopeful that there will be more trust between China and the West, and that there will soon come a time where commerce is not affected by issues such as whether a prime minister or a president has been in contact with the Dalai Lama.

Of course, individual beliefs and cultures can be different. However, the gaps are narrowing. And, when businessmen and women talk, they should always be able to find a common language.
Exchanging goods and services to make ends meet is a tradition dating back to ancient times. Now, however, the sharing economy has become a multibillion-dollar global industry.
On a spell between jobs, entrepreneur Roddy Campbell was sitting at home wondering why he could hear an aria floating down the hall. It gradually dawned on him that his neighbour had loaned their home to a singing teacher.

That was back in the 1980s. Filing a mental note that there might be a business idea in this, Campbell went on to found London’s first hedge fund, IFM Asset Management, and spent the next 30 years in the City – until last summer, when he took his idea for a start-up business to his old school pal William Sieghart, founder of Forward Publishing.

Campbell’s idea, which he described as: “Make money from your home, while you work, with a daytime version of Airbnb”, was to prove a light-bulb moment. Vrumi, which enables people to rent out rooms in their homes, by the hour, to people who need an office, studio or quiet place to write or consult, was born.

Within a few short months, this nascent sharing-economy business had attracted £150,000 worth of seed funding and the backing of business veteran Rupert Soames, a grandson of Winston Churchill, and Julian Granville, chief executive of upmarket online clothing group Boden.

Good timing

Vrumi can now count more than 80 rooms on its website, including a penthouse in east London’s Dalston and numerous drawing rooms and basement kitchens in Notting Hill. There are already plans to expand beyond London to other cities in the UK and Europe so its timing is clearly spot-on: according to Time magazine, 2015 will be the year of the sharing economy.

But it was in 2014 that Europe suddenly woke up to the possibilities of sharing underused assets. Ordinary people – families, business travellers – began using Airbnb as an alternative to hotel rooms, and Spotify became mainstream. The sharing economy – or as some people prefer, the “collaborative economy” – encompasses many businesses and business models.

There are peer-to-peer marketplaces such as Etsy, which allows people to sell crafts to one another; time banks such as the Economy of Hours, which allows people to trade their skills – an hour for an hour; and City Car Club, where drivers can share access to a car without having to own one themselves. And although they are subject to some aspects of financial regulation, even crowdfunding platforms have been lumped into the sharing economy.

A report from consultancy PwC into the sharing economy suggests that the sector already generates global revenues of around $15 billion. Within the next decade, however, PwC estimates that the five most prominent sharing-economy industries – peer-to-peer finance, online staffing, accommodation sharing, transportation and music/video streaming – could be worth around $335 billion globally, and £9 billion in the UK alone.

Hard on the heels of the PwC report, the UK government commissioned an independent review into the sector from Debbie Wosskow, founder of Love Home Swap – a three-year-old home-swapping company.

Wosskow made a series of recommendations about ways to foster this burgeoning sector and promote a new breed of “micropreneurs”.

“After 2008, people looked more closely at their assets and skills and they asked how they could make them work harder,” she says. “Technology and smartphones have given people access to strangers, and the growth of the sharing economy – starting with eBay – has made it much more normal to rely on peer-to-peer reviews. Rating someone has become common currency.”

Love Home Swap is now the biggest home-swapping business in the world and employs 60 people in London’s Shoreditch.
And a number of other sharing businesses have sprung up across Europe in recent years. Hassle.com is a globally renowned, UK- and France-based marketplace for domestic cleaners and handyman services, while Paris-based BlaBlaCar has become the world’s biggest car-sharing portal.

Nesta, the charity that works to increase innovation in the UK, has conducted research which suggests that 25 per cent of the population are already sharing.

And a report by Compare and Share, a sharing-economy comparison site, says that 70 per cent of the UK economy would share their assets if it were easy or convenient.

**The economic imperative**

Wosskow’s report notes that 20,000 property owners in the UK are renting out their driveways from time to time through UK start-up JustPark, and are making an average of £465 a year – or £810 in London. A typical Airbnb host in the UK capital, meanwhile, rents out a room for 33 nights a year, making about £3,000.

Juliet Schor, professor of sociology at Boston College, studies consumer culture, and says that sharing platforms are proliferating throughout Europe. “Paris has an annual ‘sharing festival’ called OuiShare, which takes place in May and hosts more than 1,000 people, including entrepreneurs, activists, public officials and social innovators among them,” she says. And beyond Europe, cities including Bogotá and Seoul are seeing many new sharing innovations.

