TEXT C

The Impact of Globalization on Income and Employment: the Downside of Integrating Markets

Michael Spence

1 Globalization is the process by which markets integrate worldwide. Over the past 60 years, it has accelerated steadily as new technologies and management expertise have reduced transportation and transaction costs and as tariffs and other man-made barriers to international trade have been lowered. The impact has been stunning. More and more developing countries have been experiencing sustained growth rates of 7-10 percent; 13 countries, including China, have grown by more than 7 percent per year for 25 years or more. The emerging economies' impact on the global economy and the advanced economies is rising rapidly. Until about a decade ago, the effects of globalization on the distribution of wealth and jobs were largely benign. Imported goods became cheaper as emerging markets engaged with the global economy, benefiting consumers in both developed and developing countries.

2 But as the developing countries became larger and richer, their economic structures changed in response to the forces of comparative advantage: they moved up the value-added chain. Now, developing countries increasingly produce the kind of high-value-added components that 30 years ago were the exclusive purview of advanced economies. This climb is a permanent, irreversible change. With China and India—which together account for almost 40 percent of the world's population—resolutely moving up this ladder, structural economic changes in emerging countries will only have more impact on the rest of the world in the future.

3 By relocating some parts of international supply chains, globalization has been affecting the price of goods, job patterns, and wages almost everywhere. It is changing the structure of individual economies in ways that affect different groups within those countries differently. In the advanced economies, it is redistributing employment opportunities and incomes.

4 The major emerging economies are becoming more competitive in areas in which the U.S. economy has historically been dominant, such as the design and manufacture of semiconductors, pharmaceuticals, and information technology services. At the same time, many job opportunities in the United States are shifting away from the sectors that are experiencing the most growth and to those that are experiencing less. The result is growing disparities in income and employment across the U.S. economy, with highly educated workers enjoying more opportunities and workers with less education facing declining employment prospects and stagnant incomes. The U.S. government must urgently develop a long-term policy to address these distributional effects and their structural underpinnings and restore competitiveness and growth to the U.S. economy.

Jobless in the U.S.

5 Dramatic, new labor-saving technologies in information services eliminated some jobs across the whole U.S. economy. But employment in the United States has been affected even more by the fact that many manufacturing activities, principally their lower-value added components, have been moving to emerging economies. This trend is causing employment to fall in virtually all of the U.S. manufacturing sector, except at the high end of the value-added chain. Employment is growing, however, in other parts of the tradable sector—most prominently, finance, computer design and engineering, and top management at multinational enterprises. Like the top end of the manufacturing chain, these expanding industries and positions generally employ highly educated people, and they are the areas in which the U.S. economy continues to have a comparative advantage and can successfully compete in the global economy. In other words, the employment structure of the U.S. economy has been shifting away from the tradable sector, except for the upper end of the value-added chain, and toward the nontradable sector. This is a problem, because the nontradable sector is likely to generate fewer jobs than is expected of it in the future. Moreover, the range of employment opportunities available in the tradable sector is declining, which is limiting choices for U.S. workers in the middle-income bracket.

For What It's Worth

6 One way to measure the size of a company, industry, or economy is to determine its output. But a better way is to determine its added value—namely, the difference between the value of its outputs, that is, the goods and services it produces, and the costs of its inputs, such as the raw materials and energy it consumes. The value added produced by all the industries in all the sectors of an economy adds up to that country's GDP. Unlike employment, value added in the tradable and nontradable parts of the U.S. economy has increased at a similar rate since 1990. In the nontradable sector, which experienced rapid employment growth, this means that value added grew slightly faster than employment: value added per employee increased modestly, by an annual average of 0.7 percent since 1990. On the tradable side of the U.S. economy, where employment levels barely increased, both value added overall and value added per employee rose very swiftly as the U.S. tradable sector moved up the value-added chain and grew in sync with the global economy.

7 Most striking are the trends within the tradable sector. Value added rose across that sector, including in finance, where employment increased, and in manufacturing industries, where employment mostly declined. In fact, at the upper end of the manufacturing chain, value added increased so much that it outweighed the losses at the lower end caused by the movement of economic activity from the United States to other countries.

8 Highly educated U.S. workers are already gravitating toward the high-value-added parts of the U.S. economy, particularly in the tradable sector. As labor economists have noted, the return on education is rising. The highly educated, and only them, are enjoying more job opportunities and higher incomes. Competition for highly educated workers in the tradable sector spills over to the nontradable sector, raising incomes in the high-value-added part of that sector as well. But with fewer jobs in the lower-value-added part of the tradable sector, competition for similar jobs in the

nontradable sector is increasing. This, in turn, further depresses income growth in the lower-value-added part of the nontradable sector. Thus, the evolving structure of the global economy has diverse effects on different groups of people in the United States.

Making It work

9 Analysts have been quick to point out that not all the structural changes under way in the U.S. economy should be attributed to greater openness in the global economy. Some important changes in employment patterns and income distribution are the result of laborsaving information technology and the automation of transactions. Automation has undoubtedly cut jobs in the information- and transaction-intensive parts of value-added chains throughout the U.S. economy, in both the tradable and the nontradable sectors. But if that were the only trend, why would employment decline so much more in manufacturing than in other industries?

10 One answer might be that information processing and automation occupy a more significant fraction of the value-added chain in manufacturing. But this is not true. Information-processing technology, for example, has eliminated jobs throughout the U.S. economy, including in finance, retail, and the government—all areas in which employment has grown. The structural trends affecting the U.S. economy cannot be explained by changes in technology alone. To think otherwise tends to yield the misleading conclusions that technology, not the global economy, is the principal cause of the United States' employment challenge and that the most important forces operating on the structure of the U.S. economy are internal, not external. In fact, all these factors are relevant, with some more significant in some sectors of the economy than in others.

11 If giving technology as the preferred explanation for the U.S. economy's distributional problems is a way to ignore the structural changes of the global economy, invoking multinational companies (MNCs) as the preferred explanation is a way to overstate their impact.

12 MNCs do, indeed, play a central role in managing the evolution of the global economy. They are the principal architects of global supply chains, and they move the production of goods and services around the world in response to supply-chain and market opportunities that are constantly changing. MNCs have generated growth and jobs in developing countries, and by moving to those countries some lower-value-added parts of their supply chains, they have increased growth and competitiveness in advanced economies such as the United States.

13 The drop in domestic consumption in the United States has left the country with a shortage of aggregate demand. More public-sector investment would help, but the fiscal consolidation currently under way may make expanding government investment difficult. Meanwhile, because private-sector investment responds to demand and currently there is a shortfall in demand caused by the economic crisis and increased savings by households, such investment will not return until domestic consumption or exports increase. Therefore, the United States will need to focus on increasing job growth in the tradable sector. Some growth will naturally come from the high-value-added part of that sector. The question is whether there will be enough growth and whether the educational attainment of U.S. workers will keep pace with rising job requirements at that level. There are

reasons to be skeptical.

The Big Tradeoff

14 It is a common view that the market will solve the disparities in employment and incomes once the economic crisis recedes and growth is restored. Warren Buffet and other very smart, experienced, and influential opinion-makers say so clearly. But as this analysis suggests, they may not be right. And as long as their view dominates U.S. public policy and opinion, it will be difficult to address the issues related to structural change and employment in the United States in a systematic way.

15 What is needed instead of benign neglect is, first, an agreement that restoring rewarding employment opportunities for a full spectrum of Americans should be a fundamental goal. With that objective as a starting point, it will then be necessary to develop ways to increase both the competitiveness and the inclusiveness of the U.S. economy. This is a largely uncharted territory: distributional issues are difficult to solve because they require correcting outcomes on the global market without doing too much damage to its efficiency and openness. But admitting that not all the answers are known is a good place to begin. With considerable uncertainty about the efficacy of various policy options, a multi-stake holder, multipronged approach to addressing these distributional problems is best. The relevant knowledge about promising new technologies and market opportunities is dispersed among business, the government, labor, and universities, and it needs to be assembled and turned into initiatives.

16 Given the structural changes under way in the U.S. economy—especially the growing premium on highly educated workers at the top end of the value-added chain—education should be boosted. As many people as possible should be able to compete in that part of the economy. But if this goal is clear, the ways to achieve it are less so. Improving the performance of the educational system has been a priority for some years, yet the results are in doubt. The United States ranks close to the average in reading and science and well behind most countries in math.

17 The problems in the quality and effectiveness of parts of the U.S. educational system have been recognized for some time. Numerous attempts to improve matters, including administering national standardized tests and providing merit-based compensation, have thus far yielded inconclusive results. A lack of commitment to education in families and in communities makes the entire field of education seem unattractive, demoralizing dedicated teachers and turning off talented students from teaching. That, in turn, reduces the incentives of communities to value the primacy of education. To break this pattern, it will be necessary to shift communities'—and the country's—values about education through moral leadership, at both the community and the national levels. Creating attractive employment opportunities conditional on educational success is another important incentive. In other words: increased educational effectiveness is needed for the United States to be competitive, and the promise of rewarding employment is a necessary incentive for committing to improving education.

18 As important as education is, it cannot be the whole solution; the United States will not educate its way out of its problems. Both the federal and state governments should invest in infrastructure,

which would create jobs in the short term and raise the return on private-sector investment in the medium to longer term. They should also invest in technologies that could expand employment opportunities in the tradable sector of the U.S. economy at income levels other than the very top. The private sector will have to help guide these investments because it has much of the relevant knowledge about where these opportunities might lie. But this effort will also require the participation of the public sector. The U.S. government already invests heavily in science and technology but not with job creation as its primary focus; that has generally been viewed only as a beneficial side effect. It is time to devote public funding to developing infrastructure and the technological base of the U.S. economy with the specific goal of restoring competitiveness and expanding employment in the tradable sector. The tax structure also needs to be reformed. It should be simplified and reconfigured to promote competitiveness, investment, and employment. And both loopholes and distorting incentives should be eliminated. For example, corporate tax rates and tax rates on investment returns should be lowered in order to make the United States more attractive for business and investment. MNCs with earnings outside the United States currently have a strong incentive to keep their earnings abroad and reinvest them abroad because earnings are taxed both where they are earned and also in the United States if they are repatriated.

19 But even these measures may not be sufficient. Globalization has redefined the competition for employment and incomes in the United States. Tradeoffs will have to be made between the two. Germany clearly chose to protect employment in the industries of its tradable sector that came under competitive threat. Now, U.S. policymakers must choose, too.

20 Some will argue that global market forces should simply be allowed to operate without interference. Tampering with market outcomes, the argument goes, risks distorting incentives and reducing efficiency and innovation. But this is not the only approach, nor is it the best one. The distribution of income across many advanced economies (and major emerging economies) differs markedly. For example, the ratio of the average income of the top 20 percent of the population to the average income of the bottom 20 percent is four to one in Germany and eight to one in the United States. Many other advanced countries have flatter income distributions than the United States, suggesting that tradeoffs between market forces and equity are possible. The U.S. government needs to face up to them.

Experiencing the Way Forward

21 The massive changes in the global economy since World War II have had overwhelmingly positive effects. Hundreds of millions of people in the developing world have escaped poverty, and more will in the future. The global economy will continue to grow—probably at least threefold over the next 30 years. One person's gain is not necessarily another's loss; global growth is not even close to a zero-sum game. But globalization hurts some subgroups within some countries, including the advanced economies.

22 The late American economist Paul Samuelson once said, "Every good cause is worth some inefficiency." Surely, equity and social cohesion are among them. The challenge for the U.S. economy will be to find a place in the rapidly evolving global economy that retains its dynamism and

openness while providing all Americans with rewarding employment opportunities and a reasonable degree of equity. This is not a problem to which there are easy answers. As the issue becomes more pressing, ideology and orthodoxy must be set aside, and creativity, flexibility, and pragmatism must be encouraged. The United States will not be able to deduce its way toward the solutions; it will have to experiment its way forward.

(Adapted from *Foreign Affairs*, July-August 2011)

GLOSSARY

benign	(para. 1)	*adj*.	not dangerous, beneficial 无害的，有益的
purview	(para. 2)	*n*.	range of operation or activity, scope （工作或活动的）范围
disparity	(para. 4)	*n*.	difference or inequality 差异，不平等
bracket	(para. 5)	*n*.	a category of people or things that are similar or fall between specified limits 同等级的人（或事）
gravitate	(para. 8)	*v*.	move towards or be attracted to somebody or something, gradually and irresistibly; turn to somebody or something）转向，移向
aggregate	(para. 13)	*adj*.	total, combined 总计的，合计的
inconclusive	(para. 17)	*adj*.	not leading to a definite decision, conclusion or result 非决定性的，非结论性的

NOTES

1.	tradable sector	(para. 5)	贸易部门
2.	nontradable sector	(para. 5)	非贸易部门
3.	multinational companies (MNCs)	(para. 11)	跨国公司

EXERCISES

Answer the following questions.

1. According to the text, what was the exclusive purview of advanced economies?
2. In what areas are the major emerging economies becoming more competitive but the U.S. economy has historically been dominant?
3. What is causing employment to fall in actually all the U.S. manufacturing sectors?
4. Which sector are highly educated U.S. workers gravitating towards?
5. How do MNCs influence the global economy?
6. What has resulted in a shortage of aggregate demand in the U.S.?
7. What makes the entire American education unattractive?
8. What should the federal and state governments do to create jobs and raise the return on private-sector investment?
9. How can the United States be made more attractive for business and investment?
10. How will the global economy grow according to the text?

TEXT C

Intercultural Business Negotiations

Larry A. Samovar, Richard E. Porter, and Edwin R. McDaniel

1 Visit the business section of any large bookstore and you will find numerous texts on negotiation. Using the keywords "international negotiation" to search Amazon.com will bring up over 2,700 entries. If you Google "international negotiations," you will retrieve over 2.7 million entries. This is an easy way to discover the critical role that negotiation plays in international business. The process is so important that some estimates suggest international executives spend more than 20 percent of their time in negotiation activities. This is probably a very conservative estimate, considering that negotiations are integral to all international mergers, joint ventures, imports and exports, patent licensing agreements, and every other cross-cultural commercial undertaking. Both domestic and international business negotiations involve representatives from different organizations working to achieve mutually agreeable solutions, while concurrently trying to minimize differences, misunderstandings, and conflicts. To obtain these objectives, they rely on communication. The role of communication is so important that Drake calls it the "life-blood of negotiation," and yet it is an area often overlooked in intercultural negotiation studies.

Participating in Intercultural Business Negotiations

2 Cellich and Jain pointed out, "Communication between two negotiators tends to be more difficult and complex when it involves people from diverse cultural environments than when it involves people with similar backgrounds." A major part of the difficulty can be traced to dissimilar communication styles. Let us now look at five styles that can create problems. Specifically, we turn to issues of (1) formality and status, (2) pace and patience, (3) emotional displays, (4) direct and indirect forms of communication, and (5) evidence and "truth."

Formality and status

3 As we know, cultural views of formality, titles, and status can influence people's dress, actions, and communication style. We now remind you of this essential idea, since it is an important feature at the negotiation table. As Trompenaars and Hampden-Turner point out, "Many a deal has been lost because the representative was not seen to have high status back home." Negotiators from the United States, a highly informal culture, tend to avoid titles and are quick to use first names soon after being introduced to someone at the start of a negotiation meeting. Adler further explains the U.S. style in the following paragraph:

- The United States prides itself on its egalitarian, informal approach to life, in which titles do not seem particularly important and ceremonies are often considered a waste of time. Americans often attempt to minimize status differences during negotiations: for example, they use first name to promote equality and informality.

4 The actions described by Adler can be quite disconcerting in European cultures, such as France, Germany, and England, where formality plays a great role and titles are an important part of an individual's identity. Representatives from China, Japan, and the Republic of Korea (ROK) would also expect negotiations to be conducted on a more formal level than would someone from Australia, an informal culture. People from the ROK prefer titles to names, even among themselves, according to Lewis.

Pace and patience

5 The pace at which negotiations occur is culturally diverse and must be understood by anyone who is going to conduct business in an intercultural setting. In the United States, people grow up believing in the motto "He who hesitates is lost." Because of this, as Ferraro points out, "U.S. businesspeople have been criticized for their short-term view of doing business. Some feel that they should not waste time; they should get in there and get the contract signed and get on to other business." Just reflect for a moment about what is actually being implied by the phrase "Just give me the bottom line." In many cultures, this desire to hasten the proceedings will have negative consequences. Hence, "Bringing the U.S. notion of time into an international negotiation will invariably result in either frustration or the eventual alienation of those with whom one is negotiating."

6 The Western desire to move the negotiation along rapidly is a popular approach for the Chinese and Japanese. There is even an Asian proverb that states, "With time and patience, the mulberry leaf becomes a silk gown." A Shi and Wright note, "Business negotiations in China require patience and tenacity." With regard to Japanese negotiations, Nishiyama adds, "They become very cautious and are willing to take lots more time when it comes to an international business negotiation." In cultures who want a slower-paced session, the first goal is to get to know the other party. The Japanese and Chinese see entering into a commercial arrangement as much like entering into a marriage: it is something that should last for a long time and be beneficial to both parties. Accordingly, they want to take time to ensure that relations with the other organization will be both compatible and productive. To achieve this, negotiations will move slowly. Early meetings will focus more on the general background of the other organization and less on the specifics of the proposed business transaction.

7 In much of Latin America, business negotiations are also conducted at a much slower pace. There is even a proverb that states, "To a hurried demand, a leisurely reply." In Argentina and Mexico, interpersonal relationships are so important that a great deal of time is spent in building rapport before actually beginning business. This same concern with relationships and its link to pace and patience is found in India. Grihault observes, "As with everything in India, decisions are arrived at slowly. There is no point in trying to impose strict deadlines."

Emotion displays

8 Emotional displays by business negotiators can also have a bearing on the outcome of an international business transaction. For example, Western business representatives often characterize their Asian counterparts as "inscrutable" because they lack animation and make no outward expressions of emotion at the bargaining table. In the United States, it is normal and expected for people to use a wide range of nonverbal behaviors as a reflection of their feelings. The U.S. culture

teaches that it is a natural part of social interactions to signal pleasure, disgust, anger, or any other emotion through nonverbal displays. In China, Japan, the ROK, and the Philippines, however, outward demonstrations of emotions are felt to disturb harmony and are avoided whenever possible. In the following paragraph, O'Rourke illustrates this point as it applies to Japan:

- Since the Japanese value emotional sensitivity, they will not express emotion during business deals—self-control and deference are considered essential when responding to clients. For example, when disagreeing about a price, it is usual for someone who is Japanese to not argue or to remain silent when he feels he is right.

9 In other cultures, such as Mexico and those in the Middle East, expressed emotions are expected and are seen as a means of emphasizing and reinforcing one's negotiating position. Beamer and Varner explain the role of emotion for Kuwaiti negotiator, and the potential for an adverse reaction, this way: "His love of verbal play and the importance of emotion in communication may make the Kuwaiti negotiator's wording of messages seem theatrical to a low-context communicator [e.g., American or Canadian]." Morrison and his associates point out that Russian negotiators are also very emotional, and have been known to reinforce their positions by walking out of the meeting in an angry manner—only to eventually return to the table.

Direct and indirect language

10 A negotiator's verbal communication style, particularly as it applies to the direct and indirect use of language, can also be the source of difficulties in international business. As we have noted elsewhere, representative from collective culture such as China, Japan, the ROK, and Indonesia place considerable value on maintaining positive relations with their negotiation counterparts. To accomplish this, they rely on an indirect communication style. Sensitive issues with the potential to create conflict or cause discord are handled with care and normally are addressed in an indirect manner. The Chinese and Japanese are reluctant to give a direct negative reply, relying instead on vague terms, double negatives, and equivocal statements such as "That may be difficult," "We need to study that more," or "We will think about it." The Indonesians are so concerned with maintaining harmonious relations that they even have "twelve ways to say 'no.'" Indirectness of this magnitude can be the source of consternation, confusion, and even misinterpretation to the Western negotiator, who is used to "getting to the point" and "not beating around the bush." For example, if a Japanese negotiator tells his United States counterpart that a request "will be very difficult," he is actually saying "no," and there will be no further consideration of the issue. However, the American business representative, accustomed to a definite "yes" or "no", is likely to interpret the statement as an indication that the request will remain under consideration, with a possible reply at a later date.

11 In most Middle Eastern cultures, you would find a more direct approach to the use of language than the one we just describe with reference to Asian and Southeast Asian cultures. Forceful, dynamic, and exaggerated speech is part of the Arab negotiation style. Nydell summarizes this garrulous style of negotiation in the following paragraph:

- Participants in negotiations enjoy long, spirited discussions and are usually not in a hurry to conclude them. Speakers feel free to add to their point of argument by demonstrating their verbal cleverness, using their personal charm, applying personal pressure, and engaging in personal appeals for consideration of their point of view.

Evidence and "truth"

12 Cultures can differ greatly in their interpretation of what constitutes evidence and what is and is not "truth." To be a successful negotiator, it is important to know these differences before you begin the bargaining process. Most Americans tend to rely on objective observations to establish facts. Truth is something that is verifiable. Statistics and empirical knowledge are of utmost importance. The desire to rely on facts is also part of the negotiation style employed by executives from Germany, Sweden, and the United Kingdom. Morrison offers the following advice for dealing with the English: "Provide as many objective facts as possible during your presentations and negotiations. To the English, scientific evidence is the truth."

13 In Latin America, decisions are often based on subjective data and are usually supported by subjective feelings. Many of these feeling are tied to a strong faith in the church, which is seen as the source of "truth." This belief in faith often results in a strong sense of fatalism among the people of Latin America. It is not impossible to find business executives who carry these religious convictions into their business practices. Proverbs such as "If your trouble has some remedy, why worry? And if it has no cure, again, why worry?" In short, Latin Americans are far more impressed with affect, fatalism, and emotion than they are with long strings of facts and logical dissertations. Businesspersons from Pacific Rim countries, although excellent negotiators, also rely on subjective interpretations as a source of evidence and truth. In the ROK and China, the source of those subjective interpretations is usually the government. In most Arab countries, a combination of religious faith and the views of the rulers in power influence how decisions are made.

14 It should be clear that the criterion for defining truth is culture bound, and that the source of evidence and truth in one culture many not be the source of evidence and truth in another. One manifestation of these differences is found in the business contract. Because Western cultures rely on objective data, legal definitions, and highly structured arguments, it only follows that their contracts reflect this point of view. Speaking of U.S. negotiators, Salacuse offers the following explanation: "For them[the United States] the contract is a definitive set of rights and duties that strictly binds the two sides, controls their behaviors in the future, and determines who does what, when, and how. According to this view, the parties' deal is their contract."

15 This rigid interpretation of the contract is also the case in Germany, where contracts are excruciatingly detailed, and signers are expected to adhere precisely to the various provisions. Germans, with their penchant for details, might find it frustrating when they come face-to-face with cultures from the Middle East and Asia. For example, in the Arab world, the word of individual carries more weight than the written word, and in some cases, insisting on a contract may be perceived as an insult. From the Chinese perspective, the negotiations are designed to establish the parameters of the relationship, and the contract should serve only as an outline or guide.

Developing Intercultural Negotiation Skills

16 We conclude this section on the negotiation process across cultures with a bit of advice on how to sharpen your communication skills when sitting at the bargaining table with people from cultures

that differ from your own.

