The following is an excerpt from Dave's book, *Predicting the Turn*.

“Until recently, technology was understood as a rising new vertical industry. But in the past two decades, technology has become a horizontal force cross all industries, driving both a renaissance and a reckoning in every sector of our economy.”

—John Battelle

In 2008, I had the opportunity to be a founding member of Procter & Gamble’s Digital Business Strategy team. Reporting to the Chief Marketing Officer, our corporate team of three people was initially positioned within the company’s Global Marketing Capability organization. This P&G Capability organization develops and hones the best practices of brand building and has been the top marketer training ground for decades. The mandate of the new Digital Business Strategy team was initially capability development with the added challenge of building the digital marketing muscle of P&G. The ultimate goal: to make P&G marketers as great at digital media (banner ads, search, and social media) as they were at traditional media (TV, print, and shopper marketing). Eventually, the scope would expand into e-commerce; however, in those initial years the team focused on building world-class digital marketing expertise at P&G across our 5,000 global marketers and 300 brands. With P&G’s focus on training, the first step was to build the best practices and standardized approach for how P&G marketers would approach digital marketing. The second step focused on building relationships with the leading digital companies with whom P&G marketers would execute these digital marketing best practices. These efforts delivered on their purpose. The P&G marketers we trained launched many celebrated digital-centric campaigns including Old Spice’s “Your Man” campaign, which received over 100 million online views and became the #1 all-time most viewed brand channel on YouTube.

We focused only on digital marketing when perhaps we should have focused on digital business models.

As I look in the rearview mirror at our efforts – and those of just about every other big CPG at the time – I cannot help but wonder if our target was not big enough. We focused only on digital marketing when perhaps we should have focused on digital business models. Do not get
It is imperative for every company to develop its digital marketing capability – as it is a cost of entry in today’s business world. However, to use the words of John Battelle, we viewed digital as a “vertical industry” and we thought about digital marketing as a replacement for our existing tools for marketing to consumers. Even when we thought about e-commerce, it was just another type of retail channel like grocery or mass. The insight we may have missed was that digital was really a “horizontal force” that would rewrite the rules of not just marketing, but business as a whole. The disconnect is that entire companies and industries were intimately connected for decades as the way of doing business. For department stores like Macy’s, it was the local daily newspaper and their weekly sales circulars. For Procter & Gamble, it was television advertising. These industries were so connected that they were woven into the basic fabric of how each did business. As a result, the decline of one has serious ramifications for the other. On the flip side, we are now seeing new companies and industries that are being created on the back of the internet. The rise of digital has proven to be about much more than just marketing and advertising; it is causing companies to question the very business in which they compete.

Why do I say that? Consider some of the changes that we have seen over the past few years.

For starters, consider how business is rapidly changing for big companies. The Fortune 500 was first published in 1955 and since that time, 89 percent of the list has completely turned over. Meanwhile on the S&P 500 Index, the average tenure of a firm on the list in 1958 was 61 years; now, it is under 18 years. The turnover trend is even carrying over to individual brands at these companies; for example, in 2015 Catalina found that 90 of the top 100 CPG brands lost market share over the previous year.¹

¹Catalina report, 2015.
The time it takes for startups to reach the billion-dollar valuation mark is getting shorter and shorter.

On the flip side, new companies are growing at unprecedented speeds. It used to take 20 years for a traditional Fortune 500 company to reach a billion-dollar valuation. Even Amazon only had a valuation of $438 million when it IPO’d in 1997. Yet, if you look over the past few years, the billion-dollar valuation mark is being reached faster than ever. It took Google eight years; Facebook, six years; Tesla, four years; and Waze less than two years to reach that mark.

There is also the rise of what Andy Dunn, founder of Bonobos, called the Digitally Native Vertical Brand (DNVB). These are companies like Casper, the mattress company that delivers to your doorstep, which reached $100 million in sales in less than three years, and Dollar Shave Club that earned over $250 million in sales in that same time period before being bought by Unilever for $1 billion in July 2016. As Dunn describes it, these DNVBs share a few core characteristics:

- Started on the web and are e-commerce driven
- Have a physical product
- Own their brand(s)
- If they have physical stores, they are experiential focused on engagement and service.

