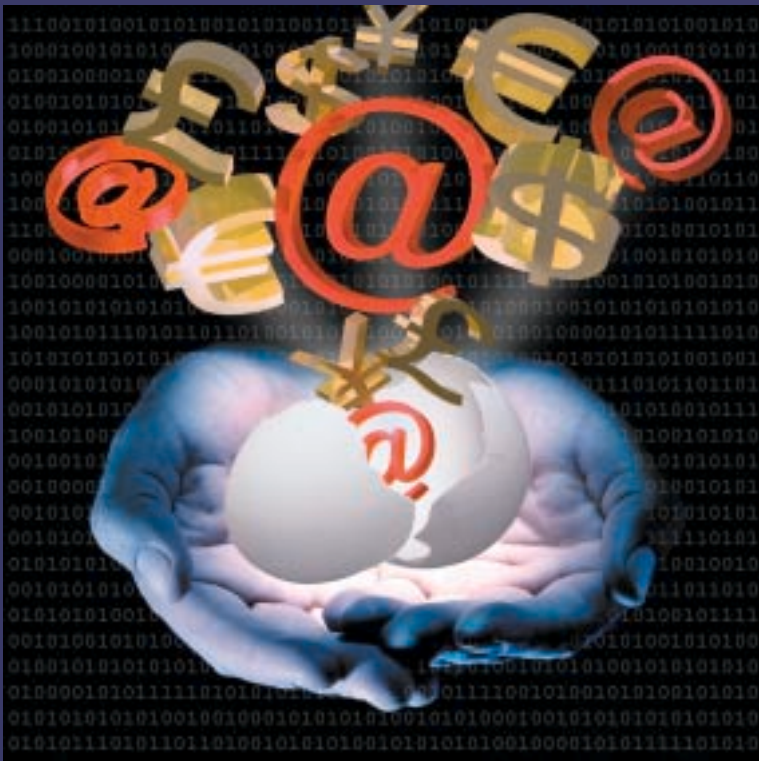


e-Business and Beyond: Organizing for Success in New Ventures



Executive Summary

Traditional companies looking to parlay their e-business experience into a sustainable new venture creation capability should draw and build upon the best practices of a wide variety of sources, including venture capital firms, incubators, dot.coms, and other brick-and-mortar competitors. Specifically, companies will increase their odds of success if they:

CATEGORY	KEY SUCCESS FACTORS
ORGANIZATION	<ul style="list-style-type: none">• Create a new venture group that is separate from the core business.• Recognize and understand that while a significant portion of their new venture group's value lies in its ability to leverage the core business's assets, there are natural tensions between the two groups that must be managed.• Utilize new-wave governance models as one of the mechanisms to help their new venture groups obtain the ideas, expertise, and resources they need while simultaneously protecting the interests of the core business.
PORTFOLIO STRATEGY	<ul style="list-style-type: none">• Clearly articulate their new venture portfolio strategy – types of businesses they will pursue, capital investment parameters, intended involvement in developing each business, linkages with the core business, and pipeline objectives.• Focus on opportunities that leverage their company's strengths, exploit market discontinuities, have strong management teams, and, given their advantaged position, have a relatively high probability of success.
NEW VENTURE DEVELOPMENT PROCESS	<ul style="list-style-type: none">• Employ a disciplined, milestone-focused, five-staged screening and funding approach to new venture development.• Leverage multiple sources – internal and external – to generate new business ideas.• Identify and dedicate the right resources to turn new ideas into viable concepts and business plans, since those who are best able to generate ideas are not necessarily best able to translate them into provable business plans.• Develop a stable of people who are able to incubate and launch new ventures quickly and effectively because of their expertise, knowledge, and experience.• Use frameworks to develop the best value capture mechanism – joint venture/IPO, new division, embedded structure within existing division, or business “sold” back to the company – and clearly communicate liquidity event expectations and “rules of the game” to key constituents, including employees.
PEOPLE	<ul style="list-style-type: none">• Understand how important leadership is to success, particularly the leadership of the overall new venture group and of the specific ventures.• Develop innovative ways to attract and retain new venture talent – e.g., compensation schemes, equity participation, entrepreneurial culture/environment, and exciting missions – while simultaneously reconciling the inevitable conflicts about how employees in the core business are compensated and rewarded.
PARTNERSHIPS AND ALLIANCES	<ul style="list-style-type: none">• Develop a stable of both long-term and transactional partnerships with key players – consulting firms, technology providers, independent incubators, law firms, venture capital firms – to fill capability gaps quickly and effectively.