- *Be prepared.* The overriding message embedded in our first suggestion asks you to learn all you can about the host culture before negotiations begin. This means learning about the behaviors that we have discussed in this chapter as they relate to formality, status, nonverbal actions, the use of language, and the like.
- *Develop sensitivity to the use of time.* This admonition asks you to learn to adapt to a slower pace than you might be used to if you are from the U.S. dominant culture. It also advises being patient when dealing with cultures that use a different tempo than the one found in your culture
- *Listen carefully.* Part of concentrating on the proceedings is learning to remain comfortable with silence and realize that a lack of words is also a form of communication.
- *Learn to tolerate ambiguity.* Many intercultural encounters are characterized by confusion and a search for meaning. All of this translates into a high degree of ambiguity—which is the quality of having more than one meaning. Therefore, we urge you to be tolerant of the unknown as you seek to make sense of what is new and often hard to characterize.
- *Try to locate areas of agreement.* Since both sides in a negotiation want to gain something, it should be a simple matter to isolate areas of agreement. If both parties can be made to see these areas, everyone benefits.

(Adapted from *Cross-Cultural Communication*, Cengage Learning Asia Pet Ltd., 2012)

GLOSSARY

egalitarian	(para. 3)	*adj*.	showing or holding a belief in equal rights, benefits and opportunities for everybody 平等主义的
tenacity	(para. 6)	*n*.	the quality of not giving up 坚韧，坚持
inscrutable	(para. 8)	*adj*.	that cannot be understood or known; mysterious 不可理解的，神秘的
animation	(para. 8)	*n*.	energy and enthusiasm in the way you look, behave or speak 活力，生气
equivocal	(para. 10)	*adj*.	having a double or doubtful meaning, ambiguous 模棱两可的，模糊的
magnitude	(para. 10)	*n*.	size, degree 规模，程度
consternation	(para. 10)	*n*.	surprise and anxiety 惊愕
beat around the bush	(para. 10)		兜圈子

NOTES

Pacific Rim countries (para. 13) 环太平洋国家

EXERCISES

Answer the following questions.

1. How do the authors discover that negotiation plays a critical role in international business?
2. What are the five styles that can create problems in business negotiations?
3. How informal are negotiators from the United States?
4. What is the similarity between Westerners and the Chinese and Japanese in pace and patience?
5. What does the Latin American proverb “To a hurried demand, a leisurely reply” indicate?
6. What is the difference between do Americans and East Asians in terms of emotional display?
7. How do Russian negotiators display their emotions?
8. How do negotiators from East Asian try to maintain positive relationship with their counterparts?
9. What are decisions based in Latin America?
10. What advice does the text give to sharpen our communication skills in negotiations?

TEXT C

Spurring Innovation Through Competitions

Alan MacCormack, Fiona Murray, and Erika Wagner

1 Rather than seeking in-house solutions to problems, companies are increasingly turning to contests to generate many diverse ideas.

2 Even the most successful companies have trouble developing breakthroughs. R&D road maps, as helpful as they can be at accelerating progress in known areas, are not particularly effective at spotting new opportunities outside a company's experience base. Resource allocation mechanisms tend to be biased in favor of innovations that reinforce existing business models. Executives obsess about tying R&D tightly to production and grounding new ideas in reality. And marketing groups often focus on the needs of current customers instead of identifying new market needs, discovering new solutions or identifying new business models. As one executive told us, "We ruthlessly weed out research that doesn't fit the existing model—those projects last only six months inside our labs. The immune system of the core business is so strong."

3 Traditional approaches to generating new ideas—most notably large corporate R&D labs staffed with world-class talent—are expensive and often produce disappointing results. In response, companies are searching for better ways to identify and exploit novel solutions. Increasingly, they are discovering that many of the very best ideas lie *outside* their organizations, in an ecosystem of potential innovators who possess wide-ranging skills and knowledge. To discover and attract these contributors, organizations are launching competitions and offering prizes.

4 However, competitions can have drawbacks, ranging from the potential duplication of resources to questions about the ownership of the intellectual property. Therefore it's critical that companies have a clear understanding of the trade-offs before they begin. Managers should understand why competitions can be effective, when to consider using them and how best to implement them.

Why Competitions Can Be Effective

5 Competitions generate diversity in three critical inputs to the innovation process: motivations, participants and organizations. This diversity, in turn, generates a wider variety and greater number of solutions to any given problem.

When to Use a Competition

6 Once managers understand how innovation competitions work, they need to evaluate the extent to which competition can support their innovation objectives. Rather than pursuing "open innovation" competitions just because others are, managers should assess where their organization needs to

improve and how a prize might further those objectives.

7 Discovering innovations can be seen as a search for the high-value peaks in a company's "innovation landscape." Each point in the landscape suggests a different possible design based on a combination of inputs resulting in value. Although some innovation landscapes are predictable, others are rugged and uncertain, requiring significant amounts of trial and error to identify the peaks. Traditionally, companies have relied on internal R&D teams to explore the landscape. However, when the terrain is less familiar, many organizations are turning to competitions.

8 Consider the annual NYC BigApps competition, which New York City Mayor Michael Bloomberg initiated in 2010. The goal was to encourage software developers to use government data to create applications for solving city problems and meeting local needs. Prior to announcing NYC BigApps, city officials didn't know which problems were worth solving or how best to tackle them. So they decided to have a competition. In the first year, the $20,000 prize generated submissions from more than 80 individuals, businesses and nonprofit organizations. The proposals addressed a variety of services, including restaurant and taxi driver reviews, applications for finding nearby subway stations and tools for evaluating local schools. Using a platform named ChallengePost, software developers were able to showcase their solutions, appeal to investors and link to social media networks. The contest enabled New York City officials to identify a wide range of high-value applications and put them quickly into the hands of potential users.

9 To map an organization's innovation landscape, we have found it helpful to use the classic familiarity matrix, which examines the nature of the problems companies are trying to solve and the proposed solutions—specifically whether they are familiar or new. Organizations tend be good at exploring the landscapes of familiar problems and solutions. They need help when developing new solutions to existing problems, new market needs that can be addressed with existing capabilities and new business opportunities created by discovering new solutions to novel problems. These are the areas where competitions have proven most helpful.

Mapping the Innovation Landscape

10 As an example of how an organization can generate new solutions to a known problem, consider the Oil Cleanup X Challenge, a $1.4 million prize awarded in 2011 for the most effective product to recover oil from the surface of the sea. The competition for the prize, which was sponsored by philanthropist Wendy Schmidt, drew more than 350 entrants. The winning team, Elastec/American Marine, of Carmi, Illinois, had been working in the oil recovery industry and selling products in this area for many years. In fact, it had already identified several ideas for significantly improving oil-spill cleanup performance, but the ideas had remained on the drawing board until Schmidt announced the prize. Spurred by the challenge, CEO Donnie Wilson assigned ten engineers to flesh out the ideas during an intense 60-day effort. Their breakthrough solution featured rapidly spinning plastic discs with built-in grooves that create a channel for the oil to adhere to. Their product could recover 4,670 gallons of oil per minute from the water's surface—four times the prior industry standard.

11 Sometimes, a company can have a wealth of capabilities and possible solutions but have difficulty identifying which problems these could be deployed against, or who the customers might be. Such was the situation at IBM. Historically, the company had a wealth of R&D discoveries, many of them never converted into commercial products. In 2006, management set out to change that with the launch of an "Innovation Jam," an online conference for 150,000 employees, partners, customers and researchers. The organizers shared information on IBM's emerging technologies during a 72-hour online brainstorming session aimed at capturing ideas for commercialization. Subsequently, a team of managers sifted through the most promising ideas, which were subjected to a second 72-hour "jam" to define actionable investment areas (such as smart healthcare payment systems and the "3-D Internet"). Within the year, then-chairman and CEO Sam Palmisano announced $100 million of investments in ten business areas identified through the Innovation Jam.

12 Organizations seeking to build brand new businesses around innovative solutions to novel problems have slightly different needs. Here competitions are often used as part of a broader innovation strategy that combines seed capital, early-stage partnerships and other "open innovation" approaches. Competitions, especially those following business-plan-style formats, provide an excellent vehicle for identifying a large number of early-stage opportunities, evaluating them and building communities in emerging areas.

13 Cisco's I-Prize competition, which invited global contestants to help the company discover new billion-dollar businesses, provides a powerful example. After launching the competition internally, Cisco opened the I-Prize to external participants in 2007, offering a $250,000 prize for ideas that would help the company leverage its industry positions to build new businesses. Cisco received more than 1,000 submissions. Using a crowd-sourcing platform called Brightidea and a team of judges, the company winnowed the entries down to 40 semifinalists, who spent six weeks refining their business plans before presenting them to a panel of senior executives. The winning team, based in Germany and Russia, developed a sensor-enabled smart grid that improves energy efficiency by taking advantage of Cisco's leadership in Internet protocol (IP) technology.

How to Run an Innovation Competition

14 Tapping into the power of competitions involves more than publicizing a problem and waiting for solutions to flow in. To be effective, competitions must be designed and managed well. We have identified five critical design decisions—what we call the "Five Ps": 1) frame the problem; 2) establish the prize; 3) select the participants; 4) define the process; and 5) build the platform. Considering these steps allows companies to assess the costs and benefits of using prizes.

Step 1: frame the problem

15 Depending on the company's objective, competitions can be configured in different ways. It's often helpful to carve the problem into "chunks" to reduce the amount of effort required to enter a competition and attract a larger and more diverse set of participants. However, this approach has a downside: Major breakthroughs may not conform to preconceived notions of what the problem is, or how it can be solved. When dramatic performance leaps are required, companies should encourage participants to think as broadly as possible and consider a wide range of solutions.

16 To encourage development of a more fuel-efficient airplane, for example, a sponsor could divide the problem into distinct areas, such as improving the body aerodynamics and increasing the efficiency of the engines. Recognize, though, that each time you narrow the focus you embed assumptions about the nature of the problem and the expected solution. This may not be desirable if developing radical innovation breakthroughs is the goal.

Step 2: establish the prize

17 Competitions with bold and difficult objectives tend to provide larger rewards to attract attention and lure a more diverse participant base. But the opportunity to win a big pot of cash isn't as important as you might think. In September 2010, fewer than 130 teams registered for a chance to win the $10 million PIAXP Prize for the design of super-efficient vehicles. That same month, more than 500 teams entered a $10,000 contest sponsored by *The Economist* to find better ways of capturing atmospheric carbon and reducing global warming.

18 Reward structures should take into account the range of motivations that inspire individuals and teams to compete. In some cases, monetary rewards will be the prime driver. In others, nonfinancial benefits, such as the opportunity to advertise one's skills or achievements, may be more important. To attract entrants looking for excitement and intellectual challenge, contests can build and nurture a sense of community and support social interactions among competitors. For contestants looking to build their own businesses, competitions can provide opportunities to network with potential investors, partners and customers. Sponsors can also leverage their own strengths to increase the value of participation. Netflix, for example, shared massive data sets with contest participants. By sharing something of value, organizations can amplify the impact of a competition and attract more participants.

Step 3: select the participants

19 Some companies open competitions to everyone. Others restrict entry to prequalified participants, such as the employees of a single company, its customers and business partners. While the power of diversity argues for "openness," there are circumstances where being *too* open can be problematic. For example, a competition may require sharing details about the company's intellectual property. A related issue is the time and effort companies must devote to evaluating submissions. In circumstances where assessing ideas is difficult or expensive, prequalifying participants may make sense. Similarly, concerns about safety and privacy may argue for a more controlled process.

Step 4: define the process

20 One of the most important ways competitions create value is by encouraging collaboration. Time and again, we saw individuals and teams engage in unprompted and unexpected collaborations. Sometimes, these activities occurred in the course of efforts to build teams that possessed the skills and resources to compete. On other occasions, however, they occurred *in spite of* the competitive dynamics. Competitors often shared a passion for the challenges that they were collectively engaged in, giving them a common purpose. Contest participants therefore seemed more willing to share information, help others and solicit help than they would be in their normal roles as employees competing in a marketplace.

21 To capitalize on this dynamic, companies should look for ways to harness the power of competition and collaboration. For example, the X Prize Foundation hosted face-to-face meetings for PIAXP entrants to promote team networking and learning. Although there is always a risk that teams may withhold their best ideas while attempting to discern their competitors' secrets, the culture of a competition typically discourages such actions.

Step 5: build the platform

22 Besides prize money, an effective competition requires a range of other investments: in information technology and processes, staffing and judging, and marketing. A fundamental decision for companies considering establishing a prize is whether to build this infrastructure themselves or tap into external assets and third-party expertise.

23 Over the past decade, several organizations have developed platforms for running competitions. Some companies offer comprehensive platforms for hosting competitions; other companies specialize in software platforms. On a larger scale, some organizations have developed a repertoire of capabilities for designing, running and judging multiyear challenges.

24 So when does it make sense for an organization to build its own competition infrastructure? Cisco and other companies that encourage open-ended proposals often prefer using their own infrastructure because it allows them to tailor the contest platform to their specific needs. Ultimately, the more unusual one's needs and the more diverse the range of solutions, the stronger the argument is for creating your own prize platform.

Assessing the Costs and Benefits

25 The advantages of using competitions to pursue innovation must be set against the potential costs and risks. There are inherent trade-offs between the power of diversity, on the one hand, and the costs of generating, evaluating and capturing value from diversity, on the other. The costs fall into several categories, each of which must be evaluated before making the decision to run a competition:

- **Prize infrastructure:** Successful prizes provide something attractive to potential participants — money is not enough. Companies need to provide data or a development infrastructure to allow opportunities to be identified or problems to be solved.
- **Prize administration:** As the CTO of Cisco's emerging technologies group has warned, "Anyone attempting to do innovation on the cheap should look elsewhere." As enticing as it may be to get people to work "for free," such thinking underestimates the cost of the resources you will need to provide; the administration and operations costs often exceed the prize purse.
- **Prize adjudication:** If it can be costly to test whether a *single* solution is a good one, imagine the expense of evaluating dozens or even hundreds of entries. Inviting entrants to develop new algorithms makes for popular competitions; they can be evaluated automatically. Car designs can be tested with a race. But evaluating new designs, chemicals and drugs is more challenging — and more expensive.
- **Disclosure risk:** In describing the challenge you seek to address, you are sharing important information with the world, which might be helpful to competitors. Some prize platforms help

you retain anonymity, but not all of them do.

- **Control:** Any venture in open-source or crowd-sourced innovation cedes a large measure of control to those doing the innovative work. The traditional precepts of centralized project management and milestone reviews don't apply in the same way. While the upside can be substantial, the risk factors are outside your control.

26 Competitions can play a role in the innovation portfolio of any company. Some efforts will be successful and others will fail, which is natural given the uncertainty inherent in competitions. That argues for starting small, experimenting with a variety of different approaches to evaluate which are most effective, and learning and adapting as you go. In order to coordinate efforts and derive maximum impact from the various experiences, companies should appoint a single senior executive as the point person — in effect, a "chief competition officer." That person should ensure that the company rigorously evaluates proposed experiments in terms of the company's overall innovation objectives and competitive capabilities. Ultimately, decisions such as how much infrastructure to build, the level of funding for competitions and how best to market and promote competitions should be made by managers overseeing the entire portfolio of activities under the innovation umbrella.

27 Particularly in lean times, innovation competitions represent a high-leverage tool that taps into powerful motivations to draw out disproportionate efforts from a wide variety of participants. In addition, they can focus contributors on specific aspects of an organization's innovation challenges. By varying the structure of competitions, companies have the ability to influence the types of innovators they hope to attract, the nature of the solutions submitted and the amount of collaboration that ensues. Therefore, competitions can be a powerful addition to a company's R&D portfolio.

(Adapted from *MIT Sloan Management Review*, Fall 2013)

GLOSSARY

philanthropist	(para. 10）	*n.*	a person who seeks to promote the welfare of others, especially by the generous donation of money to good causes 慈善家
adjudication	(para. 25)	*n.*	a formal judgment or decision 裁判，裁定
ensue	(para. 27)	*v.*	happen or occur afterwards or as a result 因而产生，接着发生

NOTES

1.	innovation landscape	(para. 7)	创新情况/创新局面
2.	social media network	(para. 8)	即 SMN，社交媒体网络
3.	Internet protocol technology	(para. 13)	即 IP 技术，网际协议技术
4.	Netflix	(para. 18)	美国一家在线影片租赁提供商

EXERCISES

Answer the following questions.

1. How are traditional approaches to generating new ideas?
2. Why can competition be effective?
3. Once managers understand how innovation competitions work, what do they need to do?
4. What is the goal of the annual NYC BigApps competition initiated in 2010?
5. What was the aim of the Oil Cleanup X Challenge in 2011?
6. Why did Cisco launch I-Prize competition?
7. What are the “Five Ps” mentioned in the text for an innovation competition?
8. Where do the trade-offs lie when competition is used for pursue innovation?
9. What categories do the cost of competitions fall into?
10. What can companies do by varying the structure of competitions?

TEXT C

The CEO of Ozon on Building an E-commerce Giant in a Cash-only Economy

Maelle Gavet

1 At first I didn't want to have anything to do with Ozon. I was coming up for partnership at the Boston Consulting Group, and it was one of the firm's smallest clients. I couldn't see how it would help my chances for promotion, but a senior partner insisted that I lead the engagement.

2 A few months later I resigned from BCG to become Ozon's sales and marketing director—and a year and a half later, in 2011, I became its CEO.

3 Why did I take such a risk? To begin with, I had been an entrepreneur once before, and I missed the excitement. I also quickly realized that Ozon could become the Amazon of Russia. Not many e-commerce alternatives were around four years ago, and I could tell that the market was set to explode. Russians were going online at an extraordinary rate, with Internet penetration rates increasing by 15% a year and reaching 55% in 2013.

4 In traditional retail, you're happy if you grow by 5%, so this rate of expansion was really exciting. I could make big changes happen quickly. I loved working at BCG, where my expertise was in retail and logistics, but the opportunity to be part of a hypergrowth story was too good to pass up. Perhaps most important, I would get to lead a large team. Ozon already had hundreds of employees at that point; at BCG I would never be leading a team of more than 10 or 20.

5 Why did they offer me the job? I was only 32 and French. I didn't really know about e-commerce (unless you count buying stuff from Amazon). But age and nationality don't matter much at tech start-ups, and I spoke good Russian. I also had some technology in my background. Ozon's board understood that figuring out how to deliver goods to consumers in Russia, with its shaky distribution systems, was the key to unlocking the country's e-commerce market. It was the opportunity of a lifetime, and I seized it with both hands.

The Challenges of a New Market

6 People often accuse Ozon of being an Amazon clone. That's understandable. We started with books, expanded into movies and music, then moved into electronic items, and finally carried a full range of consumer goods—pretty much everything except groceries. All told, we now offer 3.5 million products, most of which we sell directly, though a growing number are sold on our site by third-party merchants. Like Amazon, we offer website platform services to independent retailers as well. We

even have our version of Zappos: Sapato.ru, an online shoe boutique.

7 Yet our similarity to Amazon isn't why we've succeeded. To understand that, you have to look at the challenges of Russia's retail environment, which is very different from America's or Western Europe's. When I joined Ozon, Russia lacked a reliable, flexible, and speedy national delivery infrastructure, and no amount of web functionality can make up for a parcel's arriving late or not at all. When we started offering third-party products through Ozon.ru, the merchants on our site were failing to make delivery 50% of the time because they had to rely on the Russian postal system; there were no nationwide couriers.

8 Russia is also a cash market. People don't pay until the parcel is delivered. That means if you don't deliver, you don't get paid—and you handle a lot of cash. In 2010 about 82% of payments were made in cash; 75% still are today. In a cash economy it's also harder to track customers and monitor fraud. People often think that Amazon identifies them through a login name and a password—but that's not entirely true, because you can register as often as you want. The one thing you cannot do is use the same credit card for two accounts, so your credit card number is your unique ID.

9 Russian consumers also have a strong need for personal contact; online customer service doesn't cut it. Even today, 5% to 10% of orders come in by phone, because some people use the website as a catalog rather than as a store. When I joined Ozon, we had a call center that was open weekdays from 9am to 6pm Moscow time. I thought we should probably close it, because customers could migrate to the website. But after spending a couple of days at the center listening to calls, I came back convinced that rather than closing it, we should invest in making it a 24/7 operation.

10 To succeed in Russian e-commerce, we needed more than website functionality. Our strategy hinged on logistics and customer support. We had to persuade people that they could get their purchases more quickly and reliably by ordering them online and having them delivered than by hoping to find them in stock at a shop. We needed a way to safely take and process the cash they paid with. Finally, we had to provide personal contact with customers and harvest data about their purchases and preferences. Put simply, we had to build an infrastructure from the ground up.

Creating Our Own FedEx

11 That sounded like a pretty daunting mission for what was still basically a tech start-up. When I joined as sales and marketing director, our delivery operation had just 100 people in two business units. One unit was focused on Moscow and Saint Petersburg, and the other on the rest of Russia. Each had its own IT platform for tracking orders. We also used the Russian post. The company was thinking about getting out of direct delivery by partnering with DHL and regional Russian delivery companies. We would focus on managing the interface with customers and tracking purchasing behavior.

12 After much debate the board and I made the decision to invest seriously in developing our own logistics capabilities. This would be a source of competitive advantage that could not easily be replicated; why give up control of such a key link in the value chain? If we went with an independent

courier, that might prevent customers from making the personal connection with a retailer that is so important for generating brand loyalty; they'd be trusting DHL rather than Ozon. Besides, we had to solve the national delivery problem quickly, and we would waste time by negotiating with small regional delivery companies. Finally, we believed that we should control the handling of cash directly; it would certainly be cheaper and would most likely be safer.

13 Our first step was to combine the two logistics business units to create an integrated national hub-and-spoke network, targeting 2,000 pickup points. For the most part, we arranged franchiselike deals with shopkeepers who had well-located properties. In return for a cut of the sales, they took delivery of packages and exchanged them for customers' cash payments, which we collected at frequent intervals. We contracted with air-freight companies for long-haul transportation to hub airports and managed local transportation ourselves. This involved hiring and training staff and leasing vehicles.

14 But 2,000 points is a pretty big network to serve. We'd need five times as much volume as we then had if we were to make delivery quick and reliable enough to gain customers' trust. If you're sending a plane every day (or two or three times a day), the customer won't notice if you miss one plane. But if you deliver once a week, a missed plane means a week's delay in the order's arrival. We quickly realized that to get sufficient volume to run the network efficiently, we would have to deliver for third parties. That would also solve our problem with the merchants that sold through Ozon.ru. If we could improve their delivery rates as well, we would attract more retailers, more customers for them, and more volume for us.

15 But this posed a really big technical challenge. We couldn't just merge and adapt our existing tracking software if we were going to handle other sellers' packages as well as our own. We would have to rebuild the entire system. It's testimony to the members of our IT team that they enabled us to launch O-courier, a third-party delivery service, in September 2013. Their achievement also highlights the fact that the Ozon story has really been a team effort: Credit for the success of the company over these past three years belongs to our employees and our shareholders, because everyone has gone the extra mile to make our strategy work.

Communicating the Strategy

16 The most tangible consequence of our strategy was that we very quickly built up a large workforce. We now have almost 2,400 people on the payroll (up from about 900 when I joined). That doesn't include the thousands of independent contractors, such as people who manage the pickup points or make deliveries from the hubs to the pickup points. All these people represent the Ozon brand, and how well they do so will determine whether we can stay on top of Russian e-commerce.

17 Leading people often seems to be an afterthought in the tech world. But even Facebook and Google are at least as much about their people as about their cool technology. You won't win in a competitive marketplace unless you have people who love their jobs and want to give their very best. Sometimes that means getting up at three in the morning or working over the weekend to fix a problem. Although this kind of firefighting is critically important, perhaps more important is that we

make every contact with a customer a positive one. If customers have alternatives, companies don't. I spend probably 40% of my time on creating a highly engaged workforce. Making sure people are excited about the company they work for is extremely important—but we seldom talk about that in the Internet world, and I don't understand why.

