

Incumbents to  
disruptors:  
Adopting the start-up  
culture for innovation



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# Content



# Foreword



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The Indian consumer products market is undergoing structural changes. The sector that was once dominated by few large companies is now witnessing emergence of many small brands that cater to niche consumer segments. These start-ups are increasingly posing stiff competition to existing companies by focusing on consumer-centric innovation.

Innovation has been a top agenda for many large companies over the last few years. However, very few have succeeded to truly innovate like start-ups. The crux of the problem lies in the fundamental differences in operating models of start-ups and incumbents.

Start-ups are highly successful in launching a proof of concept owing to their laser sharp focus on consumers, nimble organization structure, fast decision making and turnaround time. But they struggle when it comes to scaling up the proof of concept. This is where incumbents have an advantage.

Incumbents are proficient in scaling up a proof of concept given their expertise and access to the best of resources across functions like marketing, distribution, financing. But they struggle to innovate at speed.

For an incumbent company to succeed at driving agile innovation, like start-ups, it is critical to unlearn the old ways of operating and adopt new ways of functioning. In essence, they have to think and act like a start-up, in other words, inculcate the start-up culture. This necessitates some fundamental changes in operating model and mind-set of the incumbent company.

I hope you find this report and its insights relevant and applicable as you prepare to innovate at scale.



# Executive summary

India is slated to become the fifth largest consumer products market in the world by growing at around 7.5% annually to reach US\$262 billion by 2025 from US\$156 billion at the end of 2018. The growth will be driven by robust economic drivers and favorable demographic factors. Although the sector is currently witnessing a temporary sluggishness, fundamentals driving the long-term growth continue to stay healthy.

While the sector is poised for sustained healthy growth, underlying factors shaping the growth are changing rapidly. Given the rapid changes in technology and emergence of e-commerce and social media, the sector landscape has changed significantly over the last 5-10 years. While on one hand, consumer expectations have started shifting more rapidly than ever before, on the other hand, a number of start-ups have started mushrooming to address the unmet consumer desires. The combined effect is that the composition of growth for existing, large companies is changing rapidly.

Increasingly, incumbent companies are facing stiff competition from start-ups, where the latter are chipping away at the market share from the existing companies across categories. Individually these start-ups may not pose significant threat to the behemoth incumbents, but together, as a bunch, they are forming a formidable challenge; during 2012 to 2017, 8 of India's top 12 brands ceded market share in the range of 40-200 basis points to newer entrants in home care, packaged foods and beverages categories<sup>1</sup>.

What sets start-ups apart is their ability to innovate rapidly by keeping consumers at the heart of every decision. It is not that the incumbents are not aware of how start-ups innovate. But, they struggle to do so at an organization-wide level given their legacy systems and operating model. Even when they do try to operate like a start-up, their efforts are mostly sporadic or on the fringes. To see visible impact and deliver innovation at speed, incumbents need to bring innovation centerstage. This requires inculcating a start-up culture.

Inculcating a start-up culture requires significant changes in business operations and mind-set. It is not easy, but organizations need to intelligently explore options to build innovation into their business model. By adopting the start-up style of working across areas such as consumer and innovation, culture and people, organization structure, while continuing to play on their strengths across areas such as operating model and financing will help incumbents drive future-proof growth.

## How can incumbents inculcate the start-up culture to drive agile innovation?

### 1 *Keep consumers at the heart of every decision*

Most start-ups initiate their thinking from the consumer. This ensures that all business decisions are taken keeping consumer needs and interests in mind. Incumbents often find it hard to implement this even though they might claim to have this approach. This can be achieved by meeting end consumers of products at least 1 day every month and leveraging analytics that can identify needs of consumers specific to geographies/categories/channels, etc.

### 2 *Foster innovation-led culture*

Leadership of large companies should start by spending a day each month interacting with start-ups to understand their mind-set. They also need to induct younger people into leadership teams to create a healthy balance of experience and freshness and break silos in the company.

### 3 *Design lean organization structure*

Innovations are often executed by small cross-functional teams with set objectives that allow failure. This means that big organizations need to set up a cross-functional disruption team with a shared objective where decisions are taken together swiftly in meetings rather than through a bureaucratic hierarchical structure.

### 4 *Develop a flotilla-like operating model to support multiple niche brands*

Innovation will always start with smaller ideas that grow big over time. It is important to develop a portfolio of smaller brands supported by an operating model which allows each to flourish without being consumed by the larger brands. This means a solid support structure of the parent without the necessary evils of interference and bureaucracy.

### 5 *Invest with long-term vision*

It's quite important to change the evaluation parameters for innovation from immediate profits to long term value. This does not mean operating unprofitable models but if necessary, operating a potentially profitable model unprofitably for some time. Successful start-ups actually get this right because they are able to adjust their models quickly if necessary.

<sup>1</sup>"Big consumer brands losing market share to smaller rivals", Mint, <https://www.livemint.com/Industry/GtuYtAhywKgkyuNNyDBa2J/Big-consumer-brands-losing-market-share-to-smaller-rivals.html>, accessed 08 June 2019

# 1

## Indian consumer products market offers robust long term growth prospects

The Indian consumer products\* market almost doubled in size over the last decade to reach US\$156 billion (US\$600 billion on purchasing power parity basis) by the end of 2018, growing at close to 6.5% annually. It was the fastest growing market among the top 15 in the world.