e-Business and Beyond: Organizing for Success in New Ventures

A Viewpoint by:

Gary Neilson	Bill Jackson
Jill Albrinck	David Kletter
Jennifer Hornery	Maurizio Mauro
Paul Hyde	Rob Schuyt

As companies of all descriptions gain insight and experience in the e-business arena, early organizational lessons are already apparent. Many of the fleet-footed e-economy businesses that surged out of the starting gate have now stumbled, while traditional brick-and-mortars have been steadily gaining momentum. As the dust settles on the initial Internet “rush,” it’s clear that all that glitters is not gold. Fundamentals do matter.

We at Booz·Allen have been following these success stories and cautionary tales closely, interviewing dozens of senior executives across industries to understand the whole set of organizational issues that attend the launch and successful operation of e-businesses and new ventures, in particular (see Exhibit 1). That insight, combined with our client work, sheds light on how traditional companies are creating powerful new venture development capabilities.

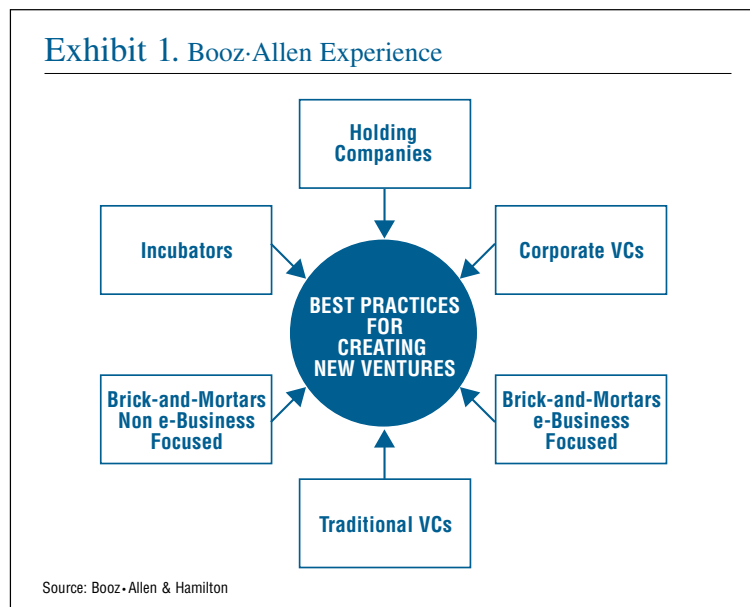
This *Viewpoint* summarizes the best practices and emerging trends we’ve identified and offers a roadmap to traditional companies looking to move beyond “launch and learn” mode toward a more disciplined and powerful approach to new business creation.

In the Wake of the First e-Business Wave

Now that the initial wave of e-business activity has passed and the heady valuations it buoyed are drifting toward sustainable levels, conventional wisdom seems to have returned to the marketplace. Many of the dot.coms that reveled in exuberant stock prices not long ago have now floundered, while “encumbered” brick-and-mortars have been steadily gaining advantage by leveraging their enduring strengths. There’s a growing realization in both the investment and business communities that fundamentals do matter. Earnings are still meaningful, and well-established brands and delivery capabilities are a source of continuing and compelling competitive advantage.

Still, nothing is as it was before. The competitive landscape has been transformed by e-business, and traditional brick-and-mortar companies need to adapt to this new reality to succeed. Based on our client work and research, we’ve identified a consistent four-stage process that traditional companies move through in mobilizing for e-business (see Exhibit 2). Most have progressed through what we call the Grass Roots and Focal Point stages in their e-business evolution and are now creating value by pursuing one or more of the following paths:

Exhibit 1. Booz-Allen Experience



- **Capturing internal/external efficiencies**
- **Extending reach to customers**
- **Creating new ventures**
- **Transforming the business model**
- **Extending reach into the market**

While many companies are making significant progress, there remain large differences in their abilities to actually create and capture value from their e-business efforts. Organizational issues are consistently cited as one of the biggest challenges:

“We’ve had a centralized e-business group for a while now, but there is so much activity going on – we need to rationalize all the things that we’re doing and organize ourselves better to go after real opportunities.”

“We’ve done a lot but the jury is still out on shareholder value impact.”

“I know all companies are in ‘learn’ mode, but I wish we could better understand what is and isn’t working for others — so we don’t make the same mistakes.”

