Amid new forms of competitive differentiation and shifting business boundaries, the potential to build innovative, next-generation businesses at scale has never been greater.

By Chris Zook, James Allen, and Dunigan O’Keeffe
At a Glance

- For more than two decades, our research has shown that focusing on one strong core business, constantly innovating on its repeatable model, relentlessly pushing out the boundaries of the business and achieving the economics of leadership has been the formula that has characterized more than 90% of major growth success stories. But the business environment is changing in ways that increase both the need and the potential for leadership teams, even those with the strongest and most profitable core businesses, to consider investing in a second major growth engine.

- This Engine 2 can hedge against disruption of the core business, or it can take advantage of shifting business boundaries in newly accessible adjacent markets.

- An increasing share of the most successful sustained value creators’ market value growth now comes from the future prospects of major new Engine 2 businesses that create internal entrepreneurship and leverage the core’s scale to turbocharge the growth trajectory.

- While only a select few recognize or achieve it, this art of building new businesses at scale is an increasingly critical tool for leadership teams that aspire to sustain profitable growth in a world of increasing speed and turbulence.

Few writings illustrate the power of an entrepreneurial mindset, what we have called a Founder’s Mentality®, better than the letters written each year since 1997 by Jeff Bezos to his company’s shareholders. Charting a remarkable journey from start-up to a business now valued at nearly $1.6 trillion, these letters make it clear that Amazon’s founder has not strayed from his original leadership principles—one of which is the importance of believing that it is always “Day 1,” the start of the journey. For, as he says in letter No. 20: “Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And that is why it is always Day 1.”

When you are always on Day 1, you must think like a founder of a start-up, not as a custodian or caretaker of an institution. In recent years, this mindset has turned Amazon into a serial business builder (at scale), spawning large, new businesses, ranging from Amazon Web Services (now $40 billion in size with $9 billion of profit) to banking services, and acquiring others, such as Whole Foods Market—all the while leveraging its platform, brand and customer base. We call such internal business building at scale and speed Engine 2s.

A similar insurgency was at play behind Ping An’s decadeslong transformation from an insurance company into an integrated financial services group. Ping An carefully adapted its expertise to changing markets, technology and client needs by building a powerful ecosystem focused on five areas: finance, property, automotive, healthcare, and smart city services. The “one customer, multiple products and one-stop services” model is rooted in Ping An Cofounder and Chairman Peter Ma Mingzhe’s vision of transforming Ping An into a serial business builder to pivot its future growth toward a technology powered one-stop financial services provider.
Starting as a property and casualty insurance firm in 1988, Ping An has expanded aggressively to build its ecosystem of interdependent but autonomous new businesses. It moved into banking in 2003, launched peer-to-peer lending platform Lufax in 2012, and subsequently entered healthcare (with booking platform Ping An Good Doctor) and real estate. Its latest venture, OneConnect, which launched in 2015, aims to leverage its banking infrastructure and provides back-end services to smaller regional banks [see Figure 1].

This brief describes the results of a study at Bain & Company spanning more than two decades of data gathered to understand the underlying causes for the rise of Engine 2s, the success factors of the best ones and their increasing role in growth strategy under turbulence. We define Engine 2s as new businesses built within an existing company that use the existing scale benefits—namely, the assets and capabilities of the strong core business (Engine 1)—to grow to a large size faster than an independent start-up could.

In about one-third of the cases, these Engine 2s were next-generation business models of Engine 1, even competing at times for Engine 1 customers. In nearly half the cases, these Engine 2s were distant adjacencies to the current core business, now newly accessible due to changes in technology (allowing advantages to be built) or shifts in business boundaries (rendering these adjacencies more accessible). Fewer than 20% of all Engine 2s were entries into totally new businesses. We feel that this is an

**Figure 1:** Ping An built a powerful ecosystem by adapting its expertise to changing markets, technology and client needs

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Sources: Ping An Group; Bain analysis
important insight. More than 80% of the most successful Engine 2 businesses had some connection with the core business in terms of common customers, capabilities or distribution channels.

