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## Anheuser-Busch InBev and ZX Ventures: Thirst for Self-Disruption

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*Both startups and big companies basically want the same thing: they have big dreams; they want to leave a mark and a legacy in the world and accomplish things that were not done before. But their capabilities are very different. Startups are much better at identifying what's broken and what can be improved. Big companies have production, distribution, sales and marketing capabilities. The day a big company can innovate like a startup, it will be unstoppable. – Pedro Earp, chief disruptive growth officer, Anheuser-Busch InBev<sup>1</sup>*

*Fundamentally, big companies are “big to bigger” organizations. They are efficiency machines, designed to operate and super-administrate existing assets... The very nature of efficiency and processes like LEAN Manufacturing and Six Sigma and TQM is to lower variation and risk. And the net result after 30 years of perfecting this organizational skill is permanent incrementalism – basically, the core organization has lost its capability to grow and is at war with the new. – David Kidder, founder, Bionic Solution (Innovation advisor to large corporations)<sup>2</sup>*

*Innovating from the ground up... It's not all beer and skittles; we are failing and iterating every day trying to figure this out. – Alastair Kenvyn, director in ZX Ventures' Explore group<sup>3</sup>*

### Introduction

In January 2018 Pedro Earp, the chief disruptive growth officer and leader of ZX Ventures—a subsidiary of beer-brewing giant Anheuser-Busch InBev (ABI)—sat down to think in the Goose Island conference room on the seventh floor of ABI's Commercial Strategy Office.

The office was a 14-floor open bullpen full of beer-stocked fridges and littered with prototypes

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that could potentially change the face of beer production, distribution, and retailing. Usually Earp took great joy in the controlled chaos of the office, which to him embodied the power of combining an effective innovation-driven organization with a global powerhouse of efficient production and distribution. But today, Earp was preoccupied as he prepared for the next day's meeting with the ZX Ventures Growth Board, a group of senior ABI executives, including Chief Executive Officer Carlos Brito, that met quarterly to review ZX Ventures and to hold the ZX team accountable for growth and value creation. The following day's Growth Board meeting was particularly important to Earp because it commemorated two years since ABI had founded ZX Ventures.

Earp knew that his organization had hit its aggressive benchmarks for revenue growth and value creation and that his team had surpassed expectations for the quality of its innovation. He had created a structure, process, mandate, and team for ZX Ventures that he was proud of and that were instrumental to its success. However, those very attributes might have been holding ZX Ventures back now from achieving its full potential. Earp expected that the challenges for the future and how to meet them would be discussed at the Growth Board meeting.

#### **THE ZX VENTURES CREATION STORY**

By nearly all accounts, in 2015 ABI was performing well. Over the previous year, it had sold 12 billion gallons of beer and had generated revenue of \$43.6 billion—a growth of 6% over the prior year (on a constant currency basis). Revenue had grown steadily since 2009—the first year of combined operations after the merger of beer behemoths Anheuser Busch and Interbrew. Over this same period, normalized earnings before interest, taxes, depreciation and amortization (EBITDA) margins had increased an impressive 800 basis points, from 31% to 39%.<sup>4</sup> Shareholders appreciated this steady growth: from 2009 to 2015 the stock price had more than tripled, from \$36.40 to \$113.90, and the ratio of total enterprise value to EBITDA had increased 27%, from 11.7x to 14.9x.<sup>5</sup>

However—in keeping with the spirit of ABI's culture of continuous improvement—despite all this success, ABI's executive leadership and board of directors were troubled. The company had failed to identify and then to dominate the disruptive force of craft beer, which had grown from a small fringe market of 1,521 craft breweries in 2008 to 22% of the US market in 2015, with more than 4,500 breweries.<sup>6</sup> While ABI still held 67% of the international beer market,<sup>7</sup> its share of the craft industry remained low, and sales of its largest brands were falling. According to independent alcohol analyst IWSR, sales of Budweiser and Bud Light fell by 17% and 14%, respectively, between 2010 and 2016,<sup>8</sup> and according to *Beer Marketers' Insights*, in 2013 sales of craft beer eclipsed sales of Budweiser.<sup>9</sup>

In 2008 and 2009, as the craft boom was accelerating, ABI management focused elsewhere. The annual report for those two years mentioned craft beer only once, in reference to the company's Michelob Brewing Co. brand.

By 2015 ABI's board of directors had recognized that craft brewing had been a disruptive innovation. Critically, they also recognized that ABI as it was organized in 2008 would have been structurally unable to invest in responding to this emerging threat, even if the company had recognized the growth opportunity. ABI was structured and governed to generate industry-leading returns on investment (ROI) for every dollar it invested in its production, marketing, and distribution infrastructure—an infrastructure its own executives referred to as “the most efficient CPG [consumer packaged goods] machine in the world.”<sup>10</sup> It was unthinkable for the organization to divert resources away from that machine and into small upstart ideas with untested markets and uncertain ROIs.

This structural incapability troubled the board of directors; for though ABI had ultimately entered the craft market with acquisitions like Goose Island and Blue Point Brewing Company, the board recognized ABI's failure to invest in craft as an indication that the company was avoiding investments in capabilities that would be critical if ABI were to continue growing as the dominant player in the industry. Orphaned ABI initiatives like e-commerce, international craft brands, and retail brewpub organizations were being starved for capital and personnel.<sup>11</sup> Perhaps more urgently, ABI did not have the ability to identify emerging customer preferences and to develop the capabilities to serve those preferences. Brito mused, “There are things that are potentially big in the future but small today—those need to be on the radar of a dedicated independent team with separate resources.”<sup>12</sup>

In response to this strategic imperative, ABI's leadership created a new subsidiary, ZX Ventures, whose goal was to become the beer giant's engine of innovative growth. Brito named Earp chief disruptive growth officer and tasked him with building the new division. At that point, Earp faced a difficult challenge: how would he organize, structure, govern, and incentivize the team that Brito and others believed held the key to ABI's future?