18 A big challenge we face is managing expectations around advancement and career development. Ozon has grown very rapidly, and we are able to attract great talent because people want to grow with the company. They'll get experience, more responsibility, and, of course, more money. But not everyone can grow as fast as the company, and someone who was perfect for her job a year ago may not be perfect for it anymore. You may have to promote someone behind her to be her supervisor. That's a hard message to deliver.

19 You're also asking people to be very comfortable with uncertainty, and a big part of management's job is to help people through that. With so much going on in the market, people may feel that you're constantly doing different things. You might be focusing more on the top line one year and on costs the next. In the C-suite we can see how it all fits together, but that understanding has to be communicated, which is one of the most important parts of our job.

20 We do that in several ways. To begin with, we have monthly onboarding meetings at which I personally get together with new recruits and invite them to ask whatever they choose. But the big event is a quarterly meeting with all our employees. Everyone comes to a hotel in Moscow, and the other executives and I get up on a stage to explain our strategy, what we've been doing to implement it, how it's been changing, and so on. We have a one-hour Q&A session, during which people can and do ask hard questions: Why did we undershoot this or that target? Why couldn't we open more pickup points in such and such a city? The questions are submitted in advance, and they're anonymous. Sometimes we have to admit that we screwed up, which isn't great for the ego but does send a positive message about accountability, a key element of the culture we want to create.

21 I can't yet say that we are where we ultimately want to be in creating our culture and engaging the team. But I can say that we consider this to be a top priority and are 100% committed to doing what it takes.

Planning for Future Growth

22 Even as we expand, we'll stay geographically focused. Russia still has a long way to grow. Out of 140 million people, some 60 million to 70 million are online, but only about 20 million use the Internet to shop. We're opening up in Latvia and Kazakhstan, but basically we'll stick to the home region.

23 We'll be looking for e-commerce customer acquisition opportunities that leverage our platforms. Sapato is a good example of how we'll do this. It might seem odd to take on a stand-alone brand. Why not sell shoes directly through Ozon.ru (which in fact we do)? The reason lies primarily in the fact that people in the online world still have expectations about branding. Those who buy the fashionable shoes for sale at Sapato would probably never buy them at Ozon. But Sapato creates

many synergies in purchasing and delivery for Ozon.

24 Getting into adjacent industries will be a major avenue for growth. We already have Ozon.travel—our version of Expedia—and bigger opportunities exist. When people are shopping with you and you're already handling their cash, consumer credit is a natural extension. It would give us a lot more information about our customers, and the future of e-commerce is very much about understanding customer data. One of our shareholders, the Japanese e-commerce company Rakuten, actually has a bank and is well placed to help us develop a strategy in this direction. But that's something for the future.

25 When I first joined Ozon, I saw the challenge as primarily one of retail and logistics. But the longer I've been here, the more I've understood the critical importance of our team and our technology. It's smart technology that creates tracking systems to reliably get the product to the customer on time. It's technology that allows us to capture, store, and retrieve data about our customers. And going through the experience of building the capabilities that connect everything we do made me realize that I really like IT. It reminds me of what I used to do at BCG: Our clients already had the answers; what they wanted was some kind of structure to make those answers work. That's the Ozon story: creating a business model and a team that can adapt and grow with the huge opportunities we have.

（Adapted from *Harvard Buisness Review*, July-August 2014）

GLOSSARY

clone	(para. 6)	*n.*	a copy of, imitation 克隆，模仿
boutique	(para. 6)	*n.*	small shop selling clothes and other articles of the latest fashion 精品店
hinge on	(para. 10)		depend on 取决于，随……而定
pickup point	(para. 13)		取货地点
long-haul	(para. 13)	*adj.*	a long distance 长途的

NOTES

1. DHL	(para. 11)	敦豪（邮递和物流集团，德国邮政全资子公司）
2. O-courier	(para. 15)	俄罗斯电子商务集团 Ozon 下属的快递公司
3. C-suite	(para. 19)	即 Chief-suite，企业最高管理层
4. Sapato	(para. 23)	俄罗斯电子商务集团 Ozon 下属的鞋类电商（2015 年被俄罗斯时尚电商 KupiVIP 收购）
5. Rakuten	(para. 24)	乐天购物网（日本电商）

EXERCISES

Answer the following questions.

1. Why did the author resign from BCG to become Ozon's sales and marketing director?
2. Why did Ozon offer Gavet the job?
3. Why do people accuse Ozon of being an Amazon clone?
4. Even today, how many orders come in by phone rather than on line?
5. Why did Gavet decide to develop their own logistics capabilities?
6. How much time did Gavet spend on creating a highly engaged workforce?
7. How do they help their employees to be comfortable with uncertainty?
8. How many people in Russia use the Internet to shop?
9. In what way does Sapato help Ozon?
10. What is the Ozon story according to the text?

Text C

Latin America: Many Trading Partners, Diverse Tax Implications

Michael Levin-Epstein

1 In 2015, the vast majority of U.S. international companies have many markets to choose from, including China, India, Japan, Western Europe, Eastern Europe, Africa, and Canada. Increasingly, however, global firms are looking to market their products, invest in economies, engage in trade, or simply do business with countries in Latin America.

2 And if corporations are doing business in Latin America, as sure as the sun comes up tomorrow, there will be tax issues.

3 By any measurement, Latin America, with a population of more than 600 million, is a key trade area for US-based companies. US producers export three times as many products to Latin America than to China. On the other side of the trade equation, Central and South America (excluding Mexico) purchase fifty percent more goods from the United States than China.

4 Latin America, including Mexico, accounts for between twenty and twenty-five percent of total US trade—imports plus exports. In addition, about twenty percent of foreign direct investment in the region comes from the United States. Exports from South and Central America totaled about $169 billion in 2013. At the same time, imports from Latin America were about $146 billion.

Mexico and Brazil—and Colombia

5 Who's leading the way in Latin America? Mexico and Brazil are the chief economic powers in terms of GDP, according to most experts. The most important countries in terms of doing business in Latin America are Brazil, due to its burgeoning population (more than 200 million), growing middle class, and continental size; Mexico, due to its border with the United States and role in NAFTA; and Colombia, due to its economic development and expanding economy, according to Lionel Nobre, Latin America tax director at Dell and TEI Latin American founding member.

6 Paulo Sehn, partner at Trench, Rossi in Sao Paulo, Brazil, agrees that Colombia's importance is on the rise: "Colombia has been increasing its visibility in the region as a result of a stronger economic environment and important reforms, which is also the case for Peru. Meanwhile, Argentina continues to face enormous challenges since the default on its external debt and the somehow excessively regulated internal market that does not foster foreign investments," he says.

7 In addition, Sehn says, Chile is an important country in the region for its economic and political stability and for showing the highest integration with the international markets in the Latin America region, while Venezuela continues to face enormous economic and political challenges, as operating

under the current business environment is quite hostile to foreign investments.

8 Mexico's proximity to the United States is a major factor in trade relations between the two nations, say Sehn and Nobre. Mexico's shift toward allowing a private sector role in the petroleum sector, which has long been controlled by the government, has been attributed to shale-oil discoveries and improvements in fracking technology in the United States, which has led the way in revitalized trade with our neighbor to the south.

9 In fact, Latin America as a whole has been the largest foreign supplier of oil to the United States and a key partner in the development of alternative fuels, which has helped make the region our fastest-growing trading partner.

10 How much free trade is going on among Mexico, Brazil, and the United States? In the significant automobile market, Brazil and Mexico renewed vehicle quotas for four years in March, delaying the implementation of a free trade agreement between the two countries.

11 The region's two largest economies were scheduled to have free trade in vehicles beginning March 19, and the Mexican government worked for that result. However, Brazil sought a delay, and Mexico agreed.

12 The countries had allowed free trade in vehicles from mid-2011 to early 2012 but changed to a quota system after Brazil complained that the strengthening of the Brazilian currency over the previous decade made its cars uncompetitive abroad. Under the new agreement, Brazil and Mexico will permit $1.56 billion of duty-free vehicle imports for the first year of the agreement, increasing three percent annually until the agreement expires in 2019, when two countries return to a free trade regime.

13 The impetus for increasing trade with Latin America and making it a market destination for growing global organizations starts with the top officials in the executive branch. In 2014, US Secretary of Commerce Penny Pritzker announced the "Look South" initiative targeted at increasing business with trade partners in Latin America. Look South encourages US companies to do business with Mexico and the US's ten other free trade agreement partners in Central and South America.

14 Pritzker specifically pointed to untapped business opportunities south of Mexico, which the program hopes to open up for US companies. But she stressed that US businesses need to take advantage of the free trade agreements and reported that only one percent of US businesses currently export their products, and of those, fifty-eight percent export to only one country, usually Mexico or Canada. While the typical business that sells to just one market generates roughly $375,000 in export sales, companies with two to four export markets have average export sales of $1 million; those that export to five to nine markets average $3 million in sales.

15 Agricultural commodities exports from Latin America have increased significantly together with the import of finished goods and services, notes Nobre.

16 In terms of developing the Latin American market, the sky's the limit, according to many global business and economic experts. Economic growth projections for the target countries in the initiative range from four percent in Colombia to seven percent in Panama.

17 The U.S. Department of Commerce wants to tap into that growth to benefit US businesses. More than half of all the free trade agreements negotiated by the United States are in Latin America, including Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru. Tariffs are low, if they exist at all, which makes those markets fertile ground for more U.S. exports, and many of the countries are adopting good trade practices and standards in a variety of areas, the Department of Commerce reports.

Asian Investment

18 Latin America also has become an expanding regional market for Asian industrial goods and foreign direct investment. Trade between the two regions has more than doubled over the past decade, reaching a historic high of more than $500 billion dollars in 2014—an amount expected to grow to at least $750 billion by 2020.

19 Exports to South and Central America totaled about $169 billion in 2013. At the same time, imports from Latin America were about $146 billion in 2013.

Latin America Tax Issues

20 "Latin America has very complex and always-changing tax systems with increasing foreign investment, which provides major opportunities for tax professionals in this region," asserts Nobre. The main tax issues in Latin America today concern indirect taxes, which are assessed on the taxpayer generating profit, and electronic tax and accounting systems.

21 Compliance in Latin America, Nobre says, is exceptionally time-consuming due to three main factors: history of hyperinflation; low tax morale and high tax evasion; and "form over substance" rules. In addition, the region lacks harmonization in tax approaches, calculations, and comparability on a variety of issues, including indirect taxes, transfer pricing, treaties, capital flows, income tax, and accounting bases.

22 In addition, notes Nobre, the region has a variety of tax audit trends. For example, Mexico focuses on cross-border transactions and base erosion and profit shifting (BEPS) guidelines.

23 Finally, Nobre says, it is important to point out that due to the adversarial relationship taxpayers have with the tax authorities and the form over substance rules in the region, it is very common for taxpayers to litigate tax matters in court, including in front of the supreme courts in the various countries of the region.

24 For example, Nobre notes, in Brazil more than twenty-five percent of the cases argued in front of the supreme court are tax-related. “These can be very cumbersome processes, often lasting several years or even decades, requiring that in-house professionals be strong litigators as well as content experts,” says Nobre.

25 Sehn echoes Nobre’s sentiments: “Tax disputes in Brazil are quite challenging because of the extended time length of the cases, which can take as long as fifteen to twenty years to be resolved if both the administrative and judicial paths are subsequently taken, and the complex tax environment with lots of tax rules that are quite frequently modified and thus require a continued follow-up of the legislation and of the case law from the Brazilian courts,” he says.

26 In addition to being an economic bellwether for the region, Brazil also is an extremely important country in terms of tax issues and processes. Brazil has a convoluted tax system with more than fifty different kinds of taxes at the municipal, state, and federal levels, which Nobre says are based on an outdated tax code that exists in concert with one of the most efficient electronic tax systems in the world. “In Brazil, there are income taxes, gross receipt taxes, several kinds of indirect value-added taxes, plus numerous social contributions, financial transaction taxes, and a very complex customs system,” he says.

27 Brazil requires not only dealing with the tax burden (income tax plays a small part, but the indirect tax burden is more significant) but also coping with the compliance responsibility, which is all electronic. Companies and individuals are required to file all their taxes and supporting data (which, for companies, includes accounting records, invoicing, and payroll) on a real-time basis with the tax authorities, which then cross-reference this information with returns filed to make sure they match. This “Big Brother tax system,” as it is known, has provided the Brazilian tax authorities with a very efficient tax system and has raised tax revenue ten-fold over the last ten years, according to Nobre.

28 Brazil also has a very low threshold for errors, which cannot be fixed at the back end for tax-compliance purposes.

29 One of the interesting cases that Nobre is currently working on concerns Brazilian transfer pricing that is “very unique and not compliant with OECD (Organization for Economic Co-operation and Development) models, which creates very interesting challenges for multinational companies.”

30 Brazil is now facing an important shift in its accounting rules with the enactment of Law No. 12,973/14, which ends the Transitory Tax Regime, Sehn says. Beginning this year, Brazilian companies have to fully adopt the International Financial Reporting System (IFRS) without eliminating such effects on the determination of the corporate income tax.

31 Sehn breaks down the major corporate and personal tax issues in the other Latin American countries:

- **Chile:** The country has been undergoing major tax reform since September 2014, with the goals of increasing tax collections by 3.02 percent of GDP and providing additional and permanent tax revenues to finance additional, permanent expenditure in education. The plan is designed to achieve those objectives through new taxable events, the increase of current tax rates, and the enlargement of taxable bases, plus the elimination of tax deferral and tax savings mechanisms.
- **Colombia:** The country has just created a wealth tax to be levied on Colombian and foreign individuals who are not tax residents with wealth in the country directly or through permanent establishments (PEs) (double taxation treaty exceptions apply). It also has increased its global corporate income tax for resident and nonresident companies.
- **Peru:** This jurisdiction is setting new income tax rates, which were at thirty percent until 2014 and will be reduced to twenty-eight percent for 2015-16, to twenty-seven percent for 2017-18, and to twenty-six percent starting in 2019. But the corporate income tax rate for nondomiciled entities remains at the thirty percent level.
- **Mexico:** The neighbor to the south has promulgated new legal provisions addressing BEPS issues, such as disallowing deductions for cross-border related party payments on royalties, technical assistance, and interest made to a foreign entity that controls or is controlled by the Mexican entity *(i.e.*, effective control over the other or administered to the extent that it may decide the moment of profits distribution), if certain conditions are not met. New domestic requirements have been established to access treaty benefits as, for example, the submission of a new informative return by the Mexican taxpayer (making payments abroad and applying reduced rates or other treaty benefits) that (1) discloses fiscal status and (2) informs of any cross-border payments.
- **Venezuela:** This oil-rich country has increased the statute of limitations from six to ten years (previously four to six years) and established that penalties for committing tax fraud, fraudulent insolvency for tax purposes, and failing to pay withheld amounts are no longer subject to the statute of limitations.

32 Then, of course, there's the question of what is going to happen in Cuba in terms of tax issues now that the Obama administration has started an initiative to increase cultural exchanges with the country that is only ninety miles from Florida. "Cuba is another jurisdiction that will have to be covered by tax professionals, as is the case in other Central American and Caribbean islands, once the country starts to embrace capitalism and adopts a more Western economy and tax system," says Nobre.

TEI's Latin America Chapter

33 The TEI Latin America Chapter was launched to meet the needs of in-house tax professionals in the region who want to voice their concerns to their peers and organize themselves to further strengthen the in-house tax profession, Nobre says.

34 "Notwithstanding the fact that tax can make or break a business in Latin America and that in-house tax professionals have been practicing in the region for at least the last fifty years, these professionals organizationally have always been a part of another department, such as finance, accounting, and controllership, and not an autonomous department as is the case more today' says

Nobre. In the past, in-house tax professionals were part of the accounting teams or general finance teams; however, with the increased complexity of the tax area, a need for more specialized professionals—with legal skills, for example—has simultaneously developed. What we now see are professionals who have the accounting, legal, treasury, finance, business, and IT skills to adequately calculate, file, and manage companies' taxes in the region, he explains. The TEI chapter will help unite these professionals with like-kind challenges, provide a platform for the exchange of ideas, and strengthen the in-house tax profession in the region.

35 The chapter plans on having regular meetings and social events to foster a sense of unity among the in-house tax professionals in the region. Nobre says the chapter also will help develop successful in-house tax professionals who have the skills to meet the tax environment of the future. Tax professionals not only need to understand the tax and legal system (and ideally have an accounting or law degree), but they absolutely need to understand their companies' businesses and be experts in systems and processes, asserts Nobre. "I am a so-called 1.0-generation tax professional with a law degree and accounting skills, but the future in-house tax professional in Latin America will not only need accounting but also informatics and systems skills to be a truly successful in-house tax professional," Nobre says.

The Future

36 The increasing chain of commerce between Latin American companies and the rest of the world, coupled with the complex tax environment in the region, is certainly a good indication that opportunities for tax professionals will continue to expand in Latin American and that those specializing in the region's tax systems will find companies are and always will be seeking professionals who can tackle those tax issues, says Sehn. "The ever-changing legal scenario poses a continued challenge to the tax professionals operating in the region and, accordingly, great opportunities for skilled tax lawyers," concludes Sehn.

(Adapted from *Tax Executive*, May/June 2015)

GLOSSARY

fracking technology	(para. 8)		水力压裂技术
cumbersome	(para. 24)	*adj*.	slow and inefficient 迟缓的，无效率的
convoluted	(para. 26)	*adj*.	extremely complex and difficult to follow 复杂的，难以理解的
scenario	(para. 36)	*n*.	a situation that could possibly happen 可能发生的事，可能出现的情况

EXERCISES

Answer the following questions.

1. Where do most American international firms like to market their products, invest in economies, engage in trade or do business in 2015?
2. How much does Latin America account for the total U.S. trade?
3. Which countries lead the way in Latin America, especially in terms of GDP?
4. When did Latin America change from free trade in vehicles to a quota system?
5. What was the “Look South” initiative about?
6. How has the trade between Asia and Latin America been and how will it be by 2020?
7. Why are tax disputes in Brazil challenging?
8. What is Peru’s income tax rate plan for the years after 2019?
9. Why was TEI Latin America Chapter launched?
10. What does the increasing chain of commerce between Latin American companies and the rest of the world indicate?

TEXT C

Visa Moves at the Speed of Money

Daniel Fisher

1 Sitting inconspicuously among the Pentagon contractors and trade associations in a western suburb of Washington, D.C. is a low-slung building protected by landscaped berms and a fence topped by razor wire. The exterior walls are a patchwork of whites, grays and greens to confuse passersby trying to judge its size from a distance. A 24-foot-deep moat provides a last line of defense against anybody trying to crash a vehicle through its walls.

2 But while this fortress could easily pass as an outpost of some shadowy three-letter spy agency, it's actually home to something far more mundane and far more powerful. This is the nerve center of Visa, the global credit card company. Walk through a biometric security scanner into its data center through a room dominated by huge video screens and past ranks of EMC data storage units holding information ready for instant recall, and you'll find a single IBM Z-class mainframe, like the black monolith in Stanley Kubrick's science-fiction classic 2001, quietly crunching up to 100 billion computations every second. Almost every time somebody swipes a Visa card anywhere in the world, the transaction flows through here or a sister facility in Colorado. The company instantly checks 500 variables, from the customer's location to his spending habits to the location of the merchant, and spits out a thumbs-up or down on whether to allow the charge to go through. It's the sort of centralized, Big Iron processing that Silicon Valley was supposed to obliterate years ago with peer-to-peer networks and cheap Internet-connected devices.

3 Visa endures and grows. The company, which started 57 years ago as a nonprofit association of banks, went public on the eve of the financial crisis in 2008 and sailed through it with a 390% total shareholder return over the past six years, landing as No. 263 on FORBES' 2015 Global 2000 list of the world's largest companies.

4 It is also one of the planet's most prodigious cash machines. Visa had 60% operating profit margins on revenues of $12.7 billion last year and cash flow of more than $7 billion. Visa handled 100 billion purchases worth $6.8 trillion, according to The Nilson Report, which tracks the credit card industry. That's double the amount of rival MasterCard and 14 times American Express. For perspective, Visa thinks there are another $11 trillion in cash and check transactions in the world each year that could go electronic. And Visa's transaction volume has been growing steadily at 10% a year since the IPO.

5 Nonetheless, there are threats. Retailers have won billions of dollars in antitrust suits accusing the company of helping banks keep fees. Customers love the easy credit but loathe interest rates that can top 20%. West Coast venture capitalists see Visa as an oligopolistic dinosaur and are pouring hundreds of millions of dollars into rivals that use Bitcoin. Meanwhile, banks, which collect the bulk of the fees from merchants, are warily eyeing Visa's efforts to bypass them and forge direct

relationships with retailers by offering one-click Internet transactions and providing data on consumer behavior that only Visa possesses.

6 None of which seems to faze Visa's chief executive, Charlie Scharf. In time, he says, would-be Visa disruptors all discover that it is simply easier and more economical to work with his leviathan than fight it. "They don't do what we do," says Scharf, 50, who was a longtime lieutenant to JPMorgan Chase Chief Jamie Dimon and took charge at Visa in 2012.

7 He's already rushing to embrace what comes next: providing the back end for smartphone-based payment systems such as Apple Pay and similar setups for Samsung and other mobile devices. Scharf's technical team spent more than a year working with Apple before the launch of Apple Pay last October. The plan: Grab billions of dollars more in fees each year by making Visa the payment method of choice for everything—right down to $1 hamburgers at McDonald's and three-block taxi rides in Singapore—with the ultimate goal of replacing cash itself.

8 "It took us 50 years to get to 36 million merchants globally," says James McCarthy, executive vice president in charge of innovation and a former IBM executive who joined Visa in 1999. "Now," he says, holding his iPhone in the air, "we've got 7 billion of these."

9 Scharf has been immersed in capital markets since he was a teenager. He interned at his father's offices at Shearson Lehman Bros. in New York from the age of 13 and landed a job as Jamie Dimon's personal assistant during his senior year at Johns Hopkins. Instead of leaving for Wall Street after graduation in 1987 he joined Dimon at a Baltimore lending outfit known as Commercial Credit, run by an ambitious banker named Sanford I. "Sandy" Weill. For the next two decades he accompanied Weill and Dimon on a journey through the evolving financial marketplace as Weill bought Shearson, Salomon Smith Barney, Travelers insurance and ultimately, in 1998, Citigroup.

10 After Dimon and Weill fell out in the late 1990s, in 2000 Scharf followed Dimon to Bank One in Chicago, where the two of them became closer. He was named chief financial officer at the age of 35 and then joined JPMorgan Chase as head of retail financial services, including mortgages, when it bought Bank One in 2004. Scharf guided JPMorgan's retail and mortgage business through the financial crisis—the big bank took federal bailout funds only "because we were asked," Dimon later said—but quit that job in 2011 to become a partner in JPMorgan's $10 billion private equity arm in what some took as a demotion. Dimon says Scharf came to him looking for a change after years in the same retail job. "What else could I do?" says Dimon, now JPMorgan Chase's chairman and CEO.

11 He described his longtime lieutenant as "very diligent, very bright, very honest," who has "an ability to handle lots of complex things, relate to lots of people."

12 All of which is proving useful in Visa's C-suite. The company has roots in BankAmericard, which San Francisco-based Bank of America rolled out in 1958 as the first credit card available to middle-class consumers and smaller merchants who lacked their own private charge cards.

13 Originally a simple paper card with a $300 credit limit, BankAmericard was vulnerable to fraud.

Merchants literally flipped through telephone-book-size volumes to check the validity of card numbers. Bank of America spun out what became Visa in 1970, and three years later Visa unveiled the first electronic authorization system, called BASE I. It followed by BASE II in 1974, an electronic system for clearing and settling transactions among the banks that issue cards to consumers and “acquiring banks,” which represent merchants.