One of the most striking business developments of the 21st century is the emergence of a small number of supercompetitors, such as Amazon in the US, Ping An in China or Reliance in India. Of these companies, the top eight are responsible for creating 15% of the positive market value generated by 3,000 of the top public companies over the past 10 years. Nearly all eight of these powerful companies are becoming experts at the art and science of rapidly building and scaling new businesses to massive size.

Such bold business building has made Reliance the most valuable company in India. Reliance’s core was petrochemicals. Its strength was an uncanny ability to raise funding, organize labor, attract talent and deal with the government in a country of daunting complexity. Reliance, run by Mukesh Ambani, India’s wealthiest person and son of the company’s founder, is now a serial Engine 2 builder at scale, creating the country’s largest retailer in a matter of years and recently building Jio, the largest 4G wireless network in India (see Figure 2).

The one notable exception to this Engine 2 pattern among the eight supercompetitors is Alphabet, the parent company that was set up to contain Google (the core) as well as what Google refers to in its financial statements as “other bets.” One of those bets, GV, resembles something akin to corporate venture capital on steroids, comprising more than 300 active portfolio companies that were acquired

Figure 2: Through bold business building, Reliance has become the most valuable company in India

Sources: Reliance Industries; Bain analysis
with the enormous free cash flow that Google’s core search business generates (approaching $40 billion per year and piling up to a high of nearly $120 billion in 2019). GV and these other bets account for about 17% of Alphabet’s total revenue, but so far, they generate none of its profits. The Economist recently referred to them as a “conglomerate of businesses that sometimes appear to have little in common—a corporate planetary system or Googleverse.” This is not to judge Google or its strategy, only to emphasize that Google’s chosen approach to find new growth sources is a near polar opposite from what we mean by Engine 2, which is about intense focus and the maniacal pursuit of leadership in a large profit pool, harnessing all of the core’s economies of scale in the process.

On the one hand, it is easy to view these supercompetitors as unique, building businesses on competitively advantaged platforms with access to seemingly unlimited cash (for instance, Apple currently has nearly $192 billion of cash on hand). The superficial (and wrong) conclusion would be that such investments are only for the elite—a luxury born of core businesses, the market power and access to resources of which we have not seen since the robber baron days of the early 1900s.

Yet, our research revealed something different, at times counterintuitive. This art of building new businesses at scale is a strategically important consideration for all management teams with aspirations to grow their core business substantially. If you have a robust core business, one of the most important questions for leaders today is whether you should make an active effort to explore and possibly build an Engine 2.

This is not an idle question on our part. We have spent the past 25 years with Bain & Company’s Global Strategy practice (yielding 5 books and more than 100 articles), with every empirical tool at our command, researching the most important success factors underlying sustained profitable growth. Yet, the world has changed, and the success factors underlying sustained profitable growth have shifted as well.

We defined Engine 2 in our analysis as a new, strategically important business that started internally (organically or through an acquisition) and that has an unlimited growth aspiration around a bold insurgent mission. An Engine 2 draws upon the assets and capabilities of the core business in new ways, and it embraces the strategic intent to grow rapidly. A successful Engine 2 taps into the entrepreneurial energy of a start-up while leveraging the full benefits of scale of the entire enterprise to pursue its aspirations of growing to a leadership position (see Figure 3).

As we delved into this topic, strong Engine 2 examples surfaced within every industry. This is different from the past, when our research showed that more than 90% of the profitable growth of the most sustainably successful companies came from their obsessive focus on achieving leadership economics and the full potential of their strongest core business. Expansion came from market share increases, market growth and methodical movement into related, adjacent markets, usually using a repeatable formula to do so—for instance, Nike moving from one sport, country and channel to another, creating a nearly 50-year growth success centered on its core of athletic shoes.

Conversely, we also documented many cases of high-potential businesses whose leaders became distracted, lost focus on their core and even took their core for granted in the pursuit of new, hot markets. We referred to this as the “cold truth of hot markets.”
Figure 3: An Engine 2 draws upon the assets and capabilities of the core business with the goal of rapid growth

Based on this research, we wrote Profit from the Core, a book that was a testament to focus as well as a warning regarding the danger of prematurely abandoning your core business in pursuit of flashier markets. We still believe that the highest priority for most leaders is that their strongest core businesses achieve their full potential, and the research still bears this out.