“We just aren’t moving fast enough...It just takes too long to get things done in our organization despite our intentions to work at ‘e-speed’.”

“The people problem isn’t going away. Not only do we need to be able to attract and retain key people for these efforts, but I’m not even sure we know what the right people look like.”

Unfortunately, many companies are adopting a “one size fits all” approach to e-business, when, as Exhibit 2 outlines, it presents strikingly different sorts of opportunities. Establishing differentiated organizational models is key to creating and capturing the value of these varied opportunities (see inset box).

Exhibit 2. As e-Businesses Evolve...

STAGE I Grass Roots

Grass Roots

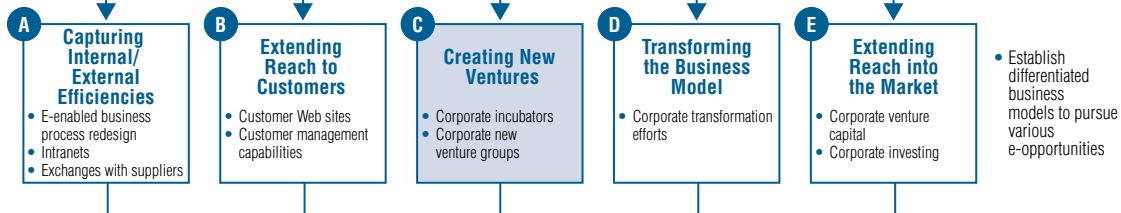
- Allow ideas to propagate through the organization with no/minimal direction or coordination

STAGE II Focal Point

Focal Point

- Establish a focal point for e-business
 - Devise a cohesive Internet strategy
 - Build critical mass of e-awareness
 - Lead the way to larger steps
- Identify e-opportunities

STAGE III Transformation & Value Creation



STAGE IV End Game & Value Capture



DIFFERENTIATED ORGANIZATIONAL MODELS ARE EMERGING...

- A** **Capturing Internal/External Efficiencies** through procurement exchanges, employee intranets, and e-enabled service delivery requires a company to fundamentally change and/or enable many existing work processes. Many organizations address this challenge by creating a network of alliances with service providers.
- B** **Extending Reach to Customers** presents its own organizational issues as companies wrestle with the challenges of globalization, presenting a common face to the customer, and "channelbilization." Many companies set up separate Web sites and/or customer management groups that aim to develop company-wide customer strategies and Internet channels.
- C** **Creating New Ventures** involves leveraging the assets and capabilities of the existing company to create new businesses. Organizational challenges include focusing on the right opportunities, securing and retaining entrepreneurial talent, and developing independent and appropriate cultures and business models for each venture. Corporate incubators or venture groups serve as the model for new venture organizations.
- D** **Transforming the Business Model** is perhaps the most dramatic response to the e-business challenge. Responding to today's forces of corporate upheaval, from the Internet to earnings pressures to consumers' freedom of choice, many companies are transforming their entire organizations. They are focusing on those links in the value chain where they excel and are leveraging alliances to fill in the gaps, creating aligned yet adaptable organizations. These new models do not necessarily usurp the old, but rather coexist as companies make the transition to the New Economy.
- E** **Extending Reach into the Market** involves investing in external businesses to gain insight into or access to markets that are relevant to one's core business or, alternatively, leveraging core business insight to invest in external businesses that promise superior rates of return. Small and focused corporate venture capital arms (e.g., Nokia Ventures) are models of this type of organization.

Source: Booz-Allen & Hamilton

Creating New Ventures

This *Viewpoint* focuses on Creating New Ventures (Exhibit 2, Box C) and how traditional companies are leveraging the lessons of e-business to build a broader new ventures capability. We will examine the best practices and trends that are emerging as brick-and-mortar companies create and incubate not only new “clicks” but also new “bricks” businesses.

