Inc.

The Magazine for Growing Companies

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WHAT HAPPENS WHEN BIG CORPORATIONS BUY CREATIVE FOUNDERS? SOMETIMES, MAGIC.

DISRUPTERS IN RESIDENCE

Marla Malcolm Beck, co-founder of Bluemercury. Millionaire. Macy's employee.

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A REAL-LIFE SLUMDOG MILLIONAIRE RATTLES GOOGLE'S CAGE

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MX-5
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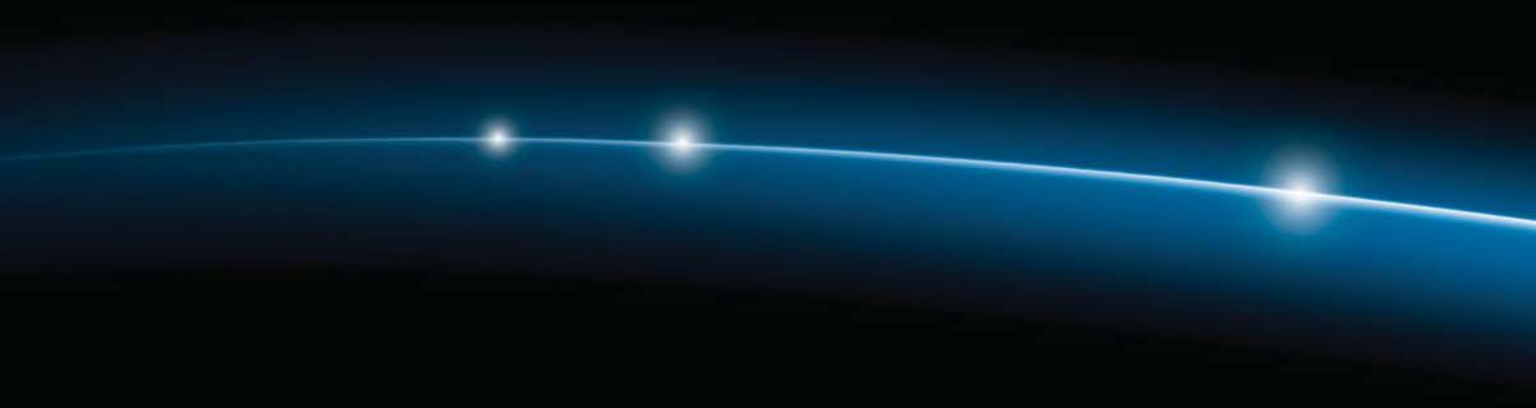


BREITLING
CHRONOGRAPHE EXOSPACE

03.17

Contents

“Every human has dichotomies. Most of us have two fields of view in life.”

–AMBARISH MITRA, co-founder and CEO of augmented reality company Blippar

PG. **42**

PHOTOGRAPH BY **MADS PERCH**

CORPORATE AGITATOR Northwestern Mutual bought Alexa von Tobel's LearnVest to disrupt its culture. She's relishing the opportunity to use the big company's heft to change the financial-planning industry.

Features

ON THE COVER MARLA MALCOLM BECK, CO-FOUNDER AND CEO OF BLUEMERCURY, PHOTOGRAPHED IN WASHINGTON, D.C., BY ERIC OGDEN

THIS PAGE: BRYAN DERBALLA. COVER: HAIR: BRIAN OLIVER AT THE ARTIST AGENCY; MAKEUP: ALEXANDRIA WAGAMAN; WARDROBE: PASCALE LEMAIRE AT THE ARTIST AGENCY


@channel
YOLO
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FROM TOP: COURTESY DJI; ISTOCK; EDMON DE HARO; JUSTIN KANEPS

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VOLVO
THE ALL-NEW VOLVO S90
OUR IDEA OF LUXURY
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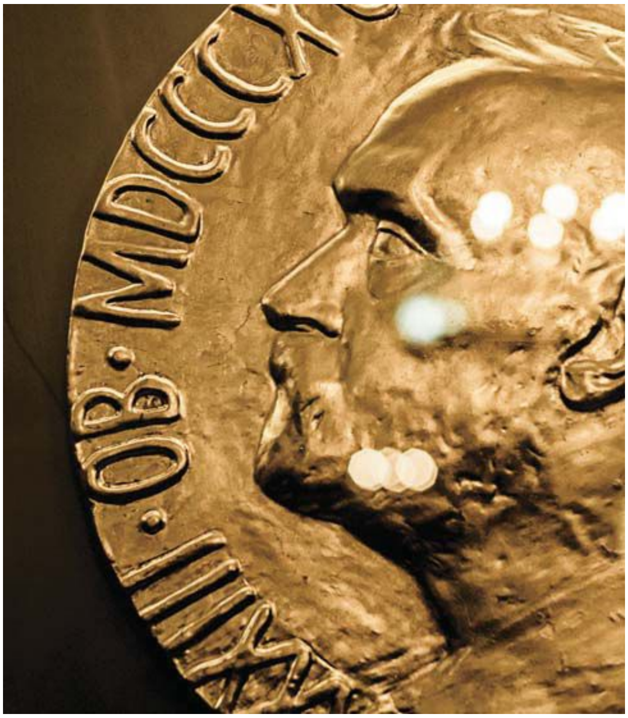
INC.COM/CREATIVITY

Inc.com

4 Ways to Find Your Next Big Idea, Courtesy of Nobel Prize Winners

The world's sharpest minds draw on these concepts for inspiration, writes Inc.com columnist Linda Naiman



1

IT NEEDS TO BE CONTROVERSIAL

"You don't know you've got a good idea until at least three Nobel laureates tell you it's wrong," said 2003 medicine prizewinner Paul Lauterbur.

2

MAKE SURE IT'S IMPORTANT

"Don't set out to make incremental advances," says 2011 laureate Bruce Beutler, an immunologist and geneticist. "Choose a problem you'd be proud to solve."

3

TAP INTO YOUR ARTISTIC SIDE

Many laureates are artists. Physicist Lawrence Bragg (1915) was a lifelong watercolor painter.

4

PASSION COUNTS

"Nothing is going to happen unless you work with your life's blood," says Riccardo Giacconi, the 2002 prizewinner in physics.

TOP VIDEOS

INC.COM/LIFT

Cristina Mariani-May

Co-CEO of Banfi Vintners

"Admit your weaknesses. Admit your faults."

INC.COM/PLAYBOOK

Tim Ferriss

Author of *Tools of Titans*

"When you end a project on quality, you tend to begin your next one with quality."

INC.COM/HIDI

Ben Weiss

Founder of Bai Brands

"I realized that I needed permission to keep working on the company, and it had to come from my 10-year-old, who needed me as a dad."

"Change is hard and must be continuous. You're never done innovating."

Justin McLeod, founder and CEO of Hinge inc.com/hidi

CLOCKWISE FROM TOP LEFT: ILJA C. HENDEL/REDUX; CHRIS BEIER; TIM RICE; CHRIS BEIER.
ILLUSTRATION: MICHAEL FRITH


DON'T LOOK NOW, BUT THE FUTURE YOU PLANNED FOR JUST BECAME THE PAST.
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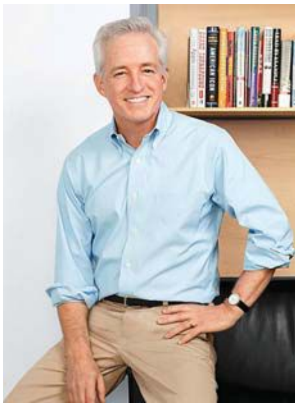
THE AMERICAN STORY



I'VE WORKED IN BUSINESS JOURNALISM for a couple of decades, but *Inc.* has been by far the job I've loved most. The reason is simple—it gives me the opportunity to tell stories like that of Ambarish Mitra.

You'll find Mitra's uplifting full-length tale, expertly crafted by *Inc.*'s San Francisco bureau chief Jeff Bercovici, on page 42. But let me hit the highlights. A runaway, young Mitra is living with roommates in a single-room mud-and-cow-dung shack in New Delhi when he enters a business-plan contest. His plan wins and grows into a company that makes him wealthy. A few failed startups later, he and business partner Omar Tayeb hit the jackpot with one in the nascent field of augmented reality. They move to Silicon Valley to find the energy and the labor needed to tackle a new, and monumentally ambitious, goal—to build what amounts to a visual Wikipedia of the world.

Humans are story-processing animals, and we at *Inc.* hope a story like Mitra's resonates on many levels. For you, an *Inc.* reader, the affirmation that this kind of success is possible might inspire you to aim high and persist in your own entrepreneurial dreams, even when they seem out of reach. Outside the *Inc.* family, we hope stories like his remind people how critical risk takers and strivers are to our prosperity and how essential it is for free enterprise to remain open to anyone with an honest dream.

As I write this, a new administration has just taken over in Washington. During his campaign, the new president promised to roughly double the economy's growth rate. While details of his plan are not yet fleshed out, there are, at a fundamental level, only three ways to fulfill that promise—put more people to work, make the work force more productive, or both. That's it.

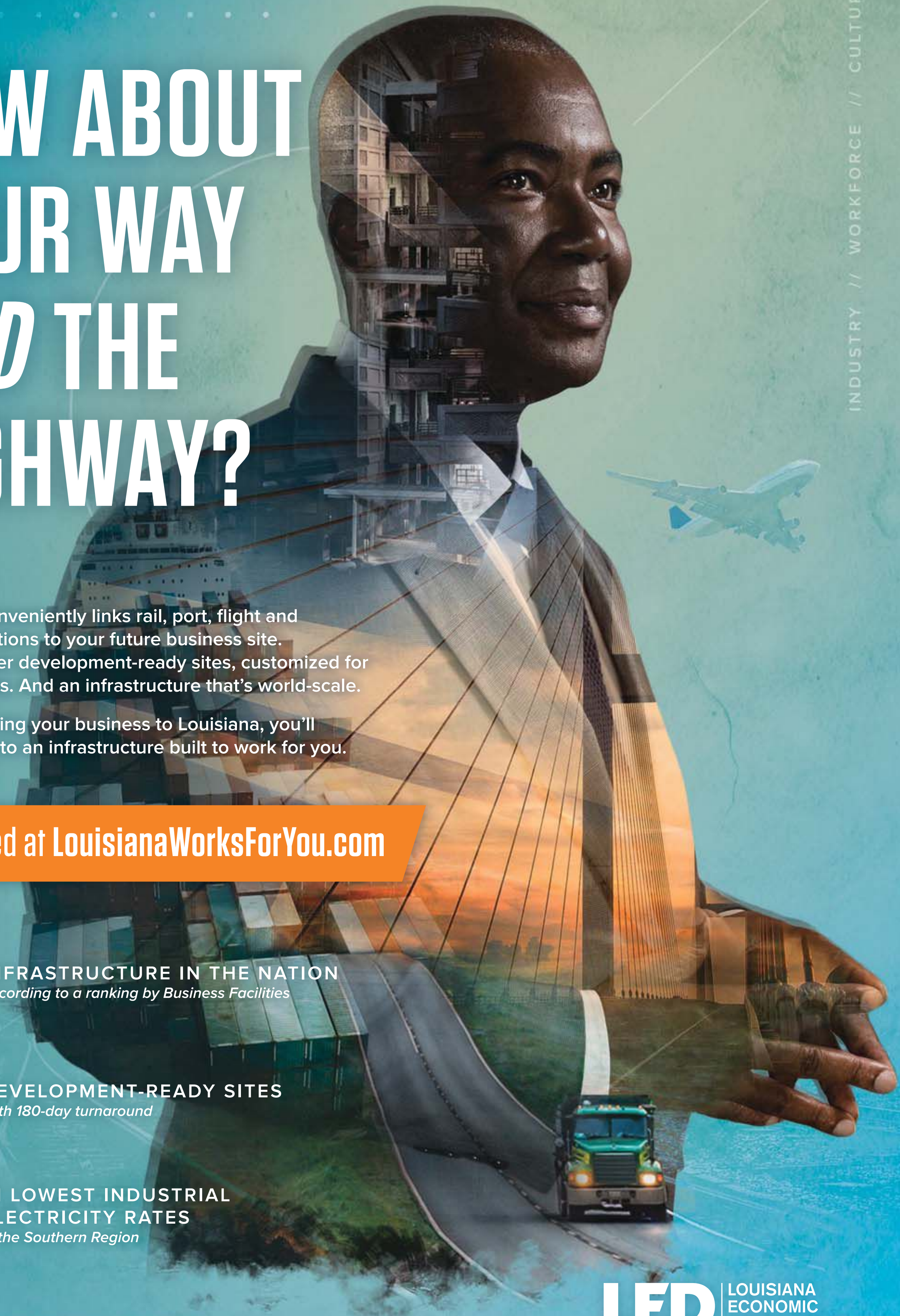
Which brings us back to Mitra's story—or rather, to the story that inspired him. Mitra and Tayeb set up shop in this country because they thought this was where the most creative talent resided (they employ more than a hundred in the U.S.) and because they believed they would get a fair shot, even though neither was born here and one of them is Muslim. As political risk analyst Ian Bremmer points out on page 40, those beliefs are vital to keeping America's distinct place in the world.

So, our unsolicited advice to the administration, in its quest to spur economic growth: Make sure the world's best minds—the most creative risk takers, innovators, and job creators—continue to believe the American story. Reassure them that America offers their best chance to realize their dreams, regardless of where they are from or how they worship. Getting that story believed should be pretty simple. All you have to do is make sure the reality behind it stays true.

Eric Schurenberg | erics@inc.com

HOW ABOUT YOUR WAY *AND* THE HIGHWAY?

INDUSTRY // WORKFORCE // CULTURE



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Learning to talk tech with your IT team PG.16 How to know when to hire a COO PG.24

LAUNCH

Start. Scale. Thrive.

"It was a perfect confluence of everything we wanted to do with our lives, which is have fun at work, control our own destinies, and do something good for the world."

–LINDA COBURN, who, with husband John Tajiri, owns a Pedego electric-bike store in Westlake Village, California

PG. 26

PHOTOGRAPH BY **MICHAEL FRIBERG**

Taming Your Tech Talent

In a tight job market, these tactics can make your tech workers want to stay

WHEN ANASTASIA LENG QUIT Google to start Hatch.co, a shopping site for handmade goods, in 2012, one of the skills she'd developed at the tech giant proved crucial. Managing some of the world's best IT talent gave the marketing specialist deep insight into how their values and priorities are different from those of other business people. "I was like a fish out of water my first six months," she recalls. "I needed to earn the engineers' respect by understanding the things they were saying at a philosophical and logical level." That lesson proved essential as she built Hatch.co and, later, creative-intelligence platform Picasso Labs, both based in New York City. You could use some of Leng's acumen, because your IT workers feel misunderstood, according to a recent survey. Forty-nine percent are frustrated by your unrealistic expectations, says a 2016 survey by Experts Exchange, and another 34 percent complain of your "lack of technology understanding." How do you get the most out of your IT department when you're not particularly (or at all) tech-savvy? These strategies can help you talk to—and manage—your tech team. —ETELKA LEHOCZKY

SMARTEN UP

"What helped me build credibility with engineers was learning to talk the talk," Leng says. "You need to know what terms and acronyms mean—one engineering language from another." Don't balk at extra study. Even with a master's degree in computer engineering, Adam Kornfield, co-founder and CTO of New York City–based notebook maker Baron Fig, learned a lot from a coding boot camp he found on CourseReport.com. "If you have the knowledge, you will earn more respect," he says. One key lesson? "Get help. Now I have a network of developers I can talk to when I have questions on advanced things. You're never going to learn it all. You've got to stay humble."

FEED THE SOUL(S)

Programmers aren't all the same. Learn how to make each individual's work experience rewarding. "For some, it's really important to contribute code back to the open-source community," says Maria Seidman, co-founder and CEO of New York City–based mobile-app developer Yapp. "That's not universal. Some might want to build products or solve gnarly problems." Many developers crave well-written code—a desire that may cause conflicts. "A lot of times engineers want to fix a system with a lot of Band-Aids on it—[a task with] no customer ROI," says Kate Matsudaira, a programmer and the principal of Seattle-based Urban Influence. "Have a conversation about the real benefit. Is it employee happiness? Productivity? Help the technologists understand that everyone wants the company to be successful."

MAKE WORK WORK

Craft an optimal workflow. Don't load on too many projects, says Yapp co-founder and CTO Luke Melia. "A typical entrepreneur has a lot of stuff going on—juggling phone calls, closing those deals," he says. "An engineer with six projects at the same time is probably overwhelmed and not going to get anything done." And when collaborating, keep teams tight. "Attempting to design by consensus doesn't work well. We keep working groups small—three or four people," says Mark Dickson, co-founder and CTO of the 2015 Inc. 500 company Whiplash Merchandising in Ann Arbor, Michigan. That said, "we try to keep everyone out of silos. Every day we have a 15-minute meeting at which the whole group can chime in. Everyone can always see the larger vision of the company."

The Jargonator

Swatting the buzzwords of business

By **BEN SCHOTT**

TECHFIN / • noun. Whereas "FinTech takes the original financial system and improves its technology," said Jack Ma, the founder of Alibaba, "TechFin is to rebuild the system with technology." You might think this sounds like nonsense, but it is, in fact, gold-plated SenseNon™. *Source:* South China Morning Post

J.A.M. / • noun. The British government is proposing policies to help J.A.M.'s—those who are "just about managing"—avoid poverty. It's a cruel epithet, given Lewis Carroll's thoughts on unfulfilled promises: "The rule is, jam tomorrow and jam yesterday—but never jam today." *Source:* The Telegraph

ILLUSTRATIONS: POLLY BECKER (3)

SHINE A LIGHT
Many founders are in the dark about IT and what their tech teams need to succeed.

Illustration by **MIGUEL PORLAN**

DOUBLE CHEESE WON'T MAKE TECHIES VALUE MEETINGS. THESE TIPS WILL

SERIOUSLY, ENOUGH WITH THE PIZZA

"The software community has an international mix of people, and a lot are vegetarians. They're looking for healthier options. It's more 'veggie forward' now than ever before. Always have salads and fruit available at lunch."

LIZ WEISS
Founder, Meal Makeover Moms

LEAD WITH DATA

"Send out whatever you want to talk about two to three days in advance. Engineers like to marinate on something before they give feedback."

ANASTASIA LENG
Founder, Hatch.co and Picasso Labs

TIME IT RIGHT

"Meetings should happen only at the beginning or end of the day. If I'm an engineer and I get to work at 10 a.m. and have a meeting at 11:15, the likelihood I'm going to get productive work done first is a lot lower than it is for other workers. It takes uninterrupted time and space to 'load' a problem into your head and keep it there long enough to write code."

LUKE MELIA
Co-founder and CTO, Yapp

PREMIUM FRIDAY / • noun. Japan has a new plan to let people leave work a few hours early on the last Friday of every month. In the country that gave us a word for "death from overwork," Premium Friday is the HR equivalent of fighting a five-alarm fire with a bottle of seltzer. *Source: Bloomberg*

TRUMP DUMP / • noun. When stocks go up, it's a Trump Bump. When they go down, it's a Trump Dump. When you lose the will to live because of the trumpet of trumped-up Trumpanese, that's a Trump Slump. *Source: Everyone*

NEW-COLLAR JOBS / • noun. IBM is promoting the idea of "new-collar jobs" to describe work that doesn't need a four-year degree. Pretty soon, the only jobs that actually require collars will be the clergy and dog-walking. *Source: Marketplace*

EUROPEAN STARTUPS CARRY

BY **JIM EDWARDS**

LAST SUMMER, a colorful truck began driving slowly around the streets of London. The back of it carried an electric pink, blue, and yellow billboard that said, "Dear startups, keep calm and move to Berlin," a play on the famous 1939 poster the British government used to raise morale when the Nazi bombing of London was imminent. Indeed, the truck represented a German invasion of sorts; it had been sent by the FDP, a free-market liberal political party in Germany. As it drove around London's Silicon Roundabout, one Bloomberg reporter tweeted a photo of it. "The vultures are circling," he wrote.

REFUGEE CRISIS
Since 2015, more than 225,000 refugees and migrants have arrived in Europe by sea, including this group from Bodrum, Turkey, disembarking on the Greek island of Kos.

LONDON FALLING
In the wake of Britain's vote to leave the E.U., flourishing industries in London will likely disperse to other cities.

Neither London nor Europe is quite ready for vultures, but 2016 was a punishing year. The Brexit referendum threw the U.K. into chaos, unnerving London fintech companies that discovered—to their horror—that they may no longer be based in Europe's banking capital after 2019. Many will likely flee, along with the banks they've partnered with, to other E.U. cities they never imagined being stationed in. Already, Barclays has identified Dublin as the home of its new E.U. headquarters post-Brexit.

The war in Syria has forced some two million refugees into Europe, a displacement unmatched since the expulsions of World War II. There was a failed coup in Turkey, which is slowly turning away from democracy and devolving into an Islamic republic. And, of course, there were multiple mass murders—in Brussels, Nice, and Berlin—inspired by or directly tied to ISIS.

Regional economies are in a tailspin. The Italian government has just begun the process of bailing out its banks from the nonperforming loans on their books, a task that Barclays believes will cost about $55 billion all told, if it works. Impaired loans in the entire system are estimated at $383 billion, about 20 percent of Italian GDP. Sitting on top of this economic powder keg is a gaggle of right-wing populist parties, like UKIP in Britain, the Five Star Movement in Italy, the AfD in Germany, and the National Front in France, which seem to be gaining strength. None of them are expected to immediately win anywhere—but that's what everyone said about Trump and Brexit.

All that uncertainty has unnerved markets. The number of IPOs in Europe fell to 174 last year, a decline of 36 percent from 2015; and their value dropped 49 percent, to $32 billion, according to Ernst & Young. Five high-profile IPOs in the U.K. were delayed or withdrawn (Misys, PureGym, TI Automotive, Mountain Warehouse, and O2). Likewise, European M&A activity declined 4 percent, and deal value fell 20 percent, to $986 billion, according to the Institute for Mergers, Acquisitions & Alliances.

Despite all that, the mood among European startups remains relatively upbeat. It's no wonder why: As revealed by the third annual Inc. 5000 Europe list—which recognizes Europe's private companies with the fastest-growing revenue over three years—these companies are averaging 486 percent three-year revenue growth. That's a collective $70 billion of growth in revenue from 2012 to 2015.

Rich Pleeth is a former Google employee who founded Sup, a social network app that didn't take off because it couldn't add users faster than they abandoned the product. But even he is optimistic about this year. "I have a positive vibe about

SPREAD CLOCKWISE FROM TOP LEFT: PAOLO PELLEGRIN/MAGNUM PHOTOS WITH SUPPORT FROM THE PULITZER CENTER; GETTY (4); DANIEL BISKUP/REDUX

ON IN THE CHAOS

THE CASH SPIGOT
With negative interest rates under the euro zone's European Central Bank—based in Frankfurt, Germany—entrepreneurs have access to cheap capital.

SPANISH EDGE
Barcelona-based Marfeel (No. 283), Aprotecnic Group (No. 899), and Brutal Media (No. 3,199) helped Spain earn the top spot on the Inc. 5000 Europe list. Below: Antoni Gaudí's La Pedrera, in Barcelona.

FRANCE, THE NEW OASIS
Axelle Lemaire, France's minister for digital affairs, is campaigning for entrepreneurs to abandon London in favor of Paris.

2017," Pleeth says. "We're going to see a number of U.K. startups explode."

In part, the optimism comes from a money faucet that is still running. The euro zone (under the European Central Bank), Sweden, Denmark, and Finland all have central banks with negative interest rates, or base-rate interest set at zero. With the U.S. Federal Reserve on course to hike its rates, this makes capital easier and cheaper to get hold of in Europe.

Second, the Brexit vote may be bad for the U.K., but it's a potential gold rush for everyone else. After all, in 2015 about 40 percent of tech startup founders in London were from outside the U.K., according to VC firm Balderton Capital. If Britain's departure from the E.U. makes it difficult for London to get immigrant talent, then places like Lisbon, Berlin, and Dublin are going to look a lot more attractive.

"If you're a Czech CEO who was happy to move to London a few years ago, there is nothing to stop you from moving to Amsterdam now," says Suranga Chandratillake, a general partner at Balderton.

The French seem particularly keen to poach from across the Channel. Axelle Lemaire, France's minister for digital affairs, has mounted a nonstop worldwide tour of tech conferences like Web Summit—which attracted 50,000 people to

BY THE NUMBERS

INC. 5000 EUROPE

European private companies with the fastest-growing three-year revenue

NUMBER OF COMPANIES PER COUNTRY

Spain	**517**
Italy	**490**
Sweden	**487**
United Kingdom	**452**
France	**387**
Romania	**301**
Finland	**285**
Slovakia	**269**
Portugal	**178**
Norway	**164**
Hungary	**146**
Bulgaria	**133**
Poland	**120**
Latvia	**113**
Germany	**110**
Czech Republic	**98**
Estonia	**94**
Russian Federation	**88**
Lithuania	**83**
Croatia	**72**

5 of the 10 fastest-growing companies are in Stockholm

SCANDINAVIAN SPEED
Sweden's Cabonline Technologies (No. 6), Star Stable Entertainment (No. 8), and FEO Media (No. 9) are outpacing other private companies in Europe. Above: Gamla Stan, the old city of Stockholm.

Lisbon last November—and CES in Las Vegas to persuade VCs and entrepreneurs to abandon Britain in favor of Paris. In January, she told the media that if and when Brexit happens, British startups will obviously want to remain accessible to the E.U. market—and she's already observed an increase in British fintech companies sniffing around France.

While no startups have announced outright that they will be exiting the U.K., many are quietly preparing. Officials in Berlin boast that more than 100 U.K. startups have inquired about moving to the German city.

According to Lemaire, the French startup sector is booming. In the third quarter of 2016 alone, she says, funding obtained by French startups reached $932 million, double the amount invested in Germany and almost equaling the $979 million invested in the U.K. Part of the appeal, Lemaire notes, is that France has lowered taxes for new companies and relaxed laws about layoffs. It also has in the works a new, uncapped tech visa

> The Brexit vote may be bad for the U.K., but it's a potential gold rush for everyone else.

that will allow anyone in the tech industry—from developers to founders—outside the E.U. to get a fast-track visa.

In addition, 2017 could be a good time for many European startups to be acquired. There are 47 unicorn companies across Europe, many of which will likely be eager to sell soon. Some of the larger U.S. and Asian tech companies have been on a quiet acquisition spree in Europe over the past couple of years. Chip designer ARM was acquired by Japan's SoftBank for some $31 billion; the travel search engine Skyscanner went to China's Ctrip for $1.7 billion; and in June, Twitter bought London's Magic Pony, a company that uses machine learning to sort and identify photos, for $150 million.

Of course, there is every reason to think there will be as much volatility and surprise in 2017 as in 2016. But the entrepreneurs in the Inc. 5000 Europe have already proved that they can succeed in an uncertain environment. Those who can read the risk correctly are bound to thrive, whether they're in Stockholm or Prague or Amsterdam.

It's unlikely we'll see a new European center emerge, and if one does, it won't be overnight. Europe might be more chaotic than ever, but that is just the kind of environment smart entrepreneurs thrive in.