But something has changed. Both the need and the opportunity to explore an Engine 2 have grown. Our analysis of a sample of highly successful sustained growth companies with strong underlying core businesses shows that nearly 60% are deriving a significant valuation benefit from the pursuit of Engine 2 businesses by leveraging the strengths of the core and the scale of the enterprise—in many cases, large companies are rediscovering the founder’s lost art of business building.

Engine 2s, if chosen and set up so that they do not lead to abandonment of the Engine 1 core or a significant diversion of resources and attention that prevents Engine 1 from achieving its full potential, are becoming more critical elements of long-term growth strategy for leadership teams. So what has changed?

- Business boundaries are shifting fast, often in markets in which they have been relatively static for decades (for example, energy or print media or healthcare). This is allowing companies, often those with relatively low fixed capital investments (because of the nature of technology), to repurpose their core assets and capabilities in new ways. It is almost a form of redefining the full potential of the core business itself through the “hidden assets of the core” that we wrote about in our book Unstoppable.
The Engine 2 Imperative: New Business Innovation and Profitable Growth under Turbulence

- Two-thirds of the executives we surveyed predict that within five years, the competitor they are most worried about will be a different company than the one they worry about today—usually a new insurgent with a differentiated business model. Moreover, these executives felt that 40% of their companies’ growth over the next 5 to 10 years would have to come from new markets and models. They also were concerned that they were underinvesting significantly.

- The top eight value-creating companies in the world, the supercompetitors, have become serial builders of Engine 2 businesses at scale.

- Several decades ago, we estimated that the most sustained value-creating companies achieved 95% of their valuation growth over a 10-year period from one or two established leading core businesses methodically and repeatedly pursuing adjacent markets. Today, we estimate that percentage has declined significantly, with as much as one-third of new value traceable to the prospects of Engine 2s.

Our work, described below, pursued answers to the following questions:

- What has changed to increase the consideration of Engine 2s as important ingredients of a responsible long-term growth strategy?
- What are the success factors underlying winning Engine 2s?
- What are the operating principles for a successful Engine 2 strategy?
- What questions should leadership teams ask to decide whether to pursue an Engine 2?

**Turbulence: Deep root causes for the rise of Engine 2**

Sustaining profitable growth has become more difficult over the past 20 years. We have tracked this over the course of decades and have found that currently, only about 1 company in 10 can sustain a decade of above-average profitable growth. A corollary to this is that stalling out has become more rampant and that the churn at the top of the leaderboard has increased in most industries. Five factors underlie this growth challenge.

First, we believe that the world is entering a period of rising turbulence that is rendering old business models obsolete and creating new opportunities at a much faster pace than most companies can adapt to. To examine this scientifically, we created an index of turbulence going back to 1850 that weighs major trends and events by relative magnitude—including wars, pandemics, financial crises, major technology developments and climate change. Our analysis shows that turbulence is on the rise and that we are entering a new extended period of market instability not seen at this level since the period from WWI through the end of WWII. The Engine 2 imperative is born of such change (see Figure 4).

Second, Engine 2s need resources, and the world today is awash with cash. Global capital has tripled relative to GDP over the past 20 years, to the highest level ever, more than 10 times global output. Deal multiples are higher than ever, and stock prices and stock buyback rates show this. There may never have been a better time for a team with a good business idea to find funding.
Third, when discount rates are low, Engine 2 future growth stories are valued at a premium. Today, we are within the longest extended period of low interest rates that we’ve experienced in our lifetimes.

Fourth, 63% of incumbent leadership teams tell us that they believe insurgents with disruptive business models are a major threat to their Engine 1s. Industry analysis confirms this; a study of individual industries finds that the percentage of market value that new entrants have captured over the past 20 years ranges from 95% in financial services to 90% in telecommunications to 60% in healthcare. This is a key reason why more than 20% of companies are stalling out and why more than 40% are underperforming.

Finally, the ingredients to create new businesses and scale them quickly are more available to more companies. Just a few decades ago, fixed assets accounted for more than 80% of average company value (fixed plants and equipment take longer to build), whereas by 2018, that percentage had declined to around 16% (brands, growth prospects and intangible assets dominate). Talent relocates more often and more rapidly than in the past, acquisitions of companies with key capabilities are easier to accomplish, and technology partnerships are easier to set up.