### **PEDRO EARP'S BACKGROUND**

Earp, a Brazilian national, was an ABI insider. He had spent his entire career of nearly 20 years working at the company. After graduating from the London School of Economics in 2000, he started in AmBev's management training program, and within four years, he was promoted to head mergers and acquisition (M&A) activities of AmBev in Brazil. Two years later, he was promoted again to lead InBev's Insights & Innovations team. Then in 2008, shortly after InBev acquired Anheuser Busch, Earp was tapped to head M&A for ABI in the United States before returning to Brazil to lead marketing for AmBev's premium brands. He subsequently went back to the United States as vice president of consumer connections, with responsibility for ABI's extensive traditional and digital media budget

and its sports sponsorship deals. In 2014 he returned to Brazil as VP of marketing for Latin America North, where he was serving when ABI's top management tapped him to launch and run ZX Ventures.<sup>13</sup>

Earp had gained a deep understanding of ABI's corporate culture globally as well as wide exposure to the company's products, consumers, and strategies from these experiences. He had also demonstrated his desire to push the organization to innovate, which at times caused him to challenge the culture he knew so well. In 2014 he had argued that because ABI had a ~70% share in beer in Brazil, it was a good time to accelerate growth by expanding into adjacent categories. He began setting aside a budget and personnel to move into the growing ready-to-drink market.

Earp was convinced that ready-to-drink beverages, with their sweeter taste, bright colors, and appeal to the millennial generation (as evidenced by the success of similar products like Smirnoff Ice), would be a profitable extension of ABI Brazil's leading beer brand, Skol. However, Earp felt he needed to shelter this initiative from the broader ABI organization which, he believed, perceived that the move would threaten the success of the Skol brand in the markets it dominated.<sup>14</sup> He was ultimately able to expand Skol into the ready-to-drink category, which generated significant revenue within one year.

Earp's initiative with ready-to-drink beverages illustrated that he was willing to push the organization to invest outside its core capabilities. His ability to navigate the company's culture and to extend its boundaries made him a natural choice to head ZX Ventures. But the experience of expanding the Skol brand also illustrated the hurdles the organization faced if it were to truly be a disruptive innovator.

## Building ZX Ventures

### OTHER ENGINES OF SELF-DISRUPTION

Since the late 1990s, companies had been working to increase the speed and scope of their innovations. Some corporations relied on corporate venture capital, investing in early-stage innovative companies and bringing new ideas and personnel in house. Others relied on crowdsourcing and idea festivals to elicit proposals from their current employees. Still others engaged in joint ventures and nontraditional partnerships to expand the capabilities they could offer their customers.

In 2011, when Eric Ries published *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radical Successful Businesses*, corporate executives began working to incorporate entrepreneurship into their organizations, often through new innovative subsidiaries that assimilated all these elements to challenge the traditional corporate innovative cycle characterized by large-scale, long-term, high-budget research and development projects. Three companies—General Electric, Boeing, and Citigroup—

developed approaches to self-disruption that exemplified the kinds of organizational innovation that was occurring in the corporate world during those years (see Exhibit 2).

Earp reviewed a number of corporate disruption engines and recognized that each had a slightly different approach that reflected its parent company's history, assets, culture, and goals. Taking some elements from each of those models, he then set out to create ZX Ventures.<sup>15</sup>

### **ZX VENTURES' RAW MATERIALS**

ZX Ventures' mission was to be the growth engine for the future of ABI without adversely affecting the success of the core business. Earp and ABI's leaders felt that the best way to accomplish that growth was to take a collection of existing orphaned initiatives, leverage them to take innovative risks through futures thinking, test those risks, demonstrate success, and then flip the initiatives over to the core business machine for efficient global production and distribution.

Initially, the organization consisted of five entities:

- **Specialties:** a global portfolio of non-US craft and heritage beer. Specialties operated in localities where craft beer still lagged in market share.
- **E-Commerce:** a set of marketing, delivery, and data-analytics initiatives aiming to change the way ABI went to market.
- **Brand Experience:** a portfolio of retail brewpubs outside the United States.
- **Homebrewing:** a leading supplier of beer-making equipment for hobbyists.
- **Explore:** an innovator, incubator, and acquirer, seeking to identify and invest in the disruptive technologies and trends of the future. The Explore group was structured and governed like a venture capital fund, with capital committed by the core business, an investment committee, and targets for internal rate of return. Explore deployed capital to build or acquire potential growth solutions, with the twin goals of supplying future growth engines to the core business and cultivating an outside-in perspective to learn about the needs of existing and future customers and how to best meet those needs and then transfer those learnings to the rest of ABI.

(See Exhibit 2 for more information on ZX Ventures' entities.)

In many ways, these initiatives were at odds with each other. However, Earp believed that all of them had something important in common: if they were to succeed, they would need a different governance structure, a different organizational process, and, importantly, a different mandate from the rest of ABI, with a new kind of team.

## ZX Ventures Structure, Process, Mandate, and Team<sup>16</sup>

### STRUCTURE

Prior to the formation of ZX Ventures, the initiatives that subsequently comprised it reported to the brands and geographies (or zones) in which they operated. As such, there were no clear owners of these initiatives, and they fought for funding and attention alongside the very high ROI core businesses, often unsuccessfully. Earp and ABI top management believed that separating the ZX Ventures initiatives from the rest of the organization and disentangling their governance, funding, and personnel would allow the initiatives to flourish.