In other words, traditional brands are facing new competitors that play from entirely different rulebooks and were born with digital DNA. These
new competitors are not just trying to win market share; they are trying to put traditional brands out of business entirely. In their Series A pitch deck to investors, Dollar Shave Club captured this sentiment perfectly with a slide that stated its vision was “Total domination of the global subscription razor marketing and become the largest online-only brand for Personal Care CPG’s.”

The emergence of the Digitally Native Vertical Brand has been driven in part because the marketing funnel is transforming, not with the steps changing but instead happening much more quickly. Scale and distribution have historically been massive competitive advantages for Blue Chips, particularly in CPG where the importance of physical shelf space was at a premium and awareness tools like prime time TV were prohibitively expensive. When the internet, and mobile in particular, make it possible to purchase nearly any good from anywhere at anytime, it changes this dynamic. The change is even more profound as the middle of the funnel becomes digitally addressable as brands capture engagement and purchase intent in real-time. The result is that marketers have the ability to test against every step of the funnel while consumers have the ability to go through the entire purchase process in minutes, if not seconds. This leads to a landscape where emerging brands are combining the best of brand and direct marketing in ways never before seen. The venture capital firm Venrock wrote about this very difference of go-to market for “modern brands” in 2014:

“But modern brands are born on the internet and sell directly to their customers, initially bypassing physical retailers, sometimes forever. They get to know their customers, they speak with them, they use social data to understand their influence and their habits. In short, they are hyper-informed as to who their customers are and what they want, and they have an easier time finding new ones. With so much of commerce moving online, customers prefer the convenience of direct-to-you product delivery and the low-friction of mobile commerce. Traditional CPG, like other industries who sell through complex multi-layer distribution, must allow for healthy distribution and retail markups and don’t get to know their customers. They are slower to learn when preferences shift or to react to the moves of competitors. All of these differences add up to advantages for the modern brands built on the internet – price advantages, information advantages and most importantly, higher customer loyalty.”
This quick rise of innovative new companies can also be seen in the emerging disconnect between the world’s largest spenders on Research & Development (R&D) and those companies that are considered by their peers to be the most innovative.

In its Global Innovation 1000 studies, Strategy& identifies the top 20 publicly traded companies worldwide that spent the most on R&D and asked the Global Innovation 1000 survey respondents to name the companies they thought were the world’s most innovative. Only five companies appeared in the top ten of both spending on R&D and most innovative – Google, Samsung, Amazon, Microsoft, and Toyota. In the 1970s, the non-defense R&D budget in the U.S. was around $40 billion and the industrial world had famous R&D facilities like Bell Labs and Xerox’s PARC. The venture capital industry started with approximately 20 firms managing around $2.5 billion. Today, non-defense R&D spending stands at $80 billion per year; but, the real change is in venture capital – over $165 billion is managed and nearly $60 billion in venture capital was invested in 2015 alone. Venture Capital has in many ways become the new R&D budget. The trend is not too surprising when you consider that R&D spending is fundamentally about brilliant people working on the cutting-edge of research. In the 1970s, the top graduates from MIT, Carnegie Mellon, and other top technical universities would all strive to get a job at Bell Labs or Xerox PARC. Today, those same graduates have grown up in a world where Startup founders are the new rock stars. The Social Network is their Wall Street and the best minds no longer have corporate R&D as their dream job.
Their dream is to raise venture capital and follow the words of Sean Parker in *The Social Network*: “a million dollars isn’t cool, you know what’s cool? . . . A billion dollars.”

**Venture Capital has in many ways become the new R&D budget.**

The common thread in all of these industry transformations is the impact of digital. Not just digital marketing but technology as the fundamental driver of a shift in business and culture. In Amazon’s 2015 Annual Report, Jeff Bezos captured this trend nicely when discussing the rapid rise of Amazon Web Services (AWS):

“Their dream is to raise venture capital and follow the words of Sean Parker in *The Social Network*: “a million dollars isn’t cool, you know what’s cool? . . . A billion dollars.”

**Venture Capital has in many ways become the new R&D budget.**

The common thread in all of these industry transformations is the impact of digital. Not just digital marketing but technology as the fundamental driver of a shift in business and culture. In Amazon’s 2015 Annual Report, Jeff Bezos captured this trend nicely when discussing the rapid rise of Amazon Web Services (AWS):

“Whether you are a startup founded yesterday or a business that has been around for 140 years, the cloud is providing all of us with unbelievable opportunities to reinvent our businesses, add new customer experiences, redeploy capital to fuel growth, and do all of this so much faster than before.”