—

JIM EDWARDS *is the founding editor of Business Insider UK.*

BY THE NUMBERS

INC. 5000 EUROPE

SPOTLIGHT ON

No. 1

Daniel Wellington

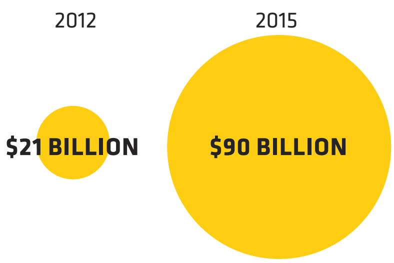
STOCKHOLM

AFFORDABLE WATCH COMPANY

IN 2017, the six-year-old company—started by then-26-year-old Swede Filip Tysander—earned the top Inc. 5000 Europe spot, with 4,695 percent revenue growth from 2012 to 2015, by creating preppy watches that sell for $149 to $299.

COURTESY DANIEL WELLINGTON

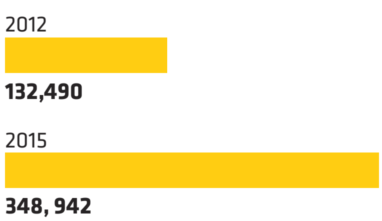
TOTAL INC. 5000 EUROPE REVENUE



AVERAGE THREE-YEAR REVENUE GROWTH PER HONOREE

486%

EMPLOYEE GROWTH



WHO LEADS THE PACK?

CITIES & SECTORS

Slovakia, Romania, and Latvia are unexpected front-runners

NUMBER OF COMPANIES PER CITY

London	**177**
Stockholm	**134**
Bratislava	**107**
Bucharest	**97**
Paris	**92**
Helsinki	**84**
Riga	**71**
Milan	**69**
Sofia	**66**
Budapest	**63**
Madrid	**54**
Oslo	**51**
Tallinn	**50**
Vilnius	**37**
Barcelona	**35**
Zagreb	**30**
Prague	**29**
Moscow	**28**
Rome	**28**
Gothenburg	**26**

NUMBER OF COMPANIES IN TOP SECTORS

Construction	**666**
Business Products & Services	**543**
Retail	**527**
Manufacturing	**426**
Logistics & Transportation	**299**
Consumer Products & Services	**295**
Food & Beverage	**252**
Financial Services	**221**
Real Estate	**199**
IT Services	**179**

NUMBER OF JOBS CREATED IN THREE YEARS

216,452

DO YOU HAVE THE FOUNDER'S MENTALITY?

ANSWER THESE QUESTIONS TO FIND OUT

SINCE 1990, RETURNS TO SHAREHOLDERS in public companies in which the founders are still involved have been three times higher than in other companies, according to research published in *The Founder's Mentality*, a new book by Bain & Company partners Chris Zook and James Allen. What accounts for these companies' success? They retain the Founder's Mentality, which is distinguished by three primary traits: a sense of insurgent mission, an obsession with the frontline, and an owner's mindset. Do you and your team have a Founder's Mentality? Take this quiz—designed by Zook and Allen exclusively for *Inc.* readers—to find out.

SENSE OF INSURGENT MISSION

A higher purpose and a longer time horizon

1 What percentage of your employees can clearly articulate the company's mission and priorities?

- A Fewer than 25%
- B 25-50%
- C 51-75%
- D More than 75%

2 How many of your company's core capabilities are clearly the best in your industry?

- A Fewer than 4
- B 4-6
- C More than 6

3 In how many new competitive capabilities are you actively investing?

- A Zero
- B 1 or 2
- C 3
- D More than 3

OBSESSION WITH THE FRONTLINE

A focus on the entire business, the customer experience, and making the customer voice central to all decisions

1 What percentage of their time does your leadership team spend on the frontline or with customers?

- A Less than 15%
- B 15-25%
- C 26-35%
- D More than 35%

2 What percentage of management meetings are devoted to external topics versus internal?

- A Fewer than 40%
- B 40-50%
- C 51-60%
- D More than 60%

3 Is attracting the brightest talent in your industry a priority?

- A Yes, an absolute priority
- B Strong focus, but it should be more
- C No

AN OWNER'S MINDSET

A sense of responsibility to employees and customers and for products, an intolerance for bureaucracy, and a bias toward speed and decision making

1 How are your annual budgeted expense line items determined each year?

- A Last year's spending is used as a baseline with a flat percentage increase or decrease applied across the organization
- B Last year's spending is used as a baseline with increases and decreases determined by business or function
- C Budgets are zeroed out, and then rebuilt and defended each year from scratch

2 Do you review growth and major initiatives with your entire management team at least once a week?

- A Yes
- B No

3 Do you often give "battlefield promotions" to high performers far ahead of the norm?

- A Yes
- B No

4 Do you eliminate older initiatives and projects when you add new ones?

- A Yes
- B No

5 Are your most talented people assigned to work on your most important problems regardless of rank and title?

- A Always—we put the top talent against the biggest problems
- B Sometimes—but we hesitate to shake up the chain of command
- C Seldom—we believe in a formal hierarchy with a tight promotion process

ADD UP YOUR SCORES BELOW—KEY ON NEXT PAGE

KEY ON NEXT PAGE

SCORING

110-83
Congratulations! You have the Founder's Mentality. But be careful—as companies grow, they can lose this important quality. In fact, only 7 percent of companies maintain the Founder's Mentality after growing to a size that gives them the economies of scale they need to compete against industry incumbents.

82-55
You have many of the Founder's Mentality traits, but you need to build key skills in those areas where your score shows you're lacking.

54-28
Your company is in real danger of losing the Founder's Mentality. You must make building these core traits a top priority.

27-0
You and your company are at risk of becoming a struggling bureaucracy.

ANSWER KEY **SENSE OF INSURGENT MISSION** **Q1** A=0; B=4; C=7; D=10 **Q2** A=10; B=5; C=0 **Q3** A=0; B=10; C=5; D=0 **OBSESSION WITH THE FRONTLINE** **Q1** A=0; B=4; C=7; D=10 **Q2** A=0; B=4; C=7; D=10 **Q3** A=10; B=5; C=0
AN OWNER'S MINDSET **Q1** A=0; B=3; C=10 **Q2** A=10; B=0 **Q3** A=10; B=0 **Q4** A=10; B=0 **Q5** A=10; B=5; C=0

THE RIGHT ANSWERS—EXPLAINED

SENSE OF INSURGENT MISSION

Q1
ENSURE EVERYONE KNOWS YOUR PRIORITIES

Founders often overestimate this number, but, on average, only two in five employees say they have any idea what their company's priorities are. Companies with high Founder's Mentality, such as Ikea, Nike, and Enterprise Rent-a-Car, leave no question about mission and priorities. Employees who know and embrace their company's strategy are four to five times more likely to offer ideas and invest time in a customer.

Q2
BE A FOOT WIDE AND A MILE DEEP

The best companies usually have three to four deep and strong capabilities that form their core. Mediocre companies often claim they are good at lots of things.

80%

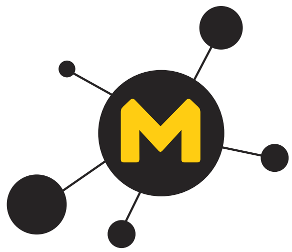
Q3
FOCUS YOUR INNOVATION

More than 80 percent of executives surveyed said their company needs to develop one or two new capabilities to keep a business model competitive. Adding them methodically has been successful for Netflix and Amazon. Lower-performing companies lack a plan to do this, or invest in too many directions.

AN OWNER'S MINDSET

Q1
BUDGET FROM SCRATCH

The top companies, like AB InBev, try to zero out nearly all budgeted expense items each year. The worst companies experience "trapped resources" in departments that they cannot free up. Their spending plans mirror the prior year.



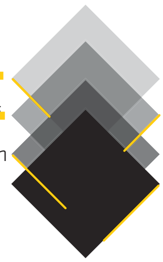
Q2
SCHEDULE WEEKLY DEBRIEFINGS

Many of the most successful founders establish a discipline of Monday-morning meetings, often followed by a Tuesday call, to identify and remove barriers to their most important initiatives and to speed up execution in the company. This is a common practice put in place by the best private equity firms when they buy a company and want to increase the sense of ownership in the leadership team and raise the metabolism of the business in general.

Q3
REWARD EXCELLENCE NOW

This is one of the acid tests of meritocracy. Companies with high Founder's Mentality embrace meritocracy and abhor bureaucracy. When meritocracy ends, politics and distorted incentives begin.

Q4
KILL OLD IDEAS



Complexity is the silent killer of profitable growth. When Steve Jobs returned to Apple, he eliminated all but four product lines, shut down many research projects to focus on a few, and even cut out some departments.

95%

Q5
PUT YOUR TOP TALENT ON YOUR TOUGHEST CHALLENGES

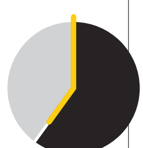
The very best companies have 95 percent of their top problems tackled by their top talent. Many of these companies keep a list of the highest-potential people and have a senior team review their work assignments periodically to ensure the best match. Many of the lowest-performing companies spread talent uniformly or do not track talent in this way.

OBSESSION WITH THE FRONTLINE

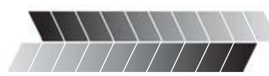
Q1
MAKE THE CUSTOMER KING

While there is some variation by industry, we have found that executives at companies with a high Founder's Mentality spend more than 40 percent of their time with customers and frontline employees, compared with only 12 percent at companies with low Founder's Mentality. Top companies also build internal expectations and create repeatable systems that help create a companywide customer focus.

Q2
THINK OUTSIDE YOUR WALLS



The best leadership teams focus at least 60 percent of meeting time on external topics. The worst do the opposite—often as little as 20 to 30 percent.



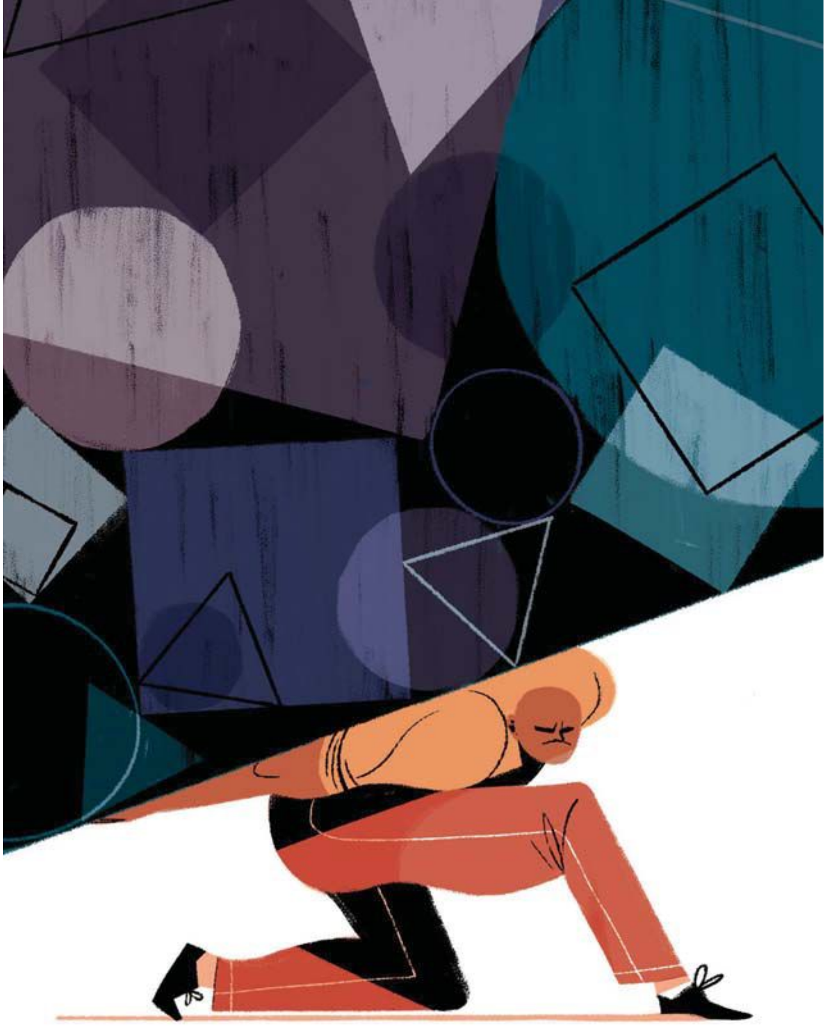
Q3
BE THE DREAM JOB

Top companies are highly sought by new talent and defectors from key competitors. An online recruiting company calculated that in 2011, talent flowed from Yahoo to Facebook at 10 times the rate it did in the other direction; the flow from Microsoft to Facebook was 30 times that going the other way.

INC. 5000 INSIGHTS

HOW DID YOU KNOW IT WAS TIME TO HIRE A COO?

Inc. 5000 honorees tell us how they would tackle a common business challenge. —SHEILA MARIKAR



"In 2015, when we hit $3.5 million in sales, we started to sell more in a particular market: the promotional products industry. While my co-founder and I were both very spunky and hardworking, we didn't understand the industry well. That necessitated our bringing on a COO. Our COO has been in the business for 30 years."

—

STERLING WILSON Co-founder and president, Pop! Promos (advertising and marketing)

NO. 135 2016 INC. 5000 RANK
2,608% 3-YEAR GROWTH
$3.5M 2015 REVENUE

"We built the company around the folks we knew we'd need to make it scale. My COO was one of those guys. It wasn't, for us, like we reached a threshold and said, 'We've done $2 million this year—let's go get a COO.' There always had to be somebody running the operations side of the business because it's so integral to what we do."

—

BRET BIGGART CEO, Freedom Solar Power (energy)

NO. 338 2016 INC. 5000 RANK
1,134% 3-YEAR GROWTH
$16M 2015 REVENUE

WHAT THE EXPERT SAYS ...

"The decision should be based on a couple of factors: the amount of money raised and how the company is scaling. My recommendation, after a large raise, is that you need an operational expert to grow smarter and not waste money. With an organic company, you have your finger on the pulse of the day-to-day and there's no push from outside investors to scale quickly. You're not on the clock, so you may not need a COO. Another factor to think about is bandwidth: Are you spending more time on operational issues than on strategic issues? When bandwidth becomes an issue, that gets in the way of growth."

—

TERRY WILLIAMS CEO and chairman of the board, ORS Partners (human resources)

NO. 563 2016 INC. 5000 RANK
699% 3-YEAR GROWTH
$5.7M 2015 REVENUE

"I selfishly wanted to spend more time working on product, which is my passion, and I found myself increasingly spending time talking to lawyers and accountants. I started searching for the COO while I was raising our A round, which was $8 million. He came on board immediately after I closed the round. I knew if I was struggling before that, afterward it would be way too much of a struggle."

—

EMERSON SPARTZ Co-founder and CEO, Dose (media)

NO. 599 2016 INC. 5000 RANK
655% 3-YEAR GROWTH
$8.2M 2015 REVENUE

"By 2014, our annual sales were $16.9 million, but we were understaffed. We had to get ahead of our growth. I was spread too thin, and if I had concentrated on things a COO does, something—like product development—would have suffered."

—

MARIE DENICOLA Founder, Mainstream Boutique (retail)

NO. 1,754 2016 INC. 5000 RANK
212% 3-YEAR GROWTH
$21.5M 2015 REVENUE

ILLUSTRATION: TOMMY PARKER

HOW MARK TOOK 80,000 POINTS, FRIED THEM, GLAZED THEM AND MADE HEADLINES.

The Ripple craze began with Mark Isreal, owner of Doughnut Plant, using 80,000 points from his Chase Ink® card to buy ingredients and equipment. Mark's points gave him the freedom to experiment and bring an entirely new idea to life for his business. Mark started a food phenomenon with his points. What will you do with yours?

See what the power of points can do for your business, by earning 80,000 bonus points after you spend $5,000 on purchases in the first 3 months after account opening. Learn more at **Chase.com/Ink**.

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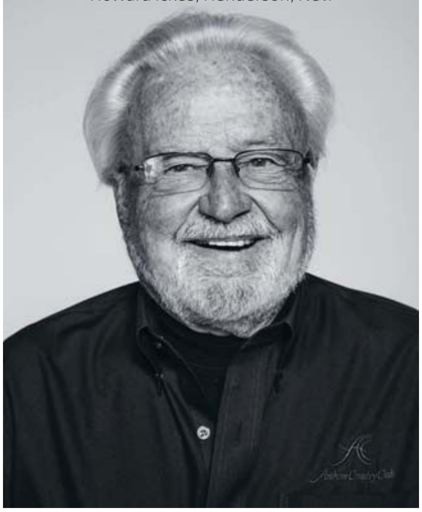
TEACHER
Kathy Puryear, Scottsdale, Ariz.

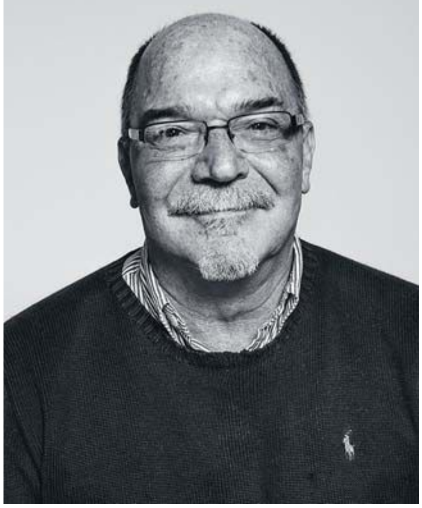
ENTREPRENEUR
William Anton, Petoskey and Traverse City, Mich.

REAL ESTATE AGENT
Lori Carter, Corona Del Mar, Calif.

ENTREPRENEUR
Howard Ickes, Henderson, Nev.



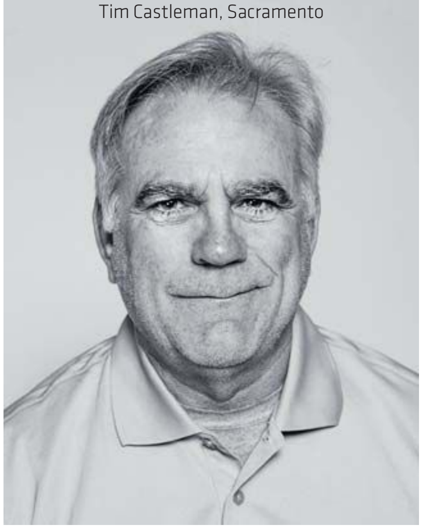
BOATYARD SERVICE MANAGER
Mark DeStefano, Bristol, R.I.



REGISTERED NURSE
Jean Gehrke, Denver

WRITER
Beth Black, Seal Beach, Calif.

WEBSITE DEVELOPER
Tim Castleman, Sacramento



LOCKSMITH
Kem Harris, Franklin, Tenn.

LIFE CYCLE

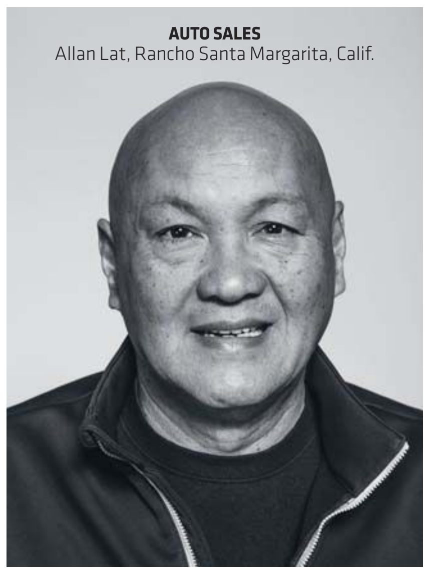
DETECTIVE
Frank Muscato, Bloomington, Ind.


HEALTH CARE EXECUTIVE
Pam Marini, Danville, Calif.

REAL ESTATE AGENT
Sandy Kinslow, Aurora, Colo.


FEMA HOUSING INSPECTOR
Greg Krzeminski, Detroit


COLONEL, U.S. AIR FORCE (RET.)
Aaron Maynard, Myrtle Beach, S.C.


AUTO SALES
Allan Lat, Rancho Santa Margarita, Calif.

Pedego is taking profitable advantage of two converging trends: aging customers looking for an easier bike ride and aging founders who want a second (or third or fourth) act

BY LEIGH BUCHANAN

Photographs by Michael Friberg

OVER THE decades he spent in law enforcement, Frank Muscato talked to lots of his fellow cops about starting a business. Escaping into entrepreneurship is a common daydream in the profession, he says, when "the things that happen to you and the things that you see catch up to you." Still, Muscato never thought he'd actually launch something. So he is both surprised and tickled to find himself, at age 74, the owner of an electric-bicycle store.

In September, Muscato spent $70,000 to open a Bloomington, Indiana, location for the company that makes the bikes, Pedego. On the second day of the annual Pedego dealers meeting in early December, he is among a throng of store owners—almost all in their 50s, 60s, and 70s—touring the company's blocky, white new headquarters in Fountain Valley, California. It is 8 a.m., and already Muscato has been on the phone to his electrician back in Indiana, discussing upgrades inspired by presentations from other dealers the previous day.

"We've got to put new lighting in. I've got some new ideas on presenting the bikes on the floor, hanging one in the window," says Muscato, who wears shorts, tube socks, and his glasses on a cord around his neck. "Last night, I had trouble sleeping, thinking about all the things we could do."

Pedego, a $15 million company, is the nation's leading brand of electric bike, according to Navigant Research. (Electric bicycles, which can be powered by a motor or pedaled, are a $15.7 billion global market, which is growing fast.) Primarily a designer and manufacturer, the company, profitable since 2012, relies on independently owned branded stores for 85 percent of its distribution. Currently, it has close to 60 branded stores in the United States. All but a handful were launched by people in their 50s and older, a demographic that—not coincidentally—also makes up Pedego's primary market.

The public obsesses over tech whiz kids in hoodies. But a more dynamic entrepreneurial species is the silver fox. Among entrepreneurs who start businesses between the ages of 20 and 64, almost a quarter are 55 or older, compared with 15 percent in 1996, according to the Kauffman Foundation. The rate of entrepreneurship has grown faster in this demographic over the past 20 years than in any other. Boomers are living longer, staying healthier, and gaining more experience and education

THE BEST IS YET TO COME
Pedego co-founder Don DiCostanzo predicts the company will hit $100 million in sales in five years, just as he and his business partner hit the age when most Americans retire.

BIKES FOR OLD KNEES

DiCostanzo and Sherry named their first bike the Comfort Cruiser to reassure older customers. The grips are padded, the seat is wide, and the riding position is upright. They wanted a beachy feel and a vintage '50s look, to play to Boomer nostalgia. They sketched the Cruiser on a cocktail napkin, and a professional bike designer took it from there. The bikes are manufactured in China and delivered to California for final assembly and customization.

GEARING UP
Terry Sherry, Pedego co-founder, had already had a long career when he and DiCostanzo decided to start launching companies together.

BICYCLE: CASSIDY CASTLEMAN/COURTESY PEDEGO

than any previous generation. A study by Merrill Lynch found that more than seven of 10 pre-retirees want to keep working.

Gallup reports that 80 percent of Boomer startups are built as lifestyle choices meant to supplement retirement income and keep the mind engaged. But some are far more ambitious. Pedego, co-founded in 2008 by Don DiCostanzo and Terry Sherry when both were in their early 50s, is an unusual hybrid. It marries the experience of serial entrepreneurs in their 50s—whose companies have the highest survival rate of any age group, according to Carmen Cotei and Joseph Farhat, finance professors at the University of Hartford and Central Connecticut State University respectively—with the enthusiasm of neophytes. The majority of those driving Pedego's three-year 154 percent growth are retired or semiretired people starting businesses for the first time. They encountered the bikes as consumers and came to corporate Pedego's rescue in the early days, when it was struggling for lack of distribution.

Of course, later-in-life entrepreneurship has its drawbacks. Just as DiCostanzo and Sherry have built their bikes to accommodate older bodies, they have also built Pedego to accommodate skill deficits—chiefly in technology and social media—among some of their dealers. And the business model intentionally minimizes risk for a demographic that has more money but also less time to make up losses.

Still, the founders say they never had a second thought about trusting their fortunes to the AARP crowd. Pedego store owners "are more mature and, I think, more rational" than younger business owners, says CEO DiCostanzo, an electric-vehicle zealot who is on his third Tesla. "Think about the decisions you make at 55 compared with when you were 25. They're probably better decisions."

DiCostanzo notes that he and Sherry, now in their 60s, are tackling the most ambitious entrepreneurial venture of their lives, one they believe can hit $100 million in five years. "I have more energy now than 20 years ago," he says. "We don't think of the dealers as old because we don't think of ourselves as old."

IN 2006, DICOSTANZO, closing in on 50, lived at the top of a hill. The beach was at the bottom. Biking home from surf and sand, his legs rebelled. So he bought an electric bike online and then seven more from different manufacturers. DiCostanzo liked what they did (helped him up that hill), but he didn't like the bikes. Mostly for kicks, he opened an electric-vehicle store in Newport Beach in 2007.

The store was just a side gig. Back then, DiCostanzo was enjoying new life as an entrepreneur after 25 years working for a manufacturer of automotive chemicals. In 2004, he launched a magazine for the service departments of auto dealers and recruited Sherry—who was feeling restless after a long career in the mortgage industry—as his partner. The two have been best friends since 1975, when they locked horns over the presidency of the Phi Kappa Tau pledge class at Cal State Fullerton.

DiCostanzo and Sherry ran the magazine for a while (they still own it) and then, in 2007, moved on to the next thing: making customization kits for Toyota trucks. The business faltered in the wake of the Great Recession, and the two turned their attention to DiCostanzo's "hobby" business: electric bikes.

Almost all of DiCostanzo's customers were Boomers or older, many returning to two wheels for the first time in decades. The spirit was willing, the flesh, perhaps, not so much. Electric bikes acted as psychic training wheels. "A lot of customers had bad hips, ankles, hearts, whatever," says Sherry, Pedego's CFO. "If their hip starts to hurt, they can just use the throttle. So they are willing to venture out and do things because they know they have the ability to get home."

But the then-existing electric bikes didn't cater to that audience. Most came in black and positioned riders to lean forward. Older customers wanted colors and to sit upright. They also wanted models they could mount easily. DiCostanzo and Sherry believed they could design a bike that met those criteria and—by emulating a Schwinn beach cruiser—stoke nostalgia for simpler times and comfort. They sketched their first model on a cocktail napkin and hired a computer-aided-design professional to produce it. DiCostanzo loaned the startup $300,000 in personal (not retirement) funds.

Finding a Chinese factory and training its workers was a predictable struggle. But the greater roadblock was distribution. Bike stores shunned the product. "It was a narrow funnel to start with and they just would not let us in," says DiCostanzo. "They think electric bikes are cheating." Online prospects were just as poor: People buy the bikes only after they try them.

For a while, DiCostanzo and Sherry sold bikes to their friends, who in turn sold them to their friends through parties—hardly a sustainable business model. Unwilling to try retail themselves, the pair were largely out of ideas. Then, one day in 2011, a customer asked if he could open his own branded Pedego store. A business model was born.

Virtually everyone who asks about opening a store (Pedego says it receives roughly 400 inquiries a year) discovered the bikes by riding them—typically as rentals while on vacation. Many went on to buy one, paying $2,300 and up retail. Pedego's average customers are a 58-year-old man and 57-year-old woman; some customers are as old as 95. As the dealer ranks swelled, the Boomer business model developed organically.

Kathy Puryear's story is typical. Newly retired from teaching at age 57, she rented the bikes with her husband while on vacation in Avila Beach, California. Puryear had never considered entrepreneurship ("I had this weird goal of becoming a florist in a Safeway"), but six months after their trip, the couple opened a Pedego store in Scottsdale, Arizona. "After being in one profession for 35 years, to know you can do something else and be successful is pretty cool," says Puryear.