From a governance perspective, ZX Ventures reported directly to ABI's CEO through a new management model based on venture capital called the "Growth Board." The Growth Board was comprised of senior executives – including the CEO – , who met quarterly to govern ZX Ventures and the growth initiatives. The Growth Board existed to transform the mindset and mechanics of key executives in ZX Ventures to unlock, measure, and deliver new growth. According to David Kidder, co-founder of Bionic (a firm that partners with large corporations to help them become more innovative), the governance under this new and separate structure was critical to the success of disruptive corporate organizations because it created a dynamic of "ambidextrous leadership: operators and creators on both sides of the table."<sup>17</sup> Kidder explained:

Done correctly, growth boards are not simply an executive-level extension of the new entrepreneurial mindset encompassed by lean methods, but add an entirely new dimension to the growth ability of an organization. To create growth, you need a great entrepreneur AND a great investor – that skill is learned and led at the Growth Board.<sup>18</sup>

When the initiatives that comprised ZX Ventures had been part of ABI's core business before ZX was created, they had suffered from a lack of senior mindshare: no individual was held accountable for the growth of new ideas, and zone presidents focused on maintaining their existing business. Managers' key performance indicators and bonus and promotional targets were based on a mix of both existing and new businesses. Because executives' advancement was not tied to the success of these initiatives, there tended to be underinvestment in them.

Under the ZX Ventures umbrella, however, these initiatives were owned by managers who reported directly to the Growth Board and whose compensation and advancement were linked specifically to the success of the initiatives they oversaw. Earp believed that as a result of these changes, the formerly orphaned initiatives would receive the investment they deserved.

From a funding perspective, separating ZX Ventures allowed the organization to focus on long-term outcomes. In the core business, annual funding for zones and brands was based on their financial results and their achievement of annual targets. These short-term targets were valuable to ABI's core business, and they helped the company achieve the scale and efficiency for which it was known. However, annual targets caused executives in ABI's core business to focus on investments with short-term, known paybacks (i.e., protection and expansion of existing brands) and to avoid investing in initiatives like those now in the ZX Ventures portfolio, whose paybacks were long term and highly uncertain.

With ZX Ventures structured as a separate business, ABI was able to provide it with a long-term budget not tied to year-to-year success. Instead, ZX Ventures' annual budgets were virtually guaranteed by ABI's top management and had grown year to year, even as budgets in the core business had been reduced to improve operating efficiency.

From a personnel perspective, because ZX Ventures was structured as a separate entity, it was able to recruit and retain high-caliber individuals who might otherwise have been drawn to larger businesses. In ABI's core business, as individuals were recognized for experience and potential, they were given responsibility for larger businesses with bigger P&Ls. Startup initiatives with uncertain payoffs therefore did not draw in the highest-quality ABI employees. But structuring ZX Ventures separately allowed these smaller initiatives to attract the strong leadership of entrepreneurial individuals eager to launch and run businesses on their own, and to recognize the success of that leadership. Earp explained:

Ownership can be very tough when an organization gets very big, because P&L responsibility begins to get diluted a bit. There are many people involved in all areas of the company but given that they work in many brands, the accountability of results for individual brands becomes diluted. This is not the case in a start up. Here it is much clearer because we are much smaller and they have lot of freedom and there are P&L's for every business.

Furthermore, the label of startup disruptor conferred upon these smaller and more uncertain initiatives a certain level of prestige that was attractive to entrepreneurial founder executives.

Prior to the formation of ZX Ventures, even if the high-caliber individuals in the core business did launch a successful new initiative, they would often be recruited away to larger and more profitable initiatives, leaving their startups without leadership. Because ZX Ventures was a separate entity, it could structure its agreements with the core ABI business so that if the leadership was "graduated" from ZX Ventures and joined the core business, its initiatives and their leadership were protected with nonsolicit agreements that forbade other parts of ABI from poaching ZX initiative leaders, to head up larger or more value-accretive ABI

initiatives. This structure allowed startups to benefit from continuity of leadership even as their leaders' success was recognized.

By separating ZX Ventures from ABI, and by disentangling governance, funding, and personnel, ABI imbued ZX Ventures with a fundamental long-term mindset that provided it with the flexibility to fulfill its mandate as “[placing] ‘bets’ which, while initially small, could eventually become game-changers in the years ahead,”<sup>19</sup> as Brito described it.

Critically, while the structure separated ZX Ventures from the core business, senior ABI executives fully embraced the mindset and model behind ZX Ventures, displaying the kind of “ambidextrous leadership”<sup>20</sup> that could allow ZX Ventures to flourish. According to Kidder:

Here’s what’s amazing about ABI: Senior managers have given permission and protection to ignite new growth through ZX Ventures. Despite the fact that it is difficult, Carlos Brito—who is one of the most instinctual operational experts in the world—has funded and led ZX Ventures like a venture capitalist, he has protected ZX Ventures, and empowered Pedro Earp to create net new growth with complete permission to disrupt the core.<sup>21</sup>

Earp elaborated:

We have felt zero pressure to “put points on the board.” Our shareholders have a very long-term view of things... The way our Board manages the business is: They focus on the right people and give them the flexibility they need to succeed.

## PROCESS

After exhaustive research and discussions with preeminent thinkers on the subject of designing innovative organizations, Earp and the ZX Ventures team created a system that Earp believed differed meaningfully from ABI’s typical decision-making process.

The ABI core business relied on a stage-gate process for approving and beginning to produce new initiatives. Under this system, before any initiative was presented to management for funding, the market opportunity was estimated, the product was fully developed, the production was mapped out, and the marketing plan was drafted. This system required a level of precision that was critical for ABI, with its global footprint and enormous manufacturing and marketing scale, but that could slow the process of bringing products to market and increase the costs of failure. If the assumptions were incorrect—if the market was too small or the product formulation was in error—the cost of correcting the mistake could be enormous.

ZX Ventures relied on a very different process, which it dubbed the operating system. The operating system placed its emphasis on iteration and the lean startup mindset of “fail fast” as well as on the rigorous testing and refining of assumptions, rather than on

demonstrating financial success. The combination of a focus on getting the answer over making money and the willingness to fail and iterate resulted in a corporate mentality that fostered innovation over precision.