14 Now Visa sits at the center of a global network of more than 1,500 banks linked by 1.5 million miles of secure fiber-optic lines, serving as a sort of intelligent switch for deciding whether to move money to pay for each transaction. It also scouts for fraud and helps settle disputes over charges. Visa doesn’t reap the reward of those usurious 20% interest fees or even the vast majority of the 2.75% charged to merchants. Instead it has to be content collecting 8 to 20 basis points, or hundredths of a percent, off of each transaction.

15 At the heart of the system is that 16-digit number embossed on the plastic bulging your wallet. When a customer swipes a card or cellphone at a merchant’s point-of-sale terminal, that information is transported to one of Visa’s data centers. Within milliseconds its computers use a constantly evolving set of algorithms to determine whether the purchase fits the customer’s buying profile—or whether it’s likely to be fraudulent or exceed the bank’s credit limit.

16 But there’s a somewhat fatal flaw to all of this, one Scharf knew he’d have to contend with when he joined the firm looking to expand more rapidly into mobile commerce and the multitrillion-dollar cash economy. With access to a credit card number, plus a few other easily obtainable details, fraudsters gain full control of an account’s purchasing power and can encode magnetic strips on blank plastic cards. Worldwide, credit card fraud is estimated to have topped $14 billion last year, according to The Nilson Report, with banks and merchants bearing most of the cost.

17 To truly protect accounts, you need to keep those 16-digit numbers private, restricting access to those within Visa’s secure network. There are existing solutions: European card issuers have used difficult-to-copy microchips and personal identification numbers to protect transactions for years, but U.S. merchants have resisted paying for the setup.

18 Systems like Apple Pay, which operate with software-based encryption known as “tokenization,” promise an alternative, one with more security yet without the complication of punching a PIN into a keyboard. Instead of using the customer’s actual 16-digit credit card number, a phone equipped with Apple Pay transmits a dummy number, a software “token,” as it’s known, which alerts the computer terminal at the retailer’s checkout counter to request another vital piece of information from a chip in the phone: a cryptogram, or a long string of randomly generated numbers, that only Visa’s computers can verify. Transactions can be further protected by biometric security like thumbprint scanners and even facial recognition. If a hacker somehow cloned a customer’s phone, Visa’s computers would detect that it was being used in two places at once and shut down the account.

19 Coupling that kind of security with the ubiquity of mobile phones could allow Visa to attract millions more customers around the globe and billions more transactions. For a glimpse of where this leads, look at what happened when Visa lowered its fees and eliminated signatures for fast-food and

many other purchases under $25. McDonald's quickly became the largest merchant by number of transactions on the Visa network.

20 "Tokenization is the enabler," says Scharf, who demanded weekly updates from his team during the yearlong process of building Apple Pay. "Whether they're big tickets or small tickets, we like it all."

21 Scharf is a technology true believer. He joined Microsoft's board last year, and he's bingeing on talent like Rajat Taneja, 50, who once ran Microsoft's e-commerce platform. Scharf recruited Taneja away from Electronic Arts in 2013 to run Visa's sprawling technology division. Working out of Visa's industrial-chic offices overlooking San Francisco Bay, Taneja will hire 2,000 software engineers and developers, including 1,000 in the US, to create software and tools for online and mobile purchases this year, on top of the 6,000 employees he now oversees. He also oversees the once unthinkable process of opening up Visa's network to outside developers working on the next generation of mobile apps. The company has already released a set of application program interfaces, or APIs, to simplify transactions and speed the adoption of Visa Checkout, an encrypted, standardized version of Amazon's one-click payment system for websites.

22 Scharf clearly recognizes the potential threat from new electronic payment systems, most famously Bitcoin, which replaces Visa's sprawling computer network with a single registry maintained by many computers, where payments are transferred from one account to another with a simple journal entry. No one owns Bitcoin; it's just a platform created by an anonymous coding genius working under the name "Satoshi Nakamoto." Venture capitalists, excited by the buzz around the new currency, have poured more than $300 million into businesses that enable Bitcoin transactions or use its underlying currency. "I don't stay awake at night worrying about Bitcoin," says Scharf, "but I'm also not dismissive of it."

23 Under Scharf, Visa is experimenting with alternative payment systems. It was an early investor in Square, which allows small merchants to process card transactions on their cellphones. Visa also reportedly put a few million dollars into LoopPay, which developed an ingenious method for generating a wireless version of a credit card's magnetic strip. Within six months Visa's investment doubled in value, as Samsung scooped up LoopPay to install in its phones.

24 Now Visa is working with automakers to embed tokenization into cars, turning them, in essence, into rolling credit cards. Consumers will be able to query their onboard navigation system about the nearest pizza joint, order a large pie with bacon and onions, and pay for it in the drive-through via a secure Bluetooth connection linked to the car's unique vehicle identification number.

25 There's another huge opportunity to all this technology, one the company is only starting to leverage: personal data. Every time you swipe your card, Visa collects a tranche of information deep enough to drown an NSA (National Secutiry Agency) agent: spending habits, travel history and, with the addition of GPS-enabled devices, exact locations. The company knows more about the habits, hobbies, tastes and trends of the world's consumers than any organization on earth. "Visa has the most data—it's the single-biggest advantage they have," says Matt Harris, a managing director with

Bain Ventures who invests in alternative payment systems.

26 Lately it has been tapping that vast trove of information to help member merchants. In 2011 Visa and clothing retailer Gap announced Mobile 4 U, for example, a service that allows Gap to fire text messages to consumers alerting them to deals when they are near a Gap store. Only Visa has all the data necessary to tell a retailer that a loyal, big-spending customer is nearby and possibly open to a discount offer, a potential gold mine for marketers—and potentially transformative for the way goods are marketed. Of course, location-based marketing might strike some people as creepy, so to assuage concerns Scharf says Visa will allow such programs only on an opt-in basis.

27 Visa's urge to help retailers isn't totally altruistic: The company's relationship with merchants remains strained, and Visa is clearly looking to do more than just gin up additional transactions. Retailers have won billions of dollars in antitrust suits against Visa and MasterCard, accusing them of helping banks keep fees too high with rules that prohibited them from encouraging customers to use cash or less expensive debit cards. As part of the settlement Visa and MasterCard dropped those rules, but the two are still being sued by holdouts, including Wal-Mart, which are seeking billions more.

28 Perhaps the biggest problem for Visa is one that's been part of the company since it was formed: Visa doesn't issue Visa cards, and that's unlikely to change anytime soon. "They don't have any direct relationships with cardholders or any direct physical relationships with merchants," says Harris. Which means Visa can't charge higher fees for providing rewards to consumers, say, or forge direct relationships with retailers unless it enlists an acquiring bank as an ally. Despite all Scharf's ambitions he remains, ultimately, a vassal of the banks.

29 Scharf was forced to confront this weakness shortly after taking charge at Visa when JPMorgan Chase, the largest issuer of Visa cards, threatened to move its business to MasterCard unless Visa set up a private-label version of its processing network for the bank under a ten-year contract that reportedly includes lower fees. Scharf folded in this contest against his former boss, Dimon. Neither would comment on the deal. Pressed to discuss Visa's relationship with merchants and banks, Scharf says simply: "We understand who our clients are."

30 For the time being Scharf will have to remain content to boost revenue based on increasing the number of transactions it processes rather than increasing its cut. Visa's greatest growth, not surprisingly, is likely to come in emerging markets, where cash dominates (and fees tend to be higher). China, so far, is off limits, with its $6.9 trillion credit card business held by the state-controlled UnionPay system, but Chinese officials plan to open up the processing side of the business to foreign companies.

31 Africa, too, represents a big opportunity. Developers there came up with a clever way to move money via prepaid cellphones, and Visa adapted its existing mechanism for paying refunds into a worldwide cash-transfer system. Elsewhere in the developing world, Visa has used its analytics to help retailers identify bottlenecks, like the grocer in Indonesia who increased sales by accepting electronic payments for small transactions and thus sped customers through the checkout line.

32 Meanwhile, sales and earnings should climb steadily for some time. Deutsche Bank estimates Visa's revenue will grow another 11% next year to $15.4 billion as earnings, buoyed by a $5 billion stock buyback program, rise 15%. At some point Scharf will have to negotiate the purchase of Visa's European operation, which is still owned by member banks, under a put option that could cost $10 billion, but for now Visa gets fee income from Europe anyway. Besides, that's just loose change to a company with ambitions as big as Visa's. "The Visa story is not a two-year story or a five-year story," Scharf says. "We have the opportunity to grow this company for decades to come."

(Adapted from *Forbes*, May 2015)

GLOSSARY

inconspicuously	(para. 1)	*adv.*	not clearly, attracting no attention 不明显地，不引人注意地
berm	(para. 1)	*n.*	a narrow space, especially one between a ditch and the base of a parapet（尤指沟渠与护墙墙脚之间的）狭窄空地
mundane	(para. 2)	*adj.*	lacking interest or excitement, dull 平淡无奇的
monolith	(para. 2)	*n.*	a large single upright block of stone 巨石
prodigious	(para. 4)	*adj.*	great in size 巨大的
oligopolistic	(para. 5)	*adj.*	limiting competition 垄断的
lieutenant	(para. 6)	*n.*	deputy; chief assistant 副职，助理
scout	(para. 14)	*v.*	look in various places to find 寻找，侦查
usurious	(para. 14)	*adj.*	lending money at unreasonably high rates of interest 高利贷的
cryptogram	(para. 18)	*n.*	message written in code 密码材料，密码文件
dismissive of	(para. 22)		showing that you do not believe a person or thing to be important or worth considering 轻视，蔑视
vassal	(para. 28)	*n.*	subordinate or dependent person or thing 附属品

NOTES

1. Pentagon	(para. 1)	五角大楼（美国国防部总部，位于华盛顿特区附近）
2. Stanley Kubrick	(para. 2)	斯坦利·库布里克（1928-1999，美国著名电影导演。后面提到的 science-fiction classic 指的是《2001 太空漫游》）
3. Big Iron processing	(para. 2)	大型计算机处理方式
4. Bitcoin	(para. 5)	比特币（电子货币的一种形式，是专为互联网交易而创造的货币）
5. Apple Pay	(para. 7)	苹果支付（苹果公司推出的一种基于 NFC 的手机支付功能）

6. LoopPay (para. 23) 一种移动支付方式
7. put option (para. 32) 认沽期权（指买方有权根据约定，在规定期限向期权卖方以约定价格卖出指定数量的标的证券）

EXERCISES

Answer the following questions.

1. Where is Visa headquartered?
2. How was Visa ranked on FORBES's 2015 Global 2000 list of the world's largest companies?
3. How has Visa's transaction volume been growing since IPO?
4. What is BASE II?
5. How can we truly protect our accounts?
6. What kind of system does Apple Pay use?
7. What is Visa doing to help car owners?
8. What is the biggest problem for Visa?
9. Why does the author say Visa's greatest growth is likely to come in emerging markets?
10. How will Visa's revenue grow according to Deutsche Bank?

TEXT C

Making Sustainability Profitable

Knut Haanaes, David Michael, Jeremy Jürgens, and Subramanian Rangan

1 Organic products were a luxury with little market to speak of when Ibrahim Abouleish founded Sekem, Egypt's first organic farm, in Cairo in 1977. The years Sekem spent honing sustainable cultivation practices paid off, though, in 1990, when it moved into growing organic cotton. Organic produce was entering mainstream Western stores then, and worldwide demand for all things organic began to surge.

2 There were other advantages to the organic approach as well: Sekem's farming techniques helped reclaim arable land from the Sahara, which had been spreading into the Nile delta. With them, the soil absorbed more carbon dioxide from the atmosphere, decreasing greenhouse gases, and cotton crops needed 20% to 40% less water.

3 In the bargain, organic techniques lowered the farm's costs, improved average yields by almost 30%, and produced a raw cotton that was more elastic than its conventionally grown counterpart. So, far from being an expensive indulgence, organic cotton offered Sekem a business model that was more sustainable—not just environmentally but financially. In recent years that model has generated healthy revenue growth: From 2006 until the disruptions of the Arab Spring in 2011, the business posted 14% annual increases, and Sekem is now one of Egypt's largest organic food producers.

4 Rapidly developing economies are often portrayed as sustainability laggards—focused more on raising their citizens out of poverty than on protecting the environment. It's true that their regulatory bodies can be weak, hesitant to impose restrictions on newly liberalized markets, or resentful of pressure from industrialized nations. But the developed world has never had a monopoly on visionaries, as Sekem's story illustrates. And in markets where the pressures of resource depletion are felt most keenly, corporate sustainability efforts have become a wellspring of innovation.

5 That's what we found in 2010, when the Boston Consulting Group joined forces with the World Economic Forum to identify companies with the most effective sustainability practices in the developing world. The study involved reviews of more than 1,000 companies ranging in size from $25 million to $5 billion, from a wide array of markets and industry sectors, and included interviews with almost 200 executives. From the pool of companies studied, we identified more than a dozen "champions," whose sustainability practices were highly effective, innovative, and scalable.

6 These organizations are located in countries across Latin America, Africa, the Middle East, Asia, and the South Pacific. Some pursue sustainability out of pragmatism, some out of idealism. But regardless of their motivation, they have consistently generated above-average growth rates and profit margins.

7 To make their environmental efforts pay off financially, these companies have, broadly speaking, followed one or more of three main approaches. First, many, like Sekem, took a long view, investing in initially more-expensive methods of sustainable operation that eventually led to dramatically lower costs and higher yields. Others have taken a bootstrap approach to conservation: They started with small changes to their processes that generated substantial cost savings, which they then used to fund advanced technologies that made production even more efficient. Last, some have spread their sustainability efforts to the operations of their customers and suppliers, in the process devising new business models that competitors find hard to emulate.

8 Collectively, these companies vividly demonstrate that trade-offs between economic development and environmentalism aren't necessary. Rather, the pursuit of sustainability can be a powerful path to reinvention for all businesses facing limits on their resources and their customers' buying power.

Taking a Systems Approach

9 It's hard for companies to recognize that sustainable production can be less expensive. That's in part because they have to fundamentally change the way they think about lowering costs, taking a leap of faith, as Sekem did, that initial investments made in more-costly materials and methods will lead to greater savings down the road. It may also require a willingness to buck conventional financial wisdom by focusing not on reducing the cost of each part but on increasing the efficiency of the system as a whole.

10 Zhangzidao Fishery Group, based in Dalian, China, is a good example. The group has adapted an ancient method that is now called integrated multitrophic aquaculture (IMTA). It's an approach analogous to companion planting: Rather than trying to maximize the production of a single species, gaining profits through economies of scale, as most traditional "ocean ranchers" do, Zhangzidao creates a balanced ecosystem of interlinked species.

11 Some species provide food for the others, so fewer have to be fed from external sources. In this way Zhangzidao reduces waste by converting fish by-products into harvestable crops. What's more, unlike single-species fish ranching, IMTA does not exhaust seabeds, eliminating the need to move cultivation from bed to bed to allow depleted areas to recover.

12 Zhangzidao has also adopted a simple practice called bottom sowing in which scallops are moved from overcrowded beds to more sparsely covered areas to increase growth rates, weights, and yields. Bottom sowing reduces disease and, like organic farming, creates a natural carbon sink that absorbs more greenhouse gas than it releases. And with the savings from its low-tech conservation efforts, the company has funded investments in cutting-edge technology for artificial reefs that foster marine life, for seaweed propagation, and for seafloor algae farms.

13 A focus on increasing profitability per unit of cultivation, rather than per species cultivated, has led to growth and profit levels that are nothing short of astounding. From 2005 to 2010, Zhangzidao sustained a compound annual growth rate of 40%, in an industry where the average is just 13%, as

well as EBITDA margins of 31%.

Taking the Low-Tech Road

14 Unlike Western companies, which often try to mitigate the environmental damage done by their operations through costly retrofits or by underwriting the development of breakthrough technologies, many companies in emerging markets start small. They begin by conserving their most constrained resource with a series of minor adjustments to their operations.

15 Costa Rica's largest beverage bottler, Florida Ice & Farm, for instance, started by simply repairing water leaks in its production equipment in a timely fashion. In the Philippines, the Manila Water Company similarly focused initially on water lost to leaks or illegal taps of its pipes. Such savings are hardly trivial: From 1997 to 2010, the company recovered an amount of water equal to the supply from a medium-sized dam, which would have cost an estimated $750 million to build.

16 As low-cost moves reap larger and larger returns, businesses can expand conservation efforts to other parts of their operations. Eventually, savings can mount high enough to fund purchases of expensive technologies and R&D initiatives that many Western companies might have started with.

17 Shree Cement is a case in point. When it began operations, in 1985, Shree had no explicit plan to promote sustainability. Like many other Indian companies, it invested in a diesel-generating plant to protect itself from disruptions to the supply of electricity, which is unreliable in India. But unlike most of its competitors, it experimented with tweaks to production processes to decrease the amount of electricity it needed.

18 As small changes added up to significant savings, Shree's engineers widened the scope of their conservation, turning their attention to ways to reduce the use of the company's kilns. The kilns, which consumed large quantities of coal to generate high temperatures, produced a material called clinker, which was cooled and mixed with a few stabilizing ingredients to make cement. By replacing some of the clinker with waste coal slag and fly ash recycled from the kilns' operation, Shree's engineers could make a cement suitable for certain applications and save a lot of energy.

19 Eventually, Shree could afford to invest in more-sophisticated technologies, such as one that recycled the hot exhaust from the kiln to power a separate electrical plant. Finding that it could generate electricity much more efficiently than the local municipal power plant, Shree built larger, coal-fired plants, whose production more than covers the company's growing needs. Deregulation in India's power industry has made it possible for Shree to sell its excess electricity on the open market, which it generates at some of the lowest prices in the region.

20 A few of these improvements required major capital investments, but most involved just engineering work and a willingness to challenge conventional thinking. In total, they've cut expenses and emissions substantially. Shree produces a ton of cement using 9% less energy than the average Indian manufacturer and 15% less than the global average. Its cost-reduction efforts, so critical in a commodity industry, have helped the company outpace rivals and expand profitably. From 2005 to

2009, Shree's revenues grew five times faster than the global average for the cement industry. Today, Shree, which had 2009 revenues of $809 million and stunning EBITDA margins of 39% from 2005 to 2009, is one of the top five cement manufacturers in India.

Taking a Broader View

21 Impressive as the cost efficiencies are, more intriguing is the growth that companies in emerging markets have gained by extending their sustainability efforts to the operations of their customers. Companies are building unique business models by boosting customers' buying power and, in the process, creating interdependencies that are difficult for competitors to copy.

22 Consider Jain Irrigation Systems, in Jalgaon, India, which began as a supplier of irrigation systems for small farms. Farming in India has traditionally relied on monsoons, which recently have weakened. As water supplies have dried up, farmers have been going out of business. Some have even committed suicide in the face of mounting debt.

23 To help its customers, Jain Irrigation began adapting micro-irrigation systems to Indian conditions. It taught customers how to use them effectively through precision farming, which increases output by optimizing the balance between fertilizers, pesticides, water, and energy. In this way the farmers could use less water but still increase yields.

24 Most small farmers could not afford to purchase Jain Irrigation's systems without financing, however, and banks were reluctant to grant credit to illiterate villagers. So the company helped its customers apply for government subsidies. It also made a daring move into the wholesale agricultural commodities trade—promising to buy some of the crops its customers grew with its equipment at a set price and then reselling the produce. The guarantees in turn persuaded the banks to lend to the company's customers.

25 Jain Irrigation had no expertise as an agricultural wholesaler, and it could have faced a revolt from shareholders for straying so far from its core. Nevertheless, customizing its business model so radically to local needs has enabled the company to outperform other suppliers of irrigation systems. From 2006 to 2010, the company experienced compound annual revenue growth of 40% and EBITDA margins of 18%—both well over industry averages. Unlikely as it may seem, 20% of revenues now come from its agricultural wholesale business.

26 In Chile, Santiago-based Masisa is experimenting with a way to expand demand for its sustainably harvested wood. It has created a network of local carpenters to whom it gives training and special access both to its lumber and to Western customers willing to pay a premium for furniture made from it. Masisa aims to build demand for its products in remote, underdeveloped areas of the country, while giving the carpenters an incentive to use sustainable wood rather than buy from illegal cutters. Having started locally in 2009, Masisa has already replicated the model in Argentina, Brazil, Mexico, and Venezuela.

27 In Brazil the natural-cosmetics company Natura has built a unique competitive advantage by

forging a similar symbiotic relationship—not with its customers but with its suppliers. The company has worked with rural communities, local governments, and NGOs to develop ways to sustainably extract raw materials. In turn, it teaches those methods to its suppliers, thereby helping them create jobs and increase capabilities in their communities.

28 In an industry where offering a constant stream of new products is crucial, Natura can compete against large multinationals with a far smaller investment in R&D, thanks to its research partnerships. Products launched in the most recent two years account for a share of Natura's total revenue that is far higher than the industry norm. More than 50% of the 427 products the company launched from 2008 to 2010 were developed through its open innovation efforts.

The Rewards and Risks of Pioneering

29 It's remarkable how many companies in emerging markets chose, like Natura, to embark on sustainability efforts long before any imperative arose. In the process they often gained important first-mover advantages as markets for environmentally friendly goods grew.

30 New Britain Palm Oil was decades ahead of its time when in 1963 it developed integrative pest management that introduced natural alternatives to some chemicals while increasing crop yields. New Britain also chose to avoid planting altogether on the peat lands and in the rain forests of the biologically diverse islands of Papua New Guinea. As it expanded in later years, it leased its fields and partnered with small farmers rather than buying land outright. As a result it helped reduce local poverty and built close ties with the community, which allowed it to avoid the kinds of conflict that have hindered development in other palm-oil-producing countries.

31 Over the years the company has created a completely traceable supply chain—something that is greatly valued by B2B customers who are willing to pay higher prices for sustainably sourced raw materials. This favorable position has helped New Britain maintain a muscular 30% annual growth rate in recent years and achieve 34% margins.

32 Florida Ice & Farm was also ahead of the curve when in 2008 it set the extraordinary goal of becoming water-neutral in just four years. It was reacting not to any immediate environmental threat, since water is abundant in its tropical location, but to public concerns. Traditionally, bottlers use large amounts of water in cleaning the bottles and in the heating and cooling phases of production, as well as in the drinks themselves.

33 Bringing the latest technology and process innovations to bear, the company reduced the amount of water it took to produce a liter of beverage from 12 to 4.9 liters. In 2009 the company's Pepsi bottling plant, which it had acquired two years earlier, became the world's most water-efficient, using just 2.2 liters of water per liter of beverage. To offset its remaining consumption, Florida Ice has piloted community conservation efforts and helped engineer improvements to the national water infrastructure.

34 Keeping employees focused on such ambitious goals can be a challenge for organizations. Florida Ice has addressed it by developing a balanced scorecard that includes nonfinancial metrics such as the number of community service hours that employees spend planting trees that protect watersheds. It ties the compensation of its CEO and all other executives to the firm's performance not only on financials but on environmental and social efforts, including those aimed at reducing binge drinking and the sugar content in soda. Moving toward a triple-bottom-line accounting system has not slowed the company's growth. The compound annual growth rate of 25% and EBITDA margins of 30% it saw from 2006 to 2010 were both twice the industry average.

35 In South Africa, food retailer Woolworths has instituted a similar balanced scorecard. Each business unit is rated on key "green" performance indicators, which are linked to compensation. Natura uses a carrot rather than a stick, training managers to identify socio-environmental challenges and turn them into business opportunities, and granting bonuses on the basis of environmental and social performance.