BY ENTRUSTING THE PEDEGO brand to its Boomer dealers, the founders are drawing on a demographic with proven success in entrepreneurship. Companies launched by people in their 50s have a 50.3 percent survival rate over eight years, higher than those founded by any other age group, according to Cotei and Farhat. Much of that success derives from experience and networks developed in earlier careers.

With two previous startups and three decades each in management at large companies under their belts, DiCostanzo and Sherry were well equipped to navigate choppy waters. Those waters have included state and local legislation unfriendly to electric bikes and a recall of defective batteries in 2013. The latter near-debacle cost Pedego and its battery vendor a million dollars and put the

SILVER FOUNDERS

How are older entrepreneurs different from their younger counterparts, or even from their younger selves? We interviewed more than 30 entrepreneurs in a variety of industries who started companies between the ages of 50 and 70 to find out.

Big risks in empty nests
Older people who can't find work after a layoff are often forced into entrepreneurship. The rest, however, make the same risk calculations as other aspiring founders. Many Boomers interviewed had weighed entrepreneurship at an earlier age and decided against it. A majority said they are more risk tolerant now because they care less about their own security than they did about their young families'.

Ambition never withers
Boomer businesses skew smaller than others. Many founders just want to supplement retirement income, indulge an interest, or keep alive their old professional networks. But plenty of entrepreneurs—especially serial founders—are more ambitious. Some reported more than $10 million in revenue. Several had filed for or obtained patents on recent inventions.

Experience beats all
Many Boomer founders have previous management experience, deep domain expertise, or both. Or they are serial entrepreneurs applying all they've learned in starting companies to one final—or close-to-final—adventure. Perhaps most important: They know other people who have provided expertise and support in the past, and often will do so again.

Sometimes, seniority sells
A few entrepreneurs described encountering the occasional raised eyebrow or snide comment from customers, competitors, or investors. But most said their advanced years evoke no visible negative response. Some even said it wins them additional respect. That experience is the inverse of what older people encounter in the job market, where ageism runs rampant.

Health and balance are key
Although many Boomer entrepreneurs report working up to 60 hours a week, few claim to have the same energy as when they were younger. That said, our interviewees are a robust crowd who exercise regularly, bike, swim, run, and play pickup basketball. The Boomers also cultivate psychological health, with an emphasis on work-life balance. Many purposely spend more time with their grandchildren than they did with their children in their earlier work lives.

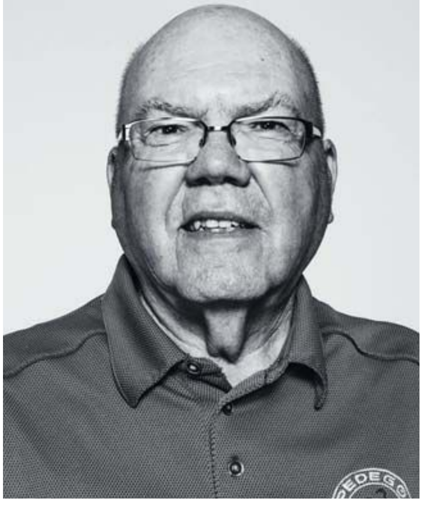
Some kids are alright
Business pundits fret over how Millennials and Boomers co-exist in offices. Older entrepreneurs, however, express little but gratitude for youthful assistance. Many rely on much younger people to help with the business applications of technology. Some, however, suggested that young people require too much instant gratification to make successful entrepreneurs.

Boomers target Boomers
Many Boomers create products and services that target other Boomers, a rich market whose spending is projected to grow more than twice as fast as younger Americans' over the next 20 years. The Boomers' distinctive sandwich-generation role presents still more opportunities, as some entrepreneurs turn their attention to the very old—their parents.

COIN LAUNDROMAT OWNER
Sue Kim, Redondo Beach, Calif.

AEROSPACE ENGINEER
Bob Bibee, Irvine, Calif.

COLONEL, U.S. ARMY (RET.)
Dave Archer, Edwardsville, Ill.



company's reputation at risk, says DiCostanzo.

A few Pedego dealers are experienced entrepreneurs. On the day Howard Ickes, 77, delivers his presentation at the annual meeting, he is as charged up as his product. Dressed head to toe in black, his hair and beard a contrast in snowy white, Ickes offers tips on getting the biggest bang from trade shows, fundraisers, and community events while his audience scribbles away in notebooks. (There is nary a laptop in sight.)

Ickes, whose handshake could juice an orange, opened his Pedego store in 2011. That was 10 years after he sold the $18 million kitchen-appliance distributorship he built from scratch and retired to travel the world, golf, and fish, a period during which he felt "like a caged lion." Ickes's store, in Henderson, Nevada, is a laboratory for the entrepreneur's ideas, including a simulator rigged to train people on the bikes and an indoor track for test rides when the weather's not cooperating. He knows how to network and market. The sale of his first business gives him the wherewithal to pay a firm $1,000 a month to manage most of his social media.

But for every Howard Ickes among Pedego's dealers, there are several former teachers, military personnel, and government workers newly in business for themselves. First-time entrepreneurs over 50 have a lower survival rate than their serialist counterparts, according to Cotei and Farhat. Pedego's support services were developed for them. Store owners get help with merchandising and choosing a location, among other basics. The company also sets up individual stores' websites, manages their Google Ad accounts, and posts to social media for them—or teaches them how to do it themselves. "The technology has been a challenge in some cases, so we will take charge of that," says DiCostanzo.

"WE DON'T THINK OF THE DEALERS AS OLD BECAUSE WE DON'T THINK OF OURSELVES AS OLD."

Money is another concern. Entrepreneurs in their 50s have substantially more startup capital than any other age group—more than four times as much as the 20-somethings, according to Cotei and Farhat. Business owners over age 51 are 19 percent more likely to be approved for credit than their younger counterparts, according to Biz2Credit.

Yet if Boomer businesses do fail, their founders have less time to make up the loss. "When they are thinking about their finances, they don't have time for a big mistake," says Michele Markey, vice president of Kauffman FastTrac, an entrepreneurship education program that has developed courses for founders 50 and older.

DiCostanzo and Sherry don't discuss exit strategies with Pedego store owners. (A couple of them have turned down attractive offers to sell.) But they say the business is set up to mitigate risk as much as possible. "We make sure their financial resources are in order so we are not putting them in harm's way," says DiCostanzo. The company, which is not a franchiser, offers all its support and services to dealers for free and charges no licensing fee. The only charge for a startup dealer for Pedego is roughly $50,000 for inventory that, DiCostanzo says, can typically be liquidated

CONTINUED ON PAGE 94 ►

Thomas Goetz

Driven to Succeed: Getting Inspiration From Plumbers

Folks in their own service vans know as much about startups as we do at my high-tech outfit

ONE THING I NEVER imagined when I became an entrepreneur is that I'd acquire a deep appreciation for panel vans, especially the ones with small-business decals displayed on the sides. They always remind me of how important small and self-made businesses are, and inspire me in my own work. Their drivers are unexpected and valued peers.

Window installers, providers of cleaning services, HVAC repair guys, electricians, and, most of all, plumbers: These are people who have braved the sometimes fetid waters of startup life and actually built a business. Every time I see one of their vans, I feel encouraged. More important, I've begun to take notes from them.

Being a startup founder in San Francisco, I could, of course, choose from more techy peers as well—people with whom, on the surface at least, I share more in terms of education, vocation, and industry. My company is a software startup, after all, replete with most of the expected clichés, right down to the catered lunches and company-logo hoodies. But after a few years of rubbing elbows with tech bros and wannabe visionaries, I've found there's often more to learn from founders with ambitions less grandiose than changing the world. These folks are more concerned with keeping paychecks coming and putting gas in that van. These are entrepreneurs in the old-fashioned sense, who start a business to provide a better life for themselves and their families, rather than to make a killing in an IPO and have books written about them.

Once you start looking for them, you see these business owners all over the place, not just driving vans. They run the gamut from the neighbor who starts a day care center in her home to the dentist who moves to a new town and hangs out a shingle, hoping patients will start calling.

They are in many respects bigger risk takers than the Silicon Valley crowd. There's no fallback job at Dropbox or Facebook waiting for them if their company doesn't fill its next funding round; there's no one else's money on the line. On the contrary, these entrepreneurs put their careers and savings at risk every day. They know what it's like to face down real failure, the kind that comes with foreclosure and personal bankruptcy.

So what have I learned from plumbers? Three things, mainly:

First, it's essential that you treat your staff as apprentices, not just as employees. Your team is taking risks just like you—and their reward shouldn't be a mere shot at the brass ring. They are eager to learn everything they can. From the receptionist to the CFO, find out what your employees' dreams are and help them along the path they're on.

Second, make sure your company is doing something useful, even essential, for its customers. There are few services greater than making a broken toilet or clogged sink work again. If your company isn't providing something just as vital and fundamental to your customers' lives, then you may not be long for the startup world.

Third, remember that it's your name on the van. Your reputation is at stake, and it will be enhanced or suffer depending upon your efforts. If you own a new business, you can assume that pretty much nobody has ever heard of you, which means potential customers can go only on your character and record.

You may not be driving a van with a five-foot logo and your company's name on it around town (yet). But no matter how sexy a startup, all founders can learn from the people who do.

Thomas Goetz is a co-founder and the CEO of Iodine, a digital health startup based in San Francisco. He is also the author of *The Remedy*. Follow him on Twitter: @tgoetz.

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LEAD

Inspire. Empower. Get Results.

"You look around in 2017 and you realize that the major driver of political risk in the world is this new U.S. government."

—IAN BREMMER, founder of Eurasia Group, a risk-assessment firm based in New York City

PG. 40

GLOBALIST
Whither Trump and "America First"? You have questions, Ian Bremmer has answers.

PHOTOGRAPH BY **COLE WILSON**

Getting Real With A.I.

Artificial intelligence can be a threat to your business—unless you learn how to use it

SIGNPOST IS A SERVICE THAT lets brick-and-mortar store owners publish incentives and promotions on its website. Last summer, the New York City–based company's founder and CEO, Stuart Wall, created a new app: the A.I.-centric Mia. Through its natural language generation capability, Mia crafts messages and sends them to prospects at opportune times. It tracks and analyzes a store's calls, emails, and credit card swipes, and then makes what it decides is the right pitch. "New customers often tell me they show up because of our five-star reviews, which I hear about through Mia," says Randy Jewart, owner of Resolution Gardens, a landscaping company in Austin, and a Mia subscriber. People contact small businesses to learn about products and services, Wall notes, "so why waste this valuable data that A.I. can use to market to them?" –COELI CARR

HOW A.I. WORKS: PROBLEM SOLVING

Unlike traditional computing, which delivers precise solutions within defined parameters, A.I.—sometimes referred to as cognitive computing—teaches itself how to solve problems. "Instead of delivering only specificity, A.I.-centric programming generates millions of solutions, evaluating each for efficacy and then choosing the most viable and optimal ones," says Amir Husain, CEO and founder of Austin-based SparkCognition, which serves financial, aerospace, energy, and utility enterprises. If A.I. applications seem to be doing the thinking for you, they are.

WHAT IT DOES BETTER: DATA DIVING

Manually finding your target customer—by searching and poring through income-level, interest-based, and geographical data—is labor-intensive and time-consuming. A.I. cuts to the chase. "For example, using a feed of three key pieces of information that the entrepreneur provides—a brief product-description text, images, and a price range—an A.I. system can zip through social media and other online outlets, looking for correlations between product and digital conversations," says Husain, author of *The Sentient Machine*, to be published this year. A.I. also finds the targets' contact information.

If you give it the green light, A.I.'s natural language processing technology then writes and sends a sales pitch, notes transmission time, and analyzes feedback. "You can almost hear an A.I. system going, 'Aha! I've cracked the code,'" says Husain, adding that A.I. constantly optimizes itself by making slight changes to the message.

WHERE IT WORKS: PRACTICAL APPS

One key reason for A.I.'s upsurge is entrepreneurs' free or inexpensive access to libraries such as IBM Watson, Google TensorFlow, and Microsoft Azure. These application programming interfaces (APIs) allow coders to build A.I. apps without starting from scratch. Enterprise-focused A.I. companies are catering to all aspects of entrepreneurship. Last year Koru, in Seattle, launched Koru Hire, predictive hiring software that uses A.I. to match job applicants' skills and experience with profiles of a company's best current and past employees. It generates a "fit score" that indicates whether a candidate might replicate those successes. And in San Francisco, the Grid launched A.I.-centric website-design software. It analyzes the intended content—text and images—which it separates into components, creating an array of options so the user can "build" the site in minutes. The program then interacts with the user to modify layout, color, and typography. Husain expects to see a proliferation of A.I.-centric marketing, sales, and other service startups focused on small and medium-size businesses. On tap for this summer: Cinch, from Cinch Financial, in Boston, which uses A.I. to analyze personal money data and recommends financial strategies, along with behavioral changes and new products that coincide with those behaviors.

AN OCEAN OF DATA, A FLOOD OF MONEY

3 MILLION
Number of workers, by 2018, who will be supervised by an A.I.-powered "roboboss."
Source: Gartner

44 ZETTABYTES
The amount of data in the universe by 2020. That's up from 4.4ZB in 2013. Data doubles every two years. Forty-four ZBs equals 44 trillion gigabytes. The vast and growing pool of data will demand A.I. to sort it out.
Source: International Data Corporation

UNLOCKING KNOWLEDGE
With its ability to analyze vast amounts of data, A.I. can help anyone from doctors to call-center workers make better decisions.

Illustration by **MIGUEL PORLAN**

KEEPING IT HUMAN

A.I. CAN DISPLACE HUMANS, BUT IT CAN'T REPLACE THEM

CALL CENTERS The biggest misconception about A.I. is that it's robots with human faces sitting at remote desks. "A.I. is nothing more than an add-on technology—spice and flair—to an otherwise conventional system, such as a traditional travel-reservation site that, because of A.I., can now converse with a human," says Bruce W. Porter, an A.I. researcher and computer science professor at the University of Texas, Austin. Porter emphasizes that future breakthroughs will not be 100 percent A.I. "A.I. will likely provide a 10 percent product- or service-performance boost," he says. That is, in fact, huge. Firms that fail to make the A.I. leap, he says, may fail to have customers.

INFORMATION RETRIEVAL Not all searches are as simple as typing a few keywords and having Google take over. Entrepreneurs often need more in-depth and complicated excavations—for patent and trademark data, for example—and that, in turn, involves an often hefty legal budget to pay a highly trained human to do. Porter foresees within five years many companies offering services to consumers who have no expertise in A.I. or specific knowledge fields. They'll be able to conduct their own A.I.-based data retrieval. Count on industry disruption, he says, as this type of A.I. application will leapfrog current data-retrieval-service providers.

CONTRACT GENERATION. Because it's able to generate natural language, A.I. is an exceptional tool for helping entrepreneurs assemble contracts, as opposed to buying them off the shelf at, say, LegalZoom. A.I. applications will converse with—by text and, ultimately, voice—and tease information out of humans that will become components of formal agreements, such as details about fee payments and product returns. Porter anticipates users will pay to access cloud-based A.I. computer systems to produce such documents: "A.I.-centric startups, because they don't require a human in the loop and won't need to hire staffers, can offer their services at a very low cost, especially given an anticipated large volume of customers and business competition."

$5 BILLION
Value of startup funding deals in 2016 for A.I. companies.
Source: CB Insights

658
Number of venture capital deals in the A.I. sector in 2016.
Source: CB Insights

$47 BILLION
Projected worldwide revenue from cognitive systems and artificial intelligence by 2020, up from $8 billion in 2016.
Source: International Data Corporation

DRONE FORCE

Drones, by one definition, are neither high-tech toys nor lethal weapons. They are worker bees that are the foundation of a colony. And that's where the future lies in nondefense industries like farming, insurance, and construction, which, Goldman Sachs predicts, will drive a $13 billion industry through 2020. The skies are beginning to buzz. From late 2014 to last April, the FAA issued 3,100 exemptions to nonpilots covering nearly 40 situations to fly drones. Looking at the current 5,500 exemptions, the Association for Unmanned Vehicle Systems International, a trade group, found that the majority of them have gone to small businesses.
—STEVE GOLDBERG

LOW FLIER
The camera-equipped Phantom 4 by DJI can stay airborne for 30 minutes. Cost: $1,200.

FAA exemptions let you operate a commercial drone without a pilot's license.

In remote Alaska, startups Aquilo and K2 Dronotics are offsetting a growing shortage of bush pilots by using drones to handle nontransport duties such as infrastructure inspection.

DISASTER ASSESSMENT/ INSURANCE CLAIMS
Allstate Insurance recently used two drone companies, EagleView Technologies and Kespry, to test-inspect roofs in Texas for hail damage, which could improve the speed and efficiency of claim resolutions. Drones have already been deployed in Haiti and other countries to survey scenes of earthquakes and other natural disasters and help rescue missions deliver aid.

ECONOMIC DEVELOPMENT
The Central New York Regional Economic Development Council identifies the unmanned aerial systems industry as a job creator, estimating that 1,300 positions could be gained in R&D, manufacturing, and other drone businesses. The council is funding up to $250 million in drone projects through 2020.

AGRICULTURE
In a sector known as precision agriculture, drones can create optimal planting schemes, monitor crops, and apply precise amounts of pesticides and herbicides. The eBee SQ, from Swiss manufacturer SenseFly, captures crop data across four multispectral bands, plus color imagery. Farmers plug the data into their existing management systems.

Kansas State University employs drones to help farmers assess problem areas and boost yields. One anticipated use: targeted application of nitrogen.

ILLUSTRATION BY **LIQUID 3D**

IMAGE SOURCE: COURTESY DJI

China's DJI is the world's leading manufacturer of drones, according to market researcher Frost & Sullivan.

ENERGY
DroneDeploy, a drone software developer, is a partner in a program designed to increase the efficiency of solar panel installations and inspection through drone-based thermal imagery capture and analytics. The use of onboard thermal imagery helps ensure that equipment is positioned for maximal production.

GE's Oil and Gas Technology Center is using drones to detect methane leaks at oil wells. AT&T uses drones to inspect cell-phone towers.

MEDIA AND ENTERTAINMENT
The first FAA exemptions for commercial use were given to film producers to capture aerial footage without costly helicopters. The Belgian-based Flying-Cam, an early innovator, has received two Oscars, including the Scientific and Engineering Award for the Flying-Cam Sarah 3.0 used in the 2012 James Bond movie *Skyfall*. As costs have fallen, advertising agencies have gotten into the game. Soccer and football teams are using drones for tactical analysis.

CNN is participating in the FAA's Pathfinder program to gauge the safety of flying drones over large crowds. A proposed rule will free drones weighing 4.4 pounds or less to fly over people.

Alabama-based Lidar USA is using drone-mounted lidar (light detection and ranging) to provide mobile mapping systems for surveying, civil engineering, forensics, and even archaeology. BNSF Railway is testing drones to inspect its rail infrastructure in isolated areas.

GEOMAPPING
PrecisionHawk, a Raleigh, North Carolina, drone maker focused on mapping and analytics, is also researching broader parameters. The company wants to expand drone technology to deliver intelligence across a range of industries. It has created aerial data software called DataMapper; acquired drone image provider TerraServer; and launched Latas, a low-altitude traffic and airspace safety platform for drones.

Lifestyle diva and drone fan Martha Stewart owns a Parrot AR Drone 2.0 for fun and uses a DJI Phantom at her farm for security and to get landscaping ideas.

PUBLIC SAFETY
Drones made by L-3 Unmanned Systems are being used to survey hazmat disasters safely. Other drones are fighting wildfires. Rabbit Drone is developing a rapid-response telemedicine system; along with delivering a medical kit with an automated external defibrillator, it will integrate a two-way video connection and biotelemetry software. In Rwanda, Silicon Valley–based Zipline has delivered blood products to hospitals and health centers using winged drones.

Last summer, Iowa's Kossuth County emergency management agency used its newest tool—a DJI Phantom 4—to shortcut an extensive search to locate a cardiac-episode victim near a logjammed river.

CONSTRUCTION AND REAL ESTATE
Construction firms can track progress and assets and examine joints and welds. A gravel supplier, say, could use Kespry to measure stockpiles, manage inventory, lay out new pits, and survey quarry locations. Once things are built, the real estate industry sees drones creating detailed video of commercial and residential properties for sale. If only they washed windows, too.

9 QUESTIONS FOR

IAN BREMMER: ASSESSING THE RISKS OF TRUMP

PRESIDENTIAL ELECTIONS often represent uncertainty for American businesses. Donald Trump's victory is no exception. Trump's restless Twitter fingers and free-trade-bashing bravura, combined with global turmoil, have given many businesses a muddy view of the future. Ian Bremmer, founder of risk-assessment firm Eurasia Group, consults for hundreds of businesses and governments. He recently discussed the dawning Age of Trump with *Inc.* editor James Ledbetter.

Photograph by **COLE WILSON**

Q

In your 2015 book, *Superpower*, you describe three paths for America: Moneyball America, Independent America, and Indispensable America. Where do you see Trump taking us?
Very clearly, Independent. Obama's big problem was that he kept talking like this Indispensable America guy: "We can do it; Assad must go; Russia must leave Ukraine; we're going to drive the global-trade order with TPP and the TTIP," and all this. And he just did not have the ability to follow through and execute on any of this. The worst thing you can do is create high expectations and consistently fail. Vastly better to say, "We're really going to focus a lot more on the domestic environment. We still have global interests, but they're narrower."

Independent America is not the same as Isolationist America?
Isolationism is really not in any way feasible in a world where we're all economically connected and interdependent. Any businessperson understands that. Unilateralism implies that we're really focusing, in a much more transactional way, on what we do and don't do. It's the way a lot of countries work. America was always kind of exceptionalist. With Iraq and Afghanistan, where we spent trillions of dollars on failed wars, it's easy to see why maybe you don't want to be so exceptional, that you're not going to create democracy all over the world. The United States has interests. It's the world's largest economy; it's the world's largest military. It's less clear to a lot of Americans who have not benefited from Nafta or other trade deals or from anything that the U.S. has done globally that they want the United States to continue to be the indispensable power.

So, in that sense, does the Trump victory represent a kind of honesty, a truth-telling about American capabilities?
On that front, I think it does. When Trump said, "Look, if NATO allies don't want to spend the 2 percent on defense, why should Americans be doing it?" a lot of Americans replied with "Yeah, he's right." A lot of American policy in the past has been like getting ready to kick a field goal, and then being pushed back 20, 30, or 40 yards, and refusing to recognize that we're out of field-goal range.

Is there a risk in the U.S. pulling back expectations and erasing ideas of exceptionalism on the global stage? Will the American brand be damaged abroad?
Here's where Trump could become a big problem. You want the Chinese to be so convinced that the American market model is the one that works that they have to buy our Treasuries, be educated at our universities, buy New

York City real estate—it would be inane for them to do anything else. And that will in turn give us an awful lot of branding power. In 1991, you went to Eastern Europe and the former Soviet Union and you met people who truly believed that the American rule of law, independent judiciary, free market economy, and political system were to be admired. They don't believe that anymore. And Trump's view is "Yup, you're right—completely hypocritical. We shouldn't be trying to promote our values, because they're no different from anybody else's." That absolutely damages the American brand.

I take it that you think the Chinese-American relationship could get pretty bad. What are the business implications?
Maintaining a functional trade relationship with China is really important. I'm worried that Trump sees China as a villain. To play hardball with them on both security and economic issues implies that Trump believes that by taking a tougher tone, the Chinese are going to just back down. And that is not true on a whole host of fronts. If you're going to take a tough line on China, get your allies on board first—he hasn't done that. Second, the Chinese are in a considerably stronger position these days than Trump thinks. Third, Xi Jinping's major political transition is coming up in the fall, and in the run-up to that, he will absolutely not tolerate the potential of looking weak. He will overreact from a security perspective and also from an economic perspective. Not to be too melodramatic, but, a year ago, if you had asked me what the possibility was of major armed confrontation between the United States and another big country, I would have said functionally zero. I still think it's low. But it ain't functionally zero.

GETTY

FOUR WAYS THE ECONOMIC AND POLITICAL FOCUS HAS SHIFTED

ON OIL
"OPEC has nowhere close to the influence on price setting that it did before."

ON TRADE
"American jobs are going away because of automation, because of 3-D printing, because of robotics. They're not going away primarily because of globalization anymore."

ON U.S. POLITICS
"Apathy is the most important political force in the United States. In the 2016 election, the most important in your and my lifetime, about half of Americans didn't think it was worth voting."

ON ASIA
"North Korea could create a conflict, a crisis, between the U.S. and China, which clearly would not have happened over the past year."

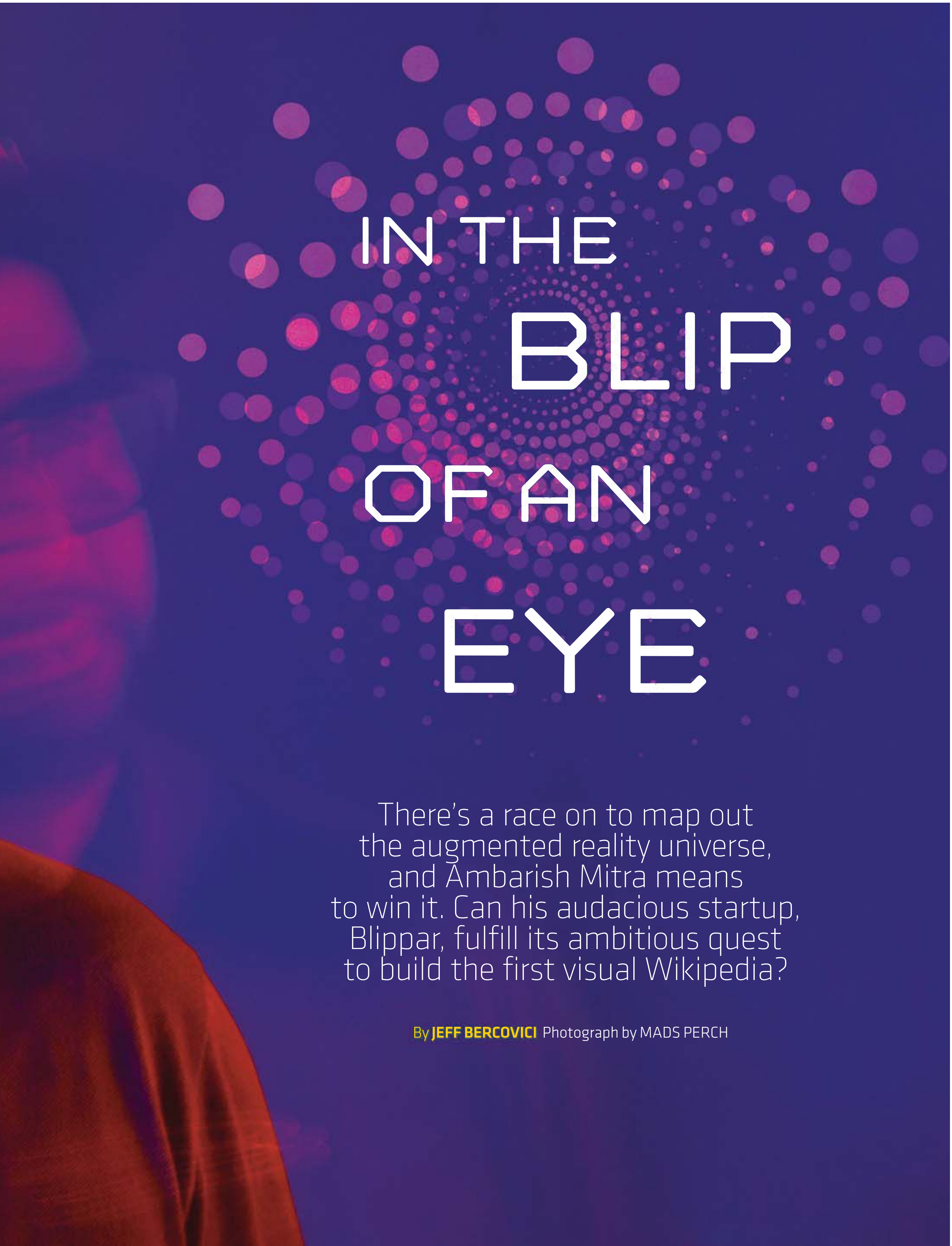
What would economic retaliation look like?
We've already seen some of it. The Chinese government has taken steps against an American automotive manufacturer. I could see the Americans expanding what's considered "national security relevance," so the Chinese would not be allowed to invest in a broader part of the U.S. economy, and in return they would do the same thing to us. I could see measures being taken by the Chinese that would be directed and specified, particularly in areas in which the Chinese have their own national champions. The broader question would be, could we start to get into a tit-for-tat tariff escalation? That would directly hit the bottom line of U.S. growth.

