



John Sculley III

EDITORS' NOTE John Sculley was President of PepsiCo, Inc. until he became Chief Executive Officer of Apple in 1983, a position he held until 1993. Sculley is recognized worldwide as an expert in marketing, in part because of his early successes at PepsiCo. Today, he continues to speak and write about disruptive marketing strategies. Sculley is currently invested in a number of high-tech start-up companies, including 3C Interactive, Zeta Interactive, InflexionPoint Acquisition Corp, Mobeam, OpenPeak, Obi Mobiles, and Pivot Acquisition Corp. He is also an investor in several U.S. healthcare companies including SleepMed, MDLIVE, Rally Health, Misfit Wearables, and FlexPharma.

Would you talk about the mission behind the writing of your book, *Moonshot!*?

The timing was right because I have been in a lot of interesting places, and I have been fortunate to have had fascinating experiences that have given me a perspective to appreciate just how significant a given moment can be from the many moments I've had over the past decades.

There is an unprecedented amount of high-tech innovation going on right now, which includes a series of innovations in parallel with the cloud, mobility, data analytics, and the Internet.

With all of these exponentially growing technologies, it's the marketing impact that I'm focused on – not the technologies themselves. This involves a power shift from large incumbent companies that have dominated industries for decades. Customers are now paying closer attention to the opinions of other customers than to those of the established incumbents. If companies have a great innovative product or service, customers will tell other customers about it. The power of viral media is enabling new companies to challenge the incumbent – even monumentally successful incumbents – if a new company has a disruptive product or service that customers perceive as better.

Adaptive Innovators

An Interview with John Sculley III

Moonshot! is about the timeliness of the opportunity, and it describes in detail exactly how companies are handling it.

This is a book based on conversations with the founders of entrepreneurial companies and those that invest in them, and why certain trends are going to happen again and again over the coming years.

Is entrepreneurial spirit still alive and well?

The only net job increases that the U.S. is experiencing now, and that it will experience in the foreseeable future, is from small and medium-size businesses, particularly the entrepreneurial companies that are driving innovation. Big government is not adding net new jobs, and the large enterprise corporations are not bringing about a net increase in workers either.

For the future of the economy, we have to make it easier to build companies. Adding unnecessary regulations and limiting growth for entrepreneurial companies is not smart policy.

There are so many talented people who have the ambition to create new companies. But it's not necessary to be a founder. One can be a joiner or an independent contractor. More people are working as part-time independent contractors or consultants for entrepreneurial companies. There are many different roles available.

In *Moonshot!*, I describe those whom I call "adaptive innovators." The future is in the hands of those who can see opportunity and who have the skills to adapt to the conditions that make it possible to create entirely better customer experiences, products, and services, and do it at a disruptive cost.

Is it possible for companies to maintain their entrepreneurial cultures once they reach a certain size and scale?

There are a lot of very talented people in large organizations. Yet, the chance of a large organization being an innovator for many of the new things that are going to happen is not as high as it is for the newer companies or the small and medium-size businesses. Every large organization, no matter the industry sector, has one thing in common: it has empowered its middle managers with the authority to say "no." It's very hard to get a "yes" answer in large organizations because those large organizations have become large by having very focused missions.

Middle managers were put in place to implement those missions and improve upon them, but they weren't there to necessarily disrupt them.

Innovation is going to be shaped by companies that exist for the sole purpose of doing something better, and not those trying to preserve what they've done in the past.

What is unique about this era is the speed at which innovation is occurring, be it with the cloud, mobility, data analytics, or the Internet – it's shifting the market radically from producers to customers.

I always think about innovation through the eyes of the customer. How does one create such an exceptional customer experience that it motivates customers to tell others about it?

When Uber went to San Francisco, the taxi industry was at \$150 million per year. Five years later, Uber had a \$400-million business just in San Francisco. They didn't have to destroy an industry to create a new one. Customers loved it and they told other customers about it, and Uber is now valued at about \$45 billion and it's only five years old.

Is the U.S. still a leader in innovation or is it losing its edge?

The U.S. still has the best higher education system, the best role models for innovative companies, and the best environment, even with increasing regulation. We're also willing to let people make mistakes.

In other parts of the world, it can take a few years to start a company and it's even harder to find working capital to expand businesses. If people make a mistake, in many cultures, they're finished.

The issue is that our country is so big that we tend to focus on what is going on inside our borders and assume everyone else wants exactly what we have. In reality, there is a new middle class that's developing in the emerging markets and they want an aspirational lifestyle but they want it on a much thinner budget.

We may have to learn from them how to find less expensive ways to provide products and services, because the model in the U.S. is not sustainable for a large part of our population.

Close to half the country is challenged with lower wages than they had 15 years ago and are facing a lifestyle that won't be better than that of their parents.

Should more be done to raise the awareness of how critical entrepreneurship is for economic growth?