These five factors combine to form the root cause of the Engine 2 imperative.
Engine 2 success factors

To understand the success factors and pitfalls underlying the pursuit of Engine 2 businesses, we studied 100 major, well-documented examples, drawing on Bain & Company’s worldwide database and contacts.

We found that 32% of the successes were next-generation versions of the original core, such as Philip Morris International building an Engine 2 business around smoke-free alternatives to cigarettes in 2015, declaring it as the next core of the company and scaling it quickly to nearly 25% of the company’s revenue.

About 49% of successful Engine 2s were entries at scale into a once-distant adjacent business to the core, such as Belgian company Umicore, the historic core of which, going back to 1805, was the reclamation of precious metals. Seeing an opportunity amid the advent of electric vehicles and clean energy, however, the company created an Engine 2 focused on the essential core products for batteries and catalysts, divesting some of its older businesses to fund Engine 2 and build plants around the world. Today, this Engine 2 accounts for more than 40% of Umicore’s revenue.

Totally new businesses, such as Reliance’s creation of Jio’s telecom and digital service offerings from scratch in 2016, comprised 19% of the Engine 2 successes. Reliance invested around $35 billion and used its historic skills of business building in India to create its groundbreaking nationwide 4G mobile network. In 2020, Reliance raised about $21 billion from an all-star list of 13 global investors, including Google, KKR and Facebook, to fund further growth (see Figure 5).

You might be asking how that differed for the clear failures in our database. The answer is not much. Next-generation versions of Engine 1 were slightly more represented in the successes, but we do not believe that was the key success factor. What was more important was the underlying attractiveness of the future profit pool, the ability to build a new, differentiated model, and how the Engine 2 was set up on the inside. We found four key success factors—two internal, two external. Nearly every one of the successes scored well on these four attributes, whereas all of the disappointments fell short on two or more (see Figure 6). These success factors are:

- a large, growing market and profit pool to attack, fueled by megatrends;
- a new lever of competitive advantage that enables entry, often because of a technology that changed the business boundaries in such a way that once-distant or highly defended markets now are more accessible;
- the ability to create entrepreneurial conditions inside the corporation, with a distinct culture and operating model for the Engine 2 business, as well as a Founder’s Mentality, or a set of motivating attitudes and behavior that can usually be traced back to a bold, ambitious founder; and
- access to a key asset or capability of Engine 1 that allows the Engine 2 business to leverage the scale advantages of the parent to grow.

For example, Brazilian bank Bradesco’s all-digital Engine 2 Next satisfies all of these requirements.
**Figure 5:** There are three types of successful Engine 2s

1. **Next-generation version of Engine 1**
   - A new core business model that serves similar needs of the same customers, usually propelled by new technology or the need for a preemptive attack on disruptive, insurgent competitors that threaten the incumbent’s core.
   - Percentage of successful Engine 2s: 32%

   **Examples**
   - Orsted
     - Engine 1: Black energy
     - Engine 2: Green energy
   - Bradesco
     - Engine 1: Traditional banking
     - Engine 2: Digital banking (Next)

2. **Distant adjacency to core**
   - A move into a once-distant adjacency of the core business that has now become more accessible and attractive because of shifting business boundaries and new ways of competing through advances in technology.
   - Percentage of successful Engine 2s: 49%

   **Examples**
   - Ecolab
     - Engine 1: Cleaning and hygiene
     - Engine 2: Water treatment and purification
   - Amazon
     - Engine 1: E-commerce (Amazon.com)
     - Engine 2: Cloud computing (Amazon Web Services)

3. **Totally new business**
   - A new business start-up that is unrelated to the core and that is entered by repurposing core assets and capabilities to provide the new business with benefits of scale.
   - Percentage of successful Engine 2s: 19%

   **Examples**
   - Ping An
     - Engine 1: Insurance provider
     - Engine 2: Telehealth (Good Doctor)
   - Reliance
     - Engine 1: Oil and gas
     - Engine 2: Telecom and digital services (Jio)