Indian consumer products\* market to become the fifth largest by 2025

Market size(\$b) and rank for top 15 consumer products* market				
Rank	2008	2013	2018	2025
1	US ██████████ 946	US ██████████ 966	US ██████████ 999	China ██████████ 1,197
2	China ██████████ 460	China ██████████ 685	China ██████████ 837	US ██████████ 1,082
3	Japan ██████████ 398	Japan ██████████ 394	Japan ██████████ 400	Japan ██████████ 416
4	Germany ██████████ 251	Germany ██████████ 244	Germany ██████████ 249	Brazil ██████████ 305
5	UK ██████████ 212	Brazil ██████████ 220	Brazil ██████████ 231	India ██████████ 262
6	France ██████████ 199	UK ██████████ 207	France ██████████ 209	Germany ██████████ 256
7	Italy ██████████ 173	France ██████████ 204	UK ██████████ 209	UK ██████████ 235
8	Brazil ██████████ 168	Russia ██████████ 168	Russia ██████████ 162	France ██████████ 217
9	Russia ██████████ 153	Italy ██████████ 159	Italy ██████████ 161	Mexico ██████████ 185
10	Spain ██████████ 132	Mexico ██████████ 125	India ██████████ 156	Italy ██████████ 173
11	Mexico ██████████ 111	India ██████████ 110	Mexico ██████████ 146	Russia ██████████ 173
12	Canada ██████████ 94	Spain ██████████ 107	Spain ██████████ 112	Spain ██████████ 126
13	Australia ██████████ 86	Canada ██████████ 101	Canada ██████████ 104	Canada ██████████ 117
14	India ██████████ 84	Australia ██████████ 88	Australia ██████████ 94	Australia ██████████ 113
15	S.Korea ██████████ 73	S.Korea ██████████ 75	S.Korea ██████████ 82	S.Korea ██████████ 94

Note: \*Includes alcoholic drinks, hot drinks, soft drinks, beauty & personal care, home care, tissue & hygiene, and packaged food  
Source: Euromonitor, EY Analysis



By 2025, the market is slated to become the fifth largest market in the world by reaching US\$262 billion, growing at around 7.5% annually<sup>2</sup>. The growth will be driven by robust economic drivers and favorable demographic factors.

## Robust growth is driven by favorable fundamentals

### Economic

- ▶ **Expanding economy**  
India is one of the fastest-growing economies with an annual GDP growth rate of 6-7%, expected to sustain over the next 10-12 years.
- ▶ **Growing consumption**  
India's per capita consumption is forecast to almost double to \$4,000+ by 2030 from \$2,000 in 2018.
- ▶ **Rising expenditure**  
Consumer spending to grow 4x to reach \$6t by 2030 from \$1.5t in 2018. India's consumer spending is ~60% of GDP (for China it is ~40%), making it less susceptible to external shocks.

### Demographic

- ▶ **Large, young population**  
Indian population is expected to reach 1.5b by 2030 up from 1.4b in 2018. The median age is estimated to be around 31 years by 2030, up from around 27.5 years in 2018.
- ▶ **Aspirational middle-class**  
By 2030, India will add about 140 million middle-income and 21 million high-income households, doubling the total share of these segments to 51%
- ▶ **Nuclear households**  
Proportion of nuclear households is expected to grow from ~70% in 2018 to ~80% by 2030, thereby driving growth in consumption as nuclear families tend to spend 20-30% more on discretionary products than joint families.

Note: Low income: <\$4,000, Lower-mid: \$4,000-8,500, Upper-mid: \$8,500-40,000, High-income: >\$40,000 income per household per annum  
Source: IMF, WEF, World Bank, Nielsen, Crisil, IBEF, EY Analysis

In terms of volume-price mix, the sector growth is likely to be well balanced, with 4-5% volume growth and 2.5-3.5% price growth. The volume growth would be driven by rural market, making up for 55-60% of volume demand, as category penetration levels are still below saturation in these areas.

On the other hand, the price growth would be driven by urban market, where consumers are increasingly becoming more aspirational, thus providing a large opportunity for premiumization.

<sup>2</sup>Source: Euromonitor and EY Analysis

## 2

# Sector outlook remains promising but factors shaping the growth are changing

The long-term sector outlook remains promising driven by stable fundamentals. But composition of growth is likely to change for companies within the sector, especially the large, existing companies.

Historically, incumbents' growth came on the back of geographical expansion, category penetration, category diversification or new variant launches. But very rarely did it come from true innovation. Given the sector dynamics and maturity of the market, the traditional path to growth was sufficient for incumbents to sustain performance. But, the

sector landscape has changed significantly over the last 5-10 years with emergence of e-commerce, social media and new technologies. Given the fast-paced changes in the business environment, incumbent companies would need to devise newer strategies to drive growth and they would be significantly different than the strategies that led to the past growth.

There are primarily two factors that are reshaping the sector dynamics: fast changing consumer preferences and emergence of start-ups.

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We target the unhappy consumers. Being close to consumers gives us access to almost immediate feedback to get product-mix right. We are ok to fail, but it is critical to learn fast and scale fast.

**Manish Goyal**

*Founder of Queen's Quinoa, a food start-up offering quinoa based products*







## 1 Consumer preferences are changing rapidly

Indian consumers are evolving rapidly, similar to their global counterparts. Increasingly, they are getting closely connected, sharing more information and are becoming more demanding. Regional trends are not restricted to geographic boundaries anymore, but are spreading across and reshaping consumer demands.

The change is mainly being driven by more than 400 million millennials<sup>3</sup> who are redesigning what Indian consumers want, how they shop, how they interact with brands and their relationship with products.

Increasingly, Indian consumers are seeking products that resonate with their individual values like health consciousness or sustainability. They are looking for more personalized products that can address their individual needs. They are

increasingly shopping online, especially using mobile devices. They are getting in sync with global trends much faster than before with the growing proliferation of social media. They are choosing to become more asset-light by sharing ownership of products and subscribing to services<sup>4</sup>.

There is fundamentally nothing new with changing consumer preferences; by nature, they are fluid. What is new is the pace of change. Consumer preferences are evolving much faster than ever before and we believe that the pace of change will only accelerate going ahead, given the shortening shelf life of technology. Start-ups thrive in such fast changing environment while the incumbents find the same pace of change quite unsettling given their legacy.