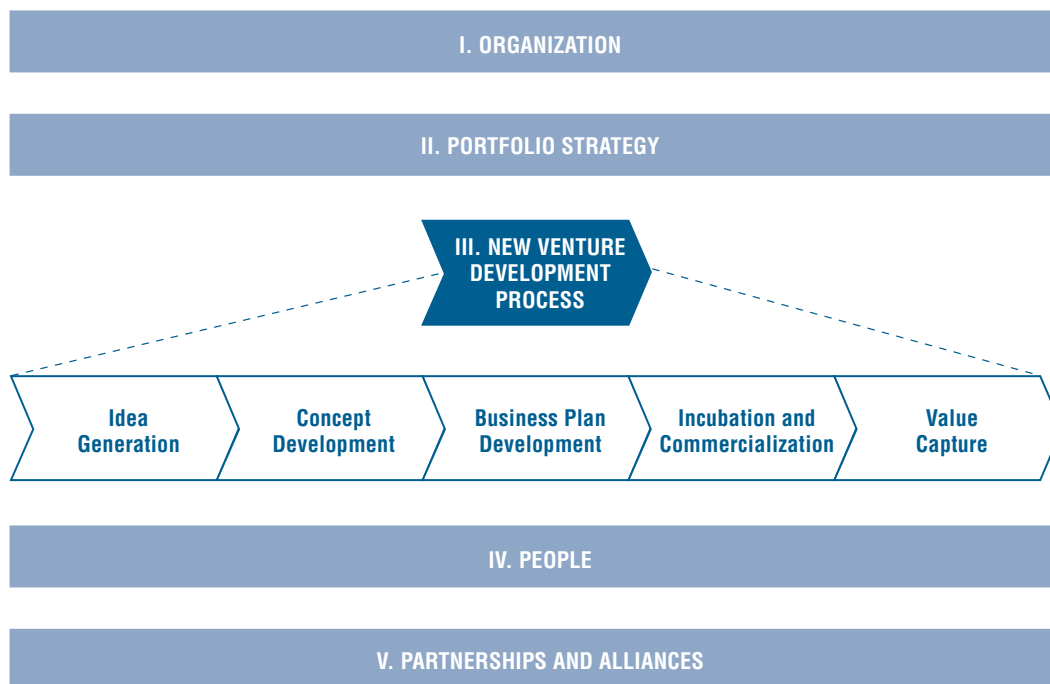
As they organize for success in new ventures, leading companies focus on five critical elements (see Exhibit 3).

Organization

In our experience, brick-and-mortar companies generally find it necessary to separate their new venture efforts from their core business(es) for myriad reasons (see Exhibit 4):

- Forces clear articulation of new venture strategy
- Facilitates a coordinated and proactive approach to new business development focused on “entrepreneurial” core competencies
- Solves difficulties in simultaneously operating the current business and devoting sufficient energy to the building of new businesses
- Uncovers opportunities within the core business that have not been fully exploited

Exhibit 3. New Ventures Capability: Five Key Elements



Source: Booz-Allen & Hamilton

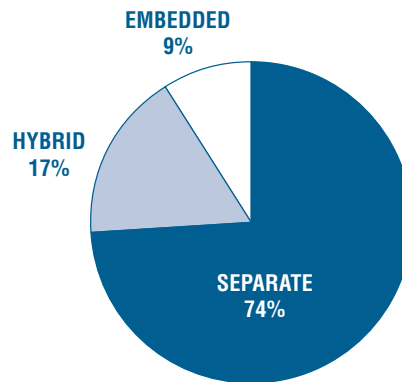
- Makes it easier to attract and retain top talent
- Provides the freedom and flexibility to tailor individual venture business models to their specific competitive set
- Facilitates separate valuation by existing/potential investors

For example, United Airlines created a new venture group to provide focus, attract personnel, and furnish investors with visibility into higher growth businesses. Enron separates its new ventures to give it the flexibility required to craft the appropriate business model and employee value proposition. And UPS has created a stand-alone internal incubator called E-Ventures to enable the development of a separate, more entrepreneurial, risk-tolerant culture (see Exhibit 5).

Naturally, conflicts and tensions will arise between the new venture development group and the pre-existing core business(es) as both struggle to assert their position in the company and in the marketplace. A great deal of the value that new ventures are looking to exploit resides in the core, and yet the new ventures group is deliberately distinct from the core (see Exhibit 6).