But the real potential of the sharing economy could be unleashed when more conventional companies realise that sharing is not just for start-ups.

“In some ways, the sharing economy is a throwback to the pre-industrial age, when village communities had to share resources to survive,” says John Hawksworth, chief economist at PwC. “They built up trust through repeated interactions with people they had known all their lives. Modern digital communications allow sharing to happen across a global village of consumers and providers, with trust established through electronic peer reviews.

“Looking beyond the sectors where sharing is already well established, there are some very exciting growth opportunities that are yet to be fully realised,” he adds. “Companies need to do an audit of which of their tangible and intangible assets could profitably be shared in the future. We think that this model could spread to other sectors such as energy, telecoms and retailing.”

Traditional businesses are going to have to adapt, says Sophie Neary, one of Vrumi’s founding directors and the technology brains behind the start-up.

Indeed, some of them already are.

**Learning to share**

One of the earliest sharing businesses to take off globally was car-sharing group Zipcar. In 2013, it was snapped up by Avis, one of the world’s biggest car-rental firms.

Hotel operator Marriott has recently begun marketing empty conference rooms through an online platform called LiquidSpace, while DIY retailer B&Q has launched a tool-sharing service.

Car giant BMW invested in JustPark and helped it to develop its latest app. Last year, BMW installed the app directly into the dashboard computer of its latest BMW Minis so that drivers can find and pay for a parking place with minimum stress.

Earlier this year, JustPark raised more than a £1.7 million in just over two weeks through crowdfunding. Founder Anthony Eskinazi says that this will enable the company to begin a significant new marketing campaign. But the business is already well on its way to profitability, with transactions worth £4 million a year going through its website.

“Most successful services associated with the sharing economy are essentially about convenience, cost-efficiency and ease of access”
To date, the sharing economy has largely targeted consumer consumption. Many believe, however, that there could be even bigger gains through B2B sharing.

In 2011, Med-Immune, a unit of pharmaceutical company AstraZeneca, agreed to share its manufacturing facilities with fellow drugs giant Merck, pairing the former’s excess capacity with the latter’s desire for greater flexibility. Spotting the potential behind B2B collaboration, FLOOW2, a Dutch start-up, facilitates equipment- and plant-sharing. On its website, businesses can offer or request tools or services – from diggers to microscopes, roofers to asset managers.

A host of back-office businesses that offer services to sharing-economy participants are starting to emerge as well, alongside apps that help sharing-economy workers with their expenses and quarterly tax returns.

**Teething problems?**
The new industry seems to present the perfect economic solution of matching up surplus capacity with consumer and business needs. Increasingly, however, sceptics are concerned that this bright new way of working may just paper over some familiar problems – particularly people being exploited by unscrupulous employers and seeing their real rates of pay plunge. How, for example, would a freelance project manager working in an expensive city like London be able to pitch against a similar project manager in Bombay?

There are also concerns about the unpredictability of making a living from this on-demand economy, and real fears about consumer safety and privacy.

Defenders of the sector say that criticism of disruptive technologies is to be expected and will help the sector to mature. The interest of governments and regulators will help to maintain standards, while a wider user base will lead to more rigorous checks on those who participate – as both providers and customers.

In reality, most successful services associated with the sharing economy are essentially about convenience, cost-efficiency and ease of access rather than sharing and social interactions. It is neither socialism nor unfettered free-market capitalism.

And Vrumi? Like many sharing-economy businesses, its founders know that success comes from adapting an old idea – renting out rooms – to the new digital ecosystem.
Oliver Kastalio gave up an illustrious career at one of the world’s largest consumer-goods groups in the world to run glasses specialist Rodenstock. He has no regrets.
odenstock is one of the oldest brand names in Germany. But Oliver Kastalio’s own heritage is rather cosmopolitan. The family name points to an Italian background, his grandparents hailed from four different countries and his parents met at an airport.

“My father was a sales agent for Ethiopian Airlines and my mother was a ground hostess at TWA,” he explains. “They were both working at Frankfurt airport.”