### Start-ups are redefining consumer preferences

<b>Seeking</b>	Personalization	Affordability	LATTE*	Greater good (Sustainable, cruelty-free)
<b>Shopping</b>	Online	In-store immersive experience	Voice-commerce	AI-driven auto-replenishment
<b>Interacting</b>	Social media	Influencers	Trust groups (peer reviews)	AR platforms
<b>Relationship</b>	Asset-light	Sharing	Subscribing	Products to services

Note: \* LATTE - Local, Authentic, Traceable, Transparent, Ethical

<sup>3</sup>"What do Indian millennials aspire?," Forbes India, <http://www.forbesindia.com/blog/finance/what-do-indian-millennials-aspire/>, accessed 11 April 2019

<sup>4</sup>"Maximum cities being pushed to the limits", Business Line, <https://www.thehindubusinessline.com/specials/businessline-25/maximum-cities-are-being-pushed-to-the-limits/article26105074.ece>, accessed 06 June 2019

## What does the Indian consumer want?

To better understand what Indian consumers want and how do they make purchase decisions, we administered a survey across cities, age-groups and income brackets. We also conducted in-depth interviews with start-ups and large consumer products companies to get their perspective on how Indian consumers are changing. Based on the survey results and our interactions with consumer products companies, we have gained the following insights.

### **Indian consumers want more better-for-us products**

Indian consumers are becoming more aware of what is better for them and are demanding products and services which efficiently address their issues. Increasingly, they are looking for products that are free from harmful ingredients. Being more effective or healthier were the top reasons why consumers opted for a new brand; close to 75% respondents chose this as the key reason to try a new brand.

### **They seek value-for-money**

Value-for-money continued to be a critical factor while making purchase decisions. It was the second most important reason for trying a newer brand. Indian consumers are extremely value conscious and affordability, which is very subjective, continues to influence how the India consumer shops.

### **They aspire for premium products**

Indian consumers exhibited a strong appetite for premium products as they aspire for greater value, healthier products or natural ingredients. Close to 80% of respondents said that they were willing to pay up to 25% higher prices if they received the value they desired.

### **Social media is increasingly influencing purchase decisions**

Close to 60% of consumers across age groups said that social media was an important influencing factor for them to try a new brand.

### **Sustainability is gaining more importance**

As Indian consumers become more connected with global trends, they are increasingly demanding more sustainable products - products that are environmentally friendly or products that support no animal-cruelty. Although, the section of consumers seeking such products is very small currently, it is only likely to grow as the awareness spreads.



Note: The survey covered close to 100 consumers across cities, age-groups, and income brackets  
Source: EY Survey, Interviews with select consumer start-ups and large companies

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Being a single product brand, we want to cater to all consumer segments and not just restrict to premium or mass. What is more critical for us is to provide value-for-money without degrading quality. Getting the right price-point is crucial.

Chirag Gupta

Founder of 4700 BC Popcorn, a food start-up



## 2 Start-ups are gaining prominence

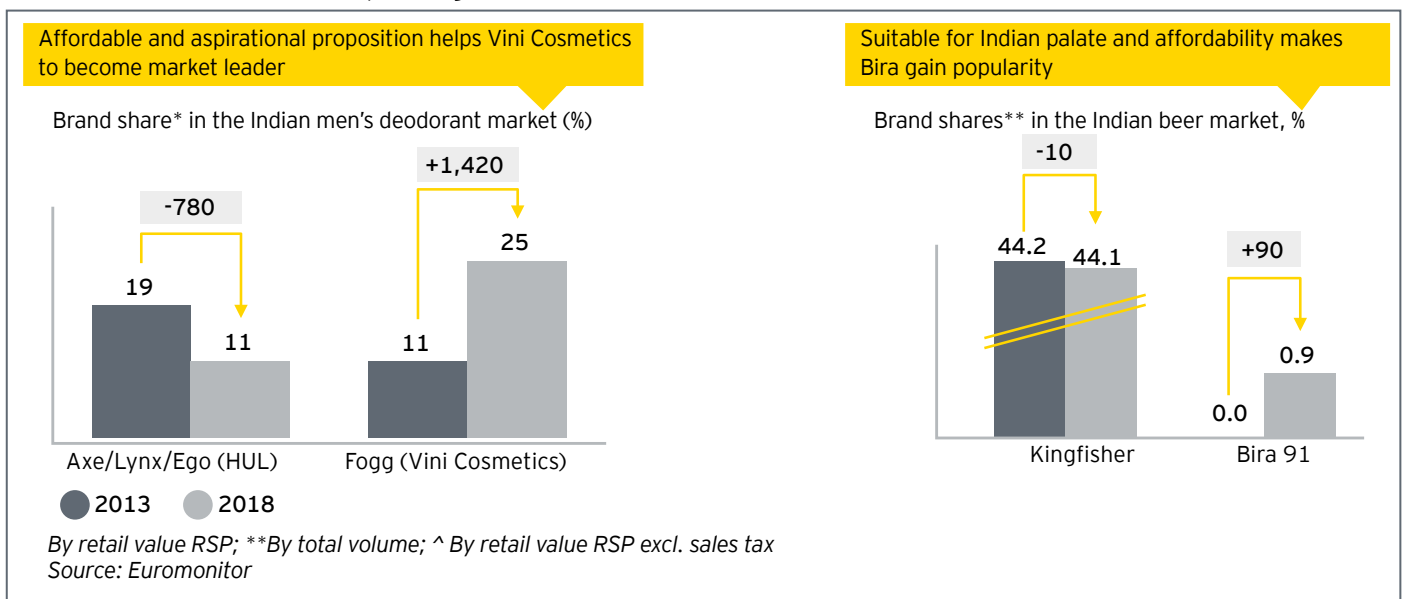
Democratized access to technology has lowered entry barriers, while supportive policy environment and improved access to funding have given a level-playing field to upcoming businesses. This has created a conducive environment for start-ups to flourish. The number of start-ups in India has grown significantly over the last 5 years. As per the Commerce Ministry's data, of the total 20,000 start-ups recognized in India in 2018, close to 10% belonged to the consumer products sector<sup>5</sup>.

These start-ups rely on innovation to differentiate themselves from competitors and fuel growth. They focus on carving out niche consumer segments and redefining categories. They are highly adept at spotting the unhappy consumer and leveraging the latest technology to address the unexpressed desires.

Individually these start-ups may not pose significant threat to the behemoth incumbents, but together, as a bunch, they are forming a formidable challenge. Increasingly, incumbent companies are finding it difficult to capture growth; during 2012 to 2017, eight of India's top 12 brands ceded market share in the range of 40-200 basis points to newer entrants in home care, packaged foods and beverages categories<sup>6</sup>.