**Source:** Bain & Company

**Figure 6:** Nearly every successful Engine 2 scores well on four key factors

- **New levers of competitive advantage**
  - Strong successes in situations in which industry boundaries and sources of differentiation were shifting.
  - Utilization of existing scale/resources of core
  - Capitalization on industry situation
  - New to world or modified business model
  - Shifts in business boundaries

- **The ability to create entrepreneurial conditions with a Founder’s Mentality®**
  - Business building at scale by enabling leaders to have a Founder’s Mentality, distinct culture and operating model in Engine 2.
  - Insurgency
  - Frontline obsession
  - Owner’s mindset

- **Large, growing markets and profit pools**
  - The best Engine 2s target growing profit pools, which are shifting as a result of megatrends.
  - Rapid scaling to enhance customer experience
  - Utilization of existing scale/resources of core
  - New to world or modified business model

- **Access to a key asset or capability the core**
  - Ability to launch and scale internally through at least one asset or capability from the original core.
  - Learning
  - Market power
  - Scale advantage

**Note:** Founder’s Mentality® is a registered trademark of Bain & Company, Inc.

**Source:** Bain & Company
Next was set up in a separate section of the building, near the IT and technology center of the parent company, where it created separate strategy and core offerings targeted at millennials. This focus resulted in the vast majority of Next’s customers being totally new to the company. The marketing, the logo and even the color scheme were distinct from Engine 1. The separate organization adopted its own ways of working, including the use of Agile teams, to shape a culture more typical of a start-up. Critically, Next was able to leverage the scale of the Engine 1 traditional bank, such as the back end of the IT system as well as deep institutional knowledge of regulation, banking products and customer behavior. By being exclusively digital, Next built its entry strategy around new technology at scale in order to target the rapidly growing smartphone-savvy customer. Next is now one of the top three digital banks in Brazil.

**The shifting sands of business boundaries**

One of the most bedrock principles of business strategy that has been fundamental to the Engine 2 success stories we have studied is the idea of business boundaries, or what we call “business definition.” Given its importance in Engine 2 success, it is worth taking a moment to clarify this idea.

Every coherent competitive arena has certain boundaries around it—where companies compete for a defined set of customers, where there are clear winners and losers based on performance, and where market share and profit share serve as scorecards. A well-defined business, we find, typically has around six relevant competitors, two of which are usually leaders that capture most of the profit pool and that outinvest the followers. This is why it is extremely difficult to enter a business with long-standing business boundaries and to compete on the same basis as incumbents. Either the boundaries or the competitive angle must change in order for insurgents, which are competing with new business models, to disrupt and capture customer share and profit pool share. The good news is that business boundaries can be figured out and mapped based on similar customers and needs, viable competitors, relevant channels and key capabilities, thereby defining the playing field and the scorecard to chart winners and losers.

Changes in business boundaries can often be anticipated or even engineered based on an accurate assessment of future customer changes and based on how new technologies could reshape the competition. Recognizing and taking advantage of impending shifts in business boundaries to invest preemptively has been central to many Engine 2 successes. In energy, it was central to Orsted’s shift to wind and renewables from fossil fuels. In financial services, it was a key to the successful robo-advisory business for individual investors at Charles Schwab. In technology, it was a key to the cloud computing Engine 2 initiatives of Dell and Amazon. The list goes on. If boundaries are shifting in your Engine 1 business, then exploring Engine 2 is even more urgent.

If you have Engine 2 ideas that build on your core assets, start by asking about how they could shift the boundaries of a business, the basis for differentiation, and the profit pools born of market power and influence.
The surprising and varied role of acquisitions in Engine 2 successes

Acquisition was a critical element in building about three-quarters of the successful Engine 2s we studied. The most successful leadership teams pursue the strongest platforms, partners and capabilities, whether they are on the outside or the inside. Acquisitions were used in three ways in almost equal proportions: One route used an acquisition as the initial Engine 2 core itself; the second was to scale and extend the Engine 2 business into new adjacencies, such as a geography or customer segment; a third and especially critical use was to obtain essential skills and capabilities that could not be built internally as well or as fast (see Figure 7).