36 Ready or not, we are moving to a world of scarce resources, in which companies will increasingly need to consider their total return not just on assets and equity but on resources. They will have to monitor how much water, soil, and other natural resources they consume, as well as the payback they get from them. Companies that fail to calculate this equation will find themselves at the mercy of price increases and volatility, regulation, and social pressures, while those that master it will enjoy competitive advantage and gain market share.

(Adapted from *Harvard Business Review*, March 2013)

GLOSSARY

laggard	(para. 4)	*n.*	a person who makes slow progress and falls behind others 落后者
wellspring	(para. 4)	*n.*	an abundant source of something 丰富的源泉
bootstrap	(para. 7)	*adj.*	undertaken or accomplished with minimal outside resources or help 自力更生的，靠少量资源完成的
propagation	(para. 12)	*n.*	breeding specimens of (a plant, animal, etc.) by natural processes from the parent stock （动植物等）繁殖，使繁殖
alga	(para. 12)	*n.*	海藻（复数是 algae）
tweak	(para. 17)	*n.*	adjustment 调整
kiln	(para. 18)	*n.*	oven for baking pottery or bricks（烧石灰、陶器等的）窑，炉
clinker	(para. 18)	*n.*	the stony residue from burnt coal or from a furnace 煤渣，炉渣
monsoon	(para. 22)	*n.*	a wind in South Asia that blows from the south-west in summer, bringing rain, and the north-east in winter 季风
scorecard	(para. 34)	*n.*	a card, sheet, or book in which scores are entered 记分牌，记分册
binge	(para. 34)	*n.*	a short period devoted to indulging in an activity, especially drinking alcohol, to excess 放纵，狂饮作乐

NOTES

1.	Sekem	(para. 1)	一家埃及集团企业（主要从事有机农业、制衣、草药、食品加工与销售）
2.	EBITDA	(para. 13)	未计利息、税项、折旧及摊销前的利润（Earnings Before Interest, Taxes, Depreciation and Amortization）
3.	Jalgaon	(para. 22)	贾尔冈（印度城市）
4.	Masisa	(para. 26)	玛西沙（智利一家林业及木料公司）
5.	New Britain Palm Oil	(para. 30)	新不列颠棕榈油有限公司（总部位于巴布亚新几内亚的西新不列颠省）
6.	Papua New Guinea	(para. 30)	巴布亚新几内亚

EXERCISES

Answer the following questions.

1. What benefit has Sekem's business model brought about?
2. What approaches have companies in emerging markets follow to develop sustainably?
3. What method has Zhangzidao Fishery Group adopted?
4. How did Zhangzhidao grow from 2005 to 2010?
5. What is the contrast between Western companies and those in emerging markets in sustainability?
6. How does Shree Cement rank in India?
7. How did Jain Irrigation grow from 2006 to 2010?
8. How has Natura built a unique competitive advantage?
9. How does Florida Ice keep its employees focused on its goal concerning their resource protection?
10. What will happen to the companies that do not take resources into consideration?

TEXT C

Why the Lean Start-Up Changes Everything

Steve Blank

1 Launching a new enterprise—whether it's a tech start-up, a small business, or an initiative within a large corporation—has always been a hit-or-miss proposition. According to the decades-old formula, you write a business plan, pitch it to investors, assemble a team, introduce a product, and start selling as hard as you can. And somewhere in this sequence of events, you'll probably suffer a fatal setback. The odds are not with you: As new research by Harvard Business School's Shikhar Ghosh shows, 75% of all start-ups fail.

2 But recently an important countervailing force has emerged, one that can make the process of starting a company less risky. It's a methodology called the "lean start-up," and it favors experimentation over elaborate planning, customer feedback over intuition, and iterative design over traditional "big design up front" development. Although the methodology is just a few years old, its concepts—such as "minimum viable product" and "pivoting"—have quickly taken root in the start-up world, and business schools have already begun adapting their curricula to teach them.

3 The lean start-up movement hasn't gone totally mainstream, however, and we have yet to feel its full impact. In many ways it is roughly where the big data movement was five years ago—consisting mainly of a buzzword that's not yet widely understood, whose implications companies are just beginning to grasp. But as its practices spread, they're turning the conventional wisdom about entrepreneurship on its head. New ventures of all kinds are attempting to improve their chances of success by following its principles of failing fast and continually learning. And despite the methodology's name, in the long term some of its biggest payoffs may be gained by the large companies that embrace it.

4 In this article I'll offer a brief overview of lean start-up techniques and how they've evolved. Most important, I'll explain how, in combination with other business trends, they could ignite a new entrepreneurial economy.

The Fallacy of the Perfect Business Plan

5 According to conventional wisdom, the first thing every founder must do is to create a business plan—a static document that describes the size of an opportunity, the problem to be solved, and the solution that the new venture will provide. Typically it includes a five-year forecast for income, profits, and cash flow. A business plan is essentially a research exercise written in isolation at a desk before an entrepreneur has even begun to build a product. The assumption is that it's possible to figure out most of the unknowns of a business in advance, before you raise money and actually execute the idea.

6 Once an entrepreneur with a convincing business plan obtains money from investors, he or she begins developing the product in a similarly insular fashion. Developers invest thousands of man-hours to get it ready for launch, with little if any customer input. Only after building and launching the product does the venture get substantial feedback from customers—when the sales force attempts to sell it. And too often, after months or even years of development, entrepreneurs learn the hard way that customers do not need or want most of the product's features. After decades of watching thousands of start-ups follow this standard regimen, we've now learned at least three things:

- Business plans rarely survive first contact with customers. As the boxer Mike Tyson once said about his opponents' prefight strategies: "Everybody has a plan until they get punched in the mouth."
- No one besides venture capitalists requires five-year plans to forecast complete unknowns. These plans are generally fiction, and dreaming them up is almost always a waste of time.
- Start-ups are not smaller versions of large companies. They do not unfold in accordance with master plans. The ones that ultimately succeed go quickly from failure to failure, all the while adapting, iterating on, and improving their initial ideas as they continually learn from customers.

7 One of the critical differences is that while existing companies execute a business model, start-ups look for one. This distinction is at the heart of the lean start-up approach. It shapes the lean definition of a start-up: a temporary organization designed to search for a repeatable and scalable business model.

8 The lean method has three key principles:

9 First, rather than engaging in months of planning and research, entrepreneurs accept that all they have on day one is a series of untested hypotheses—basically, good guesses. So instead of writing an intricate business plan, founders summarize their hypotheses in a framework called a business model canvas. Essentially, this is a diagram of how a company creates value for itself and its customers.

10 Second, lean start-ups use a "get out of the building" approach called customer development to test their hypotheses. They go out and ask potential users, purchasers, and partners for feedback on all elements of the business model, including product features, pricing, distribution channels, and affordable customer acquisition strategies. The emphasis is on nimbleness and speed: New ventures rapidly assemble minimum viable products and immediately elicit customer feedback. Then, using customers' input to revise their assumptions, they start the cycle over again, testing redesigned offerings and making further small adjustments (iterations) or more substantive ones (pivots) to ideas that aren't working.

11 Third, lean start-ups practice something called agile development, which originated in the software industry. Agile development works hand-in-hand with customer development. Unlike typical year-long product development cycles that presuppose knowledge of customers' problems

and product needs, agile development eliminates wasted time and resources by developing the product iteratively and incrementally. It's the process by which startups create the minimum viable products they test.

12 When Jorge Heraud and Lee Redden started Blue River Technology, they were students in my class at Stanford. They had a vision of building robotic lawn mowers for commercial spaces. After talking to over 100 customers in 10 weeks, they learned their initial customer target—golf courses—didn't value their solution. But then they began to talk to farmers and found a huge demand for an automated way to kill weeds without chemicals. Filling it became their new product focus, and within 10 weeks Blue River had built and tested a prototype. Nine months later the start-up had obtained more than $3 million in venture funding. The team expected to have a commercial product ready just nine months after that.

Stealth Mode's Declining Popularity

13 Lean methods are changing the language start-ups use to describe their work. During the dot-com boom, start-ups often operated in "stealth mode" (to avoid alerting potential competitors to a market opportunity), exposing prototypes to customers only during highly orchestrated "beta" tests. The lean start-up methodology makes those concepts obsolete because it holds that in most industries customer feedback matters more than secrecy and that constant feedback yields better results than cadenced unveilings.

14 Those two fundamental precepts crystallized for me during my career as an entrepreneur. When I shifted into teaching, a decade ago, I came up with the formula for customer development described earlier. By 2003 I was outlining this process in a course at the Haas School of Business at the University of California at Berkeley.

15 In 2004, I invested in a start-up founded by Eric Ries and Will Harvey and, as a condition of my investment, insisted that they take my course. Eric quickly recognized that waterfall development, the tech industry's traditional, linear product development approach, should be replaced by iterative agile techniques. He also saw similarities between this emerging set of start-up disciplines and the Toyota Production System, which had become known as "lean manufacturing." Eric dubbed the combination of customer development and agile practices the "lean start-up."

Creating an Entrepreneurial, Innovation-based Economy

16 While some adherents claim that the lean process can make individual start-ups more successful, I believe that claim is too grandiose. Success is predicated on too many factors for one methodology to guarantee that any single start-up will be a winner. But on the basis of what I've seen at hundreds of start-ups, at programs that teach lean principles, and at established companies that practice them, I can make a more important claim: Using lean methods across a portfolio of start-ups will result in fewer failures than using traditional methods.

17 A lower start-up failure rate could have profound economic consequences. Today the forces of

disruption, globalization, and regulation are buffeting the economies of every country. Established industries are rapidly shedding jobs, many of which will never return. Employment growth in the 21st century will have to come from new ventures, so we all have a vested interest in fostering an environment that helps them succeed, grow, and hire more workers. The creation of an innovation economy that's driven by the rapid expansion of start-ups has never been more imperative. In the past, growth in the number of start-ups was constrained by five factors in addition to the failure rate:

- The high cost of getting the first customer and the even higher cost of getting the product wrong.
- Long technology development cycles.
- The limited number of people with an appetite for the risks inherent in founding or working at a start-up.
- The structure of the venture capital industry, in which a small number of firms each needed to invest big sums in a handful of start-ups to have a chance at significant returns.
- The concentration of real expertise in how to build start-ups, which in the United States was mostly found in pockets on the East and West coasts.

18 The lean approach reduces the first two constraints by helping new ventures launch products that customers actually want, far more quickly and cheaply than traditional methods, and the third by making start-ups less risky. And it has emerged at a time when other business and technology trends are likewise breaking down the barriers to start-up formation. The combination of all these forces is altering the entrepreneurial landscape

19 Today open source software, like GitHub, and cloud services, such as Amazon Web Services, have slashed the cost of software development from millions of dollars to thousands. Hardware start-ups no longer have to build their own factories, since offshore manufacturers are so easily accessible. Indeed, it's become quite common to see young tech companies that practice the lean start-up methodology offer software products that are simply "bits" delivered over the web or hardware that's built in China within weeks of being formed. Consider Roominate, a start-up designed to inspire girls' confidence and interest in science, technology, engineering, and math. Once its founders had finished testing and iterating on the design of their wired dollhouse kit, they sent the specs off to a contract manufacturer in China. Three weeks later the first products arrived.

20 Another important trend is the decentralization of access to financing. Venture capital used to be a tight club of formal firms clustered near Silicon Valley, Boston, and New York. In today's entrepreneurial ecosystem, new super angel funds, smaller than the traditional hundred-million-dollar-sized funds, can make early-stage investments. Worldwide, hundreds of accelerators, have begun to formalize seed investments. And crowdsourcing sites like Kickstarter provide another, more democratic method of financing start-ups.

21 The instantaneous availability of information is also a boon to today's new ventures. Before the internet, new company founders got advice only as often as they could have coffee with experienced investors or entrepreneurs. Today the biggest challenge is sorting through the overwhelming amount of start-up advice they get. The lean concepts provide a framework that helps you differentiate the good from the bad.

22 Lean start-up techniques were initially designed to create fast-growing tech ventures. But I believe the concepts are equally valid for creating the Mai Street small businesses that make up the bulk of the economy. If the entire universe of small business embraced them, I strongly suspect it would increase growth and efficiency, and have a direct and immediate impact on GDP and employment.

23 There are signs that this may in fact happen. In 2011 the U.S. National Science Foundation began using lean methods to commercialize basic science research in a program called the Innovation Corps. Eleven universities now teach the methods to hundreds of teams of senior research scientists across the United States.

24 MBA programs are adopting these techniques, too. For years they taught students to apply large-company approaches—such as accounting methods for tracking revenue and cash flow, and organizational theories about managing—to start-ups. Yet start-ups face completely different issues. Now business schools are realizing that new ventures need their own management tools.

A New Strategy for the 21st-Century Corporation

25 It's already becoming clear that lean start-up practices are not just for young tech ventures.

26 Corporations have spent the past 20 years increasing their efficiency by driving down costs. But simply focusing on improving existing business models is not enough anymore. Almost every large company understands that it also needs to deal with ever-increasing external threats by continually innovating. To ensure their survival and growth, corporations need to keep inventing new business models. This challenge requires entirely new organizational structures and skills.

27 Over the years managerial experts have advanced the thinking on how large companies can improve their innovation processes. During the past three years, however, we have seen large companies, including General Electric, Qualcomm, and Intuit, begin to implement the lean start-up methodology.

28 GE's Energy Storage division, for instance, is using the approach to transform the way it innovates. In 2010 Prescott Logan, the general manager of the division, recognized that a new battery developed by the unit had the potential to disrupt the industry. Instead of preparing to build a factory, scale up production, and launch the new offering (ultimately named Durathon) as a traditional product extension, Logan applied lean techniques. He started searching for a business model and engaging in customer discovery. He and his team met face-to-face with dozens of global prospects to explore potential new markets and applications. These weren't sales calls: The team members left their PowerPoint slides behind and listened to customers' issues and frustrations with the battery status quo. They dug deep to learn how customers bought industrial batteries, how often they used them, and the operating conditions. With this feedback, they made a major shift in their customer focus. They eliminated one of their initial target segments, data centers, and discovered a new one—utilities. In addition, they narrowed the broad customer segment of "telecom" to cell phone providers in developing countries with unreliable electric grids. Eventually GE invested $100 million

to build a world-class battery manufacturing facility in Schenectady, New York, which it opened in 2012. According to press reports, demand for the new batteries is so high that GE is already running a backlog of orders.

29 The first hundred years of management education focused on building strategies and tools that formalized execution and efficiency for existing businesses. Now, we have the first set of tools for searching for new business models as we launch start-up ventures. It also happens to have arrived just in time to help existing companies deal with the forces of continual disruption. In the 21st century those forces will make people in every kind of organization—start-ups, small businesses, corporations, and government—feel the pressure of rapid change. The lean start-up approach will help them meet it head-on, innovate rapidly, and transform business as we know it.

(Adapted from *Harvard Business Review*, May 2013)

GLOSSARY

countervailing	(para. 2)	*adj*.	with an equally strong but opposite effect 抗衡的，抵消的
iterative	(para. 2)	*adj*.	saying or doing something again 重复的，重做的
viable	(para. 2)	*adj*.	capable of working successfully; feasible 可望成功的，可行的
pivot	(para. 2)	*v*.	have a particular idea as the central one 定中心
insular	(para. 6)	*adj*.	lacking contact with other people 孤立的，与世隔绝的
regimen	(para. 6)	*n*.	a procedure, program, or routine 方案，制度
elicit	(para. 10)	*v*.	get information, a reaction etc. from someone, especially when this is difficult 套出（消息），引起（反应）
stealth	(para. 13*)	*n*.	the action of doing something very quietly or secretly so that on one notices you 悄悄的行动，秘密行动
grandiose	(para. 16)	*adj*.	seeming very important or impressive but not practical 华而不实的
buffet	(para. 17)	*v*.	drive or force with or as if with repeated blows 打击，冲击
boon	(para. 21)	*n*.	something that is very helpful and makes life easier for you 裨益，有用之物
backlog	(para. 28)	*n*.	a large amount of work that you need to complete, especially work that should already have been completed 一大堆，累积

NOTES

1. Blue River Technology	(para. 12)	美国蓝河科技公司（美国一家农业科技和农业自动化技术服务商）
2. beta test	(para. 13)	ß 测试（外部对公司新产品的测试）
3. GitHub	(para. 19)	开源代码库以及版本控制系统网站
4. Kickstarter	(para. 20)	美国专为具有创意方案的企业筹资的众筹网站平台

5. Qualcomm	(para. 27)	高通（美国的无线电通信技术研发公司）
6. Intuit	(para. 27)	财捷集团（美国一家以开发财务软件为主的高科技公司）

EXERCISES

Answer the following questions.

1. What is the decades-old formula for launching a new enterprise?
2. What is the lean start-up methodology?
3. What does a conventional business plan cover?
4. What are the three key principles of the lean method?
5. How did Blue River Technology succeed?
6. Why does the lean start-up methodology make stealth mode obsolete?
7. What are the forces buffeting the economies of a country?
8. What were the five factors that constrained the growth of the number of start-ups besides the failure rate?
9. What are the favorable trends for new ventures today?
10. How does GE’s Energy Storage division use the lean start-up methodology?

TEXT C

How Innovative Is Your Company's Culture?

Jay Rao and Joseph Weintraub

1 Today's executives want their companies to be more innovative. They consume stacks of books and articles and attend conventions and courses on innovation, hoping to discover the elixir of success. They are impressed by the ability of comparatively young companies such as Google and Facebook to create and market breakthrough products and services. And they marvel at how some older companies—Apple, IBM, Procter & Gamble, 3M and General Electric, to name a few—reinvent themselves again and again. And they wonder, "How do these great companies do it?" After studying innovation among 759 companies based in 17 major markets, researchers found that corporate culture was a much more important driver of radical innovation than labor, capital, government or national culture. But for executives, that conclusion raises two more questions: First, what is an innovative corporate culture? And second, if you don't have an innovative culture, is there any way you can build one?

2 An innovative culture rests on a foundation of six building blocks: resources, processes, values, behavior, climate and success. These building blocks are dynamically linked. For example, the values of the enterprise have an impact on people's behaviors, on the climate of the workplace and on how success is defined and measured.

3 When it comes to fostering innovation, enterprises have generally given substantial attention to resources, processes and the measurement of success—the more easily measured, tools-oriented innovation building blocks. But companies have often given much less attention to the harder-to measure, people-oriented determinants of innovative culture—values, behaviors and climate. Not surprisingly, most companies have also done a better job of managing resources, processes and measurement of innovation success than they have the more people-oriented innovation building blocks. As many managers have discovered, anything that involves peoples' values and behaviors and the climate of the workplace is more intangible and difficult to handle. As one CEO put it, "The soft stuff is the hard stuff." Yet these difficult "people issues" have the greatest power to shape the culture of innovation and create a sustained competitive advantage.

4 Here are the descriptions of the six building blocks:

5 **Values** drive priorities and decisions, which are reflected in how a company spends its time and money. Truly innovative enterprises spend generously on being entrepreneurial, promoting creativity and encouraging continuous learning. The values of a company are less what the leaders say or what they write in the annual reports than what they do and invest in. Values manifest themselves in how people behave and spend, more than in how they speak.

6 **Behaviors** describe how people act in the cause of innovation. For leaders, those acts include a willingness to kill off existing products with new and better ones, to energize employees with a vivid description of the future and to cut through red tape. For employees, actions in support of innovation include doggedness in overcoming technical roadblocks, “scrounging” resources when budgets are thin and listening to customers.

7 **Climate** is the tenor of workplace life. An innovative climate cultivates engagement and enthusiasm, challenges people to take risks within a safe environment, fosters learning and encourages independent thinking.

8 **Resources** comprise three main factors: people, systems and projects. Of these, people — especially “innovation champions”—are the most critical, because they have a powerful impact on the organization’s values and climate.

9 **Processes** are the route that innovations follow as they are developed. These may include the familiar “innovation funnel” used to capture and sift through ideas or stage-gate systems for reviewing and prioritizing projects and prototyping.

10 **The success** of an innovation can be captured at three levels: external, enterprise and personal. In particular, external recognition shows how well a company is regarded as being innovative by its customers and competitors, and whether an innovation has paid off financially. More generally, success reinforces the enterprise’s values, behaviors and processes, which in turn drive many subsequent actions and decisions: who will be rewarded, which people will be hired and which projects will get the green light.

Building Blocks at Work

11 While the six building blocks may seem abstract, truly innovative companies always have at least one of the building blocks solidly in place. \

IDEO: values and behaviors

12 Few companies better exemplify innovative values and behaviors than IDEO, the Palo Alto, California-based global design consultancy. IDEO puts a high value on productive creativity, which it links to playful behavior. And it supports both in tangible ways. Its work routines model children’s playfulness: exploration that generates many ideas; learning through hands-on building; and role playing to build empathy for users. Placards placed around the company’s workspaces proclaim IDEO’s principles for “diving deep” into problems:

- Encourage wild ideas,
- Defer judgment,
- Build on the ideas of others,
- Stay focused.

13 This play is just the first stage of IDEO’s innovation process. Next, its employees begin to make decisions regarding a product’s design and implementation. This range of behavior styles — from

playful to businesslike — has contributed to hundreds of products that combine the best of form and function, from the computer mouse to medical equipment.

W.L. Gore:

14 Climate safety is an important factor in an innovative climate. A fearless workplace frees people to take the risks innovation requires. W.L. Gore, the Delaware chemical products company famous for Gore-Tex and other high-performance products, provides an instructive example of safety. Here, mistakes made in the pursuit of novel solutions are accepted as part of the creative process. When a project is killed, staff celebrate its passing with beer and champagne. When a project fails, a post-mortem is conducted. Flawed concept or poor execution? Bad decisions? The goal of these postmortems is not to punish, but to learn and improve.

Rite-Solutions: processes and success

15 Recognizing that they have no monopoly on brainpower or good ideas, the founders of Rite-Solutions, a Rhode Island systems and software development company, developed a process for drawing on their employees' collective creativity. Dozens of project ideas are listed and described in detail on the company's internal "market." All new listings begin trading at $10 per share. Every employee is given $10,000 of play money with which to invest, and each uses his or her judgment in allocating that money among the available "stocks." Employees can also volunteer to work on projects they favor. Management uses their collective wisdom to make decisions on which projects will be funded. Play money is redeemed for real cash if and when a project turns into a commercial product.

Whirlpool: resources

16 A cadre of innovation experts who know, teach and implement innovative practices is one of the most important innovation resources a company can have. For decades, Whirlpool, the world's largest appliance maker, was an engineering- and manufacturing-oriented company fixated on quality and cost. Its products were mostly commodities sold at large retailers, such as Sears and Best Buy. In 1999, the Michigan-based company embarked on a mission to be recognized as being an innovation leader as well. The company started by enlisting 75 employees from across the company to brainstorm about innovative products. The group came up with one hit product, but most ideas were viewed as too far-out or insignificant. Like many first-time innovators, people had a difficult time seeing how a more far-reaching idea could turn into an opportunity. That's when Whirlpool decided to try a different tack.

17 First, every salaried employee was enrolled in a business innovation course. Second, the company trained certain employees, called I-mentors, who were similar to the Six Sigma Black Belts who worked on quality in the company. The I-mentors still kept their regular jobs but brought to those roles special training on how to facilitate innovation projects and help people with their ideas. An intranet portal offered employees a common forum for learning principles of innovation, keeping abreast of recent research and tracking the progress of ideas toward realization. Innovation teams comprised of employees from all levels of the company screened and vetted new ideas.