Most start-ups cater to very niche segments and hence eventually could face scalability issues<sup>7</sup> or may get acquired by larger companies, but a few have the potential to grow big and compete head-on with existing brands.

### Local Indian brands are capturing market share from incumbents



Note: \*By retail value RSP; \*\*By total volume  
 Source: Euromonitor, company news, press release, EY Analysis

Competition from start-ups in India is intensifying, but it is still not as severe as some of the larger, global markets, where start-ups are unsettling the top order.

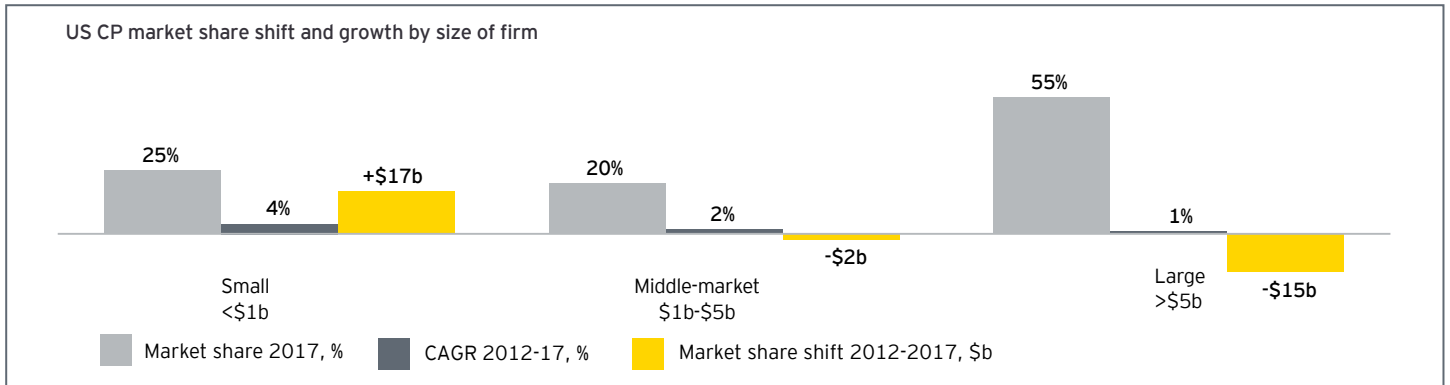
In the US, during 2012 to 2017, upcoming, local consumer companies (<US\$1 billion in sales) captured US\$17 billion in market share from large, existing companies. During the same period, nearly 50% of the growth in the US consumer food and beverage categories came from 20,000 companies below the top 100 largest companies.

<sup>5</sup>"Startup And Investor Analysis - Reflections 2018 And Trends In 2019", Inc42, <https://inc42.com/resources/startup-and-investor-analysis-reflections-2018-and-trends-in-2019/>, accessed 12 June 12, 2019

<sup>6</sup>"Big consumer brands losing market share to smaller rivals", Mint, <https://www.livemint.com/Industry/GtuYtAhyWkgkyuNNyDBa2J/Big-consumer-brands-losing-market-share-to-smaller-rivals.html>, accessed 08 June 2019

<sup>7</sup>"Top 20 reasons why start-ups fail", CB INSIGHTS, <https://www.cbinsights.com/research-reports/The-20-Reasons-Startups-Fail.pdf>, accessed 07 June 2019

## Globally, smaller players are taking away market share from larger companies



Source: BCG-IRI<sup>8</sup>, EY Analysis

This phenomenon is not limited only to the US, but is seen across other large consumer products markets as well. In China, local brands accounted for close to 6% of the market, but delivered close to 20% of value growth over the last two to three years; close to 70% local brands grew at 2x the category average<sup>9</sup>. In case of top six beauty and personal care markets, close to 6,000 brands were launched within the last year.

These start-ups are competing with large companies and are chipping away at the market share across categories<sup>10</sup>. In some cases, start-ups have displaced the legacy brand to capture market leadership owing to their formidable value proposition.



<sup>8</sup>“What the Fastest-Growing CPG Companies Do Differently”, BCG-IRI, <https://www.bcg.com/publications/2018/what-fastest-growing-consumer-packaged-goods-companies-do-differently.aspx>, accessed 28 May 2019

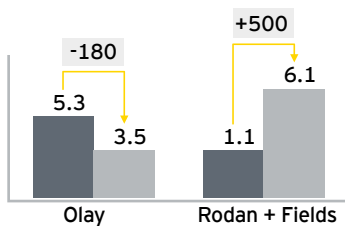
<sup>9</sup>“Local insurgents shake up China’s two-speed market”, Bain, <https://www.bain.com/insights/local-insurgents-shake-up-chinas-two-speed-market/>, accessed 16 July 2019

<sup>10</sup>“CBInsights, industry market maps”, CBInsights, <https://www.cbinsights.com/research/industry-market-map-landscape/#consumer%20packaged%20goods>, accessed 28 May 2019

## Start-ups have displaced legacy brands to gain leadership position

Rodan + Fields becomes #1 in the US skin care market by offering "Dermatologists' products at a fraction of their fees"

Brand shares\* in US skin care market, %

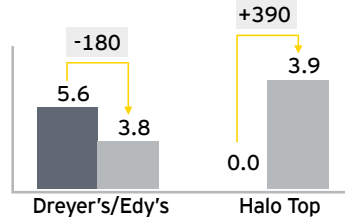


● 2013 ● 2018

Source: Euromonitor

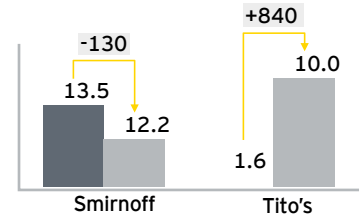
Halo Top reaches #4 position in the US ice cream and frozen desserts market by positioning as healthy indulgence

Brand shares\* in US ice cream and frozen desserts market, %



Tito's becomes #2 brand in the US vodka market by offering local and traditional value proposition

Brand shares\*\* in US vodka market, %



Note: \*By retail value RSP; \*\*By total volume  
Source: Euromonitor, company news, press release, EY Analysis