Raised and educated in Germany, Kastalio went on to spend 19 years at Procter & Gamble (P&G), during which time he and his family lived all round the world. He had no plans to return to his native land until he was asked if he had any interest in heading up Rodenstock, the Munich-based lenses and glasses-frames specialist.

At the time, Kastalio had 20:20 vision and a rewarding career as a global vice-president at P&G.

“It was a ‘now or never’ moment for me,” he says. “I was 45 and I really enjoyed my work. But I knew that if I stayed at P&G for another few years I would probably never leave. And when I was approached about the Rodenstock position I did my own due diligence and found out that the company had a strong foundation, a long history and values that are highly relevant to the consumer, such as quality, functionality and innovation. The business was declining when I joined, but I felt that there was no reason that it could not be returned to growth.

“It was a calculated risk, but it was a challenge,” he adds. “I would never have gone to work for a competitor, but I liked the fact that Rodenstock was very different from P&G and yet there were also similarities. That gave me the confidence to think that I could manage the change and make a success of it.”

Kastalio joined Rodenstock in November 2010. At the time, there were fewer than 4,000 employees and the company was struggling. P&G, by contrast, had a workforce of 130,000 and turnover of around €80 billion.

“Of course P&G has lots of strengths, but with size comes complexity,” he says. “There are processes for everything and decision-making takes a long time. At Rodenstock, the key decision-makers can fit round my table and I can really make a difference.

“I wanted to drive change within the business and I can,” he adds. “I wanted to create value and I can – both financial value and value for consumers.”

Seeing differently

Rodenstock is different from virtually every company in its field because it makes both lenses and frames for glasses. Most rivals do one or the other, so the company’s dual specialism sets it apart. Its mantra is: “See better. Look perfect.” And Kastalio is a true believer in the cause.

“We really do improve people’s lives,” he explains. “That is one of the reasons I joined the company, because I enjoy making and distributing products that help consumers to lead better lives.”

His almost 20 years’ experience at P&G gave Kastalio some valuable insights, which he has put to good use at Rodenstock.

“Both companies are about brands, both have a strong consumer focus, both stand for quality and both aim to be the best. Also, I spent most of my time at P&G involved with beauty products, where the focus is on looking good – now at Rodenstock it is about seeing better and looking perfect, which is our claim,” he points out.

There are further similarities, too. “P&G is very results-focused and so are we,” Kastalio explains. “Both here and there, people are measured on how they deliver. There are ambitious goals and the environment is demanding. So all in all I was used to delivering results. It is just that here I am the CEO.”

As such, Kastalio was determined to craft a strategy that would drive top-line and bottom-line growth and energise the workforce.

“I gave myself 100 days to deliver a plan,” he says. “I wanted to understand what was working and where there were issues and I wanted to listen and learn. It was not just a table-top exercise. It involved the extended executive leadership team of about 30 people, and between us we formulated a strategy with a clearly defined business plan and a full set of KPIs [key performance indicators]. Then I communicated the plan to the organisation and got them excited about it.”

At Rodenstock, the key decision-makers can fit round my table and I can really make a difference"
The plan was based around three initiatives: organisational improvement, operational efficiency and focused expansion.

“First, we brought in some new management, changed processes and refocused on the Rodenstock brand. The company had spent a lot of time and resource on licences but these produced very little profit. I wanted to concentrate on Rodenstock as a brand by streamlining our portfolio and focusing on innovation,” says Kastalio.

“The second leg of the 100-day plan was all about efficiency, driving down cost in operations, purchasing and logistics,” he adds. “It has really worked. Our biggest lens rival is Essilor. They are 10 times larger than us, but our gross margins are better and our service level is higher.”

As for expansion, Rodenstock had described itself as global for many years, but Kastalio felt that the company’s international ambitions needed a closer look.

“We were spread too thinly and we needed to think carefully about how to allocate our resources,” he explains. “So we did an analysis of where there was the most potential and chose to focus on specific countries. This is something you have to do all the time in business. It is about making the right choices and doing it right.”

Chain reaction
One of the important choices that Kastalio had to make centred on distribution.

“We had to develop a multichannel strategy,” he says. “Half of the optician sector is run by small independents but there is also a growing number of chains. Rodenstock has historically been linked with the independent market, where there is more emphasis on quality and service...”
and customers are less price-sensitive. But chains are growing, so we had to make sure we supplied that market too."

The company has now developed a differentiated offer for optician chains, which is more keenly priced but has less of a service element attached to it.