According to Alastair Kenvyn, a director in ZX's Explore group for disruptive innovation:

In a core business gate-keeping meeting you must be certain of your projections. In ours, presenting with that certainty so early will be met with a lot of skepticism. You must be intellectually honest about what you know, and what you don't. Disruptive innovation is built on great uncertainty and many assumptions, and managing this must be your focus.<sup>22</sup>

Under the operating system (see Figure 1), a new idea was first refined into a concept: ZX team members worked to determine the size of the market, the competitive landscape, the trends, and the ultimate design of the initiative. Dan Josebachvili '17, ZX Ventures entrepreneur in residence and global manager, explained:

We start by identifying a problem. Then we try to validate various solutions to that problem. The process for us is very much the design-thinking lean startup approach. There are three metrics we use at the beginning: desirability, feasibility, and viability.

Desirability is: Is the problem real? Do people want it solved? Is the problem big enough to make a difference?

Feasibility is: Can it be done? Does the technology exist? Do we have the capabilities?

Viability is about the business model: Can it be profitable? Can we create a sustainable business around it?<sup>23</sup>

Once the idea was developed according to this framework, a small-scale pilot program was designed to test the assumptions underlying the concept.

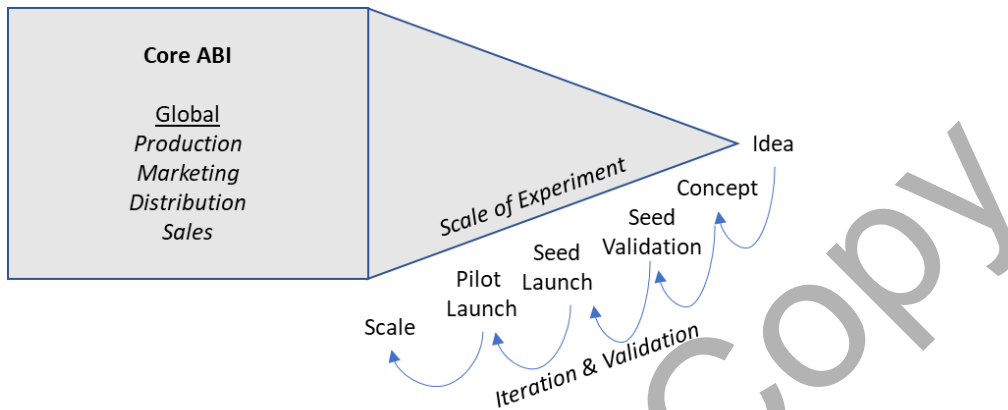
The successes and failures of the test allowed the team to iterate the concept, changing the design or the target market or the definition of success. This seed validation phase might occur multiple times as the team continued to iterate the idea.

Once the assumptions had been validated and the team felt confident of the initiative's success, the initiative was given a seed launch. At this point, the initiative was expected to succeed with the limited audience to whom it was released.

If successful, the initiative was then rolled out to select geographies—for example, to one or

two states in the United States. The goal of this pilot launch—unlike the goals of any previous phases of the operating system—was to demonstrate financial success. If that was achieved, the initiative would be flipped to the core ABI business, where it could be scaled.

**FIGURE 1. ZX VENTURES OPERATION SYSTEM**



Source: Case writer formulation based on interview with Pedro Earp on April 4, 2018.

At this point, the initiative was no longer orphaned. It had demonstrated financial success, i.e., that it was not only not a drain on the budgets and mindshare of core ABI executives, but in fact improved the P&Ls for which the initiative's executives were held accountable. Therefore, by the time an initiative achieved the scale phase, executives in the core business would be clamoring to take ownership of the initiative and integrate it into their own business.

Earp saw this as a natural progression:

There is a flow of products and things from concepts to the core... As these things start growing, they move into the core. It's not like it's everything or it's nothing... A year ago the core business could not have done craft. They didn't have the sales force, weren't educated about the beer enough. They were not prepared to do it. It was small and didn't matter to them. But this year, craft made up a major part of the core's growth in certain markets.

Kenvyn explained the process this way:

I always use the analogy of the core business as like a merry-go-round or carousel moving really quickly. Our job is to help those startups try to pick up speed, so they're running at the same pace as the carousel, so that they can jump onto it and not fall off. A startup is really walking when it comes to the carousel. So

we kind of hold its hand and start running, and there's a lot that we have to do that's operational work.

## **ZXLERATOR**

A microcosm of this differing approach played out each summer in the form of ZxLerator, an 11-week program where existing employees and summer interns worked together to identify a real problem in the core business, validate a solution, and build a viable business model. This model of iteration under the operating system was meant to “foster innovation by bringing the startup skill set and mentality into the organization enabling ABI to “create businesses from scratch, to take them from new to big.”<sup>24</sup>

## **MANDATE**

Underlying the differences in structure and in process was a difference in the mandates of the core business and of ZX Ventures. Earp explained:

The biggest difference between the core and ourselves is the core needs to dedicate a lot of time thinking how to preserve the current business....

A lot of companies were the pioneers at one point. They were the disruptors. Then they create massive businesses, and at some point they say “Man, I need to go there and keep this business.” And then they stop thinking about the next.

There are very few companies that manage to maintain the current value creation engine. This is the biggest difference between us...

The core is more focused on “How do I add to my current offerings; how do I gain market share?” And their innovations reflect that focus on leveraging the advantages they already have.

Then we created this group here, and the group here is thinking “You’ve got to think about the future perspectives whether they are good for the core business or not.”

Those are almost opposite mindsets. And everything of course flows from that.

Because ZX Ventures’ mandate was to create new growth oxygen rather than to defend ABI’s existing markets, the organization and its employees were able to innovate in ways the core business could not.