When you talk to businesses, what are they worried about?
They're worried about how different life could become under Trump. They saw Carrier, they saw Lockheed, they saw Boeing—what happens if we're on the wrong side, as a global corporation, of this guy? What do we need to do to make sure that we're not the ones targeted? Tech firms are particularly worried, because Silicon Valley is not, generally speaking, friendly with Trump. Businesses are worried about protectionism, global trade, what happens when the U.S. seems to be moving in this more populist direction.

If you're concerned about being on the wrong side, what do you do as a company?
You may not want the China exposure you have. You may want at least an exit plan, if you don't already have one. Second, if Washington is becoming a place where things don't get done for you, you need to be thinking more locally—how you're working with state and municipal governments. You used to think about the United States market. Maybe you need to think about the New York market, the California market. If inequality is going to grow, you might need to have different products and different strategies for different parts of the country.

Do you factor in some really wacky but plausible scenario tied to Trump?
The one that's more exotic is Trump's conflict of interest issues, with this multibillion-dollar organization that will only be worth a lot more once he's president. That implies we need to think about the United States a little more like South Korea. It's not going to become Russia or China. But if you want to understand how other governments are going to react to [us], you need to look at two sets of policy mechanisms: the official, formal channel; and then the unofficial and informal channels, one of which will be a kind of industrial-policy, state-capitalist system and the other the family. And that's really wild. You look around in 2017 and you realize that the major driver of political risk in the world is this new U.S. government—not doing things that historically were done, and doing things that historically were not done. We may not want to have the leadership role that we once had, but we're still the world's only superpower. The outsize impact of all this stuff on the global economy and businesses is extraordinary.

SECOND SIGHT
"We want to recognize everything in the physical world and give people content on top of it," Ambarish Mitra says.



IN THE BLIP OF AN EYE

There's a race on to map out the augmented reality universe, and Ambarish Mitra means to win it. Can his audacious startup, Blippar, fulfill its ambitious quest to build the first visual Wikipedia?

By **JEFF BERCOVICI** Photograph by MADS PERCH

It was probably inevitable that Ambarish Mitra

would start an augmented reality company like Blippar, which lets you look at real-world objects enhanced with text and digital graphics through your smartphone camera. After all, Mitra seems to have lived his entire life in an augmented reality of his own, one that reads like a mash-up of Charles Dickens, Gabriel García Márquez, and Salman Rushdie.

JUST LISTEN TO MITRA'S TALE of how he got his start as an entrepreneur. In 1997, he was a 17-year-old runaway in the slums of New Delhi, sleeping in a shack with mud-and-cow-dung walls and making his living peddling tea and magazines, when he came across an advertisement for a business-plan contest run by an Indian tech company. First prize: $10,000. A feminist movement was then sweeping India, and Mitra had the idea of providing free internet access to women who couldn't afford to pay for it. He wrote up his pitch and mailed it off—then returned to his life as a chai vendor, confident that was that. How could it not be? Even if the judges liked his plan, what were the chances they would be able to find him in his mud shack, with no telephone or mailing address?

Except they did. A postman following the instructions he'd written out in lieu of a return address left a letter with the local tobacconist, informing Mitra that he'd been shortlisted and inviting him to pitch in person. He did, and won. Three years later, WomenInfoOnline, the company born of that idea, went public, making him a wealthy man—and vindicating his decision to leave home and a life of predictable middle-class comfort. (If this sounds suspiciously close to the plot of the movie *Slumdog Millionaire*, well, the parallels have frequently been noted in press reports. Mitra's sister and a friend from that era confirm parts of his account, though documentation on the contest is thin.)

"That post shouldn't even have come back to me," Mitra marvels, at Blippar's San Francisco headquarters, 20 years and two continents later. A serene, round-faced man of 37, he wears his usual uniform: T-shirt, gemstone rings on each finger of his right hand, and a flat-billed baseball cap emblazoned with "Spiritual Gangster." The rings are custom made; he never goes out without them. The cap, one of several, is purchased from the yoga-wear company Spiritual Gangster, but Mitra has adopted its brand name as his personal mantra. The phrase captures the two sides of his personality: the fighter and the philosopher. "Every human has dichotomies," he says. "Most of us have two fields of view in life."

The seen and the unseen: That's the dichotomy Mitra has spent the past six years seeking to bridge with Blippar. Along the way, he has raised nearly $100 million and enlisted 300 employees, aiming to build a visual search engine that can recognize anything you point your phone at and serve up relevant facts, games, shopping information, and user-generated content. Think Pokémon Go meets Wikipedia meets Foursquare. Already, 65 million people have downloaded the app to "blipp" an ad or product, generating tens of millions of dollars in revenue from Blippar's advertising partners.

And the company has only just begun marketing directly to consumers, potentially opening up hundreds of millions of dollars more in revenue. With Pokémon Go and Snapchat's face filters turning the masses on to augmented reality, Mitra claims Blippar's moment has arrived. "We've taken the majority of human knowledge and created a visual DNA for it," he says.

That's the ambition, anyway. But even if the age of AR is upon us, Blippar is hardly alone in heralding it—and there's a whiff of magical thinking to Mitra's belief that his startup, which is still losing tens of millions of dollars per year and struggling with technical glitches, will be its biggest winner. The tech industry's largest players are all racing ahead with their own efforts to define what the augmented future will look like, and capture the profits from it. Microsoft has the HoloLens, a mixed reality headset designed primarily for gaming, while Facebook has its own Oculus Rift headset. Meanwhile, Google and its parent company, Alphabet, have made one stab after another at VR and AR, including a secretive mixed reality startup called Magic Leap. The few who have seen Magic Leap in action report it to be truly mind-blowing; meanwhile, Blippar's app sometimes has trouble distinguishing a coffeepot from a teakettle.

But where others see big threats, Mitra recognizes only tiny wrinkles. The glitches in how his app works are temporary byproducts of a powerful deep-learning process, he says, one that's well on the way to creating "a superhuman brain" with "the entire knowledge repository of the whole world." He also argues that the company's head start in weaving together disparate disciplines like 3-D rendering and computer vision will give competitors no choice but to use its operating system. "We started this well before any of the big guys even thought about it," he says.

Mitra's vision is itself a form of augmented reality: what he is sure will be superimposed on what is. One thing he's not imagining is the scope of what he's undertaken. "Making the physical world digital is a bit of a holy grail in the tech community," says Brian Blau, vice president of research at tech advisory firm Gartner. "That's really what they're after, but almost all these other augmented reality businesses are after it as well."

Still, Blau believes Blippar is looking at a gigantic opportunity—if it can survive as an independent company until society is ready to embrace its augmented future. "There's a lot of possibility there," he says, "but also a lot of risk."

MITRA'S PARTICULAR blend of toughness and ethereality has its roots in Dhanbad, in eastern India, where he grew up. Historically, the city was a center of wisdom, home to one of the world's first universities. Then the Industrial Revolution happened, and the vast coal fields underneath Dhanbad became more valuable than any of the learning happening there. You can guess what followed. "Spiritualism went down and corruption went up," Mitra says. "Literally, the dark side of human nature came out by flipping the very land. This has been core to my foundation."

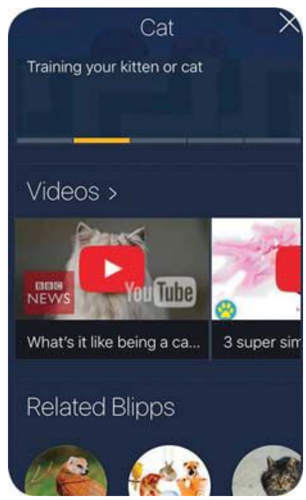
When his family moved from Kolkata, where Mitra was born, to Dhanbad, it was one of India's most violent towns. Mitra's father, Aghore, was an engineer for the steel company Tata, and the family lived in a secure company-run enclave, but at every opportunity Mitra and his friends played in abandoned coal mines, running along ropeways over open pits. "When I look back, the stuff we did, every day someone could have died," he says. "In rural parts of India, adventure is built in—so when you get into cities, you find all parts of life not a problem."

Mitra would soon put that to the test. As the eldest son of a Tata engineer, he was guaranteed a coveted job at the company after graduation—but he was bored by studying and failed his year-end exams two years in a row. His family had by then moved to Delhi; one day, ashamed of being held back, Mitra ran away to the slums, in New Delhi. A note to his parents said he was in Mumbai. "He was a risk-taker, very adventurous," says Shamim Ahmed, who shared a mud-walled room with Mitra and seven others, and who runs a school in the northern city of Gaya. "He wanted to do something big in his life."

When his internet company went public in 2000, Mitra suddenly found himself charged with a sense of invincibility. He moved to England and resumed his studies, while doing contract IT work for the government and working at a series of startups. The first one he joined quickly fizzled. Then he launched a company of his own, SwapShop, a sort of Craigslist

HOW BLIPPAR CHANGES YOUR REALITY

Like Pokémon Go and Snapchat's filters, the Blippar app adds an extra layer of reality—or at least information and images—to anything you view through your smartphone's camera. We tried it out, with help from an *Inc.* staffer's cat.



1 DISCOVERY Point your camera at whatever you want to blip (introducing Nico) and words appear: Fur! Cute! Cat!

2 SELECTION The app turns the most relevant words into circles that you can scroll through.

3 INFORMATION Click on a circle for an extensive definition of what your smartphone camera sees.

4 AUGMENTATION Here's the really cool part: Blippar then shows you links to related content. (Everything's better with cat videos.)

SARAH GARCEA

for people looking to trade or give away unwanted items. To code the site, he enlisted his best friend's younger brother, a web developer named Omar Tayeb. The startup sputtered out, but the partnership endured: Mitra and Tayeb tried again with Stuck, an advice-oriented social network. It too flopped, and Mitra's savings finally ran out. He moved into a tiny apartment and took a job as head of innovation with an insurance company called Swiftcover, which was about to get acquired by the insurance giant AXA. Tayeb got a job there too.

By then, the two were close friends; Tayeb was no longer just the kid who sat in the back seat on his brother's outings. One night in 2010, the partners were blowing off steam at a pub when Mitra paid for drinks with a 20-pound note. When the bartender was slow to make change, Mitra mused about how cool it would be if the Queen's face on his bill could come to life, like the magical portraits in Harry Potter. Wait a second—could they make that *really* happen?

They could. Tayeb managed to code a crude version within a few weeks; it was enough to persuade both friends to quit their jobs and try starting yet another company.

If Tayeb is Blippar's original engineer, Mitra is its visionary. He has his own version of the "reality distortion field" famously attributed to Steve Jobs. Like the Apple cofounder, he's not so much a technologist as an idea man and a brilliant communicator who can tell a story in a way that gets others excited to be part of it. "He somehow has a weird confidence that everything is going to work out," and it's contagious, Tayeb says.

That's exactly how Mitra charmed his way into Blippar's first, extravagant offices. He was determined to set up shop in London's posh Covent Garden–Holborn neighborhood to help win big advertising accounts. "It was completely unaffordable for us as a company with zero revenue and no funding," Tayeb says. "Trust me," Mitra said, and proceeded to sweet-talk the CEO of an outdoor advertising company into giving Blippar free office space for more than a year, convincing him that augmented reality would make billboards so much more valuable. By the time Blippar had to pay its own way, it was able to afford offices 150 feet down the street.

Not everything was so cheap, of course. Mitra and Tayeb quickly realized they needed to hire expensive talent to build the powerful image-recognition engine they envisioned. They could do it without raising a lot of money if they could sign up some big advertising customers that would pay them to create augmented reality content. Despite having no real users to speak of, Mitra sold the concept to brands like Tesco and Cadbury, and signed them up for five-figure national campaigns.

That was enough business to get them noticed by bigger investors. Tayeb had built the first version of Blippar's app using software licensed by Qualcomm, where executives soon saw a spike in traffic to one tiny customer. Jason Ball, who makes tech investments for Qualcomm's venture arm, asked for a meeting, at which Mitra's salesmanship once again worked. He explained that brands put the Blippar logo on their packaging and in ads, encouraging their customers to download the app—all at no cost to Blippar.

Ball was astonished. "I was like, 'So you're not marketing your product, you're not spending anything on user acquisition, and the customer is paying you for the pleasure of doing this on your behalf?' " he says. "Dude, how fast can I give you a check?"

> "You're not marketing your product, and the customer is paying you to do this on your behalf?" one early investor in Blippar realized. "Dude, how fast can I give you a check?"

By 2014, Mitra and Tayeb had proved Blippar was viable, but it was in danger of becoming a glorified digital ad agency. It sold exactly the sort of product big marketers were looking for: something immersive that could hold consumers' attention in a world where online ad blockers were making them ever harder to reach. That was good for Blippar's revenue, but bad for customer retention: Since the company relied on marketers to tell people to download the app, Blippar's employees spent their time making content for these advertisers. The app functioned almost like a white-label product with no real user base of its own.

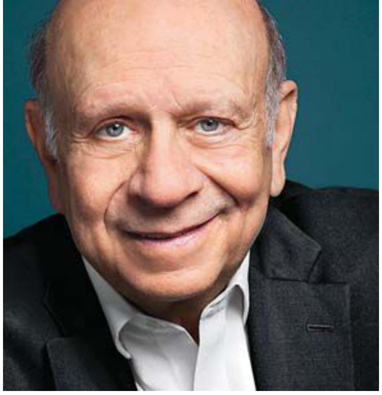
But Mitra and Tayeb had an idea how to build one. They knew that after people blipped ads or products, they often pointed their cameras at other things around them to see what content appeared—only to be disappointed when nothing popped up. What they needed was to make *everything* blippable, so users could treat Blippar as a camera-powered search engine or a visual Wikipedia. If you're curious about anything—a car, a cucumber, Vladimir Putin, the Mona Lisa—you should be able to point your phone's camera at it and find out more. And not just what it is, but how it relates to everything else. If it's a dog, what breed? If it's a blouse, where can it be purchased, and what skirts or pants might pair well with it? "We want to recognize everything in the physical world and give people content on top of it," as Mitra puts it.

So the founders focused their energies on the new mission. In February 2015, they raised more money to hire dozens of engineers and open up big new offices in San Francisco and nearby Mountain View. Tayeb moved from London to Mountain View that summer, making it the new center of operations, and Mitra relocated to San Francisco.

The move was crucial to Blippar's new strategy. Swimming in the Silicon Valley talent pool made Mitra and Tayeb realize how naive they'd been about their task. Until one fateful recruiting dinner, they'd thought they could scrape so much of the internet that their app would be able to do a reverse-image search on anything the camera saw. "We were going to build a database of a trillion, trillion images," Mitra says.

Then an engineer they were courting, named Xuejun Wang, told Mitra point blank there was no information architecture in the world that could make such a database manageable. Even if the company could

CONTINUED ON PAGE 95 ▶



STREET SMARTS

Norm Brodsky

Balancing Act

The balance sheet can be one of your most important business tools

AMONG ALL THE TOOLS entrepreneurs have to monitor what's going on in their businesses, one of the most important—and least used—is the balance sheet. Most people understand the concept of an income statement, even if they don't really know how to use one. They're aware that you won't last long in business if you're not consistently earning a profit on whatever it is you sell. A balance sheet, on the other hand, can be confusing, and many don't understand what it's for. That can be a problem.

I'll give you the example of Claire Theobald, whom I've been working with since last June. Claire's company, Beatrix New York, makes colorful children's backpacks, lunchboxes, water bottles, and similar products in China and sells them in several countries, but mainly the United States. When she first came to see me, she was struggling with cash flow and didn't understand why. Like many of the young entrepreneurs I advise, she had no idea how to use her financials to track what was really going on with her business.

I showed her how to create a monthly income statement, which neither her accountant nor anyone else had ever helped her with. I also had her do monthly income statements for the previous two years so we could see any trends. That's when she mentioned that, despite repeated requests, her China warehouse, near where she does her manufacturing, hadn't sent her a bill in 18 months. Her income statements would be inaccurate without it.

She finally got the bill, and it was a shocker. Unlike her California warehouse, which charged a fixed monthly fee, the China warehouse charged by amount of space used. The bill was huge.

"We need to look at your balance sheet," I said.

"Why?" she asked.

"Because something's happening with your inventory, which is on the balance sheet," I said. It was immediately apparent that Claire's inventory was high, given her sales, and taking up a lot of space in her China warehouse.

"That's because of the suitcases," she said. She explained that she had added children's suitcases to her product line but they hadn't sold well. She was selling them and other products at a 20 percent discount on her website.

We calculated what she spent on storing the suitcases and then shipping them, and the cost was more than they were worth. I suggested she give away the ones in the China warehouse to the workers there. (She did, and they were thrilled.) I also suggested she discount the items on her website, mostly sold in the U.S., by 50 percent. The faster she got rid of them, the more time she would have for other, more productive activities, especially sales. And by doing both, she would simultaneously reduce her costs and generate additional cash.

But mainly, I wanted her to understand why she needed to keep an eye on the balance sheet as well as the income statement. By definition, a company is insolvent when its short-term liabilities exceed its short-term assets. Those assets include inventory and receivables. If you have a lot of old receivables that can't be collected, or a lot of old inventory that can't be sold, you could become insolvent, even if you appear to be profitable on your income statement, and insolvency is one step away from bankruptcy.

And she got it. Claire always had a gift for imagining and designing successful products. She was good enough at sales and getting her products made and distributed. Now, she also has an excellent understanding of the numbers. In my book, that makes her a real businessperson, which I mean as high praise.

Norm Brodsky is a veteran entrepreneur. He is the co-author of *Street Smarts: An All-Purpose Tool Kit for Entrepreneurs*. Follow him on Twitter: @normbrodsky.

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MONEY

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“If I had bought more, it would have been better, but I was afraid my sunk costs would be too high.”

–TATE STAKER, a seventh grader at Austin’s Acton Academy, a K–12 private school focusing on entrepreneurship

PG. **60**

GENERATION NEXT
Middle schoolers Reese Youngblood and Tate Staker in class at the Acton Academy.

PHOTOGRAPH BY **JONNO RATTMAN**

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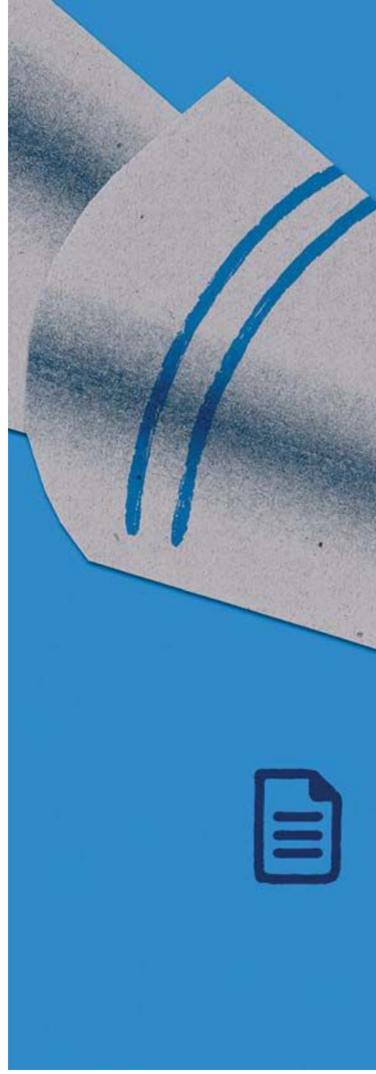


Cyberattacks are a huge and growing threat to small businesses—but there are ways to fight back

REBECCA MILLER OF PEGGY JEAN'S PIES, a bakery in Columbia, Missouri, woke up one morning last summer to a less-than-sweet surprise: Online searches for her shop's website were leading potential customers to an X-rated destination. "Not just porn—like, capital *P* porn," recalls Miller, a former lawyer who runs the shop with her mother, Jeanne Plumley. "Really, really bad porn."

It took her most of the day and several hundred dollars paid to a third-party vendor to clean up the mess. "Who in the world hacks a pie website?" she still wonders.

Lots of people, it turns out. While attacks on big companies like Yahoo and Target grab more headlines, entrepreneurs are almost as vulnerable: In 2015, 43 percent of cyber-attacks were waged against small businesses, according to Symantec. "Small-business people don't realize that the bad guys look at them as low-hanging fruit," says Michael Cocanower, founder of Phoenix-based IT consulting firm itSynergy, which works with small and medium-size businesses. Fortunately, there are plenty of steps you can take to make yourself less vulnerable—or, if the worst happens, to fight back. —VICTORIA FINKLE

Educate your employees

Attacks are getting more sophisticated, but most breaches still occur because of human error. That's why experts suggest training employees for threats early and often. "It's not just the IT department, it's not just the CEO—it's everybody's responsibility," says Scott Schober, chief executive of Berkeley Varitronics Systems, a Metuchen, New Jersey–based wireless security tech firm.

Jesse Harrison, the founder of Los Angeles lender Zeus Legal Funding, learned that lesson the hard way in December 2015. When one of his workers clicked on an infected email saying she'd won the lottery, all of the company's computers and locally saved files became locked within moments. The email contained ransomware that encrypted the contents, with the hackers demanding that Harrison hand over $600 to get them released.

Now Harrison regularly shows workers samples of real and fake emails, quizzing them on how they'll react if something suspicious shows up in their inbox. "It's important for them to know not only when an email is a scam, but also how the scam works from start to finish," he says.

Set up advanced bank alerts

Rick Snow, founder of go-kart track Maine Indoor Karting in Scarborough, Maine, logged on to his bank account late one night only to discover it had been drained. Someone had initiated $15,000 in wire transfers to banks across the country. Banks aren't required to offer the same protections to business accounts as they do personal accounts in cases of cyber fraud, so the money would have been irretrievable if the transfers had gone through. "That would have cleared out all of our positive cash flow," says Snow. He was able to stop the transfers at his local bank the next morning, but if he hadn't caught it in time, "we would have been in dire straits."

You can request two-factor authentication—in which the bank must confirm the transaction via a code sent to your phone—for certain kinds of activities, such as wire transfers. Or you can even ask the bank to turn off some online capabilities altogether. "I don't have to do wire transfers very often, so at the time I instructed my bank not to allow those unless I physically came into a branch," says Cocanower.

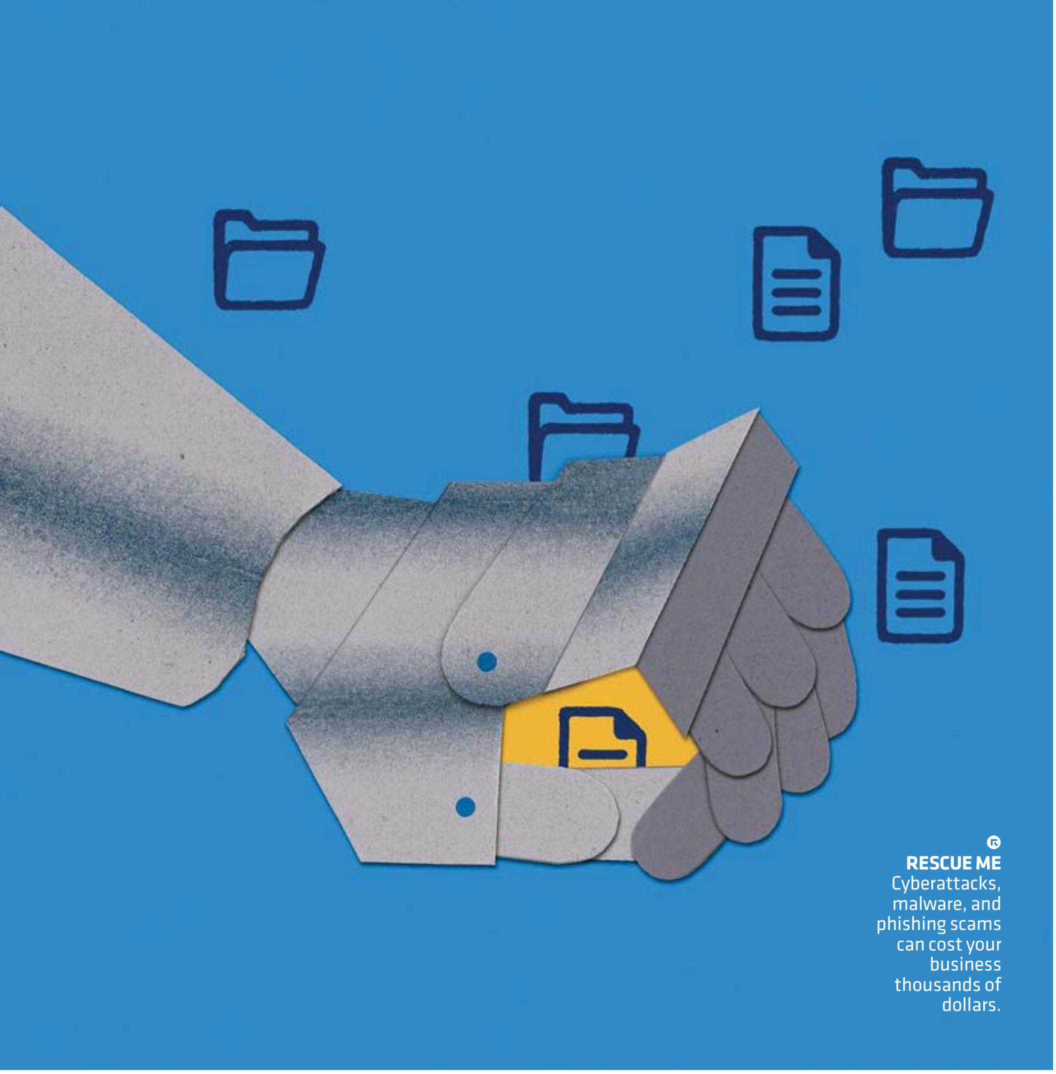
Update your software weekly

It can feel like a hassle, but keeping your software up to date is crucial for warding off threats. Symantec estimates that more

CYBER CRIMINALS HAVE THEIR EYE ON SMALL BUSINESS

79% of small-business owners have no cyber response plan in place.
SOURCE: NATIONWIDE

$7,000 Average cost of a small-business attack.
SOURCE: NATIONAL SMALL BUSINESS ASSOCIATION



RESCUE ME
Cyberattacks, malware, and phishing scams can cost your business thousands of dollars.

Illustration by MIGUEL PORLAN

than three-quarters of legitimate websites have vulnerabilities that should be patched.