18 Two years into the program, Whirlpool had 100 business ideas, 40 concepts in experimentation

and 25 products and business ideas in the prototype stage. By early 2006, Whirlpool had hundreds of ideas in the pipeline, 60 in the prototype stage and 190 being scaled for the market. By 2007, new products stemming from the innovation areas contributed nearly $2.5 billion in worldwide revenue, and approximately $4 billion of $19 billion in 2008 revenues. In 2008, Whirlpool had 61,000 employees and nearly 1,100 volunteer I-mentors worldwide who helped facilitate innovation throughout the business. Executives at Whirlpool ascribe their success in part to the way this investment in innovation and training has changed the company's culture.

19 Whirlpool's focus on resources demonstrates that a critical starting point for a deliberate, systematic and comprehensive innovation initiative begins by building a community of innovation experts. Most innovations happen within a community, and the core of any community is a common language. All disciplines—management, medicine, law—have their own lingua franca. So does innovation. Creating a community of innovators requires a good understanding of the language of innovation and its concepts and tools.

Apply the Tool

Everyone's opinion counts

20 It is found that people at or near the top—the individuals who make the decisions and control activities—often tend to have a much rosier view of their organization's culture than do mid- to lower-level managers and rank-and-file employees. Executives, like everyone else, naturally think that they are doing a good job. Further, executives do not always have a complete view of enterprise reality; they simply cannot see everything that goes on.

21 Executives are also often at odds with their employees in terms of where they see the greatest strengths. Most executives rate their companies as being stronger in the more intangible, people-oriented building blocks (values, behaviors and climate) than in the more tangible, tool-oriented ones (resources, processes and definition of success). People lower in the enterprise often make the opposite assessment.

Elimination of conjecture and barriers to change

22 The bigger the organization, the more resistant the enterprise is to change. This trait seems to be most pronounced in multinational companies. Managers often blame poor acceptance of new strategies, sloppy implementation of enterprisewide projects and lack of standardized processes across geographies and divisions on subcultures within the enterprise.

23 For example, a global medical device company wanted to act upon a more coordinated global operations strategy. Two years into the program, the executives and senior managers of the company spoke of big challenges due to the cultural differences between their European and U.S. operations, and also between the R&D and manufacturing groups in those two geographies. To everyone's surprise, the assessment results found no statistical differences between the their responses for each of the six building blocks — suggesting that their problems were due to some other issue.

Exposing inconsistencies between thought and action

24 Most senior executives rate themselves highly in terms of their desire to explore new opportunities yet do not always provide their people with the time, space or money to pursue those opportunities. Similarly, they give themselves high scores for providing the freedom to pursue new opportunities even as their subordinates describe their workplace climate as rigid and bureaucratic.

25 This turned out to be the core problem faced by a very large company in the U.S. entertainment industry. Employees ranked the creativity factor under the values building block very highly, but the climate within the enterprise was anything but open. Also, people were not given sufficient resources to conduct innovative projects. Not surprisingly, the company had trouble innovating. As mentioned earlier, values are much less about what executives think, speak or write than about what they actually do—as measured by time, money or resources.

Pursue change where it's possible

26 Consider the case of a U.S. subsidiary of a large European bank. The bank had a reputation as an inflexible, bureaucratic, command-and-control company. Neither its competitors nor its customers regarded it as innovative. Nevertheless, the subsidiary's culture had some strengths. Employees felt that it was a safe climate in which they could question decisions and actions. Their executives also inspired them with a bold vision of the future. Building on those factors, the leaders were able to become visible champions of innovation, and the subsidiary managed to accomplish quite a lot within its market.

Moving from Assessment to Action

Focus on strengths

27 A large European insurance company that had specifically set up an internal venture unit to help it become more entrepreneurial and innovative found the new unit wasn't accomplishing as much as it should. After assessment, executives found the unit was not engaging people from different levels with its innovation initiatives. This resulted in a climate that lacked collaboration. However, the assessment showed that employees were eager to be innovative and creative. They even thought that they had the right internal champions and talent to succeed in their innovation initiatives. Understanding this, the executives concluded that they just needed to bring people in the organization together to make things start to happen.

Start small and scale slowly

28 Managers eager to transform their cultures often try to do too much at once. A better strategy is to focus on a few things and leverage their successes into a broader transformation over time. Cultures change very slowly. When asked to participate, people often show resistance — undermining and active sabotage are common. "Show, not sell" persuasion works best in these situations, along with healthy dollops of encouragement to early adopters.

29 Barring an external jolt or internal crisis, it is difficult to change deep-seated beliefs and behaviors and redefine success in an instant. For best results, leaders should aim for small victories — at least at first. Their success should trigger a widening circle of improvement. Measurable results are more

powerful than arguments, campaigns and mandates: People change when they see their peers becoming more productive, engaged and successful.

30 To improve the organization's innovation culture, companies should begin by focusing on their organizational strengths, starting small and scaling up slowly. Finally, beware of past triumphs. Over time, the strong culture of a successful organization can become a stumbling block, making the company blind to new technologies, new business models or new possible competitors emerging on the horizon. Business history is filled with examples of companies that were innovative market leaders in one generation and turned into unimaginative bureaucracies in the next.

(Adapted from *MIT Sloan Management Review*, Spring 2013)

GLOSSARY

elixir	(para. 1)	*n.*	something that is supposed to solve problems as if by magic 灵丹妙药
post-mortem	(para. 14)	*n.*	an analysis or discussion of an event after it is over 事后的调查分析
monopoly	(para. 15)	*n.*	exclusive control by one group of the means of producing or selling a commodity or service 垄断，独占
redeem	(para. 15)	*v.*	convert (bonds, shares, etc) into cash 将（债券、股票等）兑换为现金
fixate	(para. 16)	*v.*	focus (on)… 专注于……
tack	(para. 16)	*n.*	a course or method of action, especially one sharply divergent from that previously followed 方向，行动方式
mentor	(para. 17)	*n.*	experienced and trusted adviser of an inexperienced person 顾问
at odds with	(para. 21)		与……不和，与……争吵
jolt	(para. 29)	*n.*	an abrupt rough or violent movement 震动，争吵

NOTES

1. IDEO (para. 12*) 美国艾迪欧公司（创新及设计咨询公司）
2. Palo Alto (para. 12) 帕洛阿尔托（美国加利福尼亚州的一座城市）
3. W.L. Gore (para. 14*) 美国戈尔公司（全称 W.L. Gore & Associates，主要利用含氟聚合物作为基础来研发各种产品，涉及纺织、电子、工业、医疗、航空等各领域，包括吉他弦、太空电缆、人工血管、GORE-TEX 布料等产品）
4. Whirlpool (para. 16*) 美国惠而浦公司（家用电器制造商）

EXERCISES

Discuss and answer the following questions.

1. What do today's executives do in order to make their company more innovative?
2. What are the six building blocks that an innovative culture rests on?
3. At which three levels can the success of an innovation be captured?
4. What contribution has IDEO's behavior style made?
5. Why did Whirlpool decide to try a different action in 1999?
6. What does Whirlpool's focus on resources indicate?
7. How do executives differ from the lower-level people in a company in terms of where they see strengths and how they see opportunities?
8. In the case of a U.S. subsidiary of a large European bank, how did the executives accomplish a lot with its non-innovative culture?
9. What is a better strategy that managers should adopt to transform their organizational culture?
10. What do you learn from the text about the improvement of the organizational innovative culture?

TEXT C

Building Planet Google

Brad Stone

1 The most ambitious project unveiled by Google this year isn't a smartphone, website, or autonomous, suborbital balloon from the Google X lab. You can't hold it, or download it, or share it instantly with friends. In fact, the first part of it probably won't exist for at least three years. But you can read all about it in hundreds of pages of soaring descriptions and conceptual drawings, which the company submitted in February to the local planning office of Mountain View, California.

2 The vision outlined in these documents, an application for a major expansion of the Googleplex, its campus, is mind-boggling. The proposed design, developed by the European architectural firms of Bjarke Ingels Group and Heatherwick Studio, does away with doors. It abandons thousands of years of conventional thinking about walls. And stairs. And roofs. Google and its imaginative co-founder and chief executive, Larry Page, essentially want to take 60 acres of land adjacent to the headquarters near the San Francisco Bay, in an area called North Bayshore, and turn it into a titanic human terrarium.

3 The proposal's most distinctive feature is an artificial sky: four enormous glass canopies, each stretched over a series of steel pillars of different heights. The glass skin is uneven, angling up and down like a jagged mountain. The canopies will allow the company to regulate its air and climate. Underneath, giant floor plates slope gently upward, providing generous space for open-air offices and doubling as ramps so the 10,000 employees who will work there can get from one floor to the next without the use of stairs. For additional office and meeting space, modular rooms can be added, stacked, and removed as needed. To accomplish this, Google says it will invent a kind of portable crane-robot, which it calls crabots, that will reconfigure these boxes and roam the premises like the droids in Star Wars.

4 The plan is just as impressive from the outside. The canopies hug the ground like a biosphere on the surface of Mars, except in a few places where they dramatically curve upward. Google isn't planning to seal off its new campus but will keep it open to acres of manicured parks and restored coastal wetlands, with bike and hiking paths winding throughout. The company is pitching the project as a gift to the city where it's resided for the past 15 years: The parks and ground-floor retail plazas are meant to be accessible to residents, who can traverse nearby Highway 101 via two pedestrian overpasses Google also promises to build.

5 The proposed designs are full of ideas about the future of work. There are collaborative spaces and private perches, where employees can pop open a laptop away from distractions or the glare of the sun. Googlers will also be able to ride their bikes right to their desks. Parking lots are underground and hidden from view. Employees will have access to exercise equipment and yoga studios on

majestic balconies overlooking central courtyards, although the renderings curiously omit railings and other safety barriers. Perhaps gravity will be different under the glass as well? With cafes and stores on the ground floor, and 5,000 units of proposed housing within an easy recumbent bicycle ride, there may be no reason for workers to ever leave.

6 Silicon Valley is blessed with nearly idyllic year-round weather, but it's almost devoid of landmarks, other than a mission-style bell tower on the campus of Stanford University and the utilitarian sign of a once famous electronics company, Ampex, standing along the 101 freeway in Redwood City. Generic low-rise buildings inside endless office parks are spread over the rest of the area, which is carved up by highways and dotted with parking lots, marring a landscape once rich with orchards. The leaders of high tech, it seems, were too busy changing our world to pay attention to theirs.

7 That era officially ended in late 2011. In one of his last acts as CEO of Apple, Steve Jobs made a surprise visit to the Cupertino City council and unveiled plans for an ambitious corporate campus, comprising a huge single building that looks like a doughnutshaped spaceship. Apple hired the renowned British architect Norman Foster, designer of the new Wembley Stadium in London and New York's Hearst Tower. "I think we do have a shot at building the best office building in the world," an ailing Jobs told the stunned city bureaucrats, four months before his death. "Architecture students will come here to see this. I think it could be that good."

8 The Apple spaceship, scheduled to open next year, is meticulously conceived and obsessively polished down to the smallest detail, just like an Apple product. Forty-foot concave glass panes for the curved walls were specially manufactured in Germany. With a projected price tag of $5 billion, it will probably be the most expensive building in history. It will also be closed to the public.

9 Jobs's presentation kicked off an architectural arms race in Silicon Valley. In 2012, Facebook commissioned Frank Gehry, mastermind of the Guggenheim Museum in Bilbao, Spain, to expand its campus. Facebook's building, which opened this year in Menlo Park, is more subdued. It recalls the "great workroom" of Frank Lloyd Wright's Johnson Wax Headquarters: a soaring space with 400,000 square feet of open offices, where desks can be organized and moved around as needed. The new digs function less like a headquarters and more like a living social network, where employees can hobnob freely and have unplanned exchanges of genius. A lush 9-acre green park covers the roof.

10 The Apple, Facebook, and Google projects are all three-dimensional press releases meant to impress customers and employees and to communicate their self-declared missions to improve the world. More practically, the companies are pursuing the Internet-age ideal of big open spaces that can accommodate rapidly growing head counts and large, interdisciplinary teams that must frequently consult each other, preferably without having to hike across a vast parking lot.

11 Yet Google's architectural goals are the most radical. A decade ago, the first Googleplex set the standard for a spate of ecofriendly, diversion-filled headquarters. Now the company is attempting to establish something that goes far beyond mere perks—a future-proof office, endlessly reconfigurable to meet unforeseen demands. "It's a very Google-esque approach: Bring brilliant geniuses together

and let the magic happen," says Brian Schermer, an associate professor at the School of Architecture & Urban Planning at the University of Wisconsin at Milwaukee. "There's a huge risk in that they have never worked together before. And meanwhile, they are attempting to invent a whole new approach to building. The results could be spectacular. Or it could be a train wreck."

12 Getting the city of Mountain View to approve the plans may be just as big a challenge. In a meeting on May 5, the city council snubbed Google and granted only a fraction of the land it requested. The company did its best to conceal its disappointment: "We're pleased that the council has decided to advance our Landings site," says David Radcliffe, Google's vice president for real estate, referring to one of the North Bayshore locations. "Given the connected nature of our campus design, we will continue to work with the city to identify a process to move forward with this project."

13 Ingels's firm, known as BIG, usually deals in massive projects with some demonstrable local-community benefit, while keeping a sense of humor. Recent efforts include a waste-to-energy plant in Copenhagen that has a ski slope on its roof and, in a clever aside, generates rings of steam through its smokestack rather than regular plumes. The idea behind the ring is to illustrate what one ton of carbon dioxide, the greenhouse gas, looks like. BIG is also the lead firm on New York's proposed Dryline, 10 miles of flood defense on the southern edge of Manhattan that will serve as home to a series of parks, playing fields, and museums.

14 Heatherwick Studio operates on a slightly smaller scale. Trained as a furniture designer, not an architect, Heatherwick started by rethinking benches, chairs, and other conventional forms. His scope gradually expanded. In London, he redesigned the double-decker bus to make it more environment-friendly and accessible to the disabled; in New York, he laid out Pier 55, a park on Manhattan's West Side that will be home to art galleries and community gardens. It's scheduled to open in 2019.

15 Google almost didn't hire BIG or Heatherwick. In 2011 the company was considering building an office park on Moffett Field, a former U.S. naval base 3 miles east of its current headquarters. The plans, developed by Seattle architecture firm NBBJ, consisted of nine rectangular four-story buildings arranged around a central courtyard. By 2013 that proposal had been shelved. Google's Radcliffe says the city of Mountain View's decision to permit new office building development in North Bayshore, which encompasses the current Googleplex, inspired the company to focus on a single project. It was also clear the NBBJ designs were simply not out there enough for Larry Page.

16 Google started searching for another architect, with a focus on newer firms. The process lasted almost a year, Radcliffe says, until the fall of 2013, when the company sent a request to a shortlist of four firms asking them to submit 18-minute video proposals. Google's request contained some broad guidelines, many from Page himself. He wanted flexible large-span structures that dissolved the conventions of boxy buildings with four vertical walls and a roof. The new Googleplex should meld the inside and outside, bringing nature closer to employees and encouraging creativity and collaboration.

17 Page talked to his real estate team about the old Building 20 at the Massachusetts Institute of Technology, a 1940s wood-frame construction. It was ghastly to look at. But the “plywood palace,” as it was sometimes called, was beloved as an unruly nexus of interdisciplinary discovery. Wallboards and floors could be popped out and changed around, letting occupants—physicists, electronics researchers, linguists—mold their space however they wanted. Building 20 was a proto-incubator that begat a range of advances, from single-antenna radar to loudspeakers (Bose has roots there) to strobe photography, and was home to nine Nobel prize winners. It was torn down in 1998 to make way for the larger, postmodernist Stata Center, designed by Gehry. Page “challenged us to look beyond whether we liked building A or building B and to consider what is happening inside the building and why,” Radcliffe says.

18 By the spring of 2014, Google had narrowed the candidates down to Ingels and Heatherwick. The real estate group spent a month internally debating the merits of each and flew them separately to Mountain View. The two lunched privately with Page, who talked about why nature is so removed from the daily experience of Silicon Valley and his obsession with improving air quality, particularly because Google’s offices are so close to a major highway. At the end of the deliberations, the Google executives decided not to choose one or the other. “The simple version is, Larry just liked both of us and said, ‘Why don’t we work together?’” Ingels says.

19 Ingels and Heatherwick had encountered each other’s firms in the finals of international design competitions. They’d met only once, at the Shanghai Expo in 2010, and again for the second time on Google’s campus. They agreed to fuse their teams on the project and never disclose which firm was responsible for a particular innovation.

20 “We basically agreed we would really work together and make our teams understand there was complete joint authorship and that nobody would have any interest in who came up with what,” Ingels says. Each party would have a creative veto, and “we would never be in a situation where one of us couldn’t own part of the design.”

21 Heatherwick says he was initially lukewarm about Google’s overtures. What won him over was the executives’ earnestness about opening the complex to the public and restoring the area’s natural habitat. That appealed to him. “Smuggling an organization away from the world was clearly not the motive,” he says.

22 Google now has to convince its hometown that its intentions are non-evil. In its development proposal, it asked Mountain View for permits to build 2.5 million square feet of offices, most of the new space the city was prepared to develop. In a five-hour meeting on May 5, the city council, concerned about economic diversity and traffic congestion, allotted most of that space to LinkedIn, which had a competing proposal. Council members say there’s some resistance to giving Google everything it wants, particularly extra housing, which could permanently tilt the city’s voting rolls in Google’s favor. “They are not the only company in town, and there is a significant amount of public pressure not to be a one-corporation town,” says Councilman Ken Rosenberg.

23 Still, it’s unlikely the council will entirely block Heatherwick and Ingels’s plans. Google received

one parcel for its expansion and must now persuade the city to allow it to develop on another three. As Radcliffe notes, no other company comes close to offering the same loaded package of community perks and environmental benefits. Either way, the architects aren't waiting and say they didn't create the ambitious conceptual drawings just to be gawked at. "Neither us or Heatherwick are in the business of producing a pretty painting," Ingels says.

24 Shareholders are also unlikely to stand in the way. Investors have been tolerant of, and sometimes even jazzed about, the company's expensive "moon shots," such as self-driving cars, Internet-connected glasses, and broadband-broadcasting blimps. And Google does, after all, need the extra space for a head count that's climbing above 55,000. "This is a company with almost $75 billion in cash on their balance sheet," says Ashim Mehra, a vice president at Baron Fund, which holds Google shares. "If they want to use some of it to build an office that facilitates a better work environment and better collaboration, I think investors are generally supportive."

25 The true skeptics, really, are other designers, and they're not hard to find. Why, for example, do you need giant glass enclosures in a place where the weather's always perfect? "This is why hiring architects from Northern Europe maybe wasn't the smartest thing," says Louise Mozingo, a professor of environmental planning and urban design at the University of California at Berkeley. She also wonders how Google plans to clean the glass canopies when it doesn't rain for long stretches. "There is something about this whole microclimate that they are not quite getting," she says.

26 Others doubt the practicality of the supposedly flexible design. How, they want to know, do you configure a stable electrical system in a set of modular office units that will be hoisted and moved around by crabots? "Flexibility can become really expensive," says David Meckel, director for research and planning at the California College of the Arts. Radcliffe says the company hasn't worked out every problem just yet. "There may be a few things we need to scratch our heads on and figure out over time," he says. He agrees the project should probably be considered another Google moon shot—a hugely ambitious idea that doesn't yet have a lot of supporting details nailed down. "It redefines the way we think about the relationship between the built environment and the work that happens there, and the community and ecology it sits in," he says.

27 He adds that others probably shouldn't try to copy the grand design. "This is absolutely the right thing to do for Google. I'm not sure it's the right thing for anybody else."

（Adapted from *Bloomberg Businessweek*, May 2015）

GLOSSARY

terrarium	(para. 2)	*n.*	a usually transparent enclosure for keeping or raising plants or usually smallanimals indoors 饲养箱，玻璃箱
canopy	(para. 3)	*n.*	any overhanging covering 任何悬于上空的覆盖物
jagged	(para. 3)	*adj.*	with rough, uneven, often sharp, edges; notched 边缘不整齐的

ramp	(para. 3)	*n.*	a slope or inclined plane for joining two different levels, as at the entrance orbetween floors of a building 斜面，斜坡
concave	(para. 8)	*adj.*	having an outline or surface that curves inwards like the interior of a circle orsphere 凹的
ghastly	(para. 17)	*adj.*	causing horror or fear 可怕的，恐怖的
lukewarm	(para. 21)	*adj.*	not eager or enthusiastic 不热烈的，冷淡的
gawk	(para. 23)	*v.*	stare at somebody or something in a rude or stupid way 呆望
blimp	(para. 24)	*n.*	an aircraft without wings that looks like a large ballon 飞艇

NOTES

1.	Googleplex	(para. 2)	谷歌总部（位于美国加州圣克拉拉县的山景城）
2.	Frank Lloyd Wright	(para. 9)	弗兰克·劳埃德·赖特（1867-1959，美国著名建筑设计师）
3.	Frank Gehry	(para. 9)	弗兰克·盖里 (1929-，当代著名的解构主义建筑师）
4.	NBBJ	(para. 15)	美国 NBBJ 建筑设计事务所
5.	proto-incubator	(para. 17)	原型孵化器

EXERCISES

Answer the following questions.

1. What is Google’s most ambitious project this year?
2. Which two firms developed the proposed design of Google?
3. How do the proposed designs illustrate the future of work?
4. Describe the Apple spaceship.
5. What kicked off an architectural arms race in Silicon Valley?
6. Why are Google’s architectural goals most radical?
7. What projects do Ingels’s firm and Heatherwick studio deal with?
8. What were the two occasions when Ingels and Heatherwick encounter each other?
9. According to Council members, why is there resistance to giving Google everything it wants?
10. What are the attitudes of different parties toward the proposed design of Google?

TEXT C

Choosing the Right Customer

Robert Simons

1 All companies claim that their strategies are customer driven. But the term "customer" is among the most elastic in management theory. A working definition might be that your customers are the people or entities that buy your products and services and supply your revenue. That includes any number of actors in a company's value chain: consumers, wholesalers, retailers, purchasing departments, and so forth. Some companies go as far as to label internal units as customers: Manufacturing is a customer of R&D, for instance, and both are customers of HR.

2 Other definitions don't even require that a customer supply revenue. Pharma giant Merck's most important customers are not the patients who use its drugs or the physicians who prescribe them. Instead, Merck has chosen research scientists in labs and universities around the world as its primary customer. Accordingly, its business model relies on encouraging its own world-class researchers to act like university scientists by conducting basic research, publishing papers, and presenting results at conferences, all with the intent of discovering groundbreaking compounds that can then be commercialized by Merck's marketing and sales group.

3 In the following pages I'll present a truly customer-driven framework that can help executives build winning business models for their companies. The framework lays out four steps: identifying the best primary customer for your business, creating processes to learn what that customer values, allocating resources accordingly, and building an interactive control process to monitor the assumptions that underlie your choice.

Step 1: Identify Your Primary Customer

4 As the cases of Merck, Google, and Amazon illustrate, your most important customers are not those that generate the most revenue but those that can unlock the most value in your business. For some businesses, the primary customer will be the end user or consumer of the product or service. For others, an intermediary (such as a reseller or a broker) will be the critical customer to which organizational resources should be devoted.

5 But how can executives be confident that they're making the right choice? Identifying the best primary customer for your firm involves assessing each group of customers along three dimensions: perspective, capabilities, and profit potential. Let's look briefly at each.