Kidder discussed the difference in the mandate this way:

Strategists in mature businesses think in terms of total addressable markets (TAM), which allows them to study and size a potential business and plan accordingly; [innovative] strategists think in terms of total addressable problems (TAP). They ask, how many people have a problem or need that this

solution could address? Besides reframing existing markets, a TAP mindset uncovers potential new problems and needs before the larger marketplace knew they existed. Ultimately, whoever learns the fastest wins.<sup>25</sup>

#### **TEAM: CULTURE AND PEOPLE**

ABI was widely known and recognized for its culture, which was built around 10 principles (see Exhibit 3 and served to unify the organization around a shared purpose and process (transparency, ownership, and never being satisfied). ZX Ventures needed to determine how to interpret the way that these principles would play out within the new organization and to be relentless in hiring and retaining the people that embodied those values.

Earp explained:

The culture that we have: if you are very clear about it and believe it day in and day out, it serves as a plan for the future for the people that you want to recruit and retain...

We have had a lot of discussion as to whether the culture should be the same as the core business or not, and every time we go back and the answer is yes. Because our culture is universal values and beliefs and it's broad enough that it can be applied to any time in any country. The manifestations are different because the styles are a little bit different. But the principles are exactly the same.

Therefore, the focus on adjusting the team for ZX Ventures was not in changing ABI's culture, but in leveraging it with a new and creative mix of people.

ABI's core executives were a relatively homogenous group in terms of their backgrounds, motivations, and incentives. They were managers of brands and focused on making them as efficient and accretive as possible.

The team at ZX Ventures, however, was extremely heterogeneous. The structure and the process that ZX developed depended on a mix of three very different kinds of executives: managers like those working in ABI's core business, venture founders, and investment principals. These executives had very different motivations and styles. Earp believed that by combining the entrepreneurialism of the venture founder with the calculated risk-taking of the investment principal and the operational expertise and cultural knowledge of the high-performing ABI Manager, ZX Ventures was primed to develop and scale new disruptive innovations. He commented:

I have some guys here that I can tell to focus on craft. Mexico is developing, it's going to happen just like the U.S. I say. "Here is the toolkit; here are the metrics, go run it." I can check in on the guy two years later and the guy will have gained ten share points and the business is booming.

At the same time, I need to have guys that are total creators. They don't know how to manage businesses, they don't like managing businesses. They see the future.

Josebachvili provided this description of the work of the ZX Ventures team:

One way to think about our organization, is you have company veterans who have been in the company for a long time, who understand how the core business works; you have industry veterans from the CPG industry, who understand how to launch CPG products; you have a bunch of entrepreneurial managers—scrappy MBAs with startup experience who understand how to grow businesses; and you have traditional entrepreneurial founders who are tasked with starting new businesses and initiatives (see Figure 2).

**FIGURE 2. ZX VENTURES ROLES**



*Source:* Case writer formulation, based on interview with Dan Josebachvili on June 12, 2018.

There is tension—not so much between the adjacent boxes, but between the extremes—and where it occurs it's usually around process: what's the next right strategic step for the business or the right framework for the strategy development. People are driven by their different experiences, and that brings value to the organization...

As an example, we recently had an internal disagreement about whether to go forward with producing Canvas, a nonalcoholic beverage made from spent grain from our existing facilities. Canvas would require us to invest in new capabilities to manufacture and distribute in a cold chain environment; to create cold chain capabilities will require a massive investment and would be outside our mandate.

On the one hand, we have these guiding structural principles that dictate what we cannot invest in. On the other hand, we have a huge addressable problem, and we have a unique capability to address the problem, and we just lack some of the pieces to make it happen. There's a disagreement there.

Ultimately, we decided that it doesn't matter that we don't have the capability; we need to do this anyway. The team's diversity of thought and experience

yielded a productive outcome because we had caution on one side, asking “How do we scale, how do we grow, how do we win?” and on the other side we had the entrepreneurial spirit of “I have the passion; there’s a problem; our lack of capabilities doesn’t scare me.”

We don’t need consensus. We disagree—and we benefit from that disagreement— and then we commit together.<sup>26</sup>

Kidder explained:

The model for creating new growth that we see in successful innovation ecosystems everywhere involves two sides: the entrepreneur, responsible for leading the discovery, validation, and development of new businesses, and the venture funder, responsible for investing and managing a portfolio of these businesses with the use of investment theses and funding decisions in order to shape and ultimately capture new value. More than any particular activity or agent, it is the continual interplay between these two sides that drives growth.<sup>27</sup>

## RESULTS

After two years of operations, ZX Ventures had successfully created its team, refined its processes, and begun to develop new businesses that were fueling ABI’s growth. Furthermore, ZX Ventures was delivering very strong financial results, having handily exceeded the high goals for revenue growth and equity value creation that Brito and ABI’s board of directors had set.

For example, ZX Ventures had driven the company’s growth by expanding ABI’s international presence in craft beer. In key European beer markets (United Kingdom, France and Belgium), the ZX Ventures portfolio accounted for 30% of the increase in revenue in the first six months of 2018. Furthermore, Explore’s team of entrepreneurs and managers had successfully launched new business ventures like Canvas; Kombrewcha, a low-alcohol kombucha drink; and BeerBox, an innovative beer-distribution system.

However, in the minds of Earp and his superiors in ABI’s top management, this success was only the first stage of the ZX Ventures organization. Earp explained:

The way I see it, we are kind of on stage 2 of this transition. Stage 1 was “Let me create businesses here. Let’s focus on building the model, getting the people, building the model, developing the capabilities.” So we did that. Now we are at the second stage, where we are starting to provide services to the core business...

Earp and his team believed that the full potential of ZX Ventures remained untapped and that if ABI and ZX Ventures could combine their respective strengths of scale and efficiency on the one hand and innovation on the other, it could result in tremendous success.

## Challenges

As successful as ZX Ventures had been at developing and scaling the initiatives under its purview, by 2017 it was becoming clear that the choices Earp had made in developing ZX Ventures, with regard to the organization's structure, process, mandate, and team, were not without negative consequences. In some ways, the very choices that had made ZX Ventures so successful in what Earp had called its stage 1 were holding it back from executing fully on stage 2.