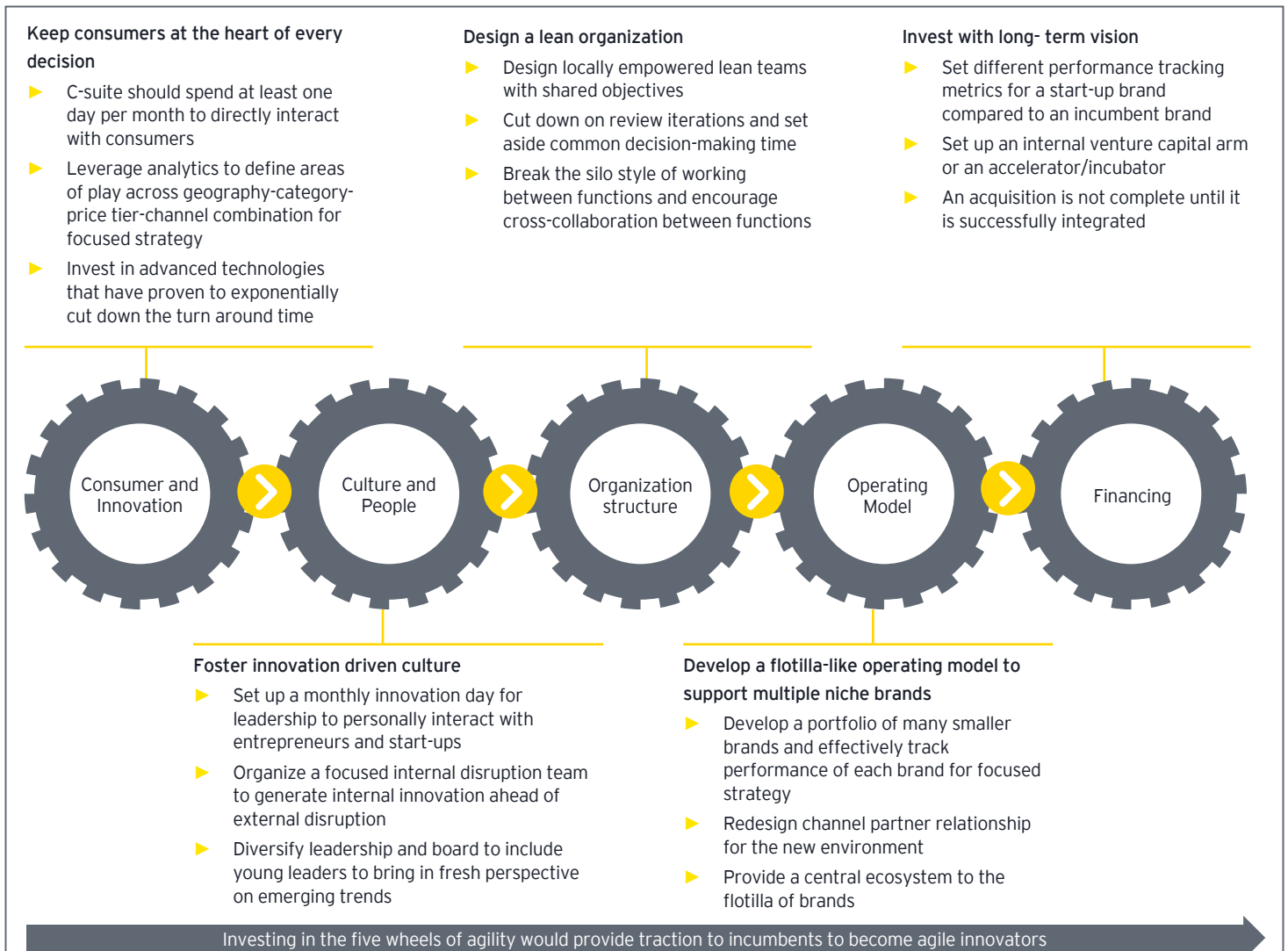
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## How can incumbents inculcate the start-up culture to drive agile innovation?



To remain competitive and maintain leadership in the fast changing business environment, incumbents need to become agile innovators. Investing behind the five wheels of agility can provide the necessary traction required to do so.

### Five wheels to drive agile innovation



Source: EY Analysis

Incumbent companies struggle with innovation. They look for opportunities that cater to a large consumer base and have the potential to make an almost immediate financial impact. They plan for few big launches a year and invest resources disproportionately behind the product to ensure that there is no room for failure. This risk mitigating mind-set inhibits innovation. Also, their organization structure is more rigid and bureaucratic which impedes a quick response to market changes. They are highly experienced at scaling up the proof of concept and hold a huge advantage in procurement, distribution, manufacturing, funding and marketing.

In contrast, start-ups are vastly successful when it comes to innovating at speed. They are proficient at recognizing latent demand, unlocking potential market and developing proof of concept. They start small with a prototype that is far from being perfect, seek continuous consumer feedback and amend the product as it evolves. They are open to risks as they do not fear reputation loss. They patiently invest in the product and wait for expected financial results.

They however, struggle when it comes to scaling up the proof of concept, as in most cases they have never done it before. Other areas where start-ups lack experience are developing robust second line of management, handling financial transactions internally and instilling strong corporate governance standards.