These changes are part of what Robert Siegel and Aaron Levie brilliantly called the “Industrialist’s Dilemma” during a class they taught at Stanford Graduate School in Winter 2016. The move from the industrial world to a digital one is “far more of a nonlinear shift” than big companies are accustomed to dealing with. As Siegel and Levie called out:

“It’s one thing for a car company to react to a more reliable or more affordable car maker, as U.S. automakers dealt with in the 1970s. It’s another to respond to the very threat of car ownership going away forever, or the challenge that making self-driving cars requires a fundamentally different skill-set from what you’ve invested in over a century.

. . . These new digital experiences are inspiring customers to put major pressure on established analog peers. Most traditional players are not prepared to answer these calls. Slowed by heavy regulation, years of codified processes and aging technology, incumbents are burdened to the point where it is nearly impossible to move quickly enough against an unencumbered challenger. This is the Industrialist’s Dilemma: the systems, management and assets that led to success in the industrial era are holding incumbents back today, in some cases fatally.”
Digital has become a medium that entrepreneurs and startups are using to attack incumbents in ways they never envisioned.

**Startups are the dominos**

"Not every industry was made to last forever."

—Intel’s Les Valdez to Interscope’s Jimmy Iovine in 2002 regarding music industry/Napster

In 1983, Lorne Whitehead, a physicist from the University of British Columbia was looking for a “simple and dramatic demonstration of exponential growth, such as in a nuclear chain reaction.” In an article published in the American Journal of Physics, Whitehead proved that he could knock down the Empire State Building with 29 dominos. He demonstrated that a domino can knock over another domino one-and-a-half times its size. Through a chain reaction, it would take just 29 progressively larger dominos to knock down the 1,250-foot-tall Empire State Building. As Kodak learned, technology can be that first domino for a big company. While the threat might appear small at first and the change far off, it is actually a danger that can take down even the biggest of companies.

The changes happening across all industries are dominos that are starting to fall. Behind many of those dominos are startups and entrepreneurs, who truly believe that they can take down Empire State-sized companies and redefine entire industries. As Kodak showed, it’s easy for disruption to be someone else’s job – until you wake up and the disruption is staring you in the face. Big companies self-admittedly move slowly; yet, the change to their business is happening every single day. The first changes that happen take place in small increments that are often hardly noticeable. They also go unnoticed because sometimes the change happens when the base business has never been better. For
example, the automotive industry had record sales in Q4 2015; yet the lowest number of 16-year-olds, ever, got their drivers’ licenses that year.

Low teen driver rates could be the first domino in the automotive industry.

The issue is that the domino theory proved change is not linear, it is exponential. Exponential growth is at the heart of the technology industry. Google famously aims for “10×, not 10 percent” in not only their core product offerings but also their “moonshot” projects like the self-driving car. Venture Capitalists, particularly those investing in Software as a Service (SaaS) companies, challenge their companies to aim for “triple, triple, double, double, double,” (T2D3 for short), referring to a company’s annualized growth to exponentially go from $2MM to $100MM+ in revenue over a five year period. For innovative technology companies, consistent and linear growth is actually not growth at all. Growth is exponential.

“Tech companies will eventually displace the majority of the Fortune 500. Competing without software is like competing without electricity.”
—Naveal Ravikant Co-Founder of AngelList

As such, big companies need to forget what they knew about competition because the new competitors will be following the exponential mantra of the technology industry. Business used to operate in a world of leader vs. challenger: Coke vs. Pepsi, Ford vs. General Motors, UPS vs. FedEx. It was all a battle for market share and growth or decline was often linear. In this new exponential world, disruptive innovators are no longer content to define themselves by a single market; they think bigger. They are not content with having a slice of a market. They want the whole market and often something bigger. Steve Blank contrasted this very difference between Startups and Blue Chips when he wrote:
“Startups are unencumbered by the status quo. They re-envision how an industry can operate and grow, and they focus on better value propositions. On the low-end, they undercut cost structures, resulting in customer migration. At the high-end they create products and services that never existed before. As we’ve seen, corporations are very good at maintaining, defending and refining existing business models, and they’re pretty good at extending existing models by identifying adjacencies. But corporations are weak, and have become weaker, in identifying new disruption opportunities.”

The result is that corporations are faced with a new class of rivals. These rivals are now everywhere and not the ones you have known in the past.