### THE CHALLENGES OF STRUCTURE

Separating ZX Ventures from the core business allowed the organization to engage in the kind of experimental long-term approach that was critical to the success of a self-disruptive engine. However, that separation also had the unintended consequence of breeding a sense of distrust between ZX and the core business.

In some regions, for example, ZX Ventures executives reported to the ZX Ventures organization while working in offices controlled by the core business. At times, the zone leadership may have wanted to leverage ZX Ventures personnel to execute on business initiatives that might have had a much larger and more immediate impact on ABI's bottom line than ZX Ventures initiatives (which may have been in their infancy and a long way from going to market) would. However, that wasn't possible because those personnel were designated for the ZX Ventures initiatives. This could foster tension between ZX Ventures personnel and personnel in the core business, which was only exacerbated as ABI tightened its investment in the core business following the SAB Miller acquisition while continuing to invest in ZX Ventures.

To make matters more complicated, some of those working in the core business felt threatened by the ZX Ventures team, with its promise of future disruption. David Almeida, the company's Chief People Officer, summed up this perception:

We are going to pull bits and pieces of your business out from under you, and we are going to create an organization which will be managing businesses within your territory. And we are going to do this separately, with a group of people that is going to have a different incentive scheme, different priorities and a different focus, ok? So, this was a controversial movement. Many people heard this and thought "Why do these guys get treated differently? Are they the chosen ones? Are they the special ones?"<sup>28</sup>

Earp recognized that while separating the organizations provided ZX with a better environment for innovation, it also created a challenge for integrating the businesses:

We did not spend a lot of time and effort trying to bring the core business along. We had the discussion at the beginning with our Growth Board and decided to

focus on proving the business and delivering top-line growth and [we thought] that will naturally prove your capabilities to the core business.

We had discussed an alternative, more similar to the GE FastWorks model. Beth [Comstock] and her team spent only about six months to one year proving some cases, and then Jeff Immelt saw the success and said, “Okay, I want you to train the whole organization in the next six months.” So they went to all the markets and all the managers and focused very soon on making every unit more innovative.

Our approach was a little bit different. We’re now two years down the road and we’re just beginning to see the challenges of integration.

(See Exhibit 2 for a description of the GE FastWorks model.)

The success of stage 2 of ZX Ventures relied upon trust and harmony between the core business and ZX Ventures for the kind of cross-pollination that would allow the core business to benefit from ZX innovations. The tension and mistrust that had developed between the two was therefore a serious concern.

### **THE CHALLENGES OF PROCESS**

To develop new initiatives that were capable of driving organizational growth, it was critical to implement a process focused on the lean startup concept of iteration; to execute that process, it was essential that the core business ultimately invest in those initiatives. The ZX Ventures process was created with the implicit understanding that ZX Ventures would not be responsible for taking new innovations to scale. The expectation was that once the innovation was fully designed and had been proven and refined, executives in the core business would clamor for access to the idea.

However, by January 2018, it had become clear that executives in the core business viewed ZX initiatives—particularly those that were not clear extensions of existing business—as components of a separate organization and were therefore at times unwilling to take ownership of them and dedicate resources to ensuring their success. According to Earp:

We are still a bit distant. For example, in e-commerce, the core does not see e-commerce as their business. So they are happy when we develop a campaign, but when you tell them they need to budget for the campaign, they say, “Wait, hold on, I’m putting money into someone else’s business.”

### **THE CHALLENGES OF THE MANDATE**

One of the important differences between the core business and ZX Ventures that contributed greatly to the team’s success in stage 1 was ZX’s mandate. While the core business focused on preserving and optimizing its existing operations, ZX Ventures was focused exclusively on innovating and building new businesses.

However, executives in the core business disagreed with executives in ZX Ventures about the mandate and about what kinds of new businesses warranted investment, which led to challenges in achieving success in ZX Ventures' stage 2.

Some in ABI's core business believed ZX should be developing new mechanisms to leverage the company's existing assets, while some in ZX Ventures believed this perspective missed the point of developing an innovation arm in the first place. They thought that ZX should instead innovate around customer needs and desires, rather than around ABI's existing competencies.

Kenvyn explained:

When you identify disruptive trends, most are still small in terms of impact—and the core business may not have really felt the “threat” quite yet. To the core, opportunities must be large, meaningful, more certain. So we face this lull in the middle where opportunities may not seem large or threatening enough for the core yet—but we feel they will be. It's easy to get drawn into shorter-term opportunities that everyone can see, but miss those that are emerging.

The core is saying “You should invest in stuff that we can scale and make,” and we're kind of saying, “Well, that's not where we're seeing the disruption.”

Fostering a new mindset based on outward-looking innovation and experimentation was critical to the success of ZX Ventures in stage 1. However, the question of just how innovative ZX should be remained unsettled. Should ZX Ventures be innovating solutions that the core business could scale quickly? Or should ZX Ventures be focused on the experimental innovations that could one day prove to be even more meaningful?

### **THE CHALLENGES OF THE TEAM**

The productive disagreement between members of the ZX Ventures team was a critical ingredient to its success in Stage 1. However, that very conflict also created tension that could be uncomfortable for ZX Ventures personnel.

Late in 2017, ABI received the results of an industry-wide employee survey. The headline results of the survey were inspiring: ABI was within the top quartile in the world for employee engagement, and turnover had been very low compared to industry standards.<sup>29</sup>

However, ABI also learned that employees at ZX Ventures were less engaged than either their peers in other CPG companies or their peers in the core business. That finding was a surprise, given the focus that Earp and his colleagues had on the organization's common dream and the fact that ZX executives seemed to relish having an entrepreneurial mandate combined with the scale and scope of one of the world's largest CPG producers.<sup>30</sup>

Earp and his colleagues believed that one explanation for this lack of engagement was

that the heterogeneous nature of the ZX Ventures team created frustration as people from different backgrounds disagreed on processes and solutions. Earp explained:

There is still tension. And some of these people, they don't want to put up with that tension. In a way, they want to have the best of both worlds. They say, "Look, I want to work in a startup, but I want the resources of a massive organization." And it's not like that. There are trade-offs. There are areas of tension that we have to navigate.