Leading companies have learned to manage these tensions using a variety of methods. For example, Lucent opened a Bell Labs research facility in Silicon Valley to “feed” ideas to its venture capital arm, Lucent Venture Partners (LVP). Now Lucent and LVP share in the value captured from Bell Labs’ ideas through

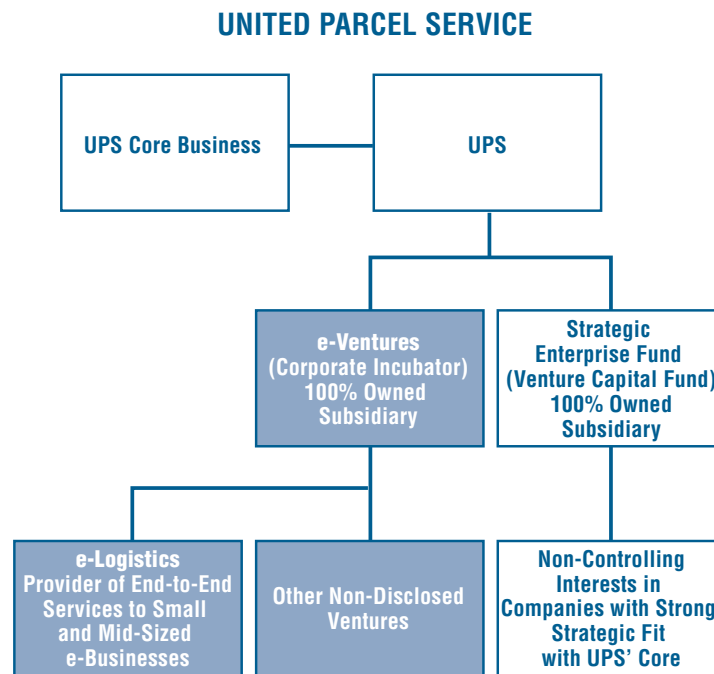
Exhibit 4. Separate or Embedded New Venture Efforts?



- Separate: establishment of a separate subsidiary or division for new venture efforts.
- Embedded: new venture creation and/or value capture lies within each business unit or division.
- Hybrid: the combination of a separate subsidiary or division and embedded new venture efforts.

Source: Booz-Allen & Hamilton

Exhibit 5. UPS Organizational Model



Source: Booz-Allen & Hamilton

Portfolio Strategy

Companies that are successful in developing new ventures have a clearly articulated portfolio strategy that covers the following considerations:

- **Type of Business Opportunity**

- Industry focus
- Geographic focus/fit with globalization strategy
- Value chain focus

- Incremental to core business
- Discontinuous opportunity

- **Capital Investment Parameters**

- Risk/return tradeoff
- Stage of investment
- Partner vs. sole investor
- Hurdle rates and caps

- **Degree of Operational Involvement**

- Operational control vs. strategic guidance
- Pure financial play

- Provision of support/infrastructure

- **Link with Core Business**

- Leverage critical assets
- Transfer capabilities to the core
- Exit strategy and how it contributes to the core

- **Pipeline Objectives**

- Number of opportunities at each stage of development

That said, our research and client work indicate that there is a clear distinction in how corporate

Exhibit 7. New Governance Structures

	COMPOSITION	ROLE	MEETING FREQUENCY
CORPORATE BOARD COMMITTEE	<ul style="list-style-type: none"> • Parent company board members in a sub-committee of the board • Increasingly infused with directors who bring technology and e-business expertise 	<ul style="list-style-type: none"> • Ensure the company has an e-business or new venture strategy and maintain this as an imperative • Keep board members abreast of new venture issues and progress 	<ul style="list-style-type: none"> • Once per quarter or once per month
NEW VENTURES BOARD OR STEERING COMMITTEE	<ul style="list-style-type: none"> • Senior management of the new venture group • Executives from the core business • Potentially outsiders (VC firms, strategic partners) 	<ul style="list-style-type: none"> • Ensure consistent and mutually beneficial linkages with the core business • Help set and agree upon high-level policies, processes, and criteria 	<ul style="list-style-type: none"> • Once per month
INDIVIDUAL VENTURE BOARD OR ADVISORY COMMITTEE	<ul style="list-style-type: none"> • Venture group management team • Representative expertise from the core business to guide strategy and business planning • External expertise 	<ul style="list-style-type: none"> • Provide oversight and guidance to specific venture and provide active strategic counsel 	<ul style="list-style-type: none"> • Every two weeks or as needed

Source: Booz-Allen & Hamilton

Exhibit 8. Screening Criteria

CRITERIA	CORPORATE VC/INCUBATOR	INDEPENDENT VC/INCUBATOR
Strategic	Leverage Core Assets	Intra-Portfolio Synergies
Competitive	Competitive in Target Space	Industry Leader
Industry	Industry-Related	Growth Markets/Industries
Management	Industry Expert	Experienced Business Builder
Financial	Low-Risk, Material Return	High-Risk, High Return

Source: BoozAllen & Hamilton

venture groups and independent incubators screen new business opportunities. Corporate incubators emphasize synergy with core assets while independent incubators emphasize intra-portfolio synergies, market dominance, and the management team (see Exhibit 8). The more advanced corporate venture groups, however, understand the importance of a strong management team and seek experienced business builders.