Miller now believes that malware infected her pie shop's site through an attack on her web host. That's a common vulnerability for small businesses, according to Schober, because third-party software and operating systems are constantly issuing security updates and patches that don't install automatically. "It's about staying on top of it," he says. "If you don't have that ability yourself, you've got to hire somebody to do that every week."

Don't trust just one backup

Keep your files in multiple places, including in cloud-based programs and external hardware not connected to your network. This guards against a few different kinds of disasters, including ransomware attacks that can deliberately target backup files. "If our building burns down, we've got our stuff in the cloud," says Cocanower. But "normally we can go right to that onsite backup."

After the Zeus Legal hack, Harrison realized he needed a better noncloud backup system—he now uses several external hard drives as well as an online drive to ensure he has access to what he needs. While he ultimately coughed up the ransom money, the hackers didn't unlock his files—meaning Harrison had to spend days on the slow and frustrating process of redigitizing his paper files. "I had to re-create everything from scratch," he says.

CLEANING UP THE MESS

What to do when an attacker gets through your defenses

PREPARE AHEAD OF TIME

Inform investors and customers of the problem and what steps you'll need to take to get back on your feet. "Have a notebook on a shelf: 'Break glass in case of emergency,'" says Michael Cocanower of itSynergy. "That's much better than trying to figure it out in the moment."

HIRE A THIRD-PARTY EXPERT

Even if you have an IT team, it can be helpful to tap an outsider's perspective. "You want to be sure you're getting a disinterested third-party assessment of the damage, and not someone trying to cover up their mistakes," says Cocanower. The sooner you act, the better. "The first 48 hours postbreach are critical to determine which computers or networks have been compromised, how they've been exploited, and what data may've been compromised," says Scott Schober of Berkeley Varitronics Systems.

THINK BEFORE YOU PAY

Most experts advise against paying a ransom, except as a last resort. "The attacker is counting on that person saying, 'I'm going to pay because I just can't deal with it,'" says Norman Guadagno, senior vice president of marketing at Carbonite, a cloud-based data-backup company. "They prey on that psychological moment." Decryption keys for older scams can sometimes be found for free online, and paying ransom often doesn't get the files released anyway. If you're going to spend money to get your business back, it may be smarter to pay for the services of a professional cleanup expert instead.

ONE BILLION DOLLARS
Amount stolen from businesses through one type of fake wire transfer from October 2013 to May 2016. *SOURCE: FBI*

430 MILLION
Number of new, unique pieces of malware discovered in 2015.
SOURCE: SYMANTEC

$32K
Average amount an attack targeted at your company's bank account will cost you.
SOURCE: NSBA

THE BUILDING BLOCKS FOR YOUR RETIREMENT

Saving for your future isn't quick. But with these tips, it can be easy

BY KATHY KRISTOF

ROCKING CHAIR LIFESTYLE
"The goal is to get up in the morning and work on whatever project you want," says J. Money. "If you save enough, you can do that."

WHEN THE BLOGGER AND personal finance expert known as J. Money started saving for the future, retirement was the furthest thing from his mind. He was in his late 20s, working for a tech startup, and thinking about buying a house and getting married. Now, roughly a decade later, he runs his own company and extols the life-altering virtues of saving prodigiously and starting young.

Money's Washington, D.C.–based business, which publishes his ad-supported blogs Budgets Are Sexy and Rockstar Finance, earns \$60,000 to \$160,000 annually, depending on how hard he chooses to work, he says. Money, who uses a pen name to protect his financial privacy, started publicly tracking his net worth on his first blog back in 2008. At the time, he had just \$56,000 in retirement savings. Today, he has nearly 10 times that amount, and he is on track to become almost a millionaire by his 45th birthday. That's probably not enough for a full retirement, of course, but it's a more than ample cushion to have by that age—and he's already reaping the benefits of his planning ahead.

The savings Money built up in his 20s gave him the wherewithal to start his own business, and already have offered him a measure of financial freedom. He and his wife have two young boys; and now, when there's a lot going on with his young family, he can take time off without wondering whether the break will destroy his long-term plans.

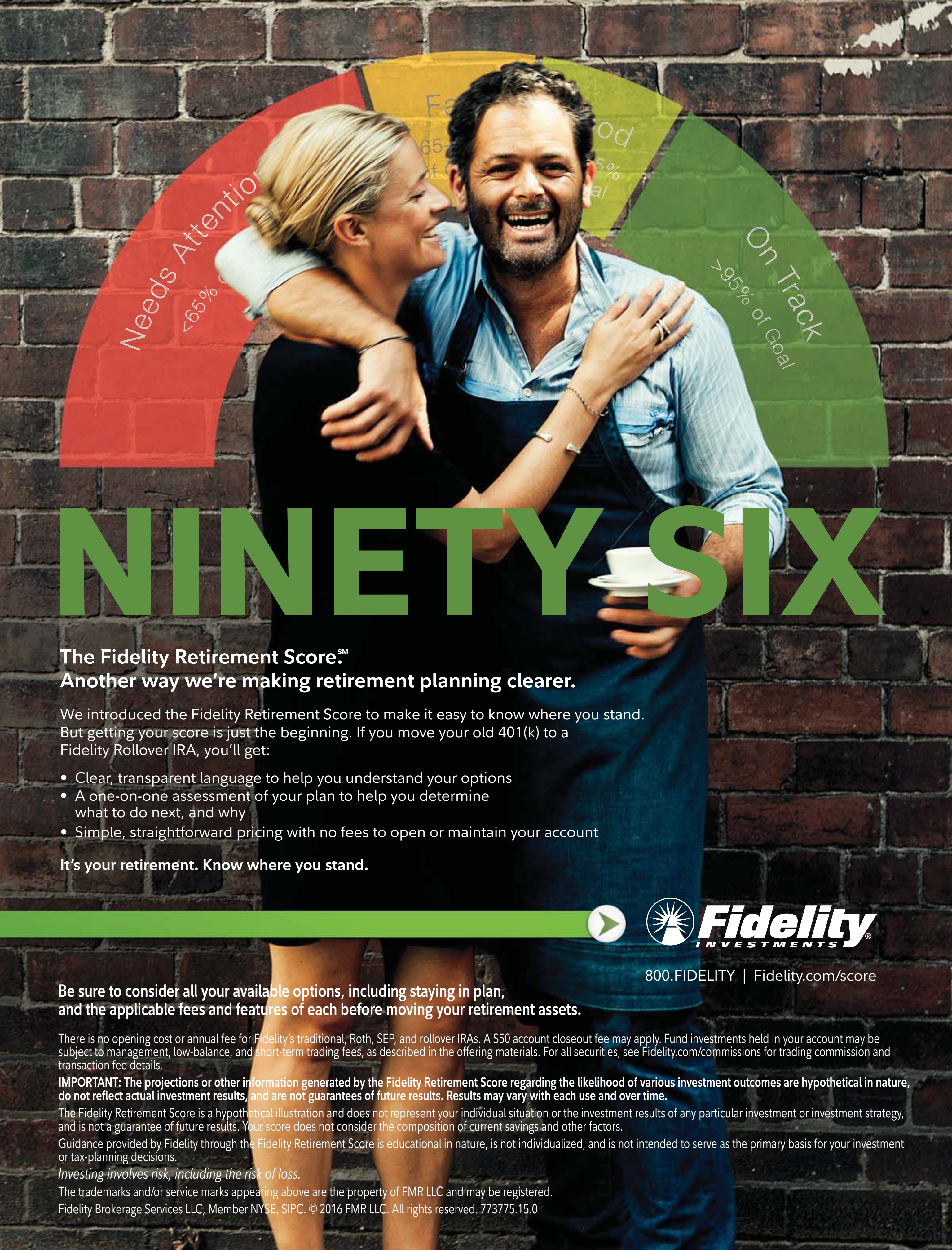
"It's about having the freedom to wake up and do what you want to do and not think about finances," says Money. "I want to work on projects I'm passionate about without worrying about whether they're going to be profitable."

As he's found over the past 10 years of saving for his own goals and advising others how to do so, smart retirement planning boils down to a few simple truths.

TIME IS ON YOUR SIDE. USE IT

The earlier you start socking away money, the more time you give compounding to work for you. That's simply the effect of earning returns on your returns. For instance, if you began with \$100,000 and earned 10 percent interest, you'd start the following year with \$110,000—which, at 10 percent, would add another \$11,000 to your savings the following year before you've made your own contribution. With a small account

ILLUSTRATION: EDMON DE HARO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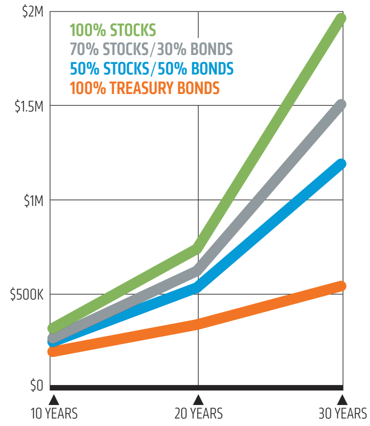
and a short time frame, compounding's impact feels marginal. But as your balance builds over decades, it does yeoman's work.

Consider Money, now 37 years old. He contributes an average of $20,000 per year, or up to 25 percent of his income: $15,000 goes into a tax-deferred retirement plan for self-employed people, known as a SEP-IRA, and an additional $5,000 of after-tax money goes into a Roth IRA. His current balance is about $500,000, thanks in part to more than $300,000 in investment returns.

And compounding is just starting to gain momentum for Money. If he stopped contributing to savings now—an unlikely possibility—he would still nearly double his current nest egg by his 45th birthday, assuming his investments earn about 8 percent on average. (A portfolio that's half stocks and half bonds averaged an 8.3 percent annual return during the 90-year period ending in 2015, according to Morningstar, which shares an owner with *Inc.*) If that average holds, by the time he hits age 65, Money's current investments could be worth more than $4.6 million. In other words, a $200,000 investment could earn you more than $4 million in returns, thanks to compounding and lots of time. If Money had started saving a decade later, he would likely accumulate less than half as much by age 65, assuming he earned the same 8.3 percent average annual return and invested the same amount. The price of procrastination: $2.5 million.

THE IMPACT OF AGGRESSIVE INVESTING

Stocks are far more volatile than bonds. But if you have decades until you need your money, the rewards of investing aggressively can outweigh the risks. How $100,000 would grow based on historical returns, according to the 2016 SBBI Yearbook:



WHAT YOU'LL GET FOR WHAT YOU SAVE

Nine years is the amount of time it takes to double the value of your nest egg, assuming about an 8 percent average annual return and no added contributions.

1.27%
The annual fee you'll pay for the average actively managed mutual fund.

18.2%
The amount of the average stock investor's return that would have been lost, over the past 10 years, to that average fee.

$344,730
The amount you would lose over 30 years to that fee, assuming you started with $100,000 and averaged an 8 percent return before investment management fees were deducted.

$1,632
The amount of additional monthly retirement income that you could generate for 30 years from that $344,730. (Assumes a 4 percent rate of return while in retirement.)

Sources: Morningstar, Dinkytown.net calculator

TAKE RISKS WHEN YOU'RE YOUNG

Money has earned considerably more than 8 percent on his investments and is likely to continue doing so, because he invests almost all of his retirement assets in stocks. If he were older, he'd be in more danger of losing money that couldn't be recovered. But at his age, the risk is likely to pay off (see chart, above).

The investment world measures risk by "volatility," or the amount a security's value swings up and down. By that standard, stocks are about three times more volatile than government bonds, but have historically earned nearly twice the average annual return (10 percent versus 5.6 percent, roughly). In their worst years, big-company stocks lost 43.3 percent of their value, while bonds lost 14.9 percent; a portfolio made up of 50 percent stocks and 50 percent bonds suffered a 24.7 percent loss in its worst year. However, over long stretches, stocks look far less risky. If you look at the rolling 10-year periods tracked by Morningstar, only four have produced losses. During the remaining 76 periods, stocks earned money, usually considerably more than bonds.

Those higher average returns can make a vast difference. For example, with a diversified portfolio, Money would expect to accumulate that $4.6 million by the time he reaches 65; but if he keeps the bulk of his wealth in stocks, the average 10 percent in market returns could boost his portfolio to $8.1 million.

DON'T PAY HIGH FEES FOR FANCY ACCOUNTS

Every dollar you pay to a fund manager is a dollar that can't compound in your account. The average actively managed equity mutual fund charges about 1.27 percent of assets each year, to pay managers to buy and sell stocks on your behalf, according to Morningstar. But many index funds charge just a fraction as much, because they don't hire high-priced investment managers to pick stocks. Instead, those funds buy and hold every stock that makes up a set index.

Money buys index funds, specifically Vanguard's Total Stock Market Index Fund (VTSAX), which charges a paltry 0.05 percent of assets each year. That allows him to pay about $6,100 less per year in investment management fees, a cost differential that will grow with his balance. "I hate to think how much I lost to fees before I switched to index funds," he says.

IT'S NOT ABOUT A ROCKING CHAIR

Yes, saving for retirement is your goal—but if you follow these steps, you'll also get a more immediate payoff in peace of mind. The bulk of Money's assets is invested in tax-favored retirement plans that he's not likely to tap for decades, but he's already benefiting from the happiness that financial security can offer. "When I first started, I thought money was for buying a lot of stuff. I wanted things," he says. "Over the years, I realized that I didn't care about the money. I cared about the lifestyle. Now the goal is to get up in the morning and work on whatever project you want. If you save enough, you can do that."

—

KATHY KRISTOF, *author of* Investing 101, *is an award-winning financial writer and journalist.*

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"WE TEND TO THINK OUR MESSAGE is what moves people," says Robert Cialdini, the author of *Pre-Suasion: A Revolutionary Way to Influence and Persuade.* "But it's what we do first to create a particular state of mind in our audience that makes them receptive." Offering coffee, for instance: Research has shown that when people hold something warm, it makes them more generous. Or try playing on what social scientists call the rule for reciprocation. In one study, candy store shoppers were 42 percent more likely to buy something if they received free chocolate. "Many things that shape our frame of mind are so primitive and automatic that they aren't really part of the deliberative process," Cialdini says. Tilt those instincts in your favor with these insights. —KATE ROCKWOOD

FIND COMMON GROUND

"It's not just that people want to deal with someone they like. It's that they want to deal with someone who likes *them*, and who is like them," says Cialdini. "People trust that those who like them won't steer them wrong." Visual cues (sports caps, college rings) can help you find on-the-fly commonalities on the sales floor, but for deeper prep for an upcoming meeting with a prospective customer, hit social media and LinkedIn hard and do some reconnaissance. "Then, if you see that you have a shared hometown or alma mater or love of running, you'll know to steer the small talk in that direction," Cialdini says.

KNOW YOUR OPENING GAMBIT

When researchers approached people and asked for their email addresses in exchange for a bottle of a new kind of soda, 33 percent ponied up their info. But when researchers first asked, "Do you consider yourself adventurous?" nearly 76 percent of people provided their email addresses. Why? "This kind of single-chute question," says Cialdini, "significantly increases the percentage of people who brand themselves as adventurous," which momentarily makes them "highly vulnerable to aligned requests"—such as your pitch.

If you're one of many companies competing for a firm's business, start by asking: Why did you invite us here? "They will begin telling you about all of the things they find favorable and powerful about what you're offering," explains Cialdini. "Now you know what strengths you have, and you can double down on those."

DRAW STRENGTH FROM YOUR DRAWBACKS

Pointing out your shortcomings earns points, says Cialdini; the quicker you can do it, the better. "People are surprised when you mention a weakness, and that convinces them of your trustworthiness," he explains—and then "they'll believe more deeply whatever comes next." When, in 1962, Avis debuted its famous "When you're only No. 2, you try harder" ads, the rental agency reportedly swung from $3.2 million in the red to $1.2 million in the black, its first profit in 13 years. That pivot—chasing a weakness with a strength that challenges its relevance—is key. Try a frame like: "Our installation costs may not be the lowest, but you'll recoup quickly with our superior efficiencies."

Hot Leads
It sounds like wishful thinking, but it's true: Studies show that a piping-hot beverage can evoke warm thoughts about your company in potential customers, making them more receptive to your pitch.

SPOTLIGHT YOUR BEST FEATURE

You can influence how much import people give to quality, speed, service, or another feature through visual cues. When researchers created an online furniture store with either fluffy clouds or shiny pennies on the landing page, they found that consumers who saw clouds ranked comfort as more important than those who saw coins. Cloud watchers were also more likely to search for information about comfort features and purchased more comfortable (read: pricey) furniture. Yet when questioned afterward, most participants denied that the clouds or coins had any influence over their shopping behavior. As Cialdini explains, "Drawing attention to the favored feature is effective not only in getting audiences to consider it fully but also in getting them to lend the feature exaggerated significance." In other words: It might be time to rethink your website's landing page.

NIX COMPETITORS FROM YOUR PITCH

Congrats on how well you know your competitors. Now, don't mention them. "There's a substantial advantage for a brand when consumers focus on it in isolation from its competitors," says Cialdini. In fact, when you ask people to consider a particular product, their intention to purchase it naturally increases. But when they consider that product after a mention of what your competitor has to offer, the impulse to purchase yours plummets.

SCARCITY SELLS

Our monkey brains panic when resources are scant—which makes consumers more likely to buy. "FOMO is real," says Cialdini. "Anything that plays to that fear—ticking clock emojis in an email marketing campaign, limited-time offers—can stoke that sense of urgency and that impulse to purchase."

GETTY

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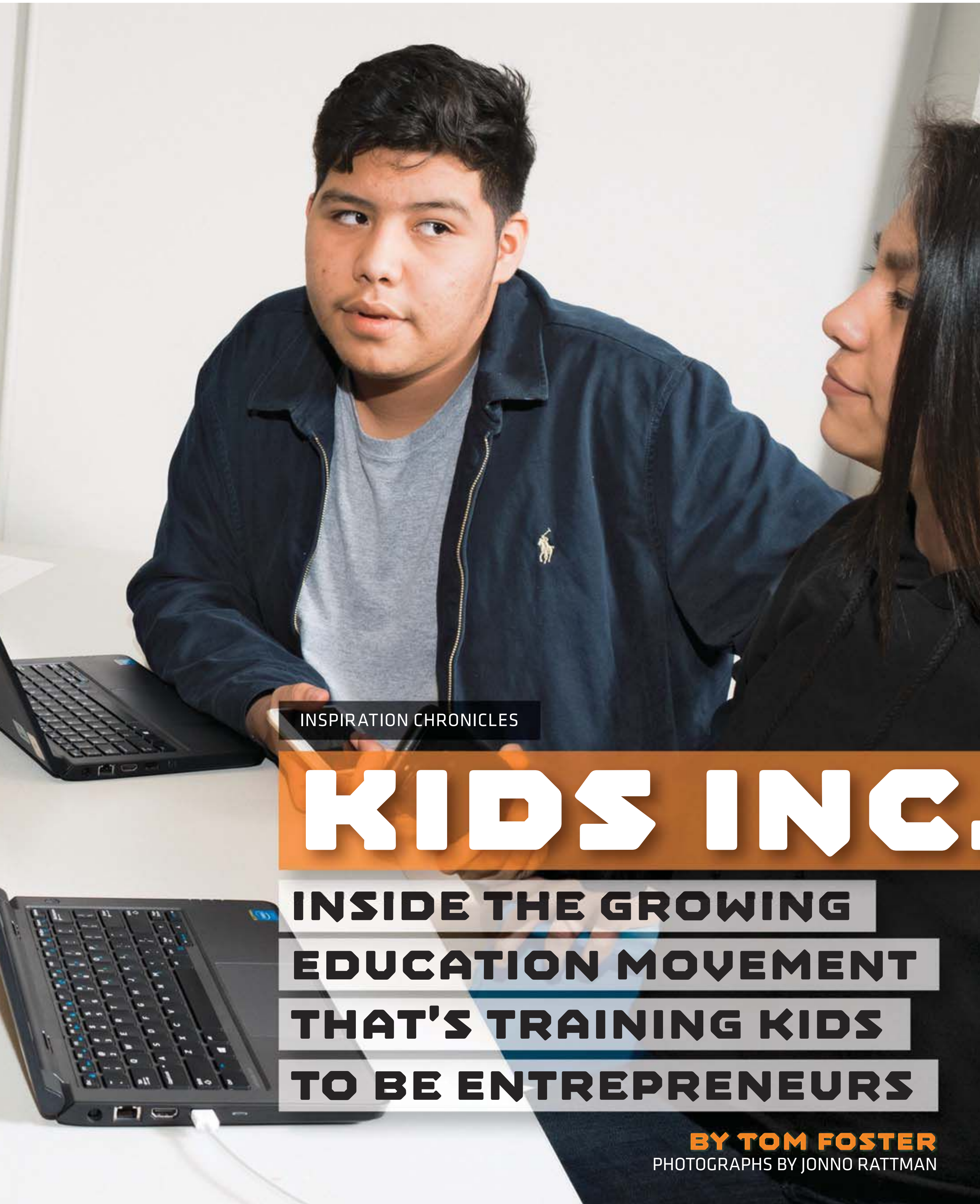
SPOT THE NEXT ZUCKERBERG
From left: Tyshawn Morgan, Chris Barrera, Najai McKenzie-Robinson, Randy Briones, and Isabella Barrera tackling a business problem in a humanities for entrepreneurs class at Austin's David Crockett High School.



INSPIRATION CHRONICLES

KIDS INC.

INSIDE THE GROWING EDUCATION MOVEMENT THAT'S TRAINING KIDS TO BE ENTREPRENEURS

BY TOM FOSTER

PHOTOGRAPHS BY JONNO RATTMAN

ON A CLOUDLESS OCTOBER morning in Austin, hundreds of people stroll the grassy aisles between a half-dozen rows of white tents, where entrepreneurs sell everything from iced coffee to pottery to handmade dog treats, pickles, and gluten-free baked goods. One booth sells security software, and one sells wooden virtual reality headsets. At another, Baker Bros Designs, which sells stationery and change jars printed with psychedelic paint swirls, a handsome young man introduces himself and gestures to his younger brother—"the artist." He hands me a business card that lists their Etsy page in case we want to buy more.

This is no hipster flea market. The sellers are kids as young as 5 years old. We're on the oak-shaded grounds of the Pease Mansion—also known as Woodlawn—a legendary white-columned edifice atop a hill in the city's toniest historic district. The house belongs to Jeff Sandefer, a billionaire Texas oilman, and his wife. Three decades ago, he began educating entrepreneurs at the University of Texas; later, he and others launched the independent Acton School of Business, which runs an MBA program. Then he and his wife co-founded Acton Academy, a private Austin K–12 school that has spun off affiliate locations in 25 other cities as far-flung as Kuala Lumpur; 26 more are slated to open this year. He also started, as an offshoot of that school, the Acton Children's Business Fair, a small but fast-growing series of events like the one here at his house, where kids aged 5 to 15 spend half a day selling goods and services they create.

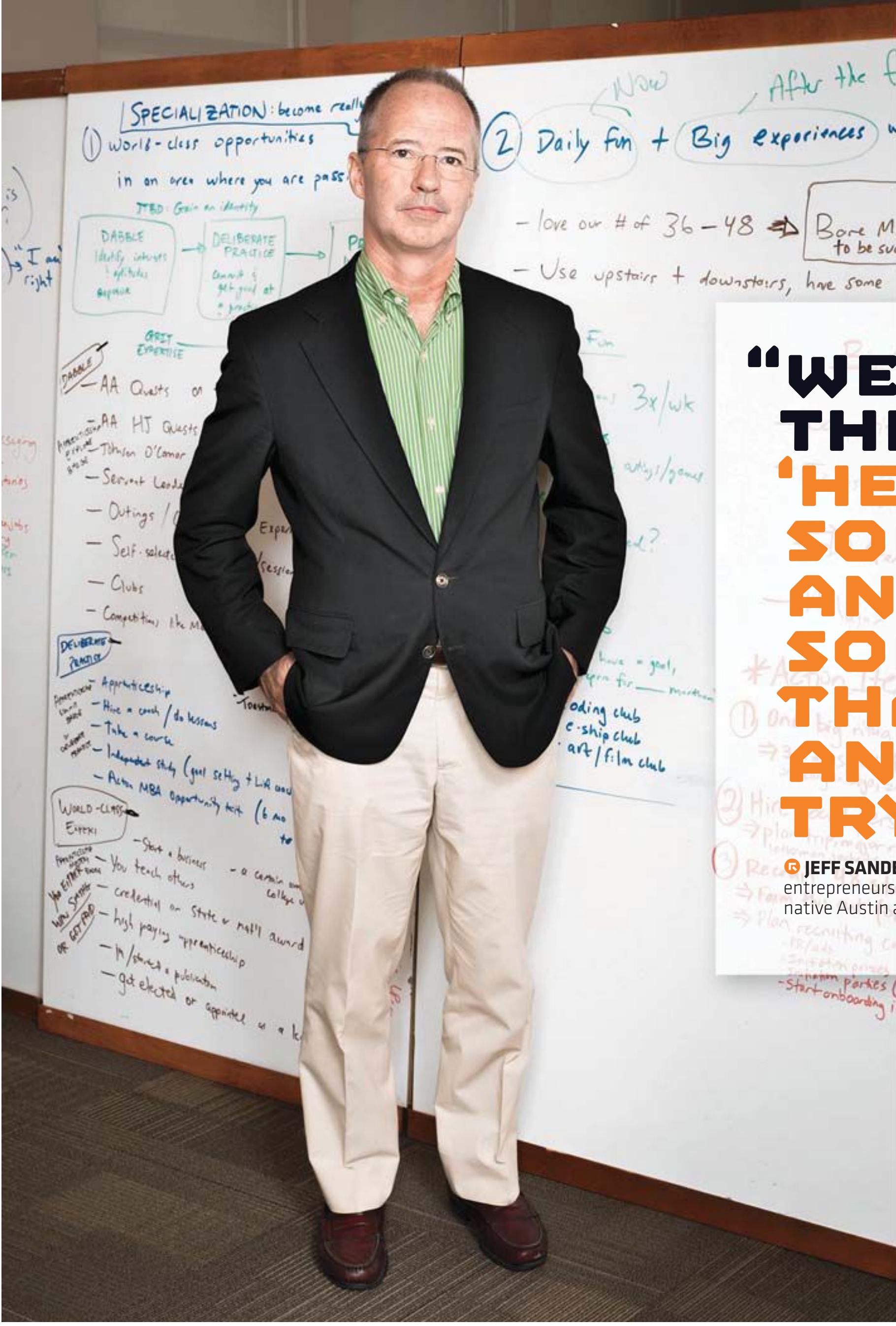
There were 17 affiliated Children's Business Fairs in the U.S. in 2016. Sandefer expects there to be 50 this year. "That's all with zero PR—just word of mouth," he says as he surveys the scene on his lawn: 110 booths manned by 230 local kids, who'll sell to about 2,300 customers. The cuteness goes without saying—it's your neighborhood lemonade stand on steroids—but Sandefer sees something more important happening.

Across the U.S., a nascent movement is educating kids in the precepts of entrepreneurship. In Austin alone, there are foundations, afterschool programs, summer programs, high school classes, and more. "I recently tried to put a list together of everyone in Austin doing something around youth entrepreneurship. It was three pages long," says Leigh Christie, executive director of the Entrepreneurs Foundation of Central Texas, which runs several youth programs including Lemonade Day Austin (the name explains it), which is the local offshoot of a Houston-born program that now operates in 60 cities. This month, South by Southwest will feature multiple sessions about youth entrepreneurship and a youth startup pitch competition.