Twenty years ago, about 5 percent of the workforce was part-time. Currently, it's 15 percent of the workforce. Over the next five to 10 years, that will probably double to 30 percent.

There has been a shift in the workforce to where more people are now self-employed. Instead of working for a single company and being promoted, an employee can take his skill and market it as a service to a lot of different companies on a per-project basis. As a result, the way we think about the workforce changes.

If one is self-employed, is he an entrepreneur? I guess so. On the other hand, he could work for a large corporation on a per-project basis and still bring the perspective of a self-employed entrepreneur. There are going to be new models of what corporations look like. Americans are very pragmatic – we tend to adapt.

I would still bet on the U.S. – it's still the best place to build transformational businesses.

How much of that entrepreneurial mindset can be taught?

Being an entrepreneur is not about asking how one can make a lot of money. It's about being passionate about something and finding the noble cause.

Everything in my work experience until I came to Apple was about competing and taking away market share from someone else. Bill Gates and Steve Jobs focused on empowering knowledge workers to be more productive in the information age, and they began to change the world one person at a time.

The future of business is not about competition but about building and even creating entirely new industries. If that's how we define the game, then the U.S. is still in a very powerful position, because it plays to our strengths.

One can learn to be an entrepreneur, but it has to be about more than taking instructions.

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Hands-on work experience is even more valuable than all of the education that one can get formally from an academic institution.

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People need to have the aspiration, the passion, the sense of urgency, and the knowledge instilled in them so they desire to become part of the innovative process. This is best done through role models and mentoring, and working for entrepreneurial companies.

If I were coming out of school today, I wouldn't work for a large corporation. I would try to get into an incubator and learn from that experience. Hands-on work experience is even more valuable than all of the education that one can get formally from an academic institution.

Are institutions of higher learning training the future workforce in the right skill set?

Many of these professors are truly brilliant but they aren't necessarily preparing people to go into the world to work in the kind of companies that will maintain the type of growth economy that America needs to thrive.

Many of our politicians have never gained the necessary experience either. Their instincts are to solve problems through a government program or a regulation, or through redistributing wealth from one group to another. The only way we're going to continue the incredible economy and lifestyle that we've enjoyed for so many generations in the U.S. is to keep building and growing. But how do you get politicians and academics who don't understand what it means to work in an entrepreneurial economy to convey to the future workforce what they need to know to be prepared for this type of world?

Business schools are focused on the skills one needs to be a senior executive in an established corporation, but it's the accelerators and incubators that are doing a better job of preparing people for the entrepreneurial companies.

Ernst & Young has done a spectacular job of recognizing role model companies. This can have a systemic impact across the economy because entrepreneurs want to be recognized for building something. The EY entrepreneurial awards are well-known and highly respected by people who have won them.

EY is an example of how a large institution in an established industry can help create part of the learning experience and elevate awareness of examples for a broader population.

What's the difference between innovators and disruptors?

Innovation is about figuring out a way to make something better. It doesn't always have to be disruptive, which indicates that a trend suddenly sparks a non-linear event.

A perfect example is digital photography. Kodak is the expert in film processing and cameras, and they have the best brand in the world for traditional film. They are focused on the single-use camera. They doubled down in vertical integration and in film processing to be even more competitive when Walmart decided to go into the single-use camera business. That was at about the same time Steve Jobs introduced the iPhone. He was focusing on things already in motion. It was no longer a linear increase. In a few years, the whole photography industry changed. Kodak filed for bankruptcy and Apple won the future with digital photography, which is now being done on digital phones.

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What was the most rewarding aspect of writing the book?

Writing the book was a learning process for me because it forced me to become very focused on exactly what I think is going on. I can't explain something to someone else without understanding it fully myself.

I had to make choices because there are so many things happening in the world to talk about. I had to determine what I had direct experience in or find people with direct experience who would talk to me.

I focused on the marketing effect of the incredible technological changes going on. Then I looked at it from the perspective of the middle class.

I questioned what the impact was going to be from the growth of the emerging middle class that is taking place outside Western countries. The more I delved into that, the more I started to realize that they're going to be moving into the middle class economy but it's going to be quite different from the middle class in the U.S., and it's going to have a huge impact.

I used to think that all of the innovation came from the U.S. and it was exported around the world. It became clear to me that this isn't true. Many innovations, including frugal management of companies, which allows for products to be sold at incredibly disruptive prices, will develop outside the U.S. These concepts will be imported back into the U.S. because we need that type of change here given that a large portion of our population can no longer afford the high-priced middle-class products and services we produce today.

Do you take time to reflect on your past achievements or are you always looking to what's next?

I do what I do because I have an insatiable curiosity about what is going on in the world. I've been fortunate to have been exposed to some of the most talented people out there during each of the decades I've been in business. I want to be able to pass those experiences on in a way that is understandable and, hopefully, compelling to the next generation of businesspeople. ●