Of course, this initial screening of opportunities is but the first in a series of screens through which the new ventures portfolio should pass. Establishing relevant and regular performance metrics for new business ideas is critical. These measures allow senior management to monitor progress, gauge performance versus objectives, pro-

vide early warning signals, facilitate rewards and incentives, and, most importantly, keep venture management focused on key success factors.

While many measures of the new business portfolio's results are similar in spirit, they may look quite different from the traditional markers of performance:

- **Measurement focus:** Measures of core business success tend to focus on incremental gains in revenue and profit. Measures of new venture success, on the other hand, should emphasize value accretion and long-term return such as capitalized ROI at the time of exit. Many traditional companies make the mistake of applying standard annual profit targets to a new venture portfolio. If one or two portfolio companies suf-

fer a loss, it may hinder the ability of the entire portfolio to meet its targets. The portfolio decisions that result, such as the premature sale of another portfolio company, may be sub-optimal from a value maximization standpoint.

- **Timing/flexibility:** Mature businesses are measured on a quarterly basis by the capital markets and respond to market pressures. Managers make internal funding decisions and allocate funds based on an annual budget cycle. However, new ventures need to be granted the flexibility to grow, with performance expectations focused more on the long term, rather than on quarterly or annual targets.

It is also important to realize that not only will the nature of the metrics differ, but they will change over the lifecycle of the individual venture (see Exhibit 9). Early-stage metrics are milestone-focused and can provide a basis for stage-based funding or contingent-funding decisions.

Globalization is an important consideration that needs to be explicitly addressed in a company's new venture portfolio strategy. In our experience, few brick-and-mortars have conquered the globalization challenge. Local incumbents have a head start in terms of creating an appropriately customized offering, but a few leading global firms are closing the gap by focusing on high-potential mar-

kets, leveraging their existing brands and geographic footprint, building local alliances quickly, and instituting strong knowledge sharing practices and processes.

Softbank, for example, shares knowledge by conducting a bi-weekly conference call with select global partners representing each Softbank office to discuss business performance and to share business models being implemented locally. They discuss variants on successful models that may be customized and launched in other countries. Softbank Korea, for instance, customizes, tests, and

potentially launches these concepts in their “Platform” incubator.

New Venture Development Process

Successful companies have developed a disciplined, milestone-focused approach to screening and funding new ventures that encompasses five main stages (see Exhibit 10):

- Idea Generation
- Concept Development
- Business Plan Development

- Incubation and Commercialization
- Value Capture

This New Venture Development process focuses on evaluating each project at pre-determined milestones to decide whether to proceed, refine, accelerate, or discontinue. By applying such a time-phased approach, companies gradually increase their bets in line with the availability of more information. As the venture moves through critical “decision gates,” its performance is measured against pre-established targets and expecta-

Exhibit 9. New Venture Metrics Evolve over Time



- Milestone measures:
 - Number and quality of customer contracts
 - Number and nature of alliance partners
 - Number and quality of supplier contracts
 - Establishment of key processes
- Other pipeline measures
- Simple financial measures (usually around revenues)
- Link individual targets to achievement of these milestones

- Milestone measures:
 - Number and nature of alliance partners
 - Customer/audience size or depth achieved
 - Rounds of financing received
 - Success at hiring team
 - Number and quality of supplier contracts
- Recruiting and retention metrics
- Customer profitability metrics
- Emerging financial measures (revenues and profitability)
- External validation of value: potential investors or trade acquirers establish a value

- Return on investment
- Operating and profitability margins
- Customer profitability metrics
- Revenue per head/per customer
- Valuations (NPV and applied multiples)
- Strategic partnership value
- Milestones such as
 - IPO (if end game is chosen)
 - Other rounds of financing
 - Other liquidity events
 - Progress of re-integration with core business (if end game is chosen)

Source: Booz-Allen & Hamilton

tions, and resource decisions are made. Meanwhile, the process itself becomes “smarter” as more information is gleaned and assessed about the economic and competitive environment and the individual venture’s operating history. The result resembles an “options” model with the value of a given decision increasing as the probability of a known outcome increases. The nature of the screening criteria evolves as the venture matures, ensuring the continued soundness of the con-

