

## CHIEF EXECUTIVE

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### The CEO's Entrepreneurial Dilemma

By Bob Donnelly



Over the years we have watched as one company after another that rose to be the current brand of choice and delighted us with their innovations quickly fell from favor shortly after the founder left the business.

What is it that has to be learned and learned again about the predictability of the age old life cycle and the entrepreneurial spirit?

One of the fundamentals of business that has always amazed me is the lack of understanding of how similar the life cycle of a business is to the human life cycle. We all start out small wrinkled up little people and we all wind up small wrinkled up little people some 70, 80 or 90 years later these days. That path we take from one small wrinkled up little person to another is quite predictable given certain sets of circumstances in our lives.

The same is true for a business, if you just think about it!

If you compare our human experience to the business cycle, every business starts with a solution to a problem and the early days of all businesses resemble our childhood of trial and error learning experiences and is defined in a similar fashion as the “embryonic” phase. On average that embryonic phase typically lasts just about as long as our childhood, or about ten years.

Then when the product or business has sufficiently excited the innovators and early adopters it starts to grow in a similar fashion to our adolescence and enters the “growth” phase as the early majority begins to adopt the brand. This growth phase typically lasts about five years until it reaches the “Tipping Point” so aptly described by Malcolm Gladwell in his recent best selling book of the same title.

If the brand is hot then growth really accelerates much like we do during our mid to late teens. Just like with us this is a very dangerous period and all kinds of things can happen. Many businesses led by their inexperienced entrepreneurial founders can easily flounder and age prematurely during this period of rapid growth as they become overwhelmed by the natural dynamics of the marketplace.

Assuming they survive, then the business continues its rapid growth and begins to mature as the balance of the early majority adopts the brand.

During this phase many entrepreneurial founders leave the business assuming that they have turned it over to capable professional managers who will keep it growing and profitable indefinitely. However, in many cases shortly thereafter or within a few years of their departure from active daily involvement the business begins to falter and starts into a precipitous decline.

In many cases this happens because the new team starts to “market by assumption” assuming that they know more than the customer. There is an old business proverb: “if the customer gets to the future before you do they will leave you behind”.

We have just witnessed several of these predictable scenarios with Apple, Dell and most recently Starbucks. In each case the founders – Jobs, Dell and Schultz have returned to breathe their entrepreneurial spirit back into the business they started.

Schultz captured it best when he recently described what he found on his return to Starbucks and said “Starbucks has lost its edge, evolving from a culture of entrepreneurship, creativity, and innovation to a culture of mediocrity and bureaucracy”. He went on to describe what happened as a “watering down of the Starbucks experience and the commoditization of the brand”.

Just to put the life cycle I described into the Starbucks experience from 1987 to 1997 (10 years) the brand was in its embryonic phase. Then from 1997 to 2002 (5 years) it grew. Schultz left active management of the brand in 2000 and stepped down completely in 2004 confident that he had set in motion a wonderful experience for Starbucks loyal customers that could only get bigger and better with the whole world to look forward to over the coming years.

That momentum that he had set in motion continued and in 2002 Starbucks reached the “tipping point” and from 2002 to 2006 Starbucks exploded. The stock went from \$20 a share in 2000 to \$30 a share when Schultz stepped down in 2004.

Then on to \$40 a share in 2006 when as a result of the dilution of the original value proposition and the “watering down” of the Starbucks experience customers began to desert the brand and moved on to the “better brew” being promoted by McDonald’s and the variety of Dunkin Donuts, as well as to a new types of coffee shops started by other coffee mavens.

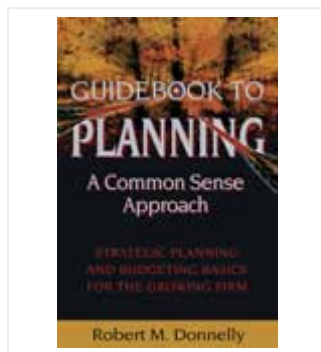
Since then the stock has plummeted and Schultz has returned to resurrect, reconfigure and redefine his model for success and continue to expand the brand internationally.

Steve Jobs has been successful with Apple and Michael Dell is back in charge of Dell Computer.

I hope the lesson is clear here – you need to treat your customers as appreciating assets and migrate with them modifying your value proposition to satisfy their changing requirements. As I have said before you are in the customer business and you can never lose sight of their interests and changing preferences. Once you do and start to market by assumption you are starting down a dangerous path that many other firms and brands we used to buy have taken into mediocrity.

Once the entrepreneurial spirit leaves the company the results are usually predictable.

If you have the feeling that this is happening to your brand maybe we should start a dialogue on what to do about it. E me with your questions about how to return the entrepreneurial spirit to your company.



An entrepreneur himself, Bob has spent most of his career involved with starting, growing and selling businesses. Having held managerial positions with IBM, Pfizer and Exxon, he draws upon extensive organizational experience with large and small companies in advising CEOs of growing firms. He is available online to answer questions from Chief Executive readers, as well as offer workshops, tips, books to read and a monthly online column about common issues facing CEOs of growing firms. Bob has been featured in USA TODAY for his work with Inc 500 firms and is associated with NYU's Stern Graduate School of business in their Center for Entrepreneurial Studies where he is a Venture Mentor, Marketing Strategist and Business Plan Reviewer.

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He is the author of *GUIDEBOOK TO PLANNING - A Common Sense Approach to Building Business Plans for Growing Firms*, which has recently been reprinted. He is a past contributor to Chief Executive and one of his articles was featured in The Best of Chief Executive. E Mail Bob at: [rmdonnelly@chiefexecutive.net](mailto:rmdonnelly@chiefexecutive.net)