For instance, Ecolab has used acquisition extensively to build an Engine 2. Ecolab was founded in 1923 by a salesman who noticed stains on his hotel floor and felt there was a need for a cleaning solution that would not require total carpet replacement. With that solution, he created a company that today is by far the leader in industrial cleaning products and services, more than twice the size of its nearest competitor.

But its markets were slowing and changing. Ecolab concluded a decade ago that its customers’ greatest purification need was becoming clean water. “The transformation began by talking to customers,” CEO Douglas Baker Jr. said at the time, seeing that the same customers who were buying its core products were also voicing concerns about access to clean water. The company forecast that the market for

Figure 7: Acquisitions can build strong Engine 2 businesses rapidly

Role of M&A in Engine 2 development, 1997–2019

<table>
<thead>
<tr>
<th>100%</th>
<th>There were no acquisitions related to Engine 2 at any stage</th>
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<tbody>
<tr>
<td>M&amp;A played a small or negligible role in the formation of Engine 2’s core operations or later expansion</td>
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<tr>
<td>M&amp;A played a major role in scaling Engine 2 to new geographies or capabilities after the initial setup</td>
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<tr>
<td>M&amp;A formed a significant part of Engine 2’s core operations; acquisition was likely made at launch or expansion stage</td>
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<td>M&amp;A led to formation of Engine 2’s core end-to-end operations; acquisition was made at the launch stage</td>
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Sources: Bain Engine 2 database; Bain analysis
water purification would require more advanced technology and would grow faster and larger than that of its cleaning core. Ecolab decided to enter the market in 2011 by acquiring Nalco, a leader in industrial water purification, and embarked on an Engine 2 growth strategy.

Since acquiring Nalco, Ecolab has divested noncore assets in chemicals and energy to fund more than a dozen acquisitions and equity investments in water purification technology companies. It has also discovered the strong potential to leverage its powerful core cleaning salesforce as well as shared technologies to cross-sell water purification products and services to its historic core customers, broadening Nalco’s reach to areas such as food and beverage and hospitality. The company also found technical synergies in monitoring and sensor systems between Engine 1 and Engine 2. Since 2010, Ecolab, fueled by this Engine 2 strategy, has grown its revenue from $6.1 billion to $14.3 billion, increased its enterprise value by a factor of five, and seen its stock market value grow by 4.5 times while the S&P grew by only 2.9 times. Ecolab’s growth strategy has all of the hallmarks of an Engine 2 success—fueled by acquisition, core capabilities and new technology every step of the way.

For another example, just look at how Dell Technologies shifted from its Engine 1 as a PC manufacturer to its Engine 2 as an enterprise cloud computing platform on the basis of the largest technology acquisition in history, EMC. Dell and its subsidiaries followed up with a long series of acquisitions to obtain specific technical capabilities—for instance, DataFrameworks, which had developed a highly sophisticated suite of analytic software to track usage of the cloud for enterprise IT management.

The use of acquisitions was the rule, not the exception, to build strong Engine 2 businesses rapidly.

What was not a path to Engine 2, despite its popularity among large companies, was corporate venture capital. Corporate venture capital units typically are not set up to create an Engine 2 but rather to obtain the benefits of learning—namely, a window on the start-up community and their financial returns. Though the record on these more modest objectives is mixed, we feel it is worth noting that none of the Engine 2 case examples that we studied began in an incubator or came from an internal corporate venture capital fund. At best, we would estimate that the frequency with which a corporate venture capital unit’s investments turned into even modestly sized Engine 2s was slim to none.

Creating entrepreneurship on the inside

Were we to identify one controllable success factor, above all else, it would be how Engine 2 was set up on the inside to draw on the key capabilities and scale of Engine 1 while still enabling the fast, independent decision making that you might see in the energy, urgency and focus of the great business founders.

In our book The Founder’s Mentality, we identified three internal root causes underlying the ability of a young company to compete at scale and of older companies to continue to adapt, compete against new insurgents, resist the distortions of bureaucracy, and remain attractive to the best young talent. We found that if you were strong on one of the three major dimensions of The Founder’s Mentality, you were four to six times more likely to be able to sustain profitable growth than if they were absent.
When we applied this thinking to Engine 2s, we found that these same three dimensions were four to nine times more present in the most successful Engine 2 businesses than in the disappointments (see Figure 8). Leadership teams would benefit from intense focus on each of them.