Josebachvili elaborated:

It can be hard to find the right balance between doing things the ABI way and pursuing our mandate of being disruptive. When you bring in people who naturally think in that disruptive startup mindset, there's going to be tension and friction. Where do you find the right balance of approach where you can still achieve what you want to achieve without throwing the culture out the window, but also being sensitive to the understanding that startups operate differently... It is a unique challenge that our team faces, that other teams at ABI don't face.<sup>31</sup>

Furthermore, entrepreneurs and founders in the corporate environment could at times resent their lack of autonomy and yearn for the freedom of traditional entrepreneurship.

As Earp prepared for the next day's meeting with the Growth Board, he reflected that while the entrepreneurial spirit the founders had imparted to the ZX Ventures team was critical for the organization's growth to date, the tension between the different perspectives within the team also represented a hurdle for ZX Ventures to overcome.

## Conclusion

Two years after the formation of ZX Ventures, ABI executives and outside observers had declared it to be a successful organizational experiment. But as ZX Ventures prepared to enter its second phase, executives recognized there was work to be done. At ABI—where no employee rested on their laurels—the work ahead seemed formidable. Earp was cautiously optimistic, reflecting:

Now we're going to see the next phase, where we pass on our capabilities that are at scale. Let's see how this works...

At the bottom of his sheet of notes for his meeting with Brito and the Growth Board, Earp wrote down his two final unanswered questions:

1. Is the formula for our success over the last two years sustainable for the next few years?
2. How do we make the necessary changes without losing the ingredients which made it work to begin with?

## Exhibits

### Exhibit 1

## Other Self-Disruption Engines

### GENERAL ELECTRIC

One of the highest-profile innovative organizations was General Electric's FastWorks, created by GE's vice chair, Beth Comstock, after she read *Ries's The Lean Startup*.<sup>32</sup> Implemented in 2013, FastWorks functioned by training a number of coaches in the lean startup methodology, who then shared that approach with nearly 3,000 executives. In the first year, 100 FastWorks projects were launched in the United States, China, Europe, Russia, and Latin America.<sup>33</sup> By 2016 FastWorks was accelerating innovation and reducing costs. For example, it enabled development of a massive new gas turbine in just 30 months, compared to the usual 5–6 years.

However, GE's FastWorks had been criticized by some for not having adequately cultivated an acceptance of innovation throughout the organization. According to Jeff Goetheif, author of *Sense and Respond: How Successful Organizations Listen to Customers and Create New Products Continuously*, GE and its shareholders had been unwilling to invest in FastWorks because they "love predictability":

They love to know how much profit your company will make next year. They love to know exactly what you're going to make and how much it's going to cost. And, most importantly, they love to know what the ROI will be on those products and services. Unfortunately, that's not the world we live in anymore and Lean Startup practices make that perfectly clear. The vocabulary alone immediately sends up red flags during budget meetings—assumptions, hypotheses, experiments.<sup>34</sup>

Indeed, in 2017 both Comstock and then CEO Immelt retired from GE. The new CEO, John Flannery, had indicated that while FastWorks remained an important part of GE going forward, "there [were] no 'sacred cows'" as he reset the group.<sup>35</sup>

### BOEING

Another example of a self-disruption engine was the aircraft manufacture Boeing's HorizonX. The mission of HorizonX was to "find opportunities that Boeing Business Units would or could not pursue on their own, but which fall within Boeing's strategic scope."<sup>36</sup> To accomplish this mission, HorizonX leveraged an "innovation strategy" that "include[d] corporate venture capital, non-traditional partnerships, and program management of concepts with potential to disrupt Boeing's core business."<sup>37</sup> HorizonX combined three separate teams:

## Exhibit 1 (cont.)

- **HorizonX Ventures**, a venture capital team
- **New Business Horizons**, a “nontraditional partnership” team
- **Disruptive Horizons**, a team that “identifie[d] alternative approaches to traditional business opportunities... by hosting internal and external accelerator and incubator programs, as well as leveraging Boeing’s research and technology resources.”<sup>38</sup>

HorizonX’s portfolio included producers of advanced metals, augmented reality technology for the assembly of wire harnesses, and creators of autonomous flight solutions,<sup>39</sup> among others.

### CITIGROUP

A third high-profile example of an innovative organization was Citigroup’s Citi Ventures. It was launched in 2010 to “accelerate innovation at Citi by investing in new startups, piloting new technologies, and testing new solutions and business models through our Citi Innovation Labs and Citi businesses.”<sup>40</sup> Citi Ventures was structured as four teams:

- **Venture Investing**, focused on investing in new startups
- **D10X**, an incubator of new businesses led by Emily Turner ‘09
- **Innovation Network & Emerging Technologies**, an emerging technologies practice in collaboration with internal and external partners that worked to stay abreast of frontier technologies and experimented with technology that intersected with Citi’s business
- **Venture Studios**, which aimed to help Citi anticipate and adapt to changes in technology and customer behavior<sup>41</sup>

These teams all reported to a Chief Innovation Office led by Vanessa Colella, an alumna of Columbia University, that focused on driving growth and innovation across the company. The Chief Innovation Office was designed to provide senior-level visibility and accountability for innovative ideas and concepts before they were proven to be large enough or viable enough for Citi’s core business.

Source: Case Writer Analysis

## Exhibit 2

### ZX Ventures Entities

#### 1. Specialties

The first team focused on craft beers and had the responsibility of ensuring that AB InBev would finally catch up with the underutilized trend that had played a central role in the creation of ZX. It comprised 40 percent of all ZX's human resources, corroborating the importance of the theme for the company.