6 *Perspective* refers to the culture, mission, and folklore of a business, often revealed in stories about important events or people in the company's history. It is the lens through which executives consider opportunities and strategic direction. Steve Jobs's obsession with perfection in product design

created a legacy that frames the opportunities Apple managers will (and will not) consider. Walmart's Sam Walton was famously frugal in his own life. And Amazon founder Jeff Bezos is a zealot about delivering a superior experience to shoppers. "When [executives of other companies] are in the shower in the morning, they're thinking about how they're going to get ahead of one of their top competitors," he told Fortune in 2012. "Here in the shower, we're thinking about how we are going to invent something on behalf of a customer." Clearly, the choice of primary customer must reflect a company's perspective; otherwise the company will be unable to leverage the energy and creativity of its people in service to the customer.

7 *Capabilities* refers to the embedded resources of the firm. Some firms excel at technology (Apple, Google, Airbus), some at logistics (Walmart, Amazon, Dell). Others provide superior brand marketing (Nestle and P&G) or have industry-specific capabilities. Such capabilities, which are built up over time and are often difficult to copy, position a business to serve the needs of certain customers better than others. Dell in its early years built a formidable low-cost logistics operation to support its direct-to-consumer sales model. Today, the company is attempting to change its primary customer by refocusing on CIOs of large enterprises. This pivot has proved difficult for Dell because CIOs look for a set of capabilities—integrated hardware, software, and services solutions-very different from what end consumers need.

8 *Profit potential* refers to a customer's ability to deliver profits. Techniques such as Michael Porter's five forces analysis can provide insight into the relative profitability of various customer types—and help weed out those that would be a poor choice for primary customer. Consider HBO. Cable operators that purchase HBO's content might seem to be the obvious choice. But cable operators have low switching costs—they can easily buy content from a variety of producers. Thus HBO would have little market power and would be unable to extract high margins from cable operators. But by targeting filmmakers as the primary customer and devoting significant resources to their needs, HBO can create the unique products that viewers demand, allowing it to charge premium prices that cable operators cannot negotiate. Of course, profit potential isn't always about customers who can pay premium prices; becoming the preferred destination for cost-conscious customers can deliver substantial profits through volume, as Walmart has demonstrated.

Step 2: Understand What Your Primary Customer Values

9 Once you've determined who your primary customer is, the next step is to identify which product and service attributes the customer values. Within the same market and industry, different primary customers may value different things: Some demand the lowest possible price, others want a dedicated service relationship, and still others are looking for the best technology or brand or other specific attribute. To complicate matters, customers often don't know exactly what it is they value. Uncovering the full truth about their needs requires systematic research at multiple levels.

10 Let's take the easy part first. Assume you have already chosen the best primary customer and have a good working idea of what the customer wants. There's still plenty of room for improvement. You can refine your understanding by leveraging today's easy and cheap access to data on customer buying habits, preferences, and search activities. Data analytics is an important tool in uncovering

and rapidly responding to changing customer needs. At Google, separate analytics teams for display, search, and maps spend untold hours in their labs with customers studying eye movement and other variables to gauge their reactions to subtle product modifications such as changes in color. Nestle has a war room where analysts monitor social media to track chatter that relates to or affects the acceptance of its products. The analysts use the intelligence to inform product research and marketing decisions and to evaluate in real time how well their value propositions are meeting the needs of the primary customer.

11 Such data can help you fine-tune a product or a website's functionality to better meet your customer's known needs. They're unlikely, though, to help you identify what your customers want but aren't getting. For that, you need to actually ask them. Smart companies set up systematic dialogues with their primary customers. Managers at FedEx, for example, hold twice-yearly summits where they bring in a sampling of business customers (the firm's primary customer) to ask them where FedEx is doing a good job of meeting their needs and where competitors are doing better. At Germany's Henkel, the world's leader in adhesives, CEO Kasper Rorsted has created a "tops to tops" program in which all executives are required to meet regularly with their counterparts at major customers to ensure that their needs are understood and the company is responding appropriately. Other companies, especially those with rapid product cycles, manage the dialogue through new-product testing. Google's Gmail, for example, was released after five years of beta testing by more than 1,000 technology opinion leaders.

12 Finally, you should set up processes for identifying products or services that customers may not know they need. This can be challenging—and expensive. Smart companies typically rely on ethnographic methods. At P&G, for instance, where consumers are the primary customer, executives ask their managers and market researchers to spend days at a time accompanying consumers on shopping trips and sitting at the family dinner table to more fully understand the extent to which various products meet consumer needs. CEO A.G. Lafley recounts in his book The Game Changer how the experiences of P&G executives living with lower-middle-class families in Mexico City produced Downy Single Rinse, a fabric softener that is simpler to use for markets where water is in short supply.

13 Most companies assume that their products and services meet the needs of their customers. But surprisingly few actually test this assumption. So ask yourself, what are the processes we use to make sure that we truly understand what our customers value and that we can deliver value better than our competitors do?

Step 3: Allocate Resources to Win

14 As we saw with Merck and Amazon, your choice of primary customer and your understanding of what the customer values provide all the information you need to make the critically important decision of how to organize your company's resources—in other words, what kind of business model to adopt. There are five basic configurations you can choose from.

15 **Low price.** If your primary customer is looking for the lowest possible price, centralized

operating functions (such as merchandising and distribution) should receive the bulk of organizational resources, in order to create economies of scale and scope. Customer-facing units, such as stores or restaurants, should receive relatively few resources. This is the configuration used by Walmart.

16 **Local value creation.** If your customer values products and services that are customized to local tastes, preferences, and regulations, you should organize like Nestle. It pushes resources out to regions so that local managers can customize product offerings, while operating core functions are limited to corporate-level support activities.

17 **Global standard of excellence.** If your customers are looking for the best possible technology or brand no matter where they are located, you should organize resources around global business units that are defined by product lines. This configuration allows focus and leverage in R&D, brand marketing, and distribution. Microsoft, for example, has separate business units for Windows, servers, MSN, mobile, and Xbox. Each unit has full revenue and profit responsibility and its own R&D.

18 **Dedicated service relationship.** If your customer is looking for an ongoing, deeply embedded service relationship, you should organize like IBM. Customer teams in industry-based "verticals" marshal and coordinate product and service delivery from centralized, product-based "horizontal" units.

19 **Expert knowledge.** Finally, if your primary customer is looking for expert technical knowledge, you should follow the example of Google and Merck, where R&D sits prominently on top of product organizations that receive the lion's share of the company's attention and resources, with other functions playing a supporting role. These R&D-led product units, which may be distributed in centers around the world, have no revenue responsibility: They are focused entirely on product development and on creating breakthrough technology. All sales revenue is routed through a centralized, stand-alone sales division that is configured as a distinct function.

20 Of course, various permutations and combinations of these five basic configurations are possible. Many companies will want to leverage the advantages of several models at once. Some companies experiment with matrix structures that can simultaneously emphasize, say, geography and function or business unit and region. This "split the difference" approach can be appealing if, for example, you are an engineering company like ABB and your primary customer is government purchasers that demand both the best technical features (global standard of excellence) and customized content (local value creation). But it should be noted that matrix organizations are notoriously difficult to manage; all too often, a matrix structure reflects an inherent confusion about who the primary customer is rather than an effective response to the customer's needs and preferences.

21 As a general proposition, when a business finds that it has more than one primary customer, it should be split into separate units and adopt for each the configuration that best allows it to focus resources on the needs of its primary customer. At Nestle, for example, although most of the business is structured using a local value configuration, the company's strategy differs for two of its brands: Nespresso and Movenpick. Customers want a consistent, premium experience from those brands

regardless of location. Accordingly, those businesses are managed using a global standard of excellence configuration in which resources are centralized and managed globally.

22 In reviewing a business model, the key question executives should ask is this: Do the choices we have made about the company's structure reflect our choice of primary customer? If the answer is no, competitors whose business models are consistent with their chosen primary customer will almost certainly be outplaying you.

Step 4: Make the Control Process Interactive

23 As good as your business model may be today, it cannot and will not survive forever. Customer tastes will change, new technologies will replace old, unforeseen competitors will enter the market, and regulations and population demographics will evolve over time. That means you must constantly gather information on shifts in your competitive environment, especially those that might affect the behavior of your primary customer. You must be alert to emerging threats and opportunities that will redefine what your customer values and that customer's profit potential. If the changes are dramatic, you may need to fundamentally reorient your business model—and even, in the most radical situations, select a different primary customer.

24 The best way to get the information you need is to make sure that your company's control systems are interactive. Everyone in the organization should be using the same performance measures as the basis for learning and debate. Monitoring changes in customer behavior and the competitive environment, in particular, is not a function to be delegated to a special department. As a technology executive recently told me, "Companies that get it wrong are those that build departments with 'innovation' in their titles. We need to have everyone in the business innovating."

25 Depending on your business strategy and industry, you can choose to use any of your current management systems interactively—your profit planning system, your brand revenue system, your orders-on-book or new deal system. At HBO, for example, executives constantly track the company's success rate in bidding for new shows from filmmakers and use that measure to prompt a discussion among managers throughout the business about changes in the competitive marketplace that could affect their strategy. Amazon's category managers use their Monday morning meetings as a forum to study data about product assortment choices, revenue growth, customer orders, and inventory turnover. Reflecting the firm's leadership principles (customer obsession; bias for action; earn trust of others; dive deep; and have backbone, disagree, and commit), these meetings are highly interactive as managers from a diverse array of functions work together to interpret the data and come up with action plans. Some of these actions may, over time, plant the seeds of a new strategy.

26 Systems that work well interactively—like those at HBO and Amazon—share three essential characteristics: They deliver information about uncertainties that could undermine the assumptions of a current strategy and require attention from the highest levels of management; they are widely used in the organization, receiving frequent and regular attention from operating managers at all levels; and they involve face-to-face meetings that focus on emerging data, assumptions, and action plans. There is no substitute for the energy and creativity that flow from open debate when

participants leave their titles at the door.

27 In using interactive control processes, managers should continually ask three questions: What has changed? Why? And, most important, what are we going to do about it? If you identify changes in your customers' profit potential, for instance, you might want to rethink your choice of your primary customer. Changes in tastes, regulations, technology, or competition may alter what it is that your primary customer values—resulting in a need to reallocate resources or redesign your business structure.

28 If you have significant first-mover advantage thanks to a new technology—or if competitors are evolving and struggling to find their way—you may be able to duck making a choice of primary customer, opting instead to stay fluid and focus on experimentation. But the entrepreneurial landscape is littered with the carcasses of companies that tried to be everything to everyone. Like Yahoo, they muddled along until they were overtaken by crisis, often bringing in a new leader in a last-ditch effort to impose discipline and focus on a failing business. It is, I believe, ultimately less risky to be proactive and make the key strategic bet of choosing a primary customer. Companies that hedge their bets usually find themselves looking at the taillights of their more decisive and committed competitors.

(Adapted from *Harvard Business Review*, March 2014)

GLOSSARY

zealot	(para. 6)	*n.*	a person who is fanatical and uncompromising in pursuit of their religious, political, or other ideals 热心者，狂热者
permutation	(para. 20)	*n.*	variation in the order of a set of things 排列，置放

EXERCISES

Answer the following questions

1. What might the working definition of “customer” be?
2. What is Merck’s primary customer?
3. What three dimensions can executives use when they choose the best primary customers? What do the three dimensions refer to respectively?
4. What do Google and Nestle do to make better analysis about the customers?
5. What are five basic configurations you can choose from when you want to understand what the customers value?
6. What should you do if your primary customer is looking for the best possible technology or brand?
7. What should you do if your primary customer is looking for expert technical knowledge?
8. What will happen if the choices a company has made about its structure fail to reflect its primary customer choice?
9. What characteristics do systems working well interactively share?
10. What three questions should managers continually ask in using interactive control process?

TEXT C

Sodexo's CEO on Smart Diversification

Michel Landel

1 The roots of Sodexo's business lie in a small shipping-supply company run by Pierre Bellon's family, which since the beginning of the 20th century had operated a ship chandling business in Marseille. Pierre Bellon started Sodexo in 1966 because he saw a business opportunity in providing food and catering services to local companies and then to schools, hospitals, and other institutions. Just one year later CNES, the French space agency, which was a client, asked Sodexo to organize cleaning and maintenance for its base in Guyana as well. That was an early sign that if we did a good job for our clients, they might lead us to expand into services we hadn't imagined providing.

2 Since I became CEO, 10 years ago, that trend has accelerated. Companies have outsourced so many functions for so many years that they've created a new challenge for themselves: managing and coordinating the work of many suppliers of varying quality. Some companies have realized that it's far easier to work with a single integrated provider—a company like Sodexo, which can manage everything from the employee cafeteria to the HVAC system and the landscaping, from incentive programs to employee benefits.

3 Diversification has its limits, of course. Over the past decade we have expanded both globally and in the variety of our offerings—but in the process we've had to think carefully about when it makes sense to diversify. Broadly speaking, we have four basic rules.

Be True to the Business Model

4 The first rule is that we never enter an area that's inconsistent with our existing business model. Indeed, many companies claim this. But when you're offering an integrated package of services, you have to be especially careful on that score.

5 Our model is very simple: With just a few exceptions, our services can be provided by an individual or a team and don't require capital investments in property or serious machinery. When we operate company restaurants, for example, we don't own the refrigerators and ovens, and the cost of the food is priced into the contract. We don't supply services performed by nurses, aircraft pilots, or accountants.

6 This business model has several advantages. First, we don't have to make any investments in fixed assets. Payroll and raw materials, which are variable costs, are our main expenses. Usually when we take on a new contract, the client already has employees performing the functions involved, so we take those employees on as our own and retrain them. They require training because their attitude is a major component of our competitive advantage. If we need to gain expertise in a particular area

quickly, we may make an acquisition; but even then, our growth is 80% organic.
7 A second benefit is standardization. We've figured out plenty of best practices, and we can transfer them from client to client; that efficiency produces savings we can share through our prices, which are considerably lower than what clients pay when they undertake to do the work themselves.

8 Of course, running a business that is by its nature profoundly local on a global basis is challenging. To resolve this problem, we are replacing a country-based structure with a global grouping of our businesses by client type. So we'll have a global health care division, a global campus division, and so on. Organizing according to client types gives us a platform for sharing knowledge and best practices. Meanwhile, employees, too, are being grouped according to the jobs they do (boiler service technician, housekeeper, catering staffer, and so on). These teams of experts are responsible for training new hires and identifying best practices, which can then be shared globally.

Make People Happy and Productive

9 Our second rule is that we deliver only services that directly improve the lives of individual people (whom we refer to as consumers), even though it is client organizations—companies, government ministries, schools, hospitals—that foot the bill. We believe that making the individuals in those organizations happy and productive is how we add value for our clients. And by taking this approach, we've found new ways to diversify our offerings.

10 My contribution has been to help clarify what's involved. Several years ago we started working with professors and research centers to identify exactly what metrics we should track. We came up with six: physical environment, social interaction, well-being and wellness, social recognition, efficiency, and personal development. Any service we provide must contribute along at least one of those dimensions and preferably several.

11 Such clarity makes it easier to measure and demonstrate performance. If a company's employees take fewer sick days, we're probably doing a reasonable job with its HVAC system. If they're losing weight, perhaps it's because we're offering a more healthful diet in the cafeteria. When we're helping a company plan its space—where to put the photocopier, for example—we look directly at how the layout will affect the efficiency of individual employees. The design and management of communal spaces on a college campus, such as spectator sports facilities, reception areas, and cafes, can promote (or compromise) social interaction, an important component of the college experience. If those places are bustling with happy-looking kids, we're probably doing a good job of making the campus safe and inviting.

12 This orientation toward the needs of the individuals who actually use our services guides our choices about what we will or will not do. Prisons (principally in the United Kingdom) are one of our main business lines, but we will not bid for this work in the United States, because it would include services for prisoners on death row. That simply doesn't square with our ethical principles or with improving the quality of individuals' lives along any of the six dimensions. Given the size of the prison business in the U.S., this was not a trivial decision. We also won't manage security in prisons if that means our personnel must carry firearms. In 2005, for example, a prison in western Australia

asked us to manage the transportation of inmates, which we declined on those grounds.

13 Focusing on the quality of individuals' lives often reveals surprising adjacencies. We manage services on oil rigs and in facilities in Siberia. People working in those remote environments are at high risk of becoming overweight or having problems with alcohol. Some of our clients asked us to help mitigate the effects of the isolation. We put together a program to help individual employees better manage their diet and exercise, both on-site and during home leaves. (They typically work 15 days and then take 15 days off.) It's a pretty extensive service package and a not inconsiderable investment for the client, but companies have found that it pays off in reduced absenteeism and improved productivity.

14 Thinking systematically about quality of life has also opened our eyes to interesting opportunities in which individuals are the paying customers. For instance, since 2008 we've been providing home support services for elders in the United States, drawing on our experience in health care and other industries. Given demographic trends (1.5 billion people globally will be over 65 by 2050), this is a fast-growing market, not only in the already aging developed world but also in China, because of its population control policies. And with more parents working and away from their extended families, we see growth potential in child care services, especially in developed markets but also in emerging ones.

15 With extensions like these, it's conceivable that we could one day provide quality-of-life services to an individual all the way from birth to post-retirement.

Help Clients Execute Their Strategies

16 Our third rule is that the service packages we put together must help clients execute their own strategies. Here's an example: One of our big clients in China wanted to move its research center from the middle of Beijing to the outskirts. The greatest challenge was persuading its employees, who mostly lived near the old site, to stay on and commute to the new one. The client asked us for help in putting together a workplace value proposition that would appeal to the employees.

17 We worked with the company and its architects on the layout of the offices and developed a transportation plan to make commuting easy. We also set up a concierge service to reduce the personal inconvenience of working far from where these people lived. It arranges for laundering, travel, restaurant reservations—anything that makes working outside Beijing as easy as working in its center. Employee satisfaction rose to 98% after the move, from 84% before; and staff turnover fell to 8% from 12%.

18 We realized that if we didn't provide those services, we would be a subcontractor to the company that did. To differentiate yourself and show that your offerings are not just commodities, you need direct dialogue with top management. Since I became CEO, Sodexo has entered into global, multiyear deals with multinationals such as GlaxoSmithKline and Unilever. My colleagues and I visit their headquarters regularly to learn how we can help them improve the productivity and motivation of their employees.

Rely on Employees, Not Subcontractors

19 The fourth rule is that we own the businesses we're in. We don't want to be simply a primary contractor that works with subcontractors, which is what many of our competitors do. We believe that to deliver services that materially improve people's lives, you need to deliver them yourself and employ competent, cheerful people who want to grow. And if people are our primary assets, we have to be in charge of motivating and developing them.

20 One way we do that is by making a real effort to improve the quality of their lives, too. Frankly, our employees often don't have comfortable circumstances, and their work isn't always easy.

21 For instance, we manage services for a big hospital in the Bronx. Typically, a housekeeper at this hospital will have a two-hour commute, is a single mother or the sole breadwinner and homemaker, has children of school age or younger, and is on a tight budget because salaries in her line of work are modest. After a day of hard physical labor cleaning rooms at the hospital, she will have to go home, feed the kids, and oversee their homework.

22 How can we motivate her to work quickly and with a smile? To begin with, we usually offer above-average benefits for that position. And we try to help her with the challenges of everyday life, perhaps by finding her a lawyer if she needs one, or someone to advise her about managing her finances.

23 We also invest a lot in training our people so that they'll have opportunities. And we offer career paths inside the company. We want people to learn and grow with us because that means we, too, will benefit from our investment. A good example is in China, where frontline employee turnover has dropped from 200% a year to 50%. Many of our managers begin at the bottom. One of our top female executives in the U.S.—where we have a 6 billion business—started out 18 years ago as a waitress for one of our clients. I could cite many other examples from around the world.

24 Managing Sodexo is a challenge that's both big and quotidian. We employ more than 400,000 people at about 33,000 sites in 80 countries. Yes, we can promote best practices, processes, and protocols—but the real magic is having employees who understand that their jobs are about improving the quality of people's lives and managers who understand that the quality of our employees' lives is part of that value proposition. That's why Sodexo stands out in an industry that has traditionally competed fiercely on costs.

(Adapted from *Harvard Business Review*, March 2015)

GLOSSARY

foot	(para. 9)	*v*.	pay (the bill) for something, especially when the bill is considered large orunreasonable （尤指大额或不合理账单）支付
inmate	(para. 12)	*n*.	a person living in a prison 监狱犯人
adjacency	(para. 13)	*n*.	the state of being next to or adjoining something else 毗邻，附近
absenteeism	(para. 13)	*n*.	the practice of regularly staying away from work or school without goodreason 旷工，旷课
concierge	(para. 17)	*n*.	a caretaker of a block of flats or a small hotel, typically one living on thepremises 看门人，门房
quotidian	(para. 24)	*adj*.	ordinary or everyday, especially when mundane 普通的，平凡的

NOTES

1. Sodexo (title) 索迪斯集团（法国餐饮旅游服务业跨国企业）
2. Marseille (para. 1) 马赛（法国第二大城市和最大海港）
3. CNES (para. 1) 法国国家太空研究中心（Centre National d'Etudes Spatiales）
4. HVAC (para. 2) 供热通风与空气调节（Heating, Ventilation and Air Conditioning）
5. Bronx (para.21) 布朗克斯区（美国纽约市东北部的一个行政区）

EXERCISES

Answer the following questions.

1. How have companies developed since the author became its CEO?
2. What are the four basic rules of Sodexo?
3. What advantages does Sodexo's business model have?
4. What were the six metrics they once came up with when they tried to improve the lives of individual people?
5. Can you give an example in China to show Sodexo's rule of helping clients to execute their own strategies?
6. What did Sodexo learn from their experience of helping clients execute their strategies?
7. What do Sodexo's competitors do, which is different from what Sodexo does?
8. How does Sodexo help the housekeeper at a big hospital in the Bronx?
9. How is Sodexo's scale now?
10. According to the author, what is the real magic of his company?

TEXT C

For Mobile Devices, Think Apps, Not Ads

Sunil Gupta

1 Like most professionals, I carry a smartphone. Although I use it frequently for e-mailing with colleagues or texting with my family, I also use its apps to find information or to entertain myself. And as I navigate its 3.5-inch screen, I routinely encounter something else: a growing stream of itsy-bitsy advertisements.

2 These balky, Lilliputian ads represent the state of the art in mobile advertising—and they don't work. Few people click on them. In surveys, four out of five people report disliking them.

3 Many companies are betting that with some tweaking, mobile ads will become an integral part of their communications strategies. Indeed, one of the most celebrated media graphics produced in the past year is a slide showing a side-by-side comparison of how people consume media (mobile now accounts for 10% of time spent with media) and where advertisers spend their money (mobile accounts for just 1%). Over time, some observers argue, these numbers will converge. Driven by that logic, mobile ad budgets in the U.S. are expected to increase from $2.3 billion in 2012 to almost $11 billion in 2016.

4 Smart marketers will embrace mobile as a communications platform—but the best use of the new medium won't look anything like the current generation of tiny display ads. Historically, that's a familiar scenario. Whenever new media emerge—consider television in the 1940s and 1950s and the World Wide Web in the 1990s—there's a period of fumbling while marketers try to repurpose ads that worked in the old media. That's why early-1950s TV commercials featured narrators reading what were essentially radio advertisements, and why 1990s websites were filled with static display ads taken directly from print campaigns. Neither effort was effective. New media require new methods of advertising, and those evolve over time. The same will be true of mobile.

5 The best way for marketers to communicate through mobile will be with apps. Apps will trump traditional ads in part because consumers don't perceive them as advertising—they value them for their functionality and thus don't find them intrusive. For marketers, apps will also be attractive because they're actually more cost-efficient than traditional ads, and they sometimes create entirely new revenue streams.

6 If you observe how people use their smartphones, and if you look beyond calling, e-mailing, and texting (activities that aren' particularly conducive to advertising), you'll see that apps dominate. Users spend, on average, 82% of their mobile minutes with apps and just 18% with web browsers. They download about 40 apps to their phones (out of more than a million available) and regularly use about 15.