**Dimension No. 1: An insurgent mission**

Most successful founders of great, lasting businesses pursued an insurgent mission that we have likened to waging war on industry norms on behalf of an underserved customer. A bold, long-term mission proved central to the energy and focus of companies such as Nike, which focused for nearly five decades on not just shoes but performance; or of IKEA, the global leader in affordable furniture, whose founder, Ingvar Kamprad, defined the company’s insurgent mission at the outset in his “The Testament of a Furniture Dealer,” which lays out a need and vision to bring great furniture to the masses; or of Amazon, which focused on revolutionizing how retail works. An insurgent mission is what stops businesses from becoming “just another company.” It is a source of focus, energy, purpose, inspiration, and it is the acid test of true competitive differentiation.

The most successful Engine 2 examples had strong insurgent missions four times more often than the disappointments. Reliance’s Jio has a clear insurgent mission—namely, building out the largest 4G telecom and fiber Internet network in India. So does the cloud business that Dell has become, resembling what founder Michael Dell referred to as the “largest start-up in history.” So, too, does the Philip
Morris International smoke-free business, which is working to create a smoke-free world. At the core of great Engine 2 businesses is a clear mission to do something to serve the customer better by an order of magnitude.

Dimension No. 2: A frontline obsession

Every great founder started at the front line because they were the front line. They had intellectual curiosity about every detail. As organizations grow, they can easily lose this vital source of energy, insight, learning and innovation. We found that this frontline obsession was a huge factor for case after case in which a young insurgent company is winning against a bureaucratic incumbent—as Jeff Bezos’s comment on Day 1 expresses so vividly.

Our team rated each Engine 2 on a 5-point scale based on evidence of practices that, at the most basic level, empowered or engaged frontline employees and kept the organization tightly focused on the customer experience. The clearest cases of Engine 2 success stories rated at the top two levels six times more often than those that were not as successful.

We cataloged a broad range of effective practices to foster a frontline obsession in the most successful Engine 2s. They ranged from frequent surveys and self-evaluations of frontline teams (with results shared and discussed by the teams) to an extensive collection of customer metrics (especially customer loyalty scores) to organizational design that empowers small teams to act independently and that keeps organizations flat and connected.

Dimension No. 3: An owner’s mindset

In 2013, when Michael Dell and a private equity group took Dell private, he announced that his goal was to create the “largest start-up in history.” Dell and his team reduced layers, simplified decision making, and sped up the metabolism of the company; at the same time, he and his team were building Dell’s Engine 2, which focused on the new insurgent mission of becoming the most relevant company enabling cloud computing at the enterprise level. Soon after, Dell began regaining market share even in its original PC core (its Engine 1), and employee satisfaction rose swiftly. Today, Dell’s Engine 2 strategy is one of the most successful technology transformations in history. Dell rejuvenated its owner’s mindset.

An owner’s mindset is about a bias to action, a rejection of the distortions of bureaucracy, and a willingness to accept responsibility and move with speed. Increasing the metabolic rate as well as the accountability of a leadership team is at the center of the value creation engines of the great private equity firms. It is an essential ingredient to create a successful Engine 2 in a turbulent market rife with insurgent competitors, many still led by their founders.

Our team characterized each of the Engine 2s we studied in terms of observable elements that would support an owner’s mindset, such as a separate operating model for decision making or organizational practices to increase speed and to make as many leaders as possible feel like minifounders in their jobs. We found that the most successful Engine 2s were rated at a high level on this dimension nine
times more often than the disappointments. Moreover, we observed clear behavior that reinforced these attributes of speed, accountability, meritocracy and antibureaucracy.

One example is how Orsted, one of the largest Danish energy companies, built an Engine 2 focused on green energy, especially wind, making it now the largest offshore wind power producer in the world. It began with a decision on the part of the leadership team to begin this transition from fossil fuel–based businesses in 2006; today, as a result of this bold insurgent mission, wind and bioenergy comprise more than half the company and a much larger share of its value creation. As it acquired or started a new wind farm project, the company managed each unit as what it called a “company within a company,” giving each wind farm leader considerable decision-making latitude, creating, in a sense, a stream of minifounder experiences. Orsted’s success in doing this is in marked contrast with companies that announced similar goals but failed to break the constraints of their bureaucratic cultures.