One of Austin's most ambitious programs is what's being billed as the nation's first K–12 public school entrepreneurship track, at David Crockett High School and its feeder elementary and middle schools. The program culminates in an incubator class in which teams of students launch businesses and compete for funding, followed by an accelerator class in which they run the businesses. The Crockett program, now in its second year, was inspired by a four-year-old high school–only program in suburban Chicago, at Barrington High School. Members of Barrington's business and education communities created a nonprofit, INCubatoredu, to license its incubator-class curriculum to schools around the country, and more than 60 schools in 13 states have signed up.

At a time when Mark Zuckerberg and Elon Musk enjoy rock-god status and families gather to watch *Shark Tank*, it's no surprise that we'd start nudging our kids toward becoming business creators. It's a powerful thing, after all. You call the shots. You solve problems and invent things. You create jobs.

As *Inc.* readers know, though, entrepreneurship isn't kid stuff. It takes courage and resilience. Most new businesses don't make it. It's long been widely held that founders are born, not made, and a recent study by researchers at London's King's College found some genetic evidence to support that idea. Whether or not that argument holds—evidence is thin—



"WE WANT THEM TO SAY, 'HEY, I SOLD SOMETHING AND MADE SOME MONEY. THAT WAS FUN, AND I WANT TO TRY AGAIN.'"

JEFF SANDEFER, whose dedication to educating entrepreneurs has played a big role in making his native Austin a central player in such efforts.

entrepreneurship is not for everyone, so why act like it is?

To Victor Hwang, VP of entrepreneurship at the Kauffman Foundation, the answer is simple. Work has changed. We all must become entrepreneurs, or at least *like* entrepreneurs. "The school system has long taught for industrial jobs: how to find a job, how to fill a job. But the jobs of the new economy are ones where you have to be entrepreneurial." The youth entrepreneurship movement, he says, is "more primal than a popular trend; it's a response to macroeconomic forces."

"The idea that you go work for IBM for 30 years and get a pension is antiquated," says Craig Shapiro, associate superintendent for high schools in the Austin Independent School District, a position he assumed after starting the Crockett program, Student Inc. "By the year 2020, 40 percent of the jobs will be entrepreneurial in nature. Yet we have a factory-style education system that doesn't prepare kids" for such a world.

What Shapiro, Sandefer, and the others leading this youth entrepreneurship movement are doing doesn't look like factory-style education. It looks messy. It often looks dubious—much as startups do. Sometimes, as at the Acton Children's Business Fair, it looks inspired. Forget the too-familiar question: Can entrepreneurship be taught? The one these new initiatives pose is subtler, and far more significant: Can entrepreneurship—and, more important, the traits that underpin successful entrepreneurs—be learned?

WHEN JEFF SANDEFER was a teenager in Abilene, his oilman dad insisted he spend a couple of summers doing manual labor in the oil fields. The summer before his senior year, he was working on a crew of day laborers who repainted oil-field storage tanks. He noticed that many of the crew spent only about a third of their time actually working. "So I came up with this idea to start a company and hire our high school football coaches, who weren't working in the summer,"


WELLS
FARGO

he remembers. "They had the pickup trucks to haul equipment, and they could bring in their players." Crucially, he decided to pay by the tank painted, not by the hour. Veteran laborers painted one battery of tanks every three days. The coaches started painting three a day. "It was nine times more productive at probably a 10th of the capital cost!" says Sandefer. The business made roughly $100,000 in profit that summer, he says.

It wasn't until much later that Sandefer, who's 56, realized he'd grown up in an environment that fostered the insight that made that success possible. "I grew up watching my dad do deals in oil and gas," he says. "The talk around the dinner table was selling and deals, and I used to think everyone had that experience and knew what I did." At an early age, he would go to his neighbors to ask if they had junk they wanted hauled out of their garages, and then hold a garage sale to sell it. "I was an asset fox," he says. The instinct persisted: He made a half-billion dollars by the time he was 30 by developing wells that the oil giants deemed too small to bother with.

He's discussing his path while sitting at a small conference table in the administrative office of the Acton Academy. Nearby is a bookshelf packed with titles like *The Lean Startup*, by Eric Ries, and *Disrupting Class*, by Clayton Christensen, alongside a stack of slim books called *A Field Guide for the Hero's Journey*, which Sandefer wrote with Robert Sirico, a Catholic priest from Michigan. (Sandefer was on the board of Sirico's Acton Institute for the Study of Religion and Liberty, which gave Sandefer's venture its name.) The "hero's journey" is Sandefer's term for pursuing a "life of meaning," another favorite phrase. To him, entrepreneurship is doing something you're good at, that you enjoy doing, and that the world needs (or at least that people will pay you for). Much at the Acton Academy is built to further that pursuit. As at a Montessori school, Acton teachers are guides—in fact, that's what they're called—who put kids to work on projects and then point them to resources to solve problems on their own. Those resources include online simulation games Sandefer paid to have developed, in which players learn to spot production bottlenecks in a factory, or compete to sell water without getting into a price war. (He developed the games for his MBA school but has found his younger pupils benefit from them too.)

To Sandefer, the most important thing about the Children's Business Fair is that the kids show up and launch and run something for a day. "We want them to just say, 'Hey, I sold something and made some money. That was fun, and I want to try again.' That's the spark that leads to everything else."

One of Sandefer's favorite student stories is that of Reese Youngblood, a preternaturally well-spoken eighth grader who last year made $3,000 profit at the three-hour business fair selling hand-illustrated stationery she designed. In previous years, she says in an airy classroom across a manicured yard from the Acton office, she drew pastel portraits, sold indigo-dyed caftans, ponchos, and scarves, and partnered with her brother to sell scavenger-hunt kits. "I've always been an artist—that's just what I like to do," she says. "The business fair helped me find ways to link entrepreneurship and my passion for art." She now sells her designs on stationery and journals in two Austin boutiques.

COURTESY ANNE WOJCICKI

How to Raise an Entrepreneur

Last year, Margot Machol Bisnow, a former chief of staff of the President's Council of Economic Advisers, published a book called *Raising an Entrepreneur*, for which she interviewed 60 successful founders and many of their parents (including Under Armour CEO Kevin Plank's and 23andMe CEO Anne Wojcicki's, shown above with Anne seated on the left). In an interview with *Inc.* and in her book, Bisnow describes what those parents did right.

Support a passion
"Almost every entrepreneur I spoke to was passionate about something. Because they loved something, they worked hard; because they worked hard, they developed grit, perseverance, tenacity. Without them, you will never be an entrepreneur."

Let your kid lose
"The main difference between entrepreneurs and others is their attitude toward failure. If you protect kids from failure, they never learn to pick themselves up, figure out what they did wrong, adjust, and try again."

Forget straight A's
"Schools tend to reward behavior diametrically opposed to what it takes to be an entrepreneur—putting more emphasis on remediating weaknesses than on supporting strengths. I'd much rather have a kid who's passionate about one thing and gets a few good grades than a kid who is not excited about anything and gets good grades in everything."

Praise carefully
"It's important that kids build confidence not on phony success but because they've actually mastered something. If they pursue an easy win, tell them you know they can do better."

Embrace adversity
"Many successful entrepreneurs faced huge obstacles—some grew up poor, struggled with learning issues, or lost a parent. All parents try to shield kids from adversity, but when they have to face it, they often grow stronger. Don't be fearful when bad things happen. It's not going to kill them."

Have a purpose
"Most of the entrepreneurs credited being raised with faith—whether religious or in some general moral order—and working with their families to help others. One entrepreneur's parents had him give 10 percent of anything he earned as a kid to charity. Almost all said this gave them a sense of purpose."

While few of the dozen Acton middle schoolers I meet have Youngblood's singular focus or her traction toward building a real business, what they're learning is just as important. Tate Staker, a seventh grader, has participated in the fair for five years, mostly selling games he designs. This year, it was a board game, Manatee Warfare, and it sold out well before the end of the event, Staker says. He also learned about the downside of fearing sunk costs. "It cost me a lot to make each game—I had cards printed off this website, and got boxes and dice," he says. "So I didn't buy as much as I could have, and that stopped me from making as much profit as I could have. If I had bought more, it would have been better, but I was afraid my sunk costs would be too high."

But specific business insights aren't really the point, Sandefer says; the process is what matters. Every four to six weeks during the school year, Acton students take on a different project—one is explicitly entrepreneurial—and every week they have different "deliverables" related to the project. For the entrepreneurial project, those deliverables might be: calculate your costs per item; calculate how much of each material you'll need, and how much you'll need to sell to profit; design the product; and determine how you'll test it, package it, and market it. Working at their own pace, they practice subjects from math to art, as well as critical thinking, self-motivation, and public speaking.

Of course, the students at Acton come from households that push them to achieve. Staker's family moved to Austin from Hawaii solely to send him to Sandefer's school. Though the Children's Business Fair is open to all kids, Sandefer knows his efforts aren't reaching a huge chunk of underprivileged communities. If youth entrepreneurship education aims to help a generation navigate a new world, it will need to go a lot wider.

THE COOL TEACHER
Adam Miller, who teaches entrepreneurship for the Student Inc program at David Crockett High School.

ACROSS TOWN AND a world away from Acton's immaculate campus, David Crockett High School is a blocky, mid-'60s building that houses 1,500 primarily Hispanic and lower-income students. Less than a decade ago, it was in danger of being shut down, beset by frequent fights and poor academic performance. In 2008, the district hired a young principal from the Bronx in New York City, Craig Shapiro, and since then, the school has become a celebrated success. With the launch of the Student Inc program two years ago, Crockett has emerged as a model for other local schools.

Adam Miller, one of two instructors for the incubator class, strides to the front of room 150, a windowless former lecture hall renovated to look like a startup office, complete with rolling whiteboards, stand-up tables, and modular seating clusters. The 45-year-old Miller, who can only be described as the cool teacher—tousled hair; motorcycle boots and skinny brown jeans; says "Awesome!" a lot—generally wanders from group to group, like Acton's guides, keeping students on task and acting as a sounding board.

It's a week until finals, but Miller reminds the 20-some kids that, rather than take an exam, they'll turn in their MVP (*Lean Startup*–speak for "minimum viable product") slide decks so they can be ready to pitch their companies after winter break to a panel of founders, who will give them feedback. "You'll be working on that today," Miller explains. "Next Monday, we have a coach coming in to talk about market sizing. She'll share some information that you can include in your decks." The program enlists local entrepreneurs as mentors and guest lecturers. "OK, guys. Get to work!"

Today's class, of juniors and sophomores, is the first to go through Crockett's incubator program. Their year will culminate in a *Shark Tank*–style pitch competition to score $2,500 grants from local VC firm Notley Ventures; next year, they'll run their companies in an accelerator class.

That's the capstone to Student Inc, which begins in elementary school with a program called Microsociety, in which the whole school runs a mock small town complete with businesses and government agencies, and holds regular market days in which the town comes to life. In middle school, kids on the entrepreneurship track run an on-campus store that sells school-spirit gear such as T-shirts and beanies.

It's a sprawling plan, with many more pitfalls than an annual fair, and its launch hasn't been easy or smooth. "It took three months to get the kids out of the order-taker model, where they expect us to tell them what to do," says Shapiro. The school has had trouble attracting a diverse group to the program; the kids so far skew male and white, and most come from the advanced-placement program. Among the feeder elementary and middle schools, several have struggled to implement the new programs. For their part, some students complain that things seem disorganized, that lessons aren't aligned with their businesses' stage of development. One says that "we feel like we're being forcibly dragged through the curriculum."

Still, there have been clear successes. Last year, a group of sophomores participated in a city-run program called ReVerse Pitch, competing against grownup entrepreneurs to present potential business ideas to reuse waste materials that would otherwise end up in landfills. The Crockett students made it to the final round of the competition, with a plan to turn unsellable glassware from Goodwill into landscape pebbles. This year, three student groups participated in ReVerse Pitch, and one of them has continued to develop its idea for the incubator class: Re-Cover Austin, which will turn discarded vinyl street banners into shade canopies for food-truck parks.

"Food trucks are an expanding market—there are 2,000 in Austin now," explains Isaac Estrada, one of the students working on Re-Cover Austin, who says he's slipped into the role of keeping everyone on task. "We think we can get low-cost labor to sew them into canopies"—ideally, he hopes, by partnering with the Multicultural Refugee Coalition, which provides opportunities for international refugees as they settle in Austin. Estrada says he's shy and would seize up in front of groups, but now he speaks with a casual confidence that surprises even him: "Getting up in front of people to pitch was something I never would have been able to do last year, and I have done it twice this year."

Another student, Kain Evans, used to sleep through his classes and bring home C's and D's, but the Student Inc classes have "pretty much changed my life," he says. "I used to think I would grow up and get a restaurant job and then work my way up the corporate ladder like my parents did, but this has inspired me to want to go do my own thing." Over the summer between sophomore and junior years, he says, "there were mornings I'd wake up and go, 'That's a good idea—why isn't that a business?' And I'd write down financial plans and logistics and take them to my friends. We'd toss ideas back and forth all summer like that."

Other students have floundered. One pitch a group shows me includes a series of PowerPoint slides, all empty but for labels like "Title" and "Financial Model"—despite the looming due date. Of the eight groups in the class, Miller says, four or five have gelled and begun the transition from "sitting around coming up with ideas to really chasing them down."

One of his biggest tasks is lighting a fire under all of the groups, but he admits that ultimately it comes down to that underlying drive: "It's easy to be a wantrepreneur, but it takes a special kind of student to make that leap."

M**ILLER'S POINT** returns to the big question: Does it take innate entrepreneurial traits—passion, vision, risk tolerance, persistence, and leadership—to make that leap?

Maybe, but maybe less than you would think. Researchers at the University of Minnesota have shown, for instance, that genetics can predict successful leaders only about 30 percent of the time. To put this differently, in most cases people learn to be leaders—and even when an entrepreneurial trait appears to be innate in someone, it may still be learned by someone else. Just as Sandefer's childhood moneymaking schemes were likely spurred by table talk at dinner, what and how kids learn in school are likely to affect their chances of becoming entrepreneurial. What drives programs like the Children's Business Fair and Crockett's Student Inc is an aim to develop the traits of entrepreneurship, regardless of what careers the students ultimately choose.

The very mission of INCubatoredu, the curriculum Crockett licensed from the group in Barrington, Illinois, puts it plainly: "Entrepreneurial skills are valuable to students, whether they see themselves going into business or not. In

"I'D WRITE DOWN FINANCIAL PLANS AND TAKE THEM TO MY FRIENDS. WE'D TOSS IDEAS BACK AND FORTH ALL SUMMER LIKE THAT."

KAIN EVANS, flanked by Esmerelda Barrientos and Isaac Estrada, between classes in the incubator program at Crockett High.

THEY MEAN BUSINESS
Middle schoolers hard at work at Austin's Acton Academy. There are Acton Academies in 25 other cities throughout the world, including Kuala Lumpur, San Salvador, and London, Ontario. Twenty-six more are slated to open this year.

the real world, where simple answers are few and far between, where change is constant, competition is fierce, and the careers of tomorrow aren't yet known, students armed with an entrepreneur's toolkit will have a distinct advantage."

Still, Millennials have, so far, lagged behind those their age in previous generations when it comes to creating businesses, according to the Kauffman Foundation, despite its being cheaper and easier than ever to start a company. Can these programs help reverse that slide for Gen-Zers? The explanations for this shortfall usually involve a hangover from the recession and crushing levels of student debt. Shapiro, the former Crockett principal, proposes an additional explanation: a nationwide overreliance on tests that push schools to teach little more than basic facts. "We went to the standardized testing regime" a generation ago, he says. "Here are your products."

"The U.S. beats itself up and says our math and science scores are testing lower than other countries', and we should focus on that, but it doesn't play to the advantages the U.S. has," says Victor Hwang, the Kauffman Foundation VP. "Where the U.S. has excelled is in finding answers where there's ambiguity. The challenge is that there are no good established metrics for that. How do you measure creative instinct or entrepreneurship, coming up with a product that nobody else thought was possible? That's what these programs are moving toward addressing."

It'll be years before anyone knows if the new approach turns out more entrepreneurs, but in the meantime a program in Atlanta can demonstrate some eye-popping early successes. Beginning in 2015, the Fulton County School System partnered with Junior Achievement to create a school-within-a-school concept called JA Academy. The school recruits companies to provide case studies from real-life business issues they've faced, and then builds the entire curriculum around them. (Cisco, for instance, questioned whether to keep its TelePresence business.) JA Academy kids answer questions raised by the case studies using what they learn in their math, science, reading, writing, and social studies classes. In that context, solving some algebra equation isn't merely an abstract exercise. It's an integral part of solving a real-world problem.

The first JA Academy school, Banneker High, was one of the worst performers in the district when the program began. Compared with their peers, in one year, Academy students there reduced their absenteeism by 75 percent and their disciplinary events by 90 percent. The average Academy freshman entered the year with sixth grade math and reading skills, finished the year at the ninth grade level for both, and outscored his or her cohorts elsewhere in the state on tests.

"If you think about how we traditionally approach high school education, it's focused only on teaching subject matter and not on practicing those skills and creating and innovating and trial and error and rising above adversity," says Jack Harris, president and CEO of JA's Georgia division. "In our view, it's these higher-order thinking skills that are the missing piece."

Back in Austin, Shapiro says he isn't surprised when I cite JA Academy's early results, and echoes Harris on the implications. "I give you two kids. One graduates with top grades, has a lot of book knowledge, and knows how to score an A on a test," he says. "The other has built a business and maybe broke even on it, knows how to go out and hustle, did a couple of internships, and has a growing network. You're an employer. Which one do you want to hire?"

—

TOM FOSTER *is an* Inc. *editor-at-large.*

Helaine Olen

Surviving Your Customer Breakup

It's easy to let yourself rely on big, lucrative clients. But what happens if they ditch you?

WHEN KRISTI FAULKNER co-founded marketing firm Womenkind, she soon landed a well-known global bank as a client. Over the next seven years, Faulkner's New York City business worked with the financial services giant on female-friendly marketing, content, and strategy. It eventually became Faulkner's biggest customer, accounting for 50 percent of Womenkind's revenue in 2014.

And then one day, it all came to an end. The megabank decided to consolidate all of its accounts with one agency—not Faulkner's specialist firm. Almost overnight, Womenkind lost half its business.

"When you are small and you lose something big, it's hard," Faulkner says, adding that the recovery process was "devastating": She had to let go of several employees to reduce costs. A year later, Womenkind is back on its feet, but its founder is still shaken. "It was almost like we had to become a startup again," Faulkner says.

Losing a major client is a precarious moment for any small company. It's a particular risk if your business sells to other businesses, because it's more likely that a few clients could account for a significant portion of your revenue.

Ideally, you should never rely on any one or two customers for a majority of your sales, but it happens all the time. According to David Mitroff, the chief executive officer of Piedmont Avenue Consulting, industries such as construction and large-scale catering are particularly prone to an overreliance on a few big customers.

"There's always a huge temptation to chase Fortune 500 companies, but it leaves you vulnerable if you let yourself be dominated by them," says Anne Miner, the founder of the Dunvegan Group, a marketing research consultancy.

If that sounds familiar, realize that there's only so much you can do to protect those relationships. Another business's needs might change, it might experience money woes, or it might close its doors entirely. Or, adds Mitroff, "there are times when an existing client no longer feels the need to work together. This is organic and a part of the process of any expanding business."

So even if your customer relationships are strong right now, you should regularly game out your strategy for a business breakup. "Make a plan," says Miner. "Know what action you'll take immediately, and by regular milestones thereafter."

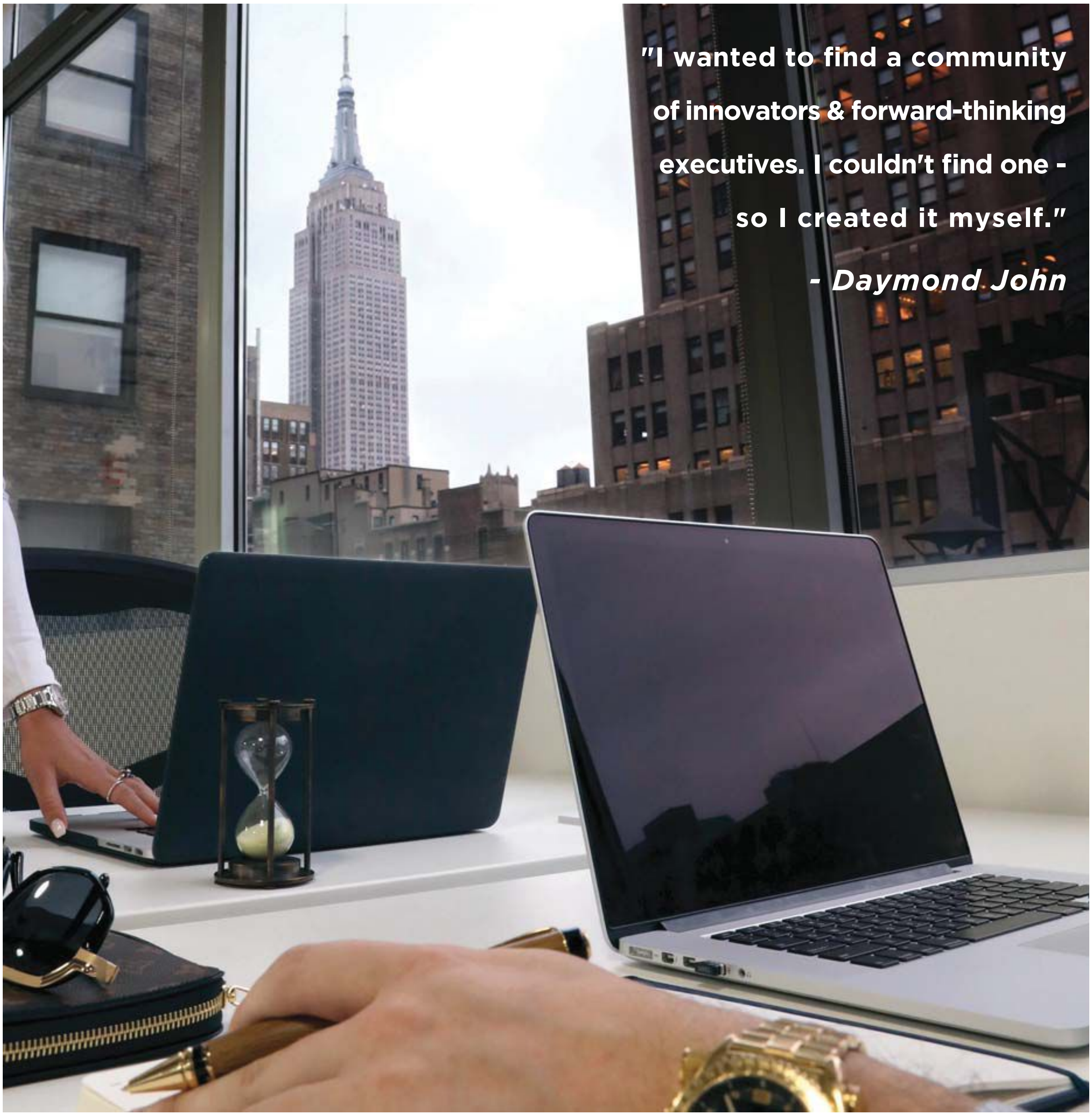
If the worst happens, try to stay both realistic and positive, no matter how dire things look. When Miner lost a contract worth seven figures annually with barely a month's notice, she had to lay off the majority of her staff. But then she turned around and started pitching, including to former accounts. "I didn't say I was devastated. I said we 'had capacity,' " she explains. "You need to keep yourself together." Within six months, she signed up a big new customer and was able to hire back some of her team.

Still, it can easily take three to six months to bring in new business, and longer for big clients. While you may be currently operating at capacity, don't completely neglect your sales pipeline. As Faulkner has realized, "business development is a slow process. It doesn't happen on your timing."

Since losing her bank client, Faulkner has recovered a big chunk of her lost revenue. She recently acquired a new customer: Stamford, Connecticut–based fragrance company PDC Brands. This time, she says, "I've learned to keep things much more in balance. You can't treat one client like the big kahuna. You have to treat all your clients like the big kahuna."

Helaine Olen is a veteran personal finance journalist, the author of *Pound Foolish: Exposing the Dark Side of the Personal Finance Industry*, and the co-author of *The Index Card: Why Personal Finance Doesn't Have to Be Complicated.*

GREG KAHN


"I wanted to find a community
of innovators & forward-thinking
executives. I couldn't find one -
so I created it myself."
- Daymond John

INNOVATE

Invent.
Experiment.
Disrupt.

"We wanted to create a model similar to the sperm bank by opening a network of fertility practices around the country."
—HEIDI HAYES, co-founder of Donor Egg Bank USA

PG. 76

PG. 74

STRIP OUT YOUR HIDDEN HIRING BIAS

PG. 80

DISRUPTERS IN RESIDENCE: HOW ENTREPRENEURS INNOVATE WITHIN BIG COMPANIES

PHOTOGRAPH BY **YE RIN MOK**

Putting Your Blinders On

Hunting for the best talent? Use a recruitment tool that can strip out your hidden biases

BLIND AMBITION
Most entrepreneurs aren't intentionally biased, but research shows we tend to hire people similar to ourselves.

"RAISE YOUR HAND IF YOU'VE judged a candidate based on the college on their résumé," says Kelly Grossart, recruiting manager for Evernote. She's standing before a crowd of attentive employees at the startup's Redwood City, California, headquarters, leading an interactive training session on implicit bias. And when only half the group sheepishly raise their hands in response to Grossart's request, she exhales loudly and asks, "Are you guys serious?"

No one wants to admit they're anything less than objective, of course—which is what makes implicit or hidden bias so hard to stamp out. "Research shows that we find people more persuasive when we like them, and the most common reason we like them is they're similar to us," says Cade Massey, a professor who studies behavior and judgment at the Wharton School of the University of Pennsylvania.

But your subconscious assumptions could be hampering your company's bottom line, leading you to overlook great candidates, take longer to fill openings, and build a less-than-stellar team. Studies show that the most racially diverse companies outperform industry norms by 35 percent, while companies with the greatest gender diversity boost a company's performance by 15 percent. Teams with diverse backgrounds also tend to generate more innovative ideas.

Now there are a number of new recruitment websites, tech platforms, and services that can help you push past implicit bias. Depending on the tool, résumés can be scrubbed clean of certain details, like names, which often signal race and gender, and colleges, which can indicate socioeconomic background. Voice modulation software can also be used to make it impossible to discern the gender of the person on the other end of a phone interview. And computer-based skills tests mean the first thing you see about an applicant isn't a laundry list of companies she's worked for, but an objective assessment of how well she'd probably perform on the job.

Companies including Google, Dolby, and Wieden+Kennedy are deliberately putting on opaque glasses to find talent they otherwise might never have considered. All three use GapJumpers, a recruitment platform where candidates perform skills-based challenges specifically tailored to an open position. "We want to shift the focus from the person to the output," says Petar Vujosevic, co-founder of GapJumpers. When the company crunched the data on 1,200 blind auditions performed for its clients, it found that its method increased the proportion of qualified candidates who are not white, male, and from "elite" schools from about 20 to 60 percent.

