Every Company Is Now a Tech Company

That’s why all established businesses need to hire a ‘technical co-founder’

By Christopher Mims
Dec. 4, 2018

Companies born before the first internet bubble must realize they can no longer function as nontech businesses. Photo: Photo Illustration by Alicia Tatone; Getty Images

There was a time when the primary role of leaders at most companies was management. The technology required to do the work of a company could be bought or siloed in an “IT department,” treated more as a cost center than a source of competitive advantage.

But now we’ve entered a period of upheaval, driven by connectivity, artificial intelligence and automation. The changes affect the world of business so profoundly that every company is now a tech company.

Fast-growing startups, of course, have technology bred into their bones. These companies could never have launched in the first place without a tech-proficient founder or co-founder. But now companies born before the first internet bubble also must realize they can no longer function as nontech businesses, says Sean O’Sullivan, an angel investor credited with helping coin the term “cloud computing.”

The question is, how does a nontech company become a tech company quickly? Increasingly, the answer is bringing tech talent into the highest executive ranks, adding deeply

knowledgeable and indispensable "technical co-founders" long after the company was founded.

To put it another way: When faced with a competitor like Amazon, do you do as Walmart did, and invest heavily in tech firms and technical knowledge? Or do you go the way of Sears…into bankruptcy court?

Walmart is a good case study in how to bring on technical co-founders, even when your company is already worth hundreds of billions of dollars and employs nearly as many people as the People's Liberation Army.

In August 2016, Walmart announced it would acquire e-commerce startup Jet.com for $3.3 billion, the largest ever deal of an old-line bricks-and-mortar company buying an e-commerce company. The acquisition was about a transfusion of new minds as much as Jet's technology, which was far ahead of Walmart's online operation at the time. Jet.com Chief Executive Mark Lore competed with Amazon for years before his previous e-commerce company was acquired by Amazon in 2010; he stayed on as an executive at Amazon for two years before leaving to found Jet.com.

Mr. Lore is now chief of e-commerce at Walmart. A remarkable number of his lieutenants have also stayed on and been promoted to leadership roles within the company. Walmart's e-commerce business revenue grew 43% in the last quarter alone. By all appearances, the company that is to this day based in its original hometown of Bentonville, Ark., is successfully pursuing a "second-mover strategy" against its much more highly valued competitor in Seattle.

Things don't always go this smoothly. In fact, when well-established companies acquire tech-savvy startups in order to bring aboard engineers and executives, it's usually a disaster, says J. Daniel Kim, a Ph.D. candidate at the Massachusetts Institute of Technology researching the economics of entrepreneurship. His just-published research on the outcomes of such "acqui-hires" dives into what happened to 4,500 high-tech startups and 400,000 workers who were acqui-hired by large companies between 1995 and 2011.

Within the first three years after an acquisition, 60% of employees at a startup have left—despite the fact that many are bound by noncompete agreements and incentivized to stay by stock grants that take years to vest. That rate of turnover is twice that of employees hired the old-fashioned way. What's worse, the employees who leave tend to be the most aggressive and entrepreneurial—and more likely to launch a competing startup.

As well as Walmart appears to have done with its Jet acquisition, you have to consider the counterfactual, says Mr. Kim: What if Amazon had bought Jet instead? Since Amazon is a more entrepreneurial culture by a measure developed by Mr. Kim—that is, how many of its former employees go on to found their own companies or join startups—it could have been a better fit, leading to higher retention, he adds. It also would have been another painful competitive blow to Walmart.

For large companies stuck between the rock of disruption and the hard place of acquiring startups that can't hold on to key employees, what's to be done? John Chambers, who was

chief executive at Cisco for more than 20 years, where he oversaw 180 acquisitions, has some answers.

In his new book, “Connecting the Dots,” Mr. Chambers outlines some rules. For one, corporate cultures should align. Also, it helps if the company you’re buying already has significant traction in the market. And, as has been the case with Walmart and Jet.com, Mr. Chambers writes that it’s essential to promote the leaders of acquired companies into your own ranks.

Mr. Chamber’s rule at Cisco was that a third of the company’s leaders should be promoted from within, a third should be recruited from outside, and a third should come from acquisitions. He was so committed to integrating acquisitions and retaining entrepreneurial employees that he encouraged key leaders to create startups outside Cisco. If they became successful, he would acquire them in what were sometimes billion-dollar deals. The strategy was called “spin-in.”

Even so, Cisco’s acquisitions suffered many setbacks. About a third failed, writes Mr. Chambers. The most famous one of all, Cisco’s $590 million acquisition of the maker of Flip cameras, ended after Steve Jobs himself declared that Apple would outcompete the company by offering a superior camera “for free.” It was the one built into the iPod Nano.

As the competitive landscape continues to change and technology becomes ever more essential to how business is done, investments that might have seemed too risky a few years ago now may sometimes turn out to be the best path to survival.

“There is an existential threat to Fortune 500 companies before the end of this decade,” says Mr. O’Sullivan, the angel investor. “You can actually see companies that are less than 10 years old knocking off and surpassing companies which have been around for 100 years.”

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