Who should pursue an Engine 2?

Pursuing an Engine 2 initiative of any significant magnitude inevitably will bring a company into competition with incumbents that inhabit part of the target market as well as with new insurgents. It is often the case that this new noncore market that looks so attractive is another company’s core market and that company will fight to the death to defend it from the new invader. Yet, as we described earlier, because of new forms of competitive differentiation born of technology and shifting business boundaries rewriting the rules that govern who wins and who loses, the rate of change across a wide range of markets is creating much more opportunity for attackers. This is happening at a much higher rate than we have seen in our 25 years of studying and tracking profit pools, competitive positions and success drivers.

Records are being reset every year for speed of scaling to leadership in these evolving markets (especially enabled by their low capital intensity), and incumbent models are giving way to insurgents more often than we have seen before. On top of that opportunity, core resources such as capital, technology and capabilities that help to pursue promising ideas or to create the next-generation version of an Engine 1 have never been more widely available.

The decision to go all in on an Engine 2 should be made once the opportunity is proven, with the strategic intent of ascending to leadership, as many of the Engine 2 examples, including Philip Morris International entering smokeless tobacco and Orsted entering wind energy, demonstrate clearly.

Our research supports the point of view that most leadership teams with significant growth aspirations should consider seriously whether it is time to work on an Engine 2. Companies should not jump directly to an all-in decision, even if that is the likely prerequisite for success in really attractive markets.

Management teams should ask themselves a series of questions, each strongly reinforced by the results of our research. The first two involve studying and testing, and they should probably be pursued for a portfolio of ideas. The other questions involve the company’s willingness and ability to organize internally to obtain the benefits of a Founder’s Mentality as well as the available core assets and capabilities required to scale fast. We’ve listed this hierarchy of questions below.
• Do we have an Engine 2 opportunity in a large and growing market with an attractive and growing profit pool that is driven by strong, persistent megatrends? Do we have any of the following?
  – A next-generation version of Engine 1
  – A distant adjacency to the core, now accessible due to technology
  – New markets within which we can leverage core scale and capabilities

• Do we have a business model that allows us to enter the marketplace in an advantageous way, thinking like a founder about waging war on a market on behalf of an underserved set of customers? Have we proven that yet with the customer?

• Are we willing to reach out to external partners for technology and funding if necessary, and will we allow the Engine 2 to compete in an unconstrained way and with the strongest capabilities possible?

It is worth noting that most innovative businesses pivot and evolve at the hands of their founders and that some are completely abandoned at this stage. Think of the Amazon Fire Phone, an entry by one of the most successful serial business builders ever into one of the most lucrative markets ever. Yet, the Fire Phone proved differentiated in unattractive ways, it was too highly priced for what it offered, and Amazon shut down this Engine 2 quickly afterward. This story is in strong contrast with Reliance’s Jio, which offered a super-low-cost feature phone that continues to be one of the company’s key offerings. At this point, the key questions turn inward.

• Can we set up an organization that is able to foster a Founder’s Mentality in order to compete and to make fast decisions? Can we master the following three dimensions?
  – An insurgent mission with long-term focus
  – A frontline obsession and empowerment
  – An owner’s mindset and freedom to act

• In its early stage and while scaling, will the organization be able to draw upon the capabilities, assets and scale of the Engine 1 core effectively? Will it benefit from economies of scale, shared assets and capabilities, and learning?

• Can we pursue Engine 2 intensively without seriously compromising the ability to achieve the full potential of Engine 1? Better yet, can we strengthen and reinforce the growth potential of Engine 1?

The burden of proof to throw yourself completely behind an Engine 2 initiative should be high, requiring a positive answer to all of the challenging questions posed above. Ironically, at the same time, the burden of proof required to understand new market boundaries, profit pool shifts, and new ways to serve customers and build competitive advantage has probably never been greater.

We may be entering a period in which, for many leadership teams, exploring what might at first feel like the riskiest course will, over the long term, actually be the safest.
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