Harry Robertson, co-founder of

Are you biased?
Consider these sobering stats and see if any hold true for you

PEDIGREE
For a 2016 study of law firm hiring bias, a male's résumé that subtly signaled privilege—sailing and classical music as hobbies—received nearly four times as many callbacks as ones that didn't. *Source: American Sociological Review*

GENDER
In one study, two identical résumés with different names were sent in for a lab manager position. "Jennifer" was rated as less competent than "John," and hiring managers recommended paying her, on average, $4,000—13 percent—less than John. *Source: Proceedings of the National Academy of Sciences*

ICONS (5): MIGUEL PORLAN

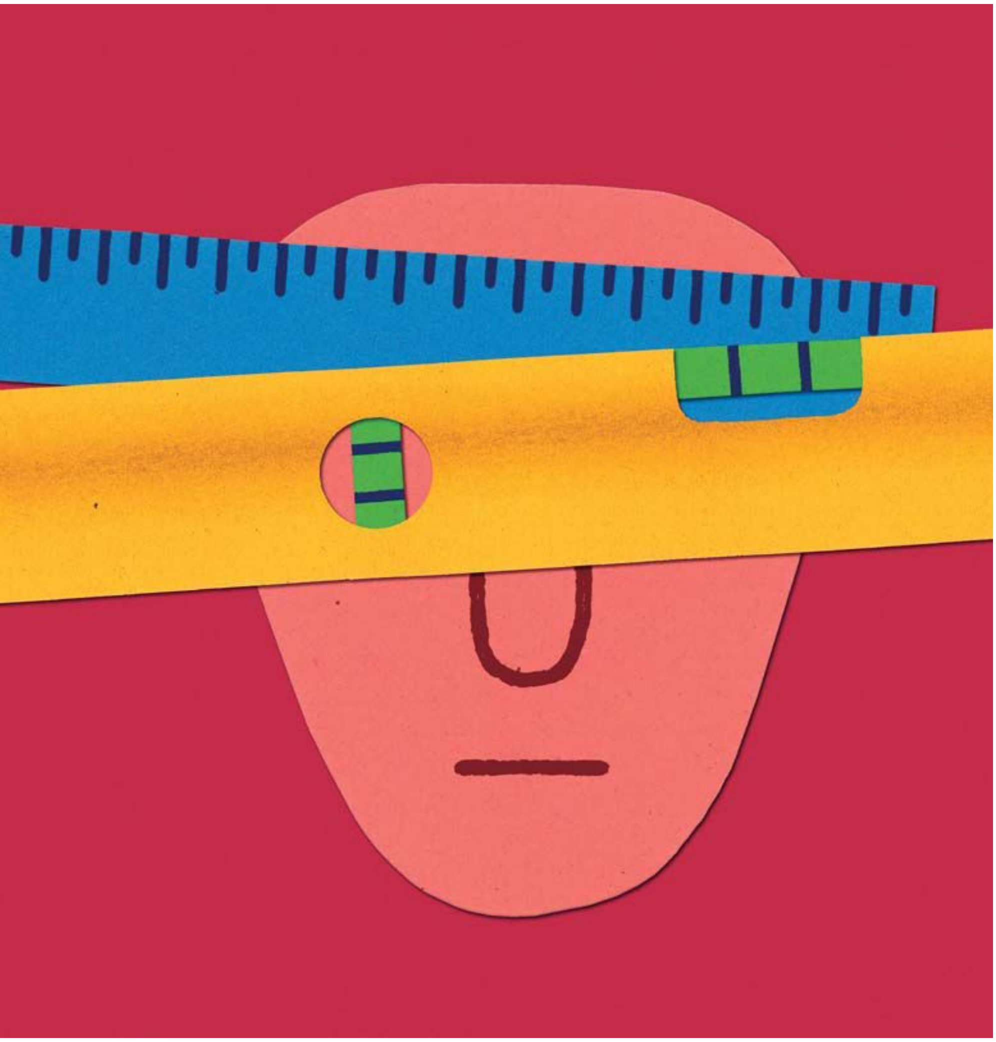


Illustration by **MIGUEL PORLAN**

mobile app marketer Liftoff, started using blind recruitment in 2015 to, among other things, combat homogeneity creep in his engineering team. “Early on, we grew mostly through employee networks and referrals, but that means a lot of the hires look like the current team,” he says. Almost all of his 20 employees had been at a major Silicon Valley tech firm. “I wanted us to cast a wider net and avoid groupthink,” he says.

Since embracing these tools, Liftoff has made two engineering hires, neither of whom had clocked time in Silicon Valley before. “There’s huge competition here, which increases our hiring costs,” says Robertson. “Blind recruitment lets us see diamonds in the rough that other companies might overlook.”
— KATE ROCKWOOD

BIAS BUSTERS

WHICH BLIND RECRUITMENT TOOL MAKES SENSE FOR YOU?

BLENDOOR Like a mash-up of LinkedIn and Tinder, Blendoor scrubs professional profiles of identifying details (photos, names, graduation years) and presents them to recruiters. It recently built a feature allowing employers to anonymize all candidate profiles, regardless of whether they originated through the site. More than 400 companies—including Facebook, Twitter, and Google—have signed on.

INTERVIEWING.IO Engineers flock here to flaunt their skills with live technical interviews. The site sends invites to strong performers, who are invited to do anonymous technical phone screeners. Roughly 60 percent of candidates advance to onsite interviews with clients that include Uber, Twitch, and Asana.

GAPJUMPERS Skewing to more technical positions, the recruiting platform creates a timed skills challenge tailored to each position, and then puts anonymous candidates through the paces. Those with the best scores advance to interviews.

TEXTIO This Seattle-based start-up, which counts Cisco and Microsoft as clients, has a laser focus on using data to help companies write job descriptions that avoid inadvertently turning off certain applicants. For example, ads with “rock star” can draw a disproportionate number of male candidates, while corporate jargon like “synergy” and “push the envelope” can turn off people of color more often than others. “To fill roles quickly with qualified candidates, you perform better if you reach the whole population,” says co-founder Kieran Snyder.

VOICE

Women, more than men, are penalized by hiring managers for vocal fry. One study found that young women with creaky voices were judged as “less competent, less educated, less trustworthy, less attractive and less hirable.” *Source: Plos One*

RACE

In a landmark study, researchers sent identical résumés for one position. Those with African American–sounding names—Jamal Jones, Lakisha Washington—were only half as likely to receive a callback as those with white-sounding names, like Emily Walsh or Greg Baker. *Source: The American Economic Review*

AGE

For a 2016 study, participants were told about two equally qualified candidates, one of whom had strengths that signaled youth and the other, maturity. Seventy percent of participants preferred to hire the young candidate. *Source: Journal of Social Issues*

How an Entrepreneur's Infertility Gave Birth to a Business, 1,500 Babies, and an Acquisition

Heidi Hayes, co-founder of Donor Egg Bank USA, transformed a new technology into a new company

MOTHER OF INVENTION
Heidi Hayes turned her own difficulties into a business that helps both egg donors and would-be moms.

Photographs by **YE RIN MOK**

WHEN HEIDI HAYES AND her husband were trying to have a child, they spent thousands of dollars, in vain, on fertility clinics. Eventually they adopted, and later had twins thanks to an egg donor. But the arduous process led Hayes to a less expensive, more convenient idea. In 2010, she and reproductive endocrinologist Michael Levy founded Donor Egg Bank USA, the first company to distribute vitrified eggs to other fertility clinics. The company allows women to vet donor profiles and buy eggs online. After raising $1.25 million and starting with 13 partner fertility practices, it has expanded to 50 practices, capturing a third of the market. By 2016, Donor Egg Bank USA had sent more than 3,200 sets of eggs to women who have given birth to some 1,500 children. The firm reached $17 million in annual revenue before being acquired by California Cryobank, one of the world's largest sperm banks, in a multimillion-dollar deal in December. —WILL YAKOWICZ

What makes your technology so disruptive?
Donor Egg Bank USA was the first fertility practice to send vitrified eggs to other clinics successfully. After that, a number of other companies joined the market. There are about four egg banks that dominate the space; we have about a third of the market.

Egg freezing has been around a long time, but the method of slow cooling did not have a high success rate. In 2009, doctors started

making advancements in vitrification, or rapid freezing. Vitrification uses cryoprotectants, which are chemicals that prevent water molecules from turning into ice crystals, protecting the integrity of the genetic material. As soon as doctors started using vitrification, the success rate for pregnancies and births from donated eggs increased dramatically.

How does partnering with fertility practices around the country work?
Michael Levy, my business partner, and I got together and decided we could revolutionize the fertility world by making the use of an egg donor more affordable and eliminating issues related to geography. With fresh eggs, you do not have many choices, because you need to find someone in your general area who is willing to sell her eggs and commit to all the doctor visits, get your menstrual cycles synchronized, and be on call for the transfer. But with Donor Egg Bank USA, geography isn't a factor anymore. Women can buy eggs from a donor anywhere in the country.

We wanted to create a model similar to the sperm bank by opening a network of fertility practices around the country, all collaborating and sharing resources.

Women find the donor they want online from a pool of diverse donor profiles. Then, we will ship an egg lot (six to eight eggs) to their fertility practice. Women can buy a frozen egg for $1,350. A full treatment cycle costs $17,000 to $21,000. (Fresh human eggs sell for $30,000 to $50,000.)

Why did you sell, and how did you decide on the buyer?
We weren't looking to sell, actually. California Cryobank approached us. California Cryobank also banks blood, but they wanted to start an egg bank. They found us, and we met with them, but we said we weren't for sale. Almost seven months later, they came back to us with a serious offer. The dance and negotiation took place, but in the end the price was right. Most important, the culture was a fit. California Cryobank is a large organization, but they have a culture of sharing resources and collaborating. Plus, it's a leader in the industry and helps set standards.

How do you price a new company with a novel technology?
You have to price it for where you expect it to be in the future. We didn't follow the traditional business rules to calculate the multiple of revenue. We priced the business for what we knew its potential to be years down the road.

Vitrification is relatively new. Can you tell us about starting a business with an experimental technology?
Egg vitrification was considered experimental until 2012, when the American Society for Reproductive Medicine ruled that it was no longer experimental. We launched in 2010, and started shipping to the public in 2012, before the experimental label had been removed. It took a while to persuade fertility practices to partner with us for the treatments. But we were able to show 13 practices that we had a technology that was going to disrupt the market.

Still, it was nerve-racking to have the experimental label. In March 2012, we shipped the first egg lot. We weren't confident that we could ship vitrified eggs, but the eggs kept their integrity during transit. Our second shipment resulted in twins being born. At that point, we knew the treatment was going to be revolutionary.

How many women have a successful treatment?
About 50 percent of women give birth after the first cycle; 90 percent of women who enter our program will bring home a baby. But we have a 100 percent money-back guarantee for up to six cycles.

How did it feel to sell your company?
It was exciting, but it was sad, too. It felt as if I had sold a house that I built and loved living in. But I now run the egg division of California Cryobank. The future is bright, as I'm part of a bigger company that is about helping families.

Cryopreservation

HOW TO STOP BIOLOGICAL TIME

Baby Formula
Cryoprotectants allow eggs to be frozen without creating damaging ice crystals.

Assisted reproductive technology has made great strides since Robert Edwards and Patrick Steptoe pioneered in vitro fertilization. Their technique, which involves taking a woman's mature oocyte (egg) and fertilizing it with sperm in a petri dish to form an embryo, led to a U.K. woman's giving birth to the first "test tube baby" in 1978.

The practice of freezing a woman's eggs started in the 1980s, and the first birth using that method occurred in Singapore in 1986. But slow freezing can damage the female gamete as ice crystals form and squeeze the genetic material. Doctors then started exploring vitrification, a type of flash freezing combined with the use of cryoprotectants that preserves genetic material at minus 196 degrees Celsius without allowing ice formation. The first baby from a vitrified egg was born in 1999, in Italy.

Vitrified eggs have a higher chance of survival than slow-freeze eggs, but the earliest cryoprotectants were often toxic and high survival rates remained elusive. Japanese embryologist Masashige Kuwayama made further advances in cryopreservation while working with bovine and porcine oocytes in 1991. He eventually achieved a 95 percent egg-survival rate.

In 1998, Kuwayama started testing on human oocytes and embryos. The first birth using his method came in 2002 in Japan; the first U.S. birth using it followed in 2003. Kuwayama has continued to refine the procedure, with survival rates now approaching 100 percent. Donor Egg Bank USA and embryologists in 40 countries use it. According to Kuwayama, more than 300,000 children have been born from vitrified oocytes or embryos.

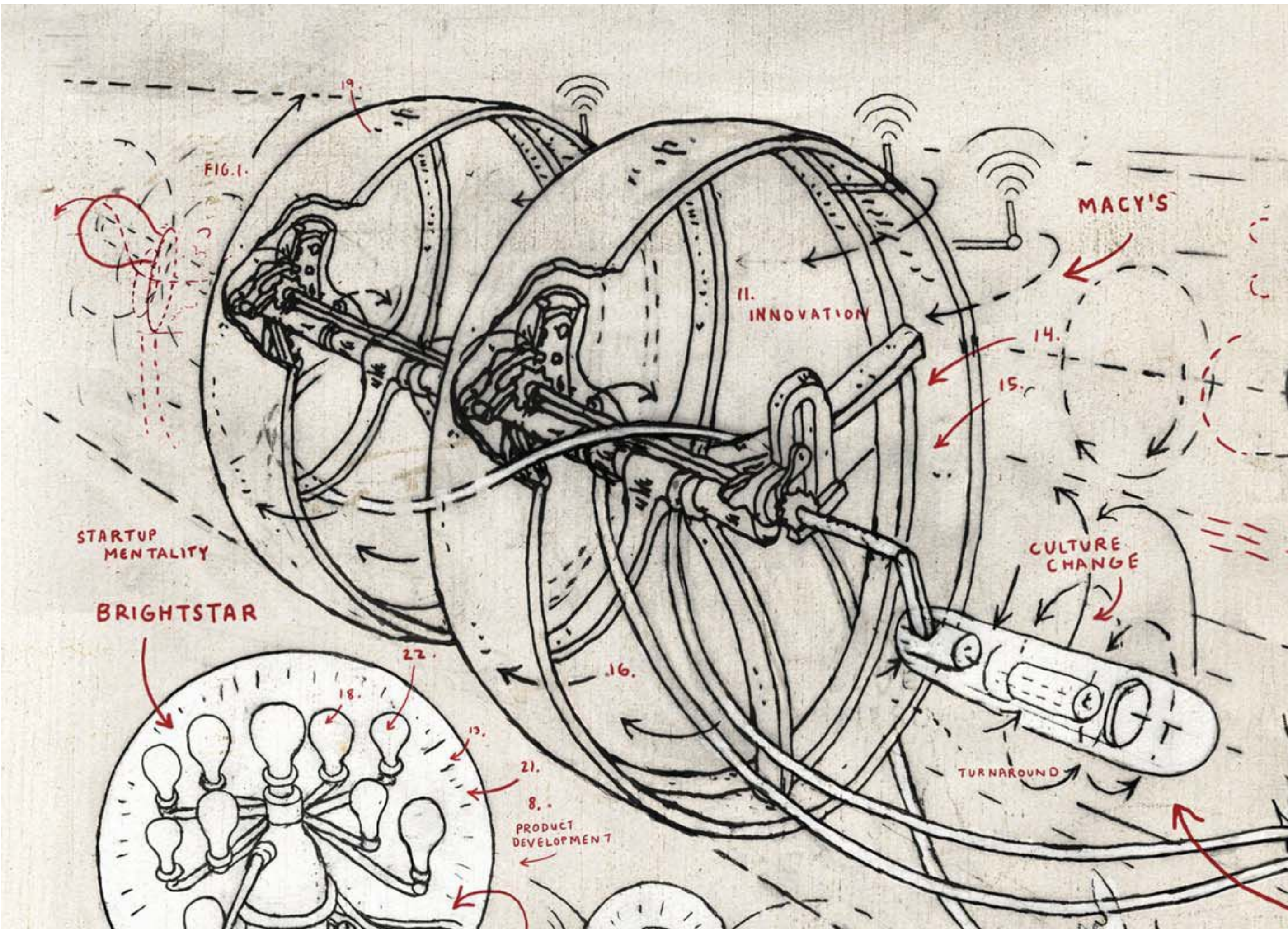

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FIG. 1.
MACY'S
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INNOVATION
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CAMPBELL'S
SPRINT

Big businesses searching for inspiration, innovation, and startup verve are finding a surprising new source: the entrepreneurs whose startups they buy. Meet the owners who got bought out—but didn't sell out

INSIDE JOB

BY KIMBERLY WEISUL
Illustration by Jonathon Rosen

BIG CORPORATIONS can be unhappy places these days. The new president is very publicly smacking them down—about the cost of Air Force One, about drug prices, about the car plants they have in Mexico. Activist investors harangue Fortune 500 CEOs about boosting returns even as the bosses struggle to increase sales. If the big companies seem bereft of breakthrough ideas, perhaps it's because they are. Meanwhile, the Millennials they so crave as customers are hardly excited about working for them.

Fortunately for corporate America, where there has been zero job growth, where products are often out of touch, where mindsets are sclerotic, there is one force that could save them: entrepreneurship—or, more specifically, the entrepreneurs whose companies they buy. American giants have begun to recognize that the well of innovation is still gushing among the Inc. 5000. And they are thirsting for it.

There's a new, and favorable, twist in the tale for entrepreneurs, too. In the past, when a big company bought a small one, the founder got a big payday, but had to accept giving up control of a business built on years of love and grueling work, and that the acquirer, once in control, might have a slightly different plan for its new toy. Cultures clashed, cherished employees left, and all the excitement that went into creating the merger vanished. Even worse was the "acquihire," in which a company got taken out primarily for its talent—without even a pretense of synergy.

In the trend that's emerging, the founders of prominent startups are finding ways to sell their cake and have it, too. They can run their brands on their own terms inside larger corporations while at the same time providing spark and nimbleness to the parent company. "We needed some sort of outside catalyst to get our digital effort going at the speed I wanted it to," says John Schlifske, CEO of Northwestern Mutual, which bought fintech startup LearnVest. "I didn't feel we had the right speed and agility."

We're now at the point when entrepreneurship doesn't have to end with a purchase. Even better, entrepreneurs like Alexa von Tobel at LearnVest and Marla Malcolm Beck at Bluemercury get to operate with resources they couldn't imagine having as startups. Whether it's Northwestern Mutual jump-starting its online financial planning, or Under Armour building a connected fitness initiative with a startup such as MyFitnessPal, this is how the smart 21st-century acquisition gets done. "At some point, established companies have to adopt some startup thinking," says Alexander Chernev, a professor of marketing at the Kellogg School of Management. "It's not that startup thinking is the best thing ever. But it forces you to look at the world as a changing place."

MACY'S ➔ BLUEMERCURY

ALIGNING WITH AN OLD-LINE RETAILER IS A SMART MOVE

ON A RECENT trip to Africa from her home near Washington, D.C., Bluemercury co-founder and CEO Marla Malcolm Beck discovered a novel way to make the 17-hour flight more bearable: She watched all the film trailers in languages she couldn't understand. Another pastime: studying university syllabuses. "You can see where things are moving based on the newer topics being taught," she explains. She doesn't merely observe, though. In 2015, after noticing the success of the iPhone and Apple's nearly all-white stores, she redesigned the template for Bluemercury, the luxury beauty store and spa she launched in 1999 with now-husband Barry. Goodbye, maple and marble; hello, white walls, brushed aluminum, and the company's signature royal blue.

This is an entrepreneur who is unlikely to miss a trend, as she demonstrated in 2014 when her phone started ringing with offers to buy or invest in her business. She and Barry knew this was the time to sell. "That energy starts happening, and people from Fortune 500 companies want to meet with you and see what you're up to," says Beck.

After all, this had happened before, in 2006, when Bluemercury had 12 stores. Then, it ended up with a private equity deal that took the company to 60 stores. This time, the opportunity would be bigger. Bluemercury had options. It could strike another private equity deal, with the goal of taking the company public. Or the Becks could find a strategic partner that would likely buy Bluemercury outright. Reasoning that they wanted to keep scaling their business, and that they could benefit from a partner

MARLA MALCOLM BECK
She could have had her pick of acquisition partners, or waited to go public. Macy's brings retail systems and expertise that will allow Bluemercury to expand rapidly.

PHOTOGRAPH BY **ERIC OGDEN**

with greater resources and expertise, the co-founders sold Bluemercury to Macy's in 2015 for $210 million.

"When we looked at the whole landscape, Macy's was so strong in their core retail and omnichannel capabilities," says Beck. That might not seem obvious, given that last summer Macy's announced that it would close about 100 stores and lay off 10,000 people. The shift to online shopping has forced Macy's, like many other retailers, to restructure. But Beck was confident, as she is now, that Macy's, one of the largest online retailers, could accelerate Bluemercury's growth. With help from Macy's, for instance, Bluemercury updated and relaunched its website in nine months—far faster than Bluemercury could have done on its own. Beck also points to the Macy's West Coast innovation lab, where the retailer is constantly experimenting with new technologies. Plus, she says, "they are an amazing team of operators. They're nice people, and they're incredible at execution."

For Macy's, the rationale is similarly compelling: Fifteen years ago, about 90 percent of prestige cosmetics were sold in department stores, says Beck. By 2014, it was 60 percent, and still sinking. "The structure of the industry changed," says Beck. "If their clients were shopping in specialty channels, then they wanted to be part of that." Macy's CEO Terry Lundgren says that the idea of selling prestige cosmetics in a specialized way is hugely appealing. "A lot of our stores aren't going to do enough volume to build a counter and add full-time staff for a particular brand," he says. The Bluemercury model, with sales staff trained to sell multiple brands, solves that problem for Macy's.

THE DAY THE DEAL was announced, Beck did a call with her entire staff, who gave it decidedly mixed reviews. Employees worried about losing Bluemercury's family feel. The Bluemercury sales staff are year-round employees, and well aware that most department store makeup counters are staffed largely by part-timers and seasonal workers. But Lundgren had assured the Becks that Bluemercury would still be independent, as they wanted. "The idea was that they wanted to keep us running in our lane, and we could learn from each other," says Beck. By and large, the employees stayed. Their jobs and hours didn't change, and the Macy's benefits package was more generous than Bluemercury could have afforded on its own. While Macy's shrinks its footprint, Bluemercury is expanding quickly; it added 40 stores in 2016 and plans another 32 this year. That creates more opportunities to promote people.

To hear Beck tell it, she and Bluemercury got exactly what she wanted, and needed, out of the deal. She had been laboring to scale every function of the company. Now, some finance and benefits administration is handled by Macy's. When Bluemercury needs a recruiter, it turns to Macy's. Similarly, Bluemercury was so nimble that it never thought it would use

CAMPBELL'S → PLUM

COOKING UP NEW RECIPES FOR AN OLD FAVORITE

NEIL GRIMMER
He's obsessed with the intersection of food, biology, and technology. And Campbell's is bankrolling him.

NEIL GRIMMER IS A FAN of Andy Warhol's *Campbell's Soup Cans*. Also, he grew up eating Campbell's soup. As of three years ago, says Grimmer, that was pretty much the sum total of what he knew about Campbell's. So he was surprised when, in 2013, his investment bankers suggested that the famous but struggling soup company from Camden, New Jersey, might be interested in buying his Emeryville, California–based baby-food startup Plum Organics, which he founded in 2007 and had grown to $80 million in sales. "My first reaction was 'That seems strange,'" says Grimmer. "It's almost like odd bedfellows. It never dawned on me that they would be a real buyer."

When Grimmer met with Campbell's CEO Denise Morrison, he was in for another surprise. She seemed to understand, completely, Grimmer's obsession with feeding kids nutritious food. Like other large food companies, Campbell's was well aware of consumers' burgeoning preference for healthy foods, and looking for ways to capitalize on the trend rather than be swamped by it.

any Macy's marketing resources. That changed after it made a training video with the Macy's production team, which Beck describes as "amazing."

On the back end, there was the Macy's inventory planning system, a must-have for a major department store chain, but Beck's staff wasn't crazy about implementing it. She's glad they did. Profitability improved, because the stores are more likely to have customers' desired items in stock. "Macy's has these powerhouse systems that add huge value," says Beck. Likewise, Beck is now talking to Macy's about using some of its distribution. "At first we were like, 'We're small, we'll handle it ourselves,' " says Beck. "As you grow, you start to be open to other discussions."

As a company in flux in an industry under siege, Macy's needs to mine Bluemercury for every advantage it can get. Bluemercury has team-based compensation for its staff, for instance, which Macy's is watching closely. Bluemercury emphasizes skin care, whereas Macy's is stronger in cosmetics. Bluemercury is also aggressive about giving out samples. Customers who buy online can choose three samples, rather than having Bluemercury or a salesperson decide for them. Macy's is adding that capability. Beck used Facebook Live to launch a new product from her office; all of a sudden, Macy's was talking about using Facebook more.

And through Bluemercury, Macy's can execute small-scale testing of up-and-coming brands—those with 20 to 30 products, say, rather than the hundreds that would earn them a full counter in a department store. Beck points to the British brand Rodial, which sells well at Bluemercury but wouldn't warrant its own counter at Macy's, while Bluemercury's proprietary skin care brand, called M-61, has done well enough to be sold in Macy's. "It's a very high-quality product line," says Lundgren. "We are going to benefit from that, and it's just the beginning."

Although she operates in a glam business, Beck has always been driven by data and numbers. As a high schooler, she did the books for her dad's real estate development business. "I remember searching for pennies to make things balance," she says. Before starting Bluemercury, she worked at McKinsey and then in private equity. She is still running the numbers on customers. If you shop at a Bluemercury in Chicago and then go to a store in New York City, that Big Apple store will know which products you've bought. When Bluemercury launches a product, that brand will often invite the store's top customers to try free samples, and track the amount those customers spend over time. Macy's is counting too. Says Lundgren, "If we could roll out 150 [Bluemercury] stores this year without jeopardizing the quality of the execution, I would do that."

"At first we were like, 'We're small, we'll handle it ourselves.' As you grow, you start to be open to other discussions."

A year earlier, Campbell's had spent $1.55 billion for Bolthouse Farms, a purveyor of premium juice drinks. And it made sense to Morrison that, if a deal was to happen, Grimmer didn't want to see the company uprooted from Emeryville. "It's not just about acquiring a brand," says Morrison. "You're also welcoming the people who made the brand what it is."

A week after the deal closed, Grimmer got the endorsement that told him he'd made the right choice. The state of Delaware had sanctioned a new form of incorporation, called a public benefit corporation, or B Corp. It allows companies to write values such as sustainability into their articles of incorporation. The day after the close, Grimmer asked Campbell's if Plum could become a B Corp. A week later, it was a done deal. In Grimmer's first meeting with Campbell's staff, he explained B Corps. "It was a total lovefest," he says. "When I said we had become a public benefit corp and what it meant, that we were putting our values up there with making money, there was a standing ovation."

At an offsite a year after the acquisition, the corporate vibe was equally good, but with some dissonance for Grimmer. Twenty-five percent of the Plum staff had left. Plum had been hiring, so 40 percent of the people at the offsite were new since the acquisition. "I had a lot of people who were very close to me decide, 'I'm going to take this time to transition to do something else,' " says Grimmer. "That was one of the toughest things for me. "

Campbell's, it would be fair to say, didn't shed a tear: The company is more interested in adapting Plum's best practices, such as doing more rapid prototyping. In December, the company launched a new line of soups, called Well Yes, featuring such of-the-moment ingredients as kale, quinoa, and faro. "Plum is very innovative and entrepreneurial," says Morrison. "By respecting that and learning from it, we've become more like that too."

Campbell's has gone to school on organic procurement from Plum, and on Plum's organic supply chain. As for Plum, Grimmer says, sales have grown 91 percent since the acquisition—thanks to Campbell's distribution muscle—and the company's compound annual growth rate is three times that of all his competitors combined.