"The chains are more focused on closure, making sales and moving on," says Kastalio. "Independents tend to offer a better service and we invest time training the opticians and making sure that they are equipped with the right diagnostic equipment."

Rodenstock prides itself on innovation. The latest product is a DNEye scanner, which uses laser technology to test people’s eyes, taking 20,000 data points to create lenses that are individually tailored to deliver perfect vision.

"We help our opticians to use this equipment but we also help them to market and sell our products and offer aftersales care because they are primarily technicians, not salesmen," says Kastalio.

The strategy has certainly worked so far. The original plan was structured over a five-year period but, by the end of 2014, Kastalio had already delivered on most of the KPIs – a year ahead of schedule. Net sales have risen steadily to over €400 million, and EBITDA has soared more than 50 per cent to €82 million.

"Last year was a record year, even though there were a lot of external headwinds – the exchange rate was against us and there were problems in many countries where we operate," he says. "We delivered record results, but we would have done even better if the macroeconomic and political environment had been easier."

Now, Kastalio is looking to the future.

"I have high hopes for the company but, as I say to my colleagues, hope is not a strategy! So we have developed a plan focused on organic growth, further efficiency and ‘new ways’. On the organic front, it has taken several years to get out of non-productive licensing agreements. Now we have optimised the portfolio so we have a few carefully chosen licence deals, such as Porsche, Jil Sander and Mercedes-Benz, and we can really grow the business," he says.

"We are also looking at new developments – such as regional expansion into North America, which is a huge market where we are barely represented," he adds. "We’re also considering vertical moves, such as retail and e-commerce and new products, such as contact lenses. And we are looking at M&A opportunities which could extend our product lines and enhance our distribution."

The focus on efficiency is important, too.

"We have a real opportunity to drive efficiency not just in purchasing, logistics and productivity but also by focusing on where we spend money," he says. "We spend in order to make a difference to the business. That was not always the case."

Kastalio did not even wear glasses when he first joined Rodenstock. Now, having turned 50 last summer, he needs them and is a persuasive ambassador.

"Nobody else does what we do – making the lenses and the frames for glasses," he points out. "Some people have started to try but we have been doing this for years. It makes a real difference to opticians and to the end consumer. We pride ourselves on our innovation and we aim to deliver optical perfection. We know we are the best."

Brand aware
A key challenge for the company is that few consumers ever think to ask for specific lenses. Strong relationships with opticians encourage them to recognise the value of Rodenstock’s products and give it preferred-supplier status. Now, however, the group is working harder on brand awareness – even engraving a tiny ‘R’ logo on its lenses.

"We are keen to create brand ambassadors," explains Kastalio. "We have thousands of consumer ambassadors, who buy our products, are happy with them and share the experience with their friends and family. They are the most valuable ambassadors for us. Then, the opticians are brand ambassadors, especially when we introduce them to new technologies and they are convinced by them and talk about them."

"And we also have some celebrity ambassadors, such as Claudia Schiffer and Franz Beckenbauer," he adds. “In the
past, Rodenstock paid celebrities to be ambassadors for the brand but that has stopped: we don’t need to do it and it is not a good use of our cash. If celebrities wear our products, that’s great, but we don’t pay them to do it.”

Rodenstock has made huge strides in recent years, but Kastalio is confident that the best is yet to come.

“We have a system of better vision that is unmatched,” he explains. “Competitors are trying to copy us, but we have a brand that stands for both glasses and lenses. That makes us very special. It allows us to offer advantages to the optician and to the end consumer. And we are only at the start of leveraging that.”

Kastalio himself has around 15 pairs of Rodenstock glasses, including several under the Rocco brand, which is aimed at the younger generation. “I need to wear lots of different Rodenstock glasses,” he says. “It’s all part of my commitment to the brand – I need to experience the product.”

The Rocco frames are more colourful and flamboyant than traditional Rodenstock designs, but Kastalio loves them. “They are bright and quite daring. My kids feel embarrassed when I wear them in public,” he says, laughing. “And I don’t wear them to official appointments!”