## What differentiates incumbents from start-ups?

Areas of business	Incumbents	Start-ups
<b>Consumer and innovation</b>	<ul style="list-style-type: none"> <li>▶ Offer what they are good at</li> <li>▶ Extend into adjacent categories to offer product variation; 60% of new launches are variations of existing products</li> <li>▶ New product turnaround time 12-18 months</li> <li>▶ R&amp;D investment are less than 4% of sales, while 6x more is the budget for marketing</li> </ul>	<ul style="list-style-type: none"> <li>▶ Offer what consumers want</li> <li>▶ Carve out new, niche categories to address unmet demand</li> <li>▶ New product turnaround time is 6-8 months</li> <li>▶ Tech-enabled companies spend 10+% of sales on R&amp;D and 2-3% on marketing</li> </ul>
<b>Culture and people</b>	<ul style="list-style-type: none"> <li>▶ Risk averse, fear of reputation loss</li> <li>▶ Aim to defend market share</li> <li>▶ Bureaucratic, consensus and process driven culture</li> <li>▶ Long-tenured, organically grown leadership, legacy mindset - globally average CEO age is 58, only 5% are women</li> <li>▶ Established strong second line of management; 75% CEOs come from the second line of management</li> <li>▶ Set processes for rewards and recognition</li> </ul>	<ul style="list-style-type: none"> <li>▶ Risk taking, no fear of reputation loss</li> <li>▶ Aim to capture market share</li> <li>▶ Dynamic, individualistic, entrepreneurial culture</li> <li>▶ Young, entrepreneurial leadership, fresh thinking - globally average CEO age is around 40, 20% are women; in India average CEO age is less than 30</li> <li>▶ No strong second line of management; only 25% start-ups have strong second line of management - this limits ability to delegate and in turn impacts scalability</li> <li>▶ No formal system for rewards and recognition</li> </ul>
<b>Organization structure</b>	<ul style="list-style-type: none"> <li>▶ Hierarchical structure, large, functional departments</li> <li>▶ Silo working, limited responsibility</li> <li>▶ Handcuffed local teams leading to slow decision making</li> </ul>	<ul style="list-style-type: none"> <li>▶ Lean structure, small, cross-functional teams</li> <li>▶ End-to-end visibility, shared responsibility</li> <li>▶ Empowered teams for quick decision making</li> </ul>
<b>Operating model</b>	<ul style="list-style-type: none"> <li>▶ Production starts only if the estimated market is of a minimum viable size</li> <li>▶ Majority sales (90%+) through offline stores and leveraging own distribution network</li> <li>▶ Stable processes for operations and risk management</li> <li>▶ Majority communication using expensive, traditional media channels - 10+% of sales</li> <li>▶ Inefficient monitoring of effective media spend ROI</li> </ul>	<ul style="list-style-type: none"> <li>▶ Production can start small, without an expectation of minimum viable market size</li> <li>▶ Most sales through online channel and leveraging third party distribution network</li> <li>▶ No set processes for operations and risk management</li> <li>▶ Majority communication using less expensive, digital media channels - 2-3% of sales</li> <li>▶ Tight monitoring of effective media spend ROI</li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>▶ Strong established financial position</li> <li>▶ High internal capability to handle transactions</li> <li>▶ Answerable to shareholders</li> </ul>	<ul style="list-style-type: none"> <li>▶ Seldom profitable in the initial years</li> <li>▶ Limited internal capability to handle transactions; only 20% start-ups have capability to handle strategic investments</li> <li>▶ Answerable to investors</li> </ul>

Source: EY Analysis<sup>11</sup>

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Areas where we struggle are developing a robust second line of management and getting right talent.

**Prasoon Gupta**

Co-founder of Sattviko, a food start-up offering products based on sattvik living principles

<sup>11</sup>“How ready are entrepreneurs for the journey of scalable growth?”, ASCENT-EY, [https://www.ascentfoundation.in/ASCENT\\_EY\\_Report.pdf](https://www.ascentfoundation.in/ASCENT_EY_Report.pdf); “New Era, New Faces”, RetailLeaders, <https://retailerleader.com/new-era-new-faces-next-gen-consumer-goods-ceos-take-charge/>; “Hungry for growth, food makers seek new flavor of CEO”, Reuters, <https://in.reuters.com/article/consumer-ceo-strategy/hungry-for-growth-food-makers-look-for-new-flavor-of-ceo-idINKBN1KU0DC?il=0>; “The product launch strategy of Big CPG”, CircleUp, <https://circleup.com/blog/2017/03/24/the-product-launch-fallacy-of-big-cpgs/>, accessed on 11 June 2019; “An incumbent’s guide to digital disruption”, McKinsey Quarterly, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/an-incumbents-guide-to-digital-disruption>, accessed 11 June 2019

# How can incumbents inculcate the start-up culture to drive agile innovation?

## 1 Keep consumers at the heart of every decision

### ***Increase direct-consumer interaction for the c-suite***

C-suite should aim to spend at least one day per month to listen to consumers. One quick way of reaching changing consumers is by being present on the most popular social media platforms.

In most incumbent organizations, the senior management tends to get caught up in internal issues whereas founders of start-ups are mostly in the market interacting with consumers. Being close to consumers gives an added advantage to start-ups as it helps understand what consumers want and take quick decisions.

### ***Precisely define area of play using analytics***

Leverage data analytics to accurately identify the area of play across geography-category-price tier-channel combination for focused strategy. E.g., turnaround strategy for West Bengal-chocolates-mass price segment-modern retail or accelerate growth strategy for Maharashtra-skin care-super premium price category-ecommerce.

Incumbent consumer companies need to keep consumers at the heart of every decision, be it product design, price architecture, route to market or communication. Precisely outline areas of

play by working backwards from the consumer segments and markets they want to operate in, rather than existing brand's philosophy or categories. This can be done by leveraging multiple data sources and implementing advanced analytic techniques.

### ***Reduce product turnaround time by at least half***

Invest in advanced technologies like 3D printing that has proven to exponentially cut down on product prototype testing time. This helps in lowering the product turnaround time to market.

L'Oréal earns 20% of its annual revenue from innovation by launching products that are most relevant to the targeted consumers<sup>12</sup>. It now takes just a couple of days to test a product prototype after investing in advanced 3D printing compared to an average six months using traditional methods<sup>13</sup>. Being innovative has helped the company register decadal high organic growth when the rest of the sector has been plagued with sluggishness.

## 2 Foster innovation-led culture

Culture is an extremely essential element to propel innovation within an organization. To be a truly innovative company, innovation needs to become part of normal course of action. It should reflect in daily operations, decision making and ways of working.

### ***Set up monthly innovation day for leadership***

Senior leadership should personally interact with entrepreneurs and start-ups at least one day per month to familiarize themselves of the emerging trends and seek opportunities to collaborate more with emerging businesses.

Any cultural change needs to start from the leadership. To set the organization on the journey towards inculcating the start-up culture, senior leadership of incumbent companies should make innovative mindset a personal priority. They can consider building relationships with entrepreneurial community, which is generally closely-knit and engage informally with start-ups to acquaint themselves with emerging trends and changing sector dynamics.