**Predicting the Turn in High Stakes Business**

“Every moment in business happens only once. The next Bill Gates will not build an operating system. The next Larry Page or Sergey Brin won’t make a search engine. And the next Mark Zuckerberg won’t create a social network. If you are copying these guys, you aren’t learning from them.”

—Peter Thiel in Zero to One

The term “high stakes” is most often associated with the card game of poker. In a parallel to poker, Blue Chips are now in a game of high stakes business with disruptive startups. In high stakes business, the rules and players of the game have changed. The game has become high stakes because these new players are not looking for just market share, they are looking to make your business obsolete. They want to take down the entire table.

For marketers and big company executives, the answer lies in how to play this new high stakes game of business. The goal of this book is to provide you a plan to do just that, built upon my unique worldview and experiences working across big brands, startups and venture capital. During the first seven years of my career, I experienced the early innings of the change digital was bringing to the Fortune 500 as a Brand Manager at Procter & Gamble. In the last seven years as the Chief Marketing Officer of Rockfish, I have spent my days working with Blue Chip companies such as Ford Motor Company, Walmart, and Mars to confront this new disruptive business landscape. My nights and
weekends over this same time period have been spent in the entrepreneurial world as co-founder of The Brandery, one of the top ten startup accelerators in the U.S. Finally, the remaining time is spent working within the world of Venture Capital, both as an advisor to several leading venture funds but also as a managing partner of a micro VC called Vine St. Ventures.

These three “jobs” allow me to see different sides of the same chip. During the days, I see the Industrialist Dilemma playing out first-hand as some of the world’s largest brands and companies face a new reality and constantly changing landscape. At night, I see the entrepreneurial journey playing out as Startups look to beat seemingly impossible odds as they build a new business. The result is a seemingly unique – though at times conflicted – view into how big companies think about innovation and how startups and investors approach the very same topic.

The chapters that follow will provide the roadmap to win in this new game of business. At the end, you will be able to turn the threats into your company’s advantage. It will start by looking at the concept of “seeing the future” and how participating in the startup ecosystem can help a company see the future of its industry before it happens. It will then cover four specific strategies that a company might implement, including:

<table>
<thead>
<tr>
<th><strong>ACQUIRE</strong></th>
<th>Innovation-driven acquisition where a smaller company is purchased to move forward strategic goals of the company.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INVEST</strong></td>
<td>Making a financial investment into a startup to further both strategic and financial goals.</td>
</tr>
<tr>
<td><strong>PARTNER</strong></td>
<td>Leveraging strategic business development and joint business planning to collaborate with small and large companies.</td>
</tr>
</tbody>
</table>
Those are merely the tactics that will be discussed. These pages are meant to spur your own thinking on where the future is headed and the opportunities created along that journey of discovery. More importantly, it is about increasing your odds of winning in the game of high stakes business by predicting the turn.

In a parallel to another type of high stakes game, the “Turn” is the name for the fourth card dealt face-up on the board, in community card poker games like Texas Hold’em and Omaha. It can be thought of the midpoint of any given hand. In poker strategy, the Turn is often ignored with more attention paid to how you should behave at the Flop (when cards one through three are shown) or the River (when the fifth / last card is shown). If you are still in the game at the Turn, it means you felt like you had a strong hand after the first three cards were shown at the Flop. As a result, the Turn is arguably when the hardest decision comes to either continue to fight for the hand or to let it go. The Turn is also when the game can change and the person who felt they were winning the hand might just now find themselves playing from behind.

Predicting The Turn is about this difficult decision when the stakes are raised and you are in the middle of a high stakes game of business. Whether they know it or not, every Blue Chip company is in a high stakes games of business against new innovative startups. While it is becoming increasingly challenging for mature companies to compete with these younger competitors regarding innovation, that does not mean it is time to fold. By taking the right steps, big companies can improve their odds against startups and predict the turn. This book is about putting your company in a position where you have the best odds to win in high stakes business.

“The sooner you stop fighting the present, the sooner you can get to work on figuring out the future.”
NOTES

1. Top 100 CPG Brands Mostly Lost Sales and Share in Past Year; http://adage.com/article/cmo-strategy/top-100-cpg-brands-lost-sales-share-past-year/300660/


5. Disruption is better when it’s other people’s jobs; https://m.signalvnoise.com/disruption-is-better-when-it-s-other-people-s-jobs-ad84098c3c6#.skukmi1sq