### Person Information

**Name:** Oliver Kastalio  
**Age:** 50  
**Education:** MBA in business administration and electrical engineering  
**First job:** Brand manager for deodorants at Procter & Gamble  
**Family:** Married with two teenaged daughters  
**Car:** Black Audi Q7 and racing-green Mini Cooper  
**Interests:** Skiing, rowing, sailing, spending time with family  
**Biggest achievement:** Creating a warm family  
**Biggest regret:** Nothing  
**Ambition:** To improve people’s lives
Changing the rules
The iconic film Wall Street provoked widespread controversy – particularly its central character Gordon Gekko’s pronouncement on the virtue of greed. But everyone in business would surely agree that another “G” word, growth, is undoubtedly good. Essential, in fact, because with rival outfits always ready to park their tanks on your lawn, if your business is not growing then it is effectively shrinking. And no one wants that.

Growth can be achieved in many ways. Some companies favour organic expansion. Others prefer the acquisition route. Some strive constantly to recruit new customers. Others focus on selling more to existing customers. And for many these days, the world of the web is seen as a business nirvana, full of endless possibilities.

Whatever companies’ preferences, one point is clear: customer acquisition and customer retention are changing so fast that even if the status quo works now, it is unlikely to do so forever.

Times are changing
“The days when you could build a static customer base and hang on to it, selling only to that set group of customers, are well and truly over,” says consultant and commentator Alastair Dryburgh, author of Everything You Know About Business is Wrong.

In modern markets, disruptive models and technologies are spreading even into industries where inertia and high barriers to entry have historically limited competition. From utilities to financial services, there is no such thing as steady-state commerce any more.

“Customers are becoming more promiscuous – just look at banks,” says Dryburgh. “There used to be a joke that people got married more often than they changed banks, but now it is much less hassle to switch, and there are more banks to choose from, with more genuine differences in what they offer.”

The evidence backs him up: in the year after the launch of the Payment Council’s fast-switching service in the UK in 2013, the number of people changing their bank jumped 19 per cent to over one million account holders.

If it can happen in that market, it can happen anywhere. So the adage that it is cheaper and more effective to sell more to existing customers than to go out and recruit new ones is increasingly under the spotlight. Indeed, according to a 2014 report from consultants Bain & Company, this long-standing assumption – that earning repeat business from the same customers is more important than winning new business from fresh customers – is just not right.

The loyalty illusion
Based on a survey of more than 100,000 shoppers in markets as geographically diverse as Indonesia, China and several European countries, the report found that what distinguishes the most successful fast-moving consumer goods (FMCG) brands across the board is not the repurchase rate (customer loyalty).
but the penetration rate – how many customers buy at least once in a given year. Top brands in all markets enjoy penetration rates at least four times higher than the average of the top-20 competing brands, and penetration rates for so-called superbrands such as Coca-Cola can reach as high as 50 per cent.

“Companies tend to think of their customers like they do their employees, which creates an illusion of customer loyalty,” says Guy Brusselmans, partner in Bain & Company’s Brussels office and the report’s co-author. “But your customers are not a fixed group; people are moving in and out of the group all the time. Unlike employees, customers are never really yours in the first place.”

Although the research focuses on consumer goods, Brusselmans believes that the same principles apply to business-to-business (B2B) and professional-services markets. “They are subject to the same dynamic,” he explains. “Take consultancy: sales are based on having a strong relationship with the client. But having a strong relationship doesn’t guarantee you a sale; far from it. You’re only as good as your last job.”

Just as a supermarket shopper may consider buying several familiar brands of washing powder or shampoo, a client is unlikely to have a good relationship with only one professional services firm. “A good relationship means you will be considered, but you have to keep earning your place in that consideration set,” says Brusselmans. “It’s a constant and expensive fight.”

New recruits
One business that is applying FMCG principles to a very different market is Oasis, the UK’s largest provider of private dental treatment. Bought by Bridgepoint in 2013, it has grown from 200 branches to 330, and like-for-like sales are increasing at between five and seven per cent.

We recently sold a £15,000 ring on WhatsApp. The customer worked in financial services and wasn’t allowed to use her personal email at work”

“Of course, existing customers are worth more and are less expensive,” says Oasis’s chief executive Justin Ash. “But you have to recruit new ones, too.”

How does he go about winning over those toothsome new punters?

“You have to define your customer proposition – what makes you different,” Ash explains. “What customers really want from a dentist is pretty similar to what they want from any other regular purchase: transparency, choice and value. But in most dental surgeries they don’t know what the costs are likely to be, they don’t understand their choice in treatment and they have no idea of how to assess value.”