### ***Organize a focused internal disruption team***

Setup a small team of innovators with a single objective of generating internal innovation ahead of external disruption. The team should report directly to the CEO. The compensation and rewards mechanism should be designed in a way that it offers safe environment for failure.

This can be done by identifying areas for innovation based on company's vision, setting stretch goals, tying up with employees' KRAs, measuring progress against set metrics and offering rewards for successful outcomes.

### ***Diversify leadership and board to include young leaders***

Induct more young leaders and innovators in senior leadership and on the board to bring in fresh perspective on upcoming technologies and changing consumer preferences. Also, the leadership board should be open to taking hard decisions if they are critical for long-term success.

<sup>12</sup>L'Oréal Q4 2017 earnings release, L'Oréal investor relations, <https://www.loreal-finance.com/eng/news-release/2017-annual-results-1231.htm>, accessed 13 August 2019  
<sup>13</sup>Transformative beauty: L'Oréal prepares for the future with 3D printing, Ultimaker, <https://ultimaker.com/learn/transformation-beauty-loreal-prepares-for-the-future-with-3d-printing>, accessed 13 August 2019



## 3 Design lean organization structure

Organizational structure for most incumbent companies is well-adjusted to maintain and grow the existing, large brands. But, the very same structure renders itself unsuitable to create new concepts, launch new ideas, take quick decisions and provide the gestational time required to become ready for scale-up. In most existing large companies, the legacy structure quashes innovation.

### ***Design locally empowered lean teams with shared objectives***

To become more agile and drive faster decisions, incumbents need to make their organization structure leaner, empower local teams, reduce iterative review time. Regional teams are better placed to understand the pulse of local market and need to be empowered to facilitate quick responses to fast changing market dynamics.

Unilever witnessed 40% improvement in turnaround time after restructuring the organization and empowering local teams, which in turn helped push organic growth<sup>14</sup>.

### ***Cut down on review iterations and block common decision making time***

The hierarchical structure and disjointed ways of working between functions of an existing organization lead to multiple reviews and elongates the decision making process.

To become more agile, existing organizations should cut down on iterative reviews and bring all decision makers together to mull about the topic and take on-the-spot decisions.

### ***Break the silo style of working between functions***

The organization structure should address the existing insular ways of working between departments and encourage more collaboration to fuel innovation. This can be done by building cross functional teams and setting up metrics to measure success.

As the CEO of Chobani, a New York based dairy products company, says: "To me, having a separate sales department is archaic. We don't have a sales budget, or a marketing budget, but we have a demand budget. The demand department comprises of people across sales, marketing, insights, product innovation and commercial finance"<sup>15</sup>

## 4 Develop a flotilla-like operating model to support multiple niche brands

### ***Develop a portfolio of many smaller brands and effectively track performance of each brand***

Identify top brands that account for at least 80% of the company's revenue for focused strategy and performance tracking.

In the more fragmented environment, large potential ideas are increasingly becoming sparse. This doesn't mean incumbents should stop looking for big ideas, but should also focus on many smaller ideas, knowing well that some of them could fail. Incumbents should critically review their existing brand portfolio and divest brands that have lost relevance to consumers. In case of gaps, an acquisition of an emerging brand may be considered or an in-house brand may be developed.

Also, companies need to continuously track performance of all brands against defined metrics to aid appropriate distribution of resources required to drive innovation and quick changes. They should be flexible in resource allocation, rather than earmarking the same right from the beginning.

### ***Redesign channel partner relationship for the new environment***

Negotiate terms with channel partners knowing that the potential of each brand will vary significantly in market size depending upon how clearly the company defines the target segment. Increasingly the company will have few big brands and many small brands, both equally profitable, especially in an emerging world that is getting increasingly fragmented due to customization.

### ***Provide a central ecosystem to the flotilla of brands***

Incumbents need to review their existing operating model to make it more suitable for the flotilla-like structure. The flotilla-structure empowers brands by offering full creative freedom and entrusting entire responsibility of its success. This inculcates more agility, faster decision making and product turnaround time. But, simultaneously offers a central ecosystem to maintain consistency in process reporting, financial transactions and talent needs to maintain the common ethos of the organization.

<sup>14</sup>Unilever quarterly earnings release, Unilever investor relations, <https://www.unilever.com/investor-relations/results-and-presentations/quarterly-results/>, accessed 13 August 2019

<sup>15</sup>Chobani organization structure, Food Navigator, <https://www.foodnavigator-usa.com/Article/2017/08/08/Chobani-s-Peter-McGuinness-explains-the-new-org-chart>; Food Dive, <https://www.fooddive.com/news/chobani-reorganizes-sales-and-marketing-under-demand-department/448908/>, accessed 2 July 2019

## 5 Invest with long-term vision

Most of the start-ups depend on a continuous infusion of funds from external investors to drive growth. Incumbent companies can leverage their strong financial position by investing in a start-up with a long-term vision, unlike investors who typically invest with short-term vision. Incumbents should stay invested and be part of the start-up's growth journey.

### ***Set different performance tracking metrics for a start-up brand compared to an incumbent brand***

Incumbents need to track performance of the start-up against parameters that are different than the ones used to track performance of traditional brands, e.g., rather than focusing on profitability right from the beginning, focus should be more on metrics such as number of consumers added in certain timeframe, repeat buyers, new areas reached, number of new channels partners added, etc.

### ***Set up an internal venture capital arm or an accelerator/incubator***

Incumbents need to provide guidance and mentorship to the start-up to achieve sustainable and profitable growth. To do this, incumbent companies can consider setting up an accelerator/incubator or an internal venture capital arm to gain early exposure to emerging concepts or actively invest in promising ideas. This will also help them in identifying possible acquisition opportunities early on before the valuations skyrocket and a merchant banker brings in an opportunity.

### ***An acquisition is not complete until it is successfully integrated***

In case of an acquisition, it is critical for the incumbent to strike a balance between maintaining the culture of the start-up which has made it successful and integrating with own processes and systems to achieve faster scaling up. Often, failure to achieve this balance adversely impacts both the parties and erodes the benefits of synergy.