7 Smartphone apps fall into five categories:

- Games and entertainment, which, according to one study, account for 42% of time spent on smartphones;
- Social networks (especially Facebook), which account for another 31% of smartphone time;
- Utilities, including maps, clocks, calendars, cameras, and e-mail;
- Discovery, including apps for Yelp, TripAdvisor, and Flixster;
- Brands, such as Nike and Red Bull.

8 The challenge for brand marketers is clear: If smartphone users spend most of their time with apps but regularly use only about 15, and if few of those 15 are for branded products, the marketing real estate on users' mobile screens is constrained indeed. How can marketers reach and engage these consumers?

9 Instead of buying tiny banner advertisements, marketers should create apps that add value to consumers' lives and enhance long-term engagement with their brands. To do so, they need to understand how and why users choose apps. My research reveals five strategies that can help them succeed.

10 **Add convenience.** Most airlines have mobile apps that allow customers to check in and to monitor their flights' status. Most banks have mobile apps that let people track their bank balances and pay bills. ESPN's app lets sports fans check scores. Of course, people can also do these things on desktop computers or from a mobile browser, but the smartphone apps function more quickly and smoothly, so most customers prefer them. And every time a consumer uses one of these apps—or even glimpses it on the screen while swiping to find something else—it increases her exposure to the brand.

11 Convenience apps can give marketers a great return on investment, but they face three constraints. First, although they can strengthen relationships with existing customers, they aren't very effective at acquiring new customers. Second, established brands with large customer bases have an inherent advantage in using these apps to drive retention and engagement; such apps aren't a viable alternative for every company. Third, as more and more companies build convenience into their apps, they will find it harder to differentiate themselves on that basis.

12 **Offer unique value.** Some apps take advantage of mobile capabilities to do things traditional desktop computers can't. In South Korea, where the UK-based retailer Tesco has a grocery delivery business called Home Plus, the chain plastered the walls of subway stations with life-size, high-resolution photos of products on store shelves, complete with QR codes that can be scanned with a smartphone. This allows consumers to shop and arrange for delivery while waiting for their trains. Within three months of the system's rollout, the number of registered users of Home Plus had increased by 76%, and revenues had increased by 130%. After a decade of badly trailing its competitor E-Mart, Home Plus is now closing the gap in overall market share, including offline sales. Since it was launched, in April 2011, the app has been downloaded more than a million times, and the company is now expanding its virtual stores to bus stops.

13 Nike, similarly, has capitalized on mobile's distinctive abilities. In 2006 it unveiled Nike+, an app (originally for iPods, now available for most smartphones) that works with a special chip in runners' shoes to monitor speed, distance, and calories burned. Although the app itself is free, people must buy either a sensor-equipped Nike sneaker or a shoe-mounted sensor in order to use it. Nike credits the app with having driven growth of 30% in its running division as of 2012, and it has expanded Nike+ to include apps and accessories that track other activities, from playing basketball to sleeping.

14 Neither the Home Plus app nor Nike+ feels like a traditional marketing communication—and that's exactly the point. Mobile users don't want ads; they want apps that deliver unique benefits.

15 **Provide social value.** Facebook added its billionth user in October 2012; its app is one of the most used in the mobile world. Yet Facebook, like other social media companies, has struggled to monetize its user base through advertising. Marketers question the effectiveness of ads on social media sites, because ads interrupt the user experience of connecting with friends. Activities that enhance connections among friends are a different matter.

16 Social gifting is a case in point. As Reid Hoffman, a cofounder of LinkedIn and a partner at the venture capital firm Greylock Partners, has observed, it draws on three hot trends: gift cards, social networking, and mobile shopping. Consider two examples: Since its November 2011 launch, more than 300,000 people have used the Swedish start-up Wrapp to give their Facebook friends promotional gift cards available from nearly 100 major retailers. (In all, more than 2.2 million cards have been sent.) And in September 2012, three months after acquiring the mobile social gifting company Karma, Facebook announced the rollout of features that let users send their friends gift cards for Starbucks coffee, Magnolia Bakery cupcakes, and other goods.

17 **Offer incentives.** The basic concept is familiar; many firms use short-term promotions and other incentives to entice customers to buy their products or to "like" them on Facebook. To win a spot among the handful of apps on a consumer's mobile phone, however, marketers need to come up with especially creative incentives.

18 Coca-Cola did so with a recent promotion in Brazil. In March 2012 the company began installing special devices in venues such as beachfront kiosks—bright red machines that look like soft drink dispensers and bear the Coke symbol and the phrase "Refil de Felicidade" ("Refill Happiness"). After downloading a mobile app, consumers—typically teenagers—can hold their phones up to one of these machines, which will "dispense" 20 megabytes of free data credits while an image of a Coke bottle being filled up appears on the screen.

19 **Entertain.** Recall that smartphone users spend more than 40% of their app time playing games, and that the figure for tablet users is even higher. This represents a huge opportunity for savvy marketers.

20 Red Bull is one company that has capitalized on the opportunity. Instead of creating an app focused on its brand, it devised several mobile gaming apps, including Red Bull Kart Fighter, Red

Bull X-Fighters, and Red Bull Air Force. For an energy drink company, building games requires a new and very different set of capabilities, and it is more complicated than simply buying banner ads. But the effort is paying off: In all, the games have been downloaded about two million times to date, and whenever a customer hits "Play," he's engaging with Red Bull.

21 The fact that creating apps demands completely new skills will probably turn out to be a plus for many companies. As Angry Birds and similar apps became overnight sensations, thousands of computer programmers entered the industry as freelance app designers. (More than 275,000 developers have registered to build apps for the iTunes store alone.) Despite the hype, many are struggling; as the *New York Times* recently reported, "only a small minority of developers actually make a living by creating their own apps." As a result, developers' fees are often far lower than those of ad agencies. So apps are not only the most effective way to reach mobile consumers; they're also more cost-efficient than many traditional ad campaigns.

22 Despite the ubiquity of smartphones and the hours many of us now spend each day with our heads bent over a small screen, sophisticated marketers will realize that "mobile advertising" is often a hollow phrase. People simply don't like ads on their mobile devices. Even location-based ads that entice customers through context-specific discounts are merely serving a short-term objective, not engaging customers for the long run. Marketers will get better results by communicating with consumers in a format that enhances their lives and offers long-term value. In the coming years, creative minds may find new vehicles for achieving these aims. But for the time being, apps are the best way to win the hearts and minds of mobile consumers.

(Adapted from *Harvard Business Review*, March 2013）

GLOSSARY

itsy-bitsy	(para. 1)	*adj*.	extremely small 很小的
fumble	(para. 4)	*v*.	handle something in a way that is not skillful 摸索着处理
trump	(para. 5)	*v*.	beat someone or something by saying or doing something better 胜过，驳倒
intrusive	(para. 5)	*adj*.	too noticeable, direct, etc. in a way that is disturbing or annoying 侵入的，闯入的
monetize	(para. 15)	*v*.	convert into or express in the form of currency 货币化
ubiquity	(para. 22)	*n*.	the state of being everywhere 无处不在

NOTES

1. ESPN	(para. 10)	娱乐体育节目电视网（Entertainment Sports Programming Network）
2. Tesco	(para. 12)	乐购（英国零售企业）
3. QR code	(para. 12)	二维码

4. Greylock Partners (para. 16) 格雷洛克风险投资公司

EXERCISES

Answer the following questions.

1. How will mobile ad budgets in the U.S. increase from 2012 to 2016?
2. Why will apps trump traditional ads?
3. How much of their mobile time on average do mobile phone users spend with apps and with web browsers?
4. What categories do smartphone apps fall into?
5. How can marketers reach and engage consumers using smartphones?
6. What constraints do marketers face when they provide convenience apps?
7. What benefit did the apps bring to Home Plus in three months?
8. To use free Nike+, what must people do?
9. What did Coca-Cola begin to do in March 2012?
10. What format can help marketers get better result by communicating with consumers?

TEXT C

Can This Man Feed the World?

Alex Morrell

1 Harry Stine built an obscure $3 billion empire by breeding a better soybean seed. Now the richest man in Iowa thinks he has revolutionized corn, the Earth's most popular crop.

2 On one of the windiest days in recent memory Harry Stine, the richest man in Iowa, cranes his neck to examine the elevator shaft inside the 110-foot steel observation tower next to his garage. "The cables look awfully frayed. Who knows if it will last one more time?" he chuckles. Nonetheless, we hop into the elevator cab, he flips the switch to get it moving, and up we go as the wind rips into us at 40mph.

3 Stine, the 72-year-old founder and owner of Stine Seed, the largest private seed company in the world, built this tower back in 1987 so he could get a good view of his empire, some 15,000 acres of frozen Iowa farmland. Aside from a small, glass-walled house, it's his only visible indulgence. Once home to his father's hardscrabble cattle-and-crop farm, Stine has, without attracting any widespread notice, developed some of the most valuable agricultural products on Earth here. With more than 900 patents, Stine sells his coveted soybean and corn seed genetics to agri-giants like Monsanto and Syngenta, nabbing estimated annual sales of more than $1 billion with margins in excess of 10%. Along with his four children, Stine owns almost 100%.

4 It is a good reminder to those tempted to confine "innovation" solely to the world of Silicon Valley that some of the most impressive and fundamentally important advances on Earth are occurring today in agriculture, and the global epicenter is America's heartland. The seed market—a $44 billion worldwide industry that supplies crop growers with the essential element they use to plant, harvest and sustain the world's food supply—is expected to double in the next five years as crops fortified with more resilient genetics improve yield and efficiency. That's good news since the world's population continues to grow by about 85 million every year, while arable land remains scarce.

5 With a combined market value of $320 billion, five publicly traded conglomerates own most of the action: Monsanto, DuPont, Syngenta, Dow and Bayer. Then there's Stine. Based in Adel, Iowa (pop. 4,000), the dozen or so companies under Stine's umbrella form an unlikely titan at the heart of the market, directly or indirectly generating revenues from almost 50 million acres of crops in the U.S. each year.

6 Stine Seed does business with all of the heavyweights and has for more than three decades, primarily because it has something everybody else needs: the best-performing soybean seeds in the business. Through plant breeding, a roughly 10,000-year-old technique that's not unlike creating Thoroughbred horses or show dogs, Stine has been perfecting the genetic makeup of soybean

seeds—primarily used in animal feed and to produce vegetable oils—since the 1960s. The basic technology may be ancient, but an innovative, data-savvy strategy, married with shrewd leadership and a classic midwestern work ethic, has made Stine's operation best in class. He isn't bashful about what his small-town company has accomplished.

7 "Our germplasm—our genetic base here—is the best in the world," says Stine. "We dominate genetics in the industry."

8 Today 60% of all U.S. soybean acreage is planted using genetics developed by Stine's companies, which also have a strong presence in South America and other international markets. FORBES estimates that Stine's company—which, among other things, also breeds corn genetics, creates plant traits in its biotech lab and has a small but growing commercial seed sales operation—is worth nearly $3 billion.

9 While rivals scoff, he now thinks he can double the world's output of corn, the most popular crop on Earth. By breeding corn seeds genetically predisposed to thrive when planted in high densities, he thinks he can supercharge the engine generating animal feed, biofuels and food for the whole planet. "We're going to be able to double corn yields very easily," says Stine. "And apparently a lot of people working in the same industry can't see that… They think, 'How can this be? And furthermore, how can this little farm kid out here be doing this?'"

10 After seven years of genetic tinkering he's won plenty of converts. "It's an insight that will revolutionize the corn industry," says Dermot Hayes, a professor of agribusiness at Iowa State University. If it works out, it won't be the first time this farm kid, unknown outside his industry, has changed the world.

11 A tall man partial to Levi's and blue button-downs with pens in the pocket, Stine stands on the burnt-orange carpet in his office—a little-changed artifact of the Reagan era littered with the nuts, berries and, —especially, mushrooms he likes to forage for (he has a handwritten log detailing when and where he's found each of the 32,000 morel mushrooms he's nabbed in recent years). He's waving several reams of paper, filled with three years of yield results that drive Stine's corn euphoria. At almost every location they plant them, he says, his seeds outperform any other variety.

12 The secret to Stine's golden corn? Efficiency. In the early 1930s, prior to the Dust Bowl, 7,000 corn plants per acre were grown in the U.S., yielding about 27 bushels per acre. Seeds were planted in rows 42 inches apart so horses could traverse the fields. Now 35,000 plants and 150 bushels per acre is common—nearly five times the yield—thanks to modern tractors, fertilizers, pesticides and seeds genetically modified to resist insects and herbicides. But while genetic modification—using biotechnology to insert a genetic trait into a seed—grabs headlines, traditional breeding programs by seed developers have done just as much to raise yields.

13 Stine noticed that corn plants hadn't changed much in generations. Tall has always been sexy for corn, even though less than half of the plant is actually harvested. That means most of the biomass is using valuable resources that don't necessarily improve a farmer's yield. The conventional spacing of

corn rows has also largely persisted at 30 inches or more in modern agriculture, with narrower rows in use on less than 5% of corn acres in North America as of 2012, according to rival DuPont Pioneer.

14 Stine flipped the conventional wisdom on its head. He began breeding corn to thrive at higher planting density: shorter plants with smaller tassels and more upright leaves that attract more sunlight. A leaner, more efficient plant. After breeding many descendants of the seeds with that genetic makeup, the company has developed corn that can be planted in much narrower rows—12 inches or even pairs of rows 8 inches apart—increasing the number of plants per acre to as much as 80,000. And, of ultimate importance, substantially increasing a farmer's harvest.

15 "Harry's breeding for it," says Van Wiebe, an agronomist with Hefty Seed in Buhl, Idaho, who has seen a 30% difference between Stine's seed and those of his rivals in his experimental fields. "It's going to be the way of the future." Not everyone buys what Stine is selling. A DuPont Pioneer study from 2012 concluded that for most of the Corn Belt narrow rows do little to increase yields. "Future changes in production practices could favor narrow rows at some point," says Mark Jeschke, DuPont Pioneer's agronomy research manager. "But no research thus far has shown that ultrahigh populations combined with narrow rows significantly increased corn yield."

16 "It is an interesting story and a great conversation piece," adds Tony Vyn, professor of agronomy at Purdue University, "but a sideline to the real drivers of corn yield and economic efficiency gains that are needed most for this decade."

17 For farmers there's a sizable capital risk in switching. Buying more seeds per acre is expensive. It also requires more fertilizer and new planting and harvesting machinery specially fitted for the narrower rows. To pay for the change, you'd need at least an immediate 10% yield improvement—and 20% to 30% to really benefit a farm's bottom line, estimates Bruce Rastetter, CEO of Summit Group, which grows corn and soybeans on 20,000 acres of land in Iowa and Nebraska. "It's going to take some time," says Rastetter, who is experimenting with Stine's model. "I don't see extremely quick adoption, but I do think there's an early-mover advantage to doing it and learning to do it well."

18 Stine is hardly alone in his beliefs. Monsanto is doing similar work, and he'll have to battle with it for market share should crop growers flock en masse to high-density planting. "We've worked a lot in that space but also in the design of the plants and equipment," says Robert Fraley, Monsanto's chief technology officer, who has been doing business with Stine since the early 1980s. With the world adding 800 million to 900 million bushels of corn demand each year, Fraley says corn seed still needs more innovation, and he buys into Stine's vision: "We absolutely think it's possible to double yields."

19 We're willing to give Stine the benefit of the doubt for a simple reason. He's already revolutionized agriculture. Twice. In 1994 the U.S. government granted its first patents on the full genetic makeup of a soybean. Previously only asexual plants like rosebushes or apple trees could be patented, not self-pollinating crops like corn and soybeans. Stine Seed was first in line to get its top-performing varieties patented. It wasn't a coincidence: As early as the 1970s Stine, who had

taken one business law class at McPherson College, a small liberal arts school in Kansas, was stipulating in contracts the royalties companies had to pay for using his seed and prohibiting them from using the seeds their harvest produced to plant for next season. Crucially, it also forbade them from using his seeds to breed their own.

20 “His was the first company in the industry with soybeans to structure licensing agreements so that when companies took a contract with him they could not breed,” says Philippe Dumont, a lawyer and seed industry veteran who has spent the past decade working for Bayer. “It shows a superior foresight.”

21 It also helped secure Stine, in 1997, one of the most pivotal and lucrative deals in agricultural history. At the time Monsanto—with Fraley, then president of the company’s genomics group, leading the charge—had developed the biotechnology to insert genes into crop seeds, making them resistant to glyphosate, the plant-killing herbicide in the company’s dominant weed killer, Roundup. For farmers the “Roundup Ready” soybean seed would be an industry-changing innovation that reduced time and labor battling weeds. But a fancy biotech trait offered limited value if the genetic base of the seed was inferior and overall yields suffered. Roundup Ready technology combined with Stine’s industry-leading soybean genetics was a natural fit.

22 When a battalion of Monsanto lawyers and dealmakers descended on Stine Seed to finalize the deal, they found Stine alone in the company’s conference room at a Ping-Pong table (Stine still rarely loses). “If you really want to be fair here, you need to go get two more [lawyers],” he smirked.

23 Neither party will disclose the agreement’s terms, but that deal contributed to the phenomenal success of the Roundup Ready soybean seed, a technology that’s now used in 96% of the soybean acreage in the U.S., likely generating in excess of $10 billion for Monsanto since 1997. Stine will only say he receives a cut from his company’s contributions to Roundup Ready soybeans, and its relationship with Monsanto extends well into the future.

24 That lead was solidified in 2013, when the protections of patented seeds like Roundup Ready withstood a challenge in the U.S. Supreme Court. The case—which held portentous implications for all seed developers, including Stine—went in Monsanto’s favor, affirming intellectual property rights for plant genetics. Stine’s business model had been blessed by the highest court in the land.

25 Stine’s savvy is homegrown. After graduating from McPherson in 1963, he did two quarters of graduate work at Iowa State, then went home to work on his father’s modest farm. The family was poor and the work both long and hard—rising at 6 a.m. and finishing at 6 p.m. was the norm, except in summer, when the hours were even longer.

26 After learning about some anomalous soybean plants with extra seeds in a nearby field, Stine became obsessed with breeding higher-yielding seeds to boost profits. Even if the process has grown more involved and advanced, the strategy behind breeding has changed little in ten millennia. “It’s very simple. You take good parents, and you make lots of offspring,” says Stine, who learned the basics in under an hour from an Iowa State technician. “It takes a minute and a half to learn what

there is to learn about plant breeding."

27 At the time public universities dominated breeding, and for good reason: Profits were limited, since intellectual property rights for soybean plants didn't exist—and wouldn't for another 30 years. Additionally, it was a labor-intensive, painstaking endeavor, unsuitable to most businessmen or dawn-to-dusk farmers but perfect for Stine, innately curious and capable of intense focus, despite a childhood filled with academic struggles. He didn't know it then—and wouldn't for several more decades—but he suffered from dyslexia and also mild, high-functioning autism. Knowledge of those diagnoses was all but nonexistent at the time. Back then, he says, he just thought he was "retarded."

28 "I'm a data and information and facts person; I'm not a people person. I don't understand how people's brains work and why they do what they do," says Stine. But, as a consequence of his learning disabilities, Stine always worked slowly and carefully. He also possessed a canny, fluid mental aptitude for data and math. His "disabilities" were actually advantages that let him see things in ways others did not.

29 "Those qualities he has have enabled him to do in business what he has done. He has the right combination of everything," says son Myron, who has worked alongside his father at the company for 20 years. "When you put him in the room with a bunch of people, he's going to outpace everybody intellectually." Stine founded the first private soybean research and development firm in the U.S. in 1968. By the mid-1970s, under a new company called Midwest Oilseeds, Stine was operating the most widely used soybean genetics company in the U.S., licensing the robust seeds it bred for royalties. Though the company also began breeding corn seed genetics, soybeans remained its most profitable niche. It was around this time that Stine recognized the necessity of protecting his valuable genetics. If a farmer could buy your seed one year and then simply use the offspring or seeds from the plants it grew the next year, he could cut the seed developer out of the loop while retaining the powerful genetics. Moreover, he could start his own breeding program using the seeds. The contracts Stine drew up prohibited this.

30 Some still infringed and faced legal confrontation if caught, but largely the strategy worked. The company expanded throughout the 1980s, gobbling up smaller seed companies and conducting soybean research in other climates around the country. The breeding process grew more advanced and automated, and by the early 1990s the company was testing 150,000 soybean varieties annually and producing the highest-yielding seed on the market. The Stine network of 1,700 dealers was selling Stine soybean products in 15 states under 160 brands. By the time it got its 1994 patent Stine had become the largest private seed company in the country, the bulk of its revenues still coming from royalties from licensing its award-winning soybean genetics.

31 "There's always wrinkles in his science and negotiations that catch you off guard," says Monsanto's Fraley. "He's not afraid to speak his mind. But at the very bottom of it all, he has made a huge difference in the industry and he's done it in his very unique and special way."

(Adapted from *Forbes Asi*a, April 2014)

GLOSSARY

hardscrabble	(para. 3)	*adj*.	not having enough of the basic things you need to live 勉强维持生活的，贫瘠的
coveted	(para. 3)	*adj*.	being desired 被人觊觎的
nab	(para. 3)	*v*.	take or catch 抓住，获得
epicenter	(para. 4)	*n*.	a focal point 集中点
resilient	(para. 4)	*adj*.	able to withstand or recover quickly from difficult conditions. 有复原力的，有抵抗力的
bashful	(para. 6)	*adj*.	shy and self-conscious 害羞的，难为情的
germplasm	(para. 7)	*n*.	种质，胚质
tinker	(para. 10)	*v*.	repair or improve 修补，改良
forage	(para. 11)	*v*.	search widely for food or provisions 搜寻
morel mushroom	(para. 11)		羊肚菌
ream	(para. 11)	*n*.	500 (formerly 480) sheets of paper 令（纸张记数单位，原为 480 张，现为 500 张）
bushel	(para. 12)	*n*.	a measure of capacity equal to 64 pints (equivalent to 35.2 litres), used for dry goods （量干货的单位）蒲式耳（等于 64 品脱，35.2 升）
tassel	(para. 14)	*n*.	the tufted head of some plants, especially a flower head with prominent stamens at the top of a maize stalk （某些植物的）穗（尤指玉蜀黍茎顶部有突出雄蕊的头状花序）
self-pollinating	(para. 19)	*adj*.	自体受粉的，自花传粉的
pivotal	(para. 21)	*adj*.	of great importance because other things depend on it 中枢的，起关键作用的
glyphosate	(para. 21)	*n*.	草甘膦（农药）
battalion	(para. 22)	*n*.	a large organized group of people pursuing a common aim or sharing a major undertaking 队伍
smirk	(para. 22)	*v*.	smile in a silly or self-satisfied way 傻笑
savvy	(para. 25)	*n*.	practical knowledge, especially in business 实际知识
anomalous	(para. 26)	*adj*.	deviating from what is standard, normal, or expected 不合常规的，例外的

NOTES

Monsanto (para. 3) 孟山都公司（美国农业生化公司）

EXERCISES

Answer the following questions.

1. How old was Stine when he built the tower overlooking his farmland?
2. What is the something that Stine owns that everybody else needs?
3. How much does *Forbes* estimate that Stine's company is worth?
4. What is the secret to Stine's golden corn?
5. What does Summit Group do?
6. How is the corn demand growing in the world?
7. What shows Stine's superior foresight according to Philippe Dumont?
8. What percentage does the Roundup Ready soybean seed account for in the U.S.?
9. When did Stine found the first private soybean research and development firm in the U.S.?
10. How was Stine's company's performance by the early 1990s?