After introducing visible, fixed pricing in all of its branches and online, offering a clear choice of treatment and an entry-level national tariff called Oasis Basics, the business has seen a clear rise in like-for-like sales.

“Historically, dental customers have been quite loyal, but times are changing,” says Ash. “The under-30s don’t have the same bad childhood experiences of painful visits to the dentist [as older patients], so they don’t impart the same godlike status to any dentist who doesn’t hurt them. Instead, they tend to treat dental work more like any other purchase.”

Ringing the changes
Finding new business also means embracing new models and new means of communication. Despite specialising in bespoke diamond engagement rings costing in excess of £10,000, jeweller Rare Pink makes many of its sales online. It has even discovered that the mobile app WhatsApp – generally better-known as a way for digital natives to swap gossip on their smartphones – can be a
valuable sales channel for clients whose busy working lives preclude much in the way of “face time”.

“We recently sold a £15,000 ring on WhatsApp,” says Rare Pink co-founder and chief executive Nikolay Piryankov. “The customer worked in financial services and wasn’t allowed to use her personal email at work. Our brand promise is to provide the best online jewellery experience and to do that we have to give people what they want, and let them use the tools they want, too – including WhatsApp.”

Rare Pink has offices in London, Hong Kong and New York and attracts cash-rich, time-poor buyers from all over the world. It raised £195,000 through a crowdfunding website in spring 2014 and is raising a further £1 million to expand into new territories.

“We have a bespoke model that is also very scalable, and that’s where the opportunity is,” says Piryankov. “With more investment, we could easily open 20 offices across Europe. We’re ambitious and we want to be the biggest online jeweller. We’re not in it to be number two.”

Not every business is a hungry young start-up in a consumer-facing market, however. For established firms in specialised B2B sectors, upselling to existing clients can still provide the lion’s share of profitable growth.

Bridgepoint-backed Phlexglobal operates in the arcane but important business of managing clinical trials for new drug treatments, where both budgets and timescales are substantial.

“The costs of going to market with a new drug are enormous: $1 billion-plus, and a good 12 years,” says Phlexglobal chairman Steven Kent. “So selling new things to new customers in our business is very difficult: it’s highly regulated and the pharmaceutical business is very risk-averse.”

“Every drug trial must be conducted according to a strict set of rules and processes known as “good clinical practice”, at the heart of which is a vital set of documentation: the “trial master file” or TMF. Phlexglobal’s systems deliver this TMF, which contains all the data from every doctor and every patient involved in each trial. “There’s a massive amount of documentation,” says Kent. “So the TMF provides all of that documentation in one place for an inspector to view and review.”

Because trials last so long and documentation methods cannot be changed once under way, many of Phlexglobal’s clients – which include 17 of the world’s top-20 global pharmaceutical companies – are still migrating from paper records to digital (or “eTMF”) systems. “This migration offers us the best growth opportunity,” says Kent. “We plan to provide additional services around our core TMF offering – essentially selling new things to existing customers.”

But even in such a tightly controlled and conservative market, competition is rising and new business must be won. “We have 160 customers at present,” he adds. “And there are 4,500 pharma businesses globally – so there is plenty of potential. But the costs of acquisition are high – it typically takes us around a year to acquire a new customer – and we can’t boil the ocean.”

So when it comes to growth, every firm still has to strike its own delicate balance between repeat sales and new ones. Across the spectrum, however, the scales are tipping in favour of new business faster than many people realise.

Bain & Company’s Brusselmans has one final suggestion: “The most important point to remember is this: don’t disappoint your customers. Products don’t have to win the blind taste test, so long as the customer is getting what they expect. But if you disappoint them, you will lose business. And that can have a devastating impact on customer loyalty and penetration.”
In the fast lane
The phrase “fast-growth tech company” has become almost clichéd in a world intrigued by all things digital. But delivering fast growth is not just a matter of being in the right sector at the right time. It requires strategy and financial nous.

From steam engines to smartphones, technology has always been a powerful catalyst for change, affecting not only industry but entire economies.

So it is hardly surprising that, in the current digital era, governments, investors and business leaders are determined to create conditions where new tech companies can flourish and GDPs can be recalibrated.

In digital hubs the world over, start-ups, scale-ups and SMEs are all vying to be The Next Big Thing. But what are the ingredients needed to generate genuine success? The question is particularly complex because, as digital expertise permeates almost every corner of industry, it is becoming harder to separate “technology” companies from the rest.