#### **How to ensure a successful acquisition?**

- ▶ Devise clear goal-oriented integration strategy
- ▶ Strike balance between independence and integration
- ▶ Protect the acquired brand's purpose, value proposition and ethos
- ▶ Communicate internally clear objective, vision and path for smooth integration

It is also important for the incumbent companies to effectively communicate the need to invest in start-ups to its shareholders. Rather than holding a myopic view on short-term results, companies should clearly highlight the total long-term benefits of such investments and how they add value to shareholders.



# 4

## Conclusion: Incumbents need to innovate at speed for sustained leadership

Start-ups and incumbents bring two distinct but complementary skillsets to the table as creating proof of concept and scaling proof of concept are totally different facets of business. More than 75% start-ups fail within the first five years due to scalability issues<sup>16</sup>, while a majority of incumbents struggle to launch truly innovative products.

It is not that the incumbents are not aware of how start-ups innovate. But, they struggle to adopt and implement the start-ups' style of working as they hesitate to shed the weight of their legacy and are often inexperienced in embracing the new ways of functioning. Even when they do try to operate like a start-up, their efforts are mostly sporadic or on the fringes.

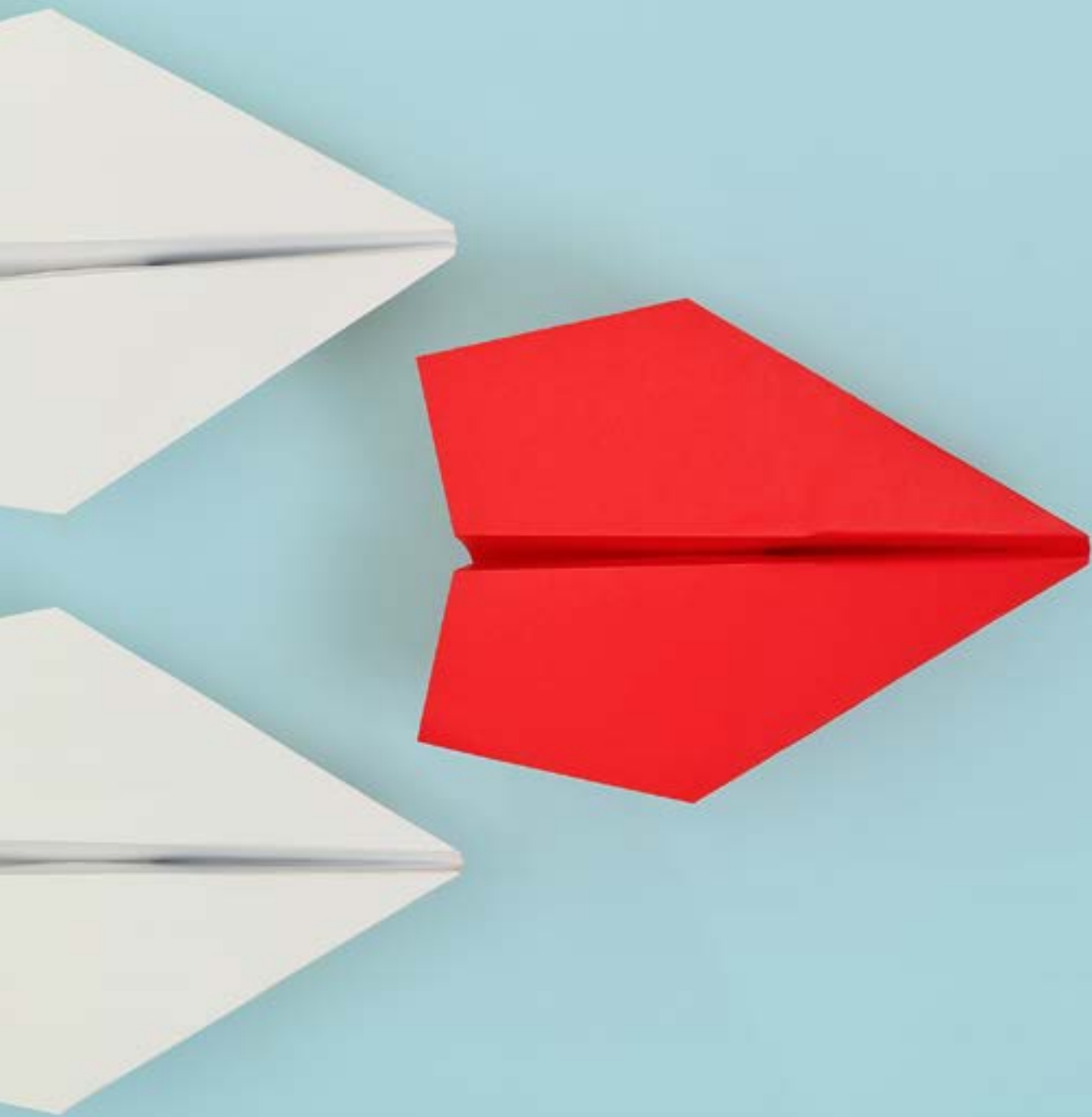
To see visible impact and deliver innovation at speed, incumbents need to bring innovation centerstage; every organizational decision should pivot around that. This requires inculcating a start-up culture.

Inculcating a start-up culture is not easy as it requires significant changes in business operations including how the company defines brand proposition, what consumer segments it wants to cater to, existing IT systems that are attuned to the old style of working or even the structure of sales organization.

Such sweeping changes are obviously not possible across the board, but organizations need to intelligently explore options to build innovation into their business model. This could be done either through an internal team that drives innovation and adoption of start-up culture or through acquisitions.

To succeed in the long-term, incumbents need to wear two hats, one of a start-up to drive agile innovation and the other of a legacy player to scale up at speed. Investing behind the five wheels of agility can provide the necessary traction required to the incumbents to become agile innovators.

<sup>16</sup>"Why start-ups fail", Forbes, <https://www.forbes.com/sites/denisejohn/2019/05/01/why-start-ups-fail/#4743b94628a5>; "90% start-ups fail within the first 5 years", inc42, <https://inc42.com/buzz/90-indian-startups-fail-within-first-5-years-ibm-oxford-study/>, accessed 18 June 2019





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