

September 2015 Newsletter

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RITA GUNTHER | **MCGRATH**

Author. Speaker. Consultant.

Dear Colleagues,

As a colleague of mine puts it, “the only place in the world that isn’t trying to be the next Silicon Valley is Silicon Valley!” The lures are many. The exotic cars parked at every hotel and restaurant. The gorgeous weather. The crowds of millennials with devices of all kinds seemingly grafted to their bodies. And of course, the marquee signs at some of America’s fastest growing and best-known tech companies. I’m just back from a trip there, and returned with a number of reflections.

*Thinking of taking a field trip to the Valley?
Be smart about it.*

Recently, I've been spending some time with **mach49**, the Silicon Valley incubator and

accelerator dedicated to helping large global companies innovate from within. And, I've noticed that since the mach49 principals are deeply connected to many of the players in the Valley, they are often asked by non-Silicon Valley firms to help them to organize a visit. And, what do those making the requests want? They want to meet Tim Cook, Sheryl Sandberg, Elon Musk and Marc Andreesson. They want a tour of the Googleplex. They want their pictures snapped in front of the Facebook sign. The trouble is, that while these kinds of activities may be cool, they're going to produce exactly zero results.



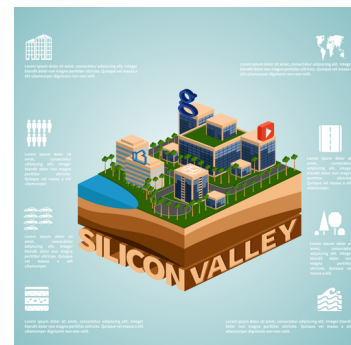
If you really want to make your visit have impact, be strategic and very specific about what you'd like to learn. Then work with someone who is plugged into that environment and can help you make it happen. Here are some suggestions to get you going.

The startup mindset and culture

Over the years, Silicon Valley has developed an entire ecosystem: from entrepreneurs to lawyers, to financiers and other advisors, the suppliers, and so forth. Studying the elements of this ecosystem can help, as my mach49 colleagues would say, "to bring the Silicon Valley inside."

Specifically, you need to learn how to:

- Think about new business models.
- Evaluate opportunities when traditional financial metrics don't apply.
- Do Customer Discovery: the search for Product/Market fit.
- Build innovation teams.
- Assess progress and plan when conventional planning methods are, sometimes, just silly.



How startups are going to try to eat your lunch

You need to get a sense for how non-traditional competition might come into your markets. Jamie Dimon of Chase Manhattan Bank has said he's not worried about other banks – he's worried about some Silicon Valley startup unbundling the traditional banking model. You'll want to look at firms driving new forms of competition that are not traditional, but which could slice up the business models of traditional incumbents. In financial services

which could shake up the business models of traditional incumbents. In financial services, firms like RateSetter, Prosper, Lending Works, OnDeck, Lending Club, and Wonga would be examples.

How you can create an innovation-friendly environment

Silicon Valley firms are famous for their laid-back offices replete with free food, foosball tables and the resident dogs. But, what you really want to understand is what structures and physical environments are conducive to getting the right talent and pursuing the right opportunities? What attracts people to work in those firms? What are their talent deployment strategies? And, what structures do they use, especially if they are growing rapidly?



On the other hand...did somebody say “bubble?”

It happens every few years. For one reason or another, money flows into a sector that is deemed to be “hot” and Entrepreneurship 101 goes right out the window. Let's review. Entrepreneurship 101 says that you conserve your cash, keep expenses variable, don't take on fixed assets until you have the revenues to justify them, and in general, be parsimonious while you are building the business. Running out of cash is what kills many otherwise promising new businesses. And yet, we're witnessing, again, the seeming ability to ignore Entrepreneurship 101 with impunity, as I argue in this [article](#) in Fortune Magazine. You can't burn enormous amounts of cash forever – a lesson we seem to need to learn once a decade or so. This is “[Capital Market Myopia](#)”.

A number of indicators suggest that we are in a bubbly period. Even the “unicorns” (startups valued at over a billion dollars) will be vulnerable if the funding spigot runs dry. (WSJ Article [here](#)). The IPO route to exit – the one that generates a hefty return for investors – doesn't include a lot of tech companies. (WSJ Article [here](#)). Just as in the last bubble, when it was all about eyeballs, tech companies are being criticized for using, shall we say, [creative ways](#) of representing their performance. Uneasy investors are starting to [ask about profits](#) and business model sustainability. In short, the early warnings are there – if we want to see them.

In the News

What do YOU think of Google's “Alphabet” re-branding? The [Financial](#)



Times picked up on my views, which is that while it offers some opportunities to be more transparent about what the company is doing, it also has risks.



Scott Anthony mentions **my work** in a piece on breaking up with innovation projects.

When the bloom is off the offshoring rose. Read **here**.

What does it mean to have an **entrepreneurial mindset**?

Stop using your grandma's strategy tools – gotta love the title of this **blog**.

Brainstorming may not be the best way to **generate ideas**.

Your pet cats (projects going nowhere) have to **go**.

Is content a sustainable advantage? **Blogger** concludes “no”.



Human Talent is one of the few sustainable sources of advantage left. Read on **LinkedIn**.

The Last Call for FAO Schwarz. Read **here**.

More links to recent press mentions can be found on the **Press section** of my website.

A Silver Lining

The end of the current exuberant period in tech won't be all bad. Crazy real estate prices around Silicon Valley may calm down. Good technologies will be available and affordable to other companies in the rest of the economy, as will talented technical people. The stronger companies are likely to emerge even stronger for the struggle. And, a whole generation will be a lot smarter about Entrepreneurship 101.

All the best,

Rita

Password for the “Tools” Section of My Website

To access the tools part of the web site (downloadable diagnostics, quizzes, spreadsheets and other cool stuff) go to the [RitaMcGrath.com website](http://RitaMcGrath.com) and use the password - **mcgr8th!** (the exclamation point is part of the password).



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