As content as he is with Campbell's, Grimmer always intended to start another company, and discussed his ideas with Morrison. Both are interested in the intersection of biology, food, and technology. Their joint interests led to Habit, recently launched in Seattle. Founded and led by Grimmer, Habit delivers meals customized to individuals based on their unique biological makeup. (You think that might include a soup?) Grimmer envisions that Campbell's Fresh, a division built on the Bolthouse Farms acquisition, will be instrumental in scaling the food side of the business. "We're putting three industries together in one company—food, biology, and technology," says Grimmer. "Having a strategic partner in the food space makes this infinitely more viable than if we were going to build it alone." Campbell's is the sole investor in Habit, funding a $32 million A round. And yes, Campbell's has an option to buy.

ANDREW WEEKS

ALEXA VON TOBEL
On a startup's budget, she says, you have to scrape by. Now she can "go out and get the best," thanks to Northwestern Mutual's deeper pockets.

NORTHWESTERN MUTUAL ➜ LEARNVEST

A NEW YORKER FINDS AN EDGE IN MILWAUKEE

S**HE'S BLOND** and speaks New York City fast, as befits a former trader at Morgan Stanley. He's middle-aged, Midwestern, and trim, chooses his words carefully, and gives every indication of having stayed with his employer for decades—which he has.

In 2015, his company bought hers for a reported $250 million. Now, they practically finish each other's sentences. The only thing that's stopping them, she jokes, is that they text 25 times a day.

She is Alexa von Tobel, the founder of LearnVest, which makes financial planning software. He is Timothy Schaefer, Northwestern Mutual's executive vice president of client and digital experience—is that not a corporate title?—and the person at Northwestern most directly responsible for making the LearnVest acquisition work, which means grafting LearnVest's rocket ship onto a company that has mastered slow and steady. "One of my degrees is in organizational behavior," says Schaefer. "I got to use it in spades on this thing."

LearnVest is a scrappy New York City startup founded in 2007; Northwestern Mutual, based in Milwaukee, might have been a scrappy startup too, 160 years ago when it was founded. Despite the differences in history and culture, the two companies have one important thing in common: They're happy to take on clients with few investable assets as opposed to the high-net-worth types craved by other firms. Most financial planning software, says von Tobel, assumes the client already

PHOTOGRAPH BY **BRYAN DERBALLA**

has money to pay the bills and simply allocates what's left. LearnVest bases its financial advice on a person's cash flow, providing guidance even when there's little to nothing to invest. Schaefer's outlook is similar: "We believe you work with people with potential and help them get where they need to be, financially."

To bring the companies together, the standard choices were for Northwestern either to fully absorb LearnVest or to keep it at arm's length. Neither felt right to von Tobel or Schaefer. Northwestern Mutual envied LearnVest's approach and its ability to test, learn, and change things quickly, but its own culture was understandably more conservative. "Ultimately when you manage a business you have to think about disruption," says Northwestern CEO John Schlifske. "In many ways we're trying to disrupt ourselves. We put the client at the center of everything, and we're willing to let go of the past if the client wants something new."

LearnVest, it realized, could do with some more long-term planning, and had to grow quickly to make the acquisition work. Von Tobel (a onetime *Inc.* columnist) refers repeatedly to the creation of a third company culture, located somewhere in the psychic space between Milwaukee and New York. For now, some engineering teams have leaders in both New York and Milwaukee; so do teams reporting to von Tobel. Hackathons take place in both locations and sporadic synergy is not unusual. Northwestern has even set up an internal venture pool to fund ideas from employees.

LearnVest's crew has largely stayed put. Von Tobel notes attrition of about 10 percent; even that, she says, is "crushing." Still, no one had to leave; no one even had to leave New York. Since the acquisition, LearnVest has hired 150 people. "On a startup budget, you stretch and reach," says von Tobel, "and now we're like, 'Let's just go out and get the best.'" On its own, LearnVest could deliver 10,000 financial plans annually; now, with Northwestern Mutual's assistance, it's looking at roughly 500,000 financial plans.

Von Tobel says that selling to Northwestern will help fulfill her vision in starting LearnVest, which is why she intends to stick around. "We didn't come together to be done with it," she says. "We came together to change financial planning in America."

DAVID PAUL MORRIS/GETTY

UNDER ARMOUR ➔ MYFITNESSPAL

YES, THERE CAN BE SYNERGY IN A BUYOUT. IF NOT, WHY BOTHER?

MIKE LEE
He sold MyFitnessPal because he believed in the strategic vision that Under Armour CEO Kevin Plank had outlined.

WHEN MIKE LEE SAYS "we," it's rare that he's referring to the staff of MyFitnessPal, the fitness and nutrition app company he and brother Albert co-founded in 2005. More likely, Lee is referring to colleagues at Under Armour, which bought MyFitnessPal for $475 million in February 2015.

It took a while for Lee to take the money. And when he did, he didn't run. When Under Armour first called, Lee agreed to visit founder Kevin Plank at his Baltimore offices only because he thought he might end up with some kind of partnership. Then Plank started talking about his vision for what he called connected fitness. Plank knew that technology would be playing a bigger role in improving athletic performance, and Under Armour didn't have the technological capability to compete.

Lee got it. "If we were acquired by a company like Google or Apple, we would become one small piece in this giant machine," he says. "At Under Armour, we knew we would matter. We would have the attention of the CEO, we would be a big part of the strategy, and we would make a difference."

Lee had months to get used to the idea of being part of Under Armour, which, with $5 billion in revenue, is hardly small. His staff would have no such luxury. He knew the deal would fail if his employees fled. So his first presentation to them, the day the acquisition was announced, had to cover the basics: No one would be laid off. Everyone would report to the same person as before. The company would not move from its San

Francisco home. Then he made the case that, really, the two companies were simpatico: Both Under Armour and MyFitnessPal had pragmatic cultures. Plank was, as Lee puts it, "an entrepreneur's entrepreneur."

A few days later, Plank and his team flew to San Francisco and hosted a celebration for the newly combined companies at the baseball Giants' AT&T Park. "Everybody was going crazy," says Lee. "Our logos were on the billboards." Plank gave a presentation that was similarly well received. "He said how excited he was to be working with us all, how appreciative. They were respectful and thankful of this tiny little company," says Lee. "I mean, they bought us."

Then began the work of actually integrating the two companies. "You can get a false sense of success in an acquisition when the acquiring company just leaves you alone," says Lee. "That is not what we wanted. If the deal is supposed to have all these synergies and benefits, you can't operate like two companies and expect those to happen." When the deal was announced in February 2015, MyFitnessPal had about 80 million users; now, Lee says, that number is "well over 100 million."

Lee, who has become Under Armour's chief data officer, is still learning about his new colleagues in the connected fitness group. They meet early and often with teams such as product and consumer insights to hatch new ideas and bring them to market.

The combination has already scored.

> "You can get a false sense of success in an acquisition when the acquiring company just leaves you alone. This is not what we wanted."

Observing Under Armour's online communities, Lee and his team noticed that more athletes were focused not just on training but on recovering after workouts as well. They recognized that rest was an opportunity, which led to the company's new "recovery sleepwear"—call it inactive wear. These new pajamas feature a print on the inside that's made from a specialty ceramic designed to reflect a particular infrared wavelength back to the wearer, helping muscles recover while inducing sleep and reducing inflammation. It's endorsed by New England Patriots quarterback Tom Brady. Says Lee: "There are things we couldn't have done on our own."

SPRINT ⊙ BRIGHTSTAR

BUST UP THE FURNITURE AND WIN

After selling his cell-phone distributor, Brightstar, in 2014, Marcelo Claure became a billionaire. He owns a soccer team, Club Bolívar, in his native Bolivia, and is working with pal David Beckham to bring an MLS team to Miami, his adopted hometown. Jennifer Lopez sang at his 40th-birthday party. He has five kids. So what is he doing in Kansas City trying to turn around Sprint?
—As told to K.W.

MARCELO CLAURE
As an outsider in every sense of the word, he had no allegiance to Sprint's ossified culture or business practices.

JULIAN BERMAN

ENTREPRENEURS ARE good for two things: starting businesses and turning them around. As an entrepreneur, you learn never to take no for an answer, and a turnaround is similar. People tell you it's been done before and it's never going to work. It is the exact same no you hear as a startup. I've told all my team that there are easier


Ad Council
I didn't talk for a very long time
Jacob Sanchez
Diagnosed with autism
Lack of speech is a sign of autism. Learn the others at autismspeaks.org/signs.
AUTISM SPEAKS

jobs. The satisfaction needs to come from winning. And by the way, if we are successful, you will make money. Otherwise, you will not make money. When [SoftBank CEO] Masayoshi Son bought Sprint, he had already invested in Brightstar. He asked us to combine the procurement of Brightstar and Sprint. In less than eight weeks, we were able to save about $400 million. Because of that, Masa asked me to join Sprint's board. Brightstar was also serving Verizon, Apple, and T-Mobile. That started to cause a few problems in the industry. When the government called us and kindly let us know there was no way they would approve the merger of Sprint and T-Mobile, Masa pulled me aside and said hey, I want to make you CEO of Sprint.

On day one, it was quite awkward. A 44-year-old Hispanic lands in Kansas City, Missouri. When I came to Sprint, all I saw at first were the TV crews waiting for me outside. It bothers me that I was the only Hispanic CEO of a Fortune 500 company. If I can do this, maybe I will open the doors for other Hispanic CEOs.

Sprint had the culture of a company that was losing. People arrived right on time, and they left right on time, too. The parking lot had traffic jams at 5 p.m. with people trying to get out. Sales meetings were monthly. There were lots of silos and no one talked to one another. My office, I swear, was bigger than my house.

This was probably the largest opportunity I was going to have in my life: to run a 118-year-old company [Sprint began life as the Brown Telephone Co. in 1899] with 60,000 employees and a brand name everyone knows. I told the employees I had never lost in my life and this was not going to be the first time. Either with them or without them, I was going to turn this company around.

We started daily sales and marketing meetings. I moved all the executives to one floor where we could all see one another. I got rid of offices and put everyone in cubes. The fact that people could talk to one another was a big shock. I had staff meetings every week. It was all new to me, and my first meeting went from 6 a.m. to 1 a.m. A few people fell asleep. I figured those people would not last. Maybe three of the original 20 members of the management team are with us today.

I started the Getting Better Every Day email, asking people how to make Sprint a better place. The first day I got four or five hundred emails. I wrote everyone back. Then we created a second email called Stupid Rules, asking people what rules we should get rid of. We got a few hundred more suggestions. Why should sales people have to wear dress shoes, which are uncomfortable, when they are on their feet for 12 hours?

At least half of this is cultural. We are halfway through a turnaround, but we are a different company than we were before. We are winning customers. We are back to generating operating income after seven years. We have free cash flow for the first time in 13 years.

—

KIMBERLY WEISUL *is an* Inc. *editor-at-large.*

How to Hang Onto Your Employees

If entrepreneurs have mixed feelings about selling, well, that's nothing compared with what the employees go through. Perhaps that's why, when she was selling LearnVest to Northwestern Mutual, Alexa von Tobel was advised that 25 to 30 percent of her team would leave. Plum, sold to Campbell's, lost 25 percent. Von Tobel lost about 10 percent—and it still hurt. Here's how to limit the desertions.

1 PUT YOURSELF IN THEIR SHOES

When you're selling your company, you have a few months to get to know the acquirer. Employees don't have the benefit of all that prep time. They've no doubt put lots of thought into choosing to work for you, because they knew that commitment would likely last a few years. Compare that with what happens during an acquisition, says Mike Lee, co-founder and CEO of MyFitnessPal, which sold to Under Armour. "All of a sudden, five minutes after an announcement, you're working for another company." Your employees are too. And nobody asked them.

2 STEADY AS SHE GOES

In the long run, it may be better for your company to 1) be fully integrated, 2) stay fully independent, or 3) be something in between. But in the short term, if you want to hang onto the people who got you here, don't change too much too fast. It's comforting to know that people won't be losing their jobs, and won't have to pick up their families and move, and that everyone will report to the same person they did yesterday. Change may be inevitable, but it doesn't have to be today.

3 COMMUNICATE CAREFULLY

Employees will have lots of questions after an acquisition is announced—and you won't have all the answers. "People want to know what the road maps are," says von Tobel. "We didn't have the whole plan. We just needed a minute to iron it out." Tell them as much as you can, but be honest about what you don't know. And make hay out of good news. "If we had to announce something the team wouldn't like," says Lee, "we would give them two pieces of good news before the bad news."

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GET REAL

Jason Fried

The New Company Clock

An always-on workplace isn't enlightened—it's toxic. And it's up to you to shut it off

COMPANIES LOVE TO protect. They protect their brand with trademarks, their data and trade secrets with rules and policies, and their money with budgets, CFOs, and investments.

Companies protect a lot of things, yet many of them are guilty of one glaring omission. Too often, there's something they leave wide open and vulnerable: their employees' time.

Companies spend their employees' time and attention as if there were an infinite supply of both. As if they cost nothing. Yet workers' time and attention are the most precious resources we have.

Employees are under siege for their time and attention. They are sliced up by an overabundance of meetings, physical distractions in open workspaces, virtual distractions on their phones, and the expectation they're available to anyone, anytime, for anything that's needed.

If companies spent money as recklessly as they spend time, they'd be going out of business. And you can bet they'd find a way to put an end to that. But where's their responsibility when it comes to the clock?

Time and attention are best spent in large blocks—large bills, if you will, not spare coins and small change. Yet what filters down to staff are just scraps of time in which they're expected to do a wonderful, thorough job. No wonder people are working longer hours, late nights, and weekends. Where else can they find the uninterrupted time?

Think about it: When was the last time you had four straight hours to yourself at work, four hours not chopped up by meetings or discussion or conversation? You probably can't remember. Or, if you can, it was probably on a plane or that one time you accidentally left your phone on your nightstand.

Many CEOs think being an enlightened, competitive company means you're always on. Available all the time, for anyone. I believe that's a dangerous, frivolous mindset. It causes people to burn out and resent work. It can even lead to their leaving.

As a business owner, I've come to realize that protecting my employees' time and attention is one of the most important things I can do.

For example, we don't have status meetings at Basecamp. We all know these meetings—one person talks for a bit and shares some plans, and then the next person does the same thing. They're a waste of time. Why? While it seems efficient to get everyone together at the same time, it isn't: Eight people in a room for an hour doesn't cost one hour; it costs eight hours.

Instead, we ask people to write updates daily or weekly on Basecamp for others to read when they have a free moment. This saves dozens of hours a week, and affords people larger blocks of uninterrupted time. Meetings tend to break time into "before" and "after." Get rid of those meetings and people suddenly have a good stretch of time to immerse themselves in their work.

I believe 40 hours a week is plenty to get great work done if you actually give people 40 hours a week to do it. Having them come in for 40 but giving them only 12 to themselves is like stealing 28 hours a week from someone. At Basecamp, we've made significant strides toward making sure 40 hours means 40 hours.

Remember, when you hire someone, you don't own that person. When you think about a workweek as "company time," you're turning it into something the company owns. But really, it's not company time—it's the employee's, to do work for the company. The company is paying people for their time, not to borrow the company's time. It may sound like semantics, but it actually requires a pretty radical shift in thinking.

Jason Fried is a co-founder of Basecamp (formerly 37signals), a Chicago-based software company.

JEFF SCIORTINO

▸
LIFE CYCLE
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with an ad on Craigslist.

Beyond that, Pedego advises dealers to get a three-year lease with a one-year opt-out. "That way, if everything goes to hell in a handbasket or you don't like it, then your risk is one year's rent," says DiCostanzo. To date, only one of the nearly 60 Pedego stores has failed.

Despite Pedego's efforts to keep costs low, "it was still expensive to me," says Muscato, the former cop. "If this doesn't make it, I am not going to starve. But things will be a lot more difficult."

"I can say to a customer, 'Look, I had my knee replaced.' And the guy says, 'Oh, I had my hip replaced.' We talk about aches and pains, hills and headwinds."

FOR ENTREPRENEURS, Boomers are a tempting market: a rich, juicy elephant passing through the demographic python. There will be 119 million Americans over 50 by 2020, according to AARP, one-third of the total population. Spending by that age group will increase 58 percent over the next 20 years, compared with a 24 percent hike among Americans aged 25 to 50, says data from Morgan Stanley. And who is best positioned to serve that market? It takes gray to know gray.

DiCostanzo and Sherry could design the right product because they saw their end users in the mirror. Pedego dealers can sell that product for the same reason. Beth Black and her life partner, Brian Ballard, opened their Seal Beach, California, store in 2012 when she was 56 and he was 51.

"You get on the bike for the first time and twist that throttle," says Black, "and suddenly you're yelling, '*Woohooo!*' It's like you're recapturing something." She and Ballard named their first Pedegos Gidget and Moondoggie, "and you have to be a certain age to understand the joke. I tell customers Gidget is a classic, just like me, and they get it. When they see she's still going strong and I am still going strong and we are out there riding and enjoying life, there is this sense of hope."

Older customers trust someone who looks like them more than they'll trust the Lycra-clad specimens who haunt traditional bike shops, say many dealers. Pedego store owners are a healthy bunch—after all, they discovered the company while biking. But even regular exercise can't forestall all the ravages of time. "I can say to a customer, 'Look, I had my knee replaced.' And the guy says, 'Oh, I had my hip replaced,' " says John Soave, who opened his Blue Ridge, Georgia, store at age 61. "We talk about aches and pains, hills and headwinds."

While some retirees find their worlds shrinking as work relationships trail off, Pedego dealers develop new friendships with the customers who join them on guided tours or group rides. Aaron Maynard estimates that 90 percent of his local friends are people he met through his Myrtle Beach, South Carolina, store, which he opened at age 50. Maynard offers group rides three times a week.

"The group rides translate into sales," says Maynard. "But this is also how we're getting to know one another."

TWO PRODUCTS INTRODUCED at December's dealers meeting, an adult tricycle and a vehicle for people with disabilities, will appeal to Pedego's least physically abled customers. The owner of the Irvine, California, store offers to bring the latter to senior centers on either side of the mall where he is located, so the residents can try it out.

A couple of earlier models—notably a mountain bike and a stretch bike with room on the back for children—targeted younger riders. Some Pedego employees have urged the founders to go younger with their marketing as well, by including images of 30-somethings in their collateral. "We tried, and nobody liked that, including us," says DiCostanzo. "So we went back to using healthy-looking people closer to our age group."

A handful of dealers in their 30s and 40s have opened Pedego stores—some working in tandem with their parents. Conversely, a growing number of parents have brought on board their adult children. That simultaneously solves the problem of limitations on their own professional runways and creates opportunities for offspring frustrated by a slippery job market.

Meanwhile, as more stores open and the product gains visibility, the number of applications to launch stores is rising. DiCostanzo and Sherry are proceeding cautiously, seeking to add 25 new locations a year. "As you get older you get very good at evaluating risk," says Sherry.

"We are in the first inning of a nine-inning game," says DiCostanzo. "The Boomers see the opportunity and that it is happening right now. They want to be part of that."

As for his and Sherry's retirement plans, DiCostanzo shrugs. "Maybe someday."

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build it, it would be so slow as to be useless, taking at least 25 seconds of processing time to return a result. What Blippar needed instead, Wang said, was a so-called deep-learning system. It would mimic the human brain, which processes images by understanding their shared attributes: Humans don't have to learn to recognize every type of chair that exists; they need to understand only what makes something a chair.

Wang eventually agreed to join Blippar as vice president of infrastructure. For the past 18 months, the company's engineers have been working to help the app understand what it sees by creating "stencils," which allow its machine-learning algorithms to group things into categories. Through this approach, Mitra claims, Blippar now recognizes almost 75 percent of the objects in the physical world, and more for certain categories, including dog breeds and cars. "Even the human eye cannot distinguish between the 2016 and 2017 Prius," Mitra brags, "but Blippar can."

After my first meeting with Mitra, I took Blippar for a spin around San Francisco. That quickly highlighted both the product's strengths and its shortcomings, which have earned it an average rating of 2½ stars in Apple's App Store. Blippar was quick to recognize a box of Kraft macaroni and cheese, but it failed to identify a grapefruit or a pair of scissors. When I pointed the camera at an object it couldn't identify, the screen filled up with word associations, like "produce" and "healthful."

In our next interview, I told Mitra Blippar wasn't as smart as I'd expected. Yes, he said, but that's because it's working to become even smarter. The word cloud is there to show that the app is guessing and learning in the same way humans do. "If I bring you into an unfamiliar church and ask you where we are, you won't be able to name the church—but you'll be able to describe it," he says.

By the time we were done, Mitra had me doing exactly what he does: seeing Blippar for what it could be, not just what it is now.

"We've taken the majority of human knowledge and created a visual DNA for it," Mitra says.

THERE'S A LOT that Blippar still needs to learn, though. Last year, it sought some buzz with a new product, one that would instantly recognize faces. Blippar signed deals with 25 celebrities, and booked a day of television interviews and events around the world to publicize the app's new facial-recognition feature. The idea was to encourage users to upload their own faces and create profiles for themselves, giving Blippar a social layer that would make it more attractive to advertisers. It was the first time the company was spending significant dollars on consumer marketing, and it was going to be huge.

And then, one night in December, just hours before the new version of the app was to be published, Mitra called off the launch. The update was glitchy, with frequent crashes and a just-noticeable delay in response time. It wasn't the sort of thing that would impress new users.

"It was a hard call," Mitra says two days later. "But we did the right thing."

Blippar won't be able to afford many such stumbles—especially given the scope and breadth of its competition. Google is on its second iteration of a similar product, now called Tango, that lets Android users do things like take augmented museum tours and view the night sky with the names of the planets superimposed on their screens. And Google is strong exactly where Blippar is vulnerable: on engineering.

"It's a lot for a startup to do," says Qi Lu, a mentor to Mitra who headed up search at Microsoft and is now COO of the Chinese search giant Baidu. Lu says Mitra and Tayeb have hit on a big idea with a large potential market and a strong business model—but he's not sure they can compete with firms that have thousands of engineers working on machine learning and image recognition.

Competition isn't necessarily a bad thing. With a private valuation of $1 billion, Blippar makes what Lu calls an attractive and affordable target for companies like Google, Apple, and Microsoft. In fact, the founders say acquisition offers have already been on the table, including one worth $1.5 billion.

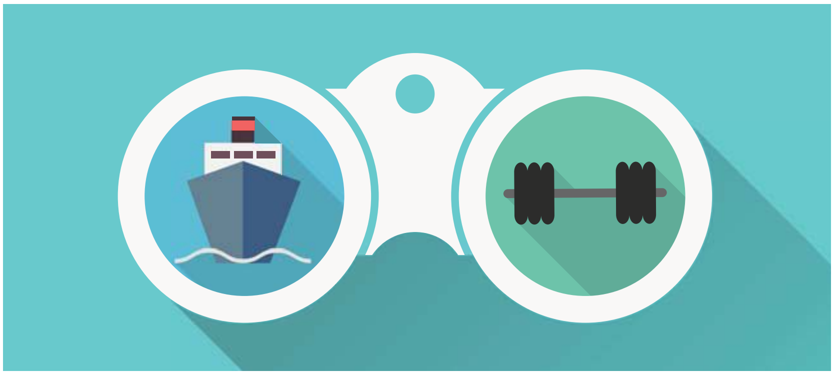
For a startup that's still a long way from turning a profit—Blippar reported a $31.3 million loss for the 16 months ending March 31, 2016—that's a lot of money to walk away from. But Mitra says he's not interested in a soft landing. And Tayeb points out that Blippar's singular focus on one type of technology may help it break through as huge Silicon Valley firms get distracted. "There's a reason Google didn't come out with Facebook and Facebook didn't come out with Snapchat," he says. "This can't be just a side project in a bigger company."

Those companies also all grew up in an era when text, not images, was the dominant form of information. That leaves an opportunity to be the first successful image-native tech company, Mitra says, pointing out that three-sevenths of the world's population is either illiterate or minimally literate. Who's going to be their Google?

"We are heading toward a world, inside five years, where computer vision, A.I., and natural-language translation will make everyday information about the stuff in front of you absolutely seamless," Mitra says. "We want to play a big role in shaping that world."

—

JEFF BERCOVICI *is* Inc.*'s San Francisco bureau chief.*



Franchise Fit: **How Franchises Select the Ideal Franchisee**

Even the best franchise concept may not be a success if matched with the wrong franchisee. With that in mind, franchisers strive to identify traits of franchisees most likely to succeed with their concept and to recruit that type of businessperson to join their systems.

Cruise Planners is a fit for people who have a passion for travel and want to become entrepreneurs in the industry without having to start from scratch. "We're a business in a box," says Michelle Fee, CEO and co-founder of the Coral Springs, Florida-based franchiser. "When you invest in Cruise Planners, you have a team of people behind you to help you grow your business."

The company provides technology, business development coaching, turnkey marketing, and more to help franchisees launch full-service travel businesses. Entry costs are low, since there is no requirement for inventory or a bricks-and-mortar facility. With about 1,800 units in operation, Cruise Planners is in all 50 states. During the next year, Fee anticipates onboarding hundreds of new franchisees. The company is particularly interested in adding West Coast and Midwest units.

Franchisees of Snap Fitness are investors looking to enter the fitness industry smoothly and efficiently. "Prospects are also encouraged by our low start-up costs as well as the expert assistance that comes with opening a new club," says Steele Smiley, chief development officer for parent company Lift Brands of Chanhassen, Minnesota.

Snap Fitness has more than 2,000 clubs open or in development, offering high-quality workouts at a great value in 18 countries. The company expects to open more than 400 domestic and international franchise locations during the next year.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Biz Stone

The co-founder of Twitter and Ask Jelly explains what it takes to identify—and sustain—a business that reaches millions of users

As told to **ZOË HENRY** Photograph by **JUSTIN KANEPS**

STAYING POSITIVE
"Everyone else thought Twitter was stupid," Biz Stone says. "Our brains just didn't hear the criticisms, so we kept working on it."

How do you know when it's the right time to start a company or make a major career move?
I've always followed a person and never followed money or an institution. When I left Google, it was because Evan Williams left. We did Odeo, a podcasting startup. Next, I followed Jack Dorsey, who's now Twitter's CEO. I was always linking myself to a person smarter than me. That's how I got ahead. There wasn't a master plan.

Is there a moment when you can tell your company is going to be a success?
For Twitter, the tipping point was in March 2007 at South by Southwest. There was an influential tech guy who had a bunch of followers on the prototype of Twitter. He was at a pub and it had gotten really loud, so he sent out a tweet that said, "Hey, anyone who wants to talk about projects, let's meet at this other place where it's quieter." In the eight minutes it took him to walk to that pub, it had filled to capacity, with a line out the door. It blew my mind, because I realized that we had invented something new. Two days later, literally, we formed Twitter Incorporated.

What was your biggest early challenge at Twitter, and how did you deal with it?
We made a lot of mistakes in the early days. We shot ourselves in every major organ and still managed to succeed. For one thing, we built the entire platform on a coding language that's not meant to handle lots of people. The site was breaking every day. Every time it went down, I'd explain on our blog why it happened, how we fixed it, and that it would never break in exactly that same way again. It almost became advertising for us. There's value in being vulnerable and radically transparent.

As an investor, what's your top piece of advice for startups?
What I usually advise people is to build a prototype just to see if your idea is a thing or not. When I invested in Slack, it was a video game company. Then they realized that all the internal communication tools they had built for their spread-out company could actually be the company. You have to start somewhere and see where it takes you.


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