Global disruption

Take the headline-grabbing car service Uber, which has managed to disrupt the urban taxi sector on a global scale. Starting in 2009 as a luxury car service in San Francisco, it was valued at $40 billion in December 2014 and operates in more than 250 cities worldwide.

“The success of Uber is that it not only uses technology to solve a problem – booking a taxi – but it has managed to make it easier and cheaper at the same time,” explains Mark Mayne, editor of consumer tech website T3.com. “We’ll almost certainly be seeing more of this type of disruptive business model meshed with new single-purpose technology, because they deliver exactly what consumers need, when and where they need it.”

This does not just apply to the shiny world of consumer-facing technology. Any fast-growing business in this highly competitive market needs a targeted product that connects with customers and can scale up quickly.

Companies such as UK-based cloud-hosting and co-location service provider Pulsant know this well. The company, formerly backed by Bridgepoint Development Capital, was sold in 2014, following a three-year buy-and-build strategy that was designed to create a one-stop shop for IT services to the SME market.

Pulsant’s guaranteed service levels come with an attention to customer satisfaction that larger providers such as Amazon and Google cannot really offer. The approach has enabled Pulsant to create a differentiated offering and the kind of growth that saw it recently ranked third in the Megabuyte50, a report highlighting the UK’s fastest-growing tech companies with revenues over £10 million.

Target practice

“In a crowded sector, it’s really important to segment your market,” says Pulsant chief executive Mark Howling. “You have to be targeted about the kind of customer you’re going after and the kind of services they are looking for. Then you need to make sure your services are really good and fit that kind of customer really well.

“Even with a business of our size, at £43 million of revenue, we’re a tiny fraction of the market,” he adds. “So we don’t need a lot of that market to double or treble in size. The crucial thing is, rather
than try to win every piece of business and therefore be undifferentiated, we focus on a certain type of customer where our services are a good fit. We then just try to be one of the best suppliers in that niche.”

Another rising star in the Megabuyte50 was BigHand, acquired by Bridgepoint Development Capital in 2012. A leading provider of voice productivity software to the legal sector, BigHand has annual revenues of more than £20 million and in 2014 delivered 22 per cent year-on-year growth.

Under chief executive Jon Ardron, the company has increased its client base to 2,500 across five cities and three continents.

“We listen to clients very carefully and build software and products that solve real problems,” he says. “We are completely focused on looking after our clients. A software technology business with a great development team can build anything – eventually. The key challenge is to focus all the attention on what matters.”

**Staying on top of strategy**

In other words, Ardron makes sure that his colleagues stay focused on what customers want and how to provide it. Many tech experts consider this guidance from the top to be essential – particularly in fast-growing firms, where it can be easy to lose sight of the company’s core strategy.

Russ Shaw, founder of start-up support group Tech London Advocates and former vice-president at Skype, says: “For me, leadership is a crucial ingredient for success. You need an entrepreneur or a visionary with an interesting and differentiated business model that can be scaled up substantially and effectively.

“Successful businesses also need to think through their funding,” he adds. “As you grow and build a business, having clarity around where the first £1 million, £5 million and £10 million will come from is vital. It’s about knowing potential investors and thinking about how you’re going to pitch it to them for the longer term.”

This can be a tough nut to crack in the tech sector, where products and services require constant, often-costly evolution. “Controlling cost versus revenue is one of the biggest challenges,” says Jamie Estrin, co-founder of mobile advertising company Zapp360, whose turnover has gone from nothing to seven figures in the space of just two years.

“Building tech is expensive and takes time,” says Estrin. “So you need to know how long you have to validate the business model,” he adds.

**Fit for purpose**

For companies such as sport-tracking systems provider STATSports, the start-up phase is not the only stage where a business can come undone. The company’s technology provides sophisticated fitness data to professional football coaches, from how intensely a player is training to how tired he is at the end of the week. Used by the UK’s Premier League, Spain’s La Liga and America’s National Football League, among others, STATSports’ data can determine whether a footballer plays at the weekend or not. Its business administrator, Richard Byrne, suggests that ongoing success requires constant investment.

“All business moves fast, but in the tech industry you can be here one day and gone the next, in a literal sense,” he warns. “There is always someone trying to do what you do in a different way and it is imperative that you move with the times in order to keep up with the evolving needs of customers.”