Success in the craft segment was complex and it depended on the correct balance between several factors: variety (especially in a world where 95 percent of all beer volume consumed was made up of lager); strong branding; and availability of technological and financial capital. To join the race faster in the United States, where the trend was already mature, ZX acquired and invested in several craft breweries—adopting a strategy more similar to incubation than takeover, as Earp described:

We transformed AB InBev into a platform that could partner with craft breweries. We did transactions, but actually the original teams continued to lead the businesses, innovating and all. So instead of trying to innovate inside, we became an ecosystem for innovation for craft. And that has been very successful.

As of 2017, U.S. craft beers were developed enough to be integrated in AB InBev's core business. The Specialties team, in turn, had been put in charge of anticipating trends and pushing the development of craft beers internationally.

#### 2. E-commerce

Due to regulatory issues, bulkiness, low margins, and heavy shipping weight, less than 1 percent of all beer sales took place through e-commerce as of 2017. But AB InBev believed that in some places this could become a significant sales channel for the category in the future, as the capabilities of e-commerce developed. Moreover, there was no doubt that companies like Amazon, or Taobao in China, would eventually become relevant players in the beer market and beating their capacity to address consumer needs would be a difficult challenge. Therefore, the ZX team decided to take action while there was still time.

The team started with two consumer trends identified through internal research: consumers wanted more convenience, and they wanted better access to premium craft beers. In order to address those needs, the company created several e-commerce platforms worldwide, with specific names for different countries (saveur-biere.com in France, emporio.com in Brazil and bevybar.com.ar in Argentina, for example). They offered a wide availability of premium beers and a 60-minute delivery option for any order submitted online.

## Exhibit 2 (cont.)

In parallel, the team had been working on developing data-driven approaches to be applied to the business, with a special focus on craft beer sales. Led by Alex Nelson, a former product manager at Google, this was the group most actively driving the data strategy within ZX.

As of 2017, Nelson's team comprised ten individuals working on different projects, mainly focused on marketing personalization and media optimization. Another point of interest at the time was the centralization of data originated in the various craft breweries owned by AB InBev with the goal of creating standardized solutions to be executed by the whole portfolio.

As part of the efforts around data analysis, the group had invested in a platform called Ratebeer, which identified what products were trending in each geographic area, and designed ideal portfolios for each neighborhood. In 2017, it contained a database of over 500,000 beers from all over the world, reviewed and rated by experts and casual drinkers alike. The real-time preference and demand data had the potential to be used to curate offerings available for retailers online.

A second effort was launched via Brewgorithm, an internally developed recommendation engine for online platforms that was able to predict which products should be recommended to certain groups of consumers on the e-commerce websites. "What data allows you to do in terms of identifying the right beers for the right people is amazing," exulted Earp.

### 3. Brand Experience

"Brands — they mean different things in a digital environment and they lose their edge if they don't learn how to interact with customers," explained [Michael] Doukeris. Before becoming chief sales officer of the company, he had started its first e-commerce platform in 2013, in China.

ZX's Brand Experience team attempted to address issues such as the individualization of marketing and the omni-channel reality — when consumers went online to get information to inform a purchase offline, and vice versa. The digital brand-building efforts focused especially on using digital resources to create moments for consumers. Some initiatives included the creation of physical retail bars, pubs, and brewpubs, as well as licensing of brands for merchandising.

### 4. Home Brewing

ZX's Home Brewing group was created to provide AB InBev with the ability to monitor consumer developments in another important industry trend identified internally: consumers who wanted to brew their own beer. In October 2016, it acquired Northern Brewer Homebrew Supply, a 20-year-old Minnesota-based company specializing in selling ingredients and equipment to home brewers.

## Exhibit 2 (cont.)

In addition to offering resources for consumers interested in experimenting with brewing activities, ZX believed the practice helped spread knowledge about beers, which could in turn have a positive impact on the company's sales.

### 5. Explore

The members of Explore led ZX's initiatives related to non-beer acquisitions and venture capital investments. Their main purpose was to find and poach the disruptors in the market, instead of betting on an all-defense strategy. As of 2017, the group had invested in companies such as Picobrew, Owl's Brew, and Starship Technologies.

The group was also responsible for the Zxlerator, a 11-week incubation program in which employees and summer interns took on some of the big problems faced by AB InBev, and had to work on solutions to present at the end of the period during a Demo Day for the company's executives. One-third of all the products created ended up being funded by the company, but there were no formal restrictions as to future investors.

By 2017 the program had originated several successful start-ups in the industry, including Brewgorithm. Canvas, which produced protein drinks using spent grains from the brewing process, was another Zxlerator off-shoot.

Source: Robert E. Siegel and Amadeus Orleans, *AB InBev: Brewing an Innovation Strategy*, Stanford Graduate School of Business Case No. E643 (Stanford, CA: Stanford University, 2017).

## Exhibit 3

### AB InBev's 10 Principles

#### DREAM

1. Our shared Dream energizes everyone to work in the same direction: Bringing people together for a better world.

#### PEOPLE

2. Our greatest strength is our people. Great people grow at the pace of their talent and are rewarded accordingly.
3. We recruit, develop and retain people who can be better than ourselves. We will be judged by the quality of our teams.

#### CULTURE

4. We are never completely satisfied with our results, which are the fuel of our company. Focus and zero-complacency guarantee lasting competitive advantage.
5. The consumer is the boss. We serve our consumers by offering brand experiences that play a meaningful role in their lives, and always in a responsible way.
6. We are a company of owners. Owners take results personally.
7. We believe common sense and simplicity are usually better guidelines than unnecessary sophistication and complexity.
8. We manage our costs tightly, to free up resources that will support sustainable and profitable top line growth.
9. Leadership by personal example is at the core of our culture. We do what we say.
10. We never take shortcuts. Integrity, hard work, quality, and responsibility are key to building our company.

Source: "Our Culture," AB InBev, <http://www.ab-inbev.com/about-us/our-culture.html>.

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