Acquisitions can be a highly efficient way of evolving quickly, but only if they are properly thought through.

“When you’re making acquisitions, you really need to be strategic about what kind of company you’re trying to develop,” says Pulsant’s Howling. “If it’s sensible to make acquisitions to get there, fine, but make sure you’re testing them against the strategies you’ve got in the first place.”

The same is true for companies looking to expand across borders. The lure of “going global” is strong,
but it is rarely the easy route to growth.

“Taking on new markets can be lucrative but it comes with its own challenges,” says BigHand’s Ardron. “Overseas expansion is never as easy as it seems: different territories always do things differently.”

Shaw agrees: “If you’re going to operate globally, you need people from around the world to help you. Just building a global business from London can be a recipe for disaster.”

Think global

One company that has achieved global success is Danish app Endomondo. Founded in 2007 to help runners and cyclists monitor their progress, the app has more than 20 million users worldwide and was recently snapped up by US clothing group Under Armour for $85 million. For Endomondo co-founder Mette Lykke, it was clear from the start that the business needed to be global to achieve real success, so its team was built to reflect this.

“The main advantage of being based in a small country has been that it forced us to think global from day one,” explains Lykke, who is now a vice-president at Under Armour Connected Fitness. “If you’re based in the US or even in, say, Germany, you run the risk of being happy with just winning your home market and you miss out on the international opportunity. We couldn’t do that. So at Endomondo we have 42 people and 13 different nationalities, and we support almost 20 different languages.”

It’s an approach that Shaw firmly supports: “Having a mixture of homegrown talent coupled with talent from overseas is an important catalyst that brings together creativity, innovation and ideas. It encourages entrepreneurs to hone their business models so that it’s not just a cookie-cutter approach. Instead, there are people with a range of cultural starting points joining forces to help create something new and different.”

So that’s simple then. All it takes to become a fast-growing tech firm is a brilliant product, excellent leadership, a laser-focused strategy, a strong funding road map, an acute eye for acquisition targets and brilliant talent from around the world. Easy

“Having a mixture of homegrown talent coupled with talent from overseas is an important catalyst that brings together creativity, innovation and ideas”
I’ve had seven weeks, four days and 19 hours to write this article. Which works out, in total, at some 1,291 hours. Yet, as always seems to be the way with deadlines, here I am with just two hours to go, staring at a blank screen in a tepid panic. Where did all the time go?

Looking through my diary, I must concede that several hours have been wasted on nonsense. More specifically: texting; trimming my new beard; instant messaging; walking to the corner shop for Hobnobs; watching end-to-end episodes of Storage Wars; and getting into arguments about Hobnobs and beards and Storage Wars on Twitter.

But it also seems to me that nothing gets more in the way of getting work done than work itself. Not sure what I mean? Well, take meetings. They’re one of the fundamental features of business life; they’re what children imagine adults do when they go to work in offices, but they’re also one of the chief reasons why so little ever gets done. Research from Harvard Business School and the London School of Economics reveals that employees regard between a quarter and a half of all meetings as a complete waste of time, and Australian software company Atlassian estimates that businesses in the US waste $37 billion a year on them. No wonder some companies have tried to deal with this deluge by banning email; others have tried to generate alternatives to email; and others have restricted access to computers for parts of the working day.

I could go on. Commuting? A waste of time and energy. Office gossip? Pointless and enervating. Phone calls? Well, according to one piece of research, it takes 25 minutes for a worker to regain focus on a task that is interrupted by one. Basically, every formal aspect of “work” seems to prevent any work from actually getting done, with yet more studies finding that 16 of the 45 hours that US workers toil every week are “unproductive”, and that British staff are productive on only three of the five days they work. Indeed, at times it feels as if the only work being done out there is research into the fact that no work is getting done, and within the growing market for so-called productivity tips.

These self-proclaimed “time-management experts” have endless advice to proffer on the subject, recommending everything from switching off the internet for part of the day; to working in 90-minute intervals; to employing a retractable “busy belt” around your desk; to clearing your desk of all personal mementos to avoid distractions; and even dancing “to feel clear-headed, creative and focused”. Mind you, having overrun my deadline by several hours now, and with my editor sending plaintive emails, I might save the celebratory bhangra jig until after I have filed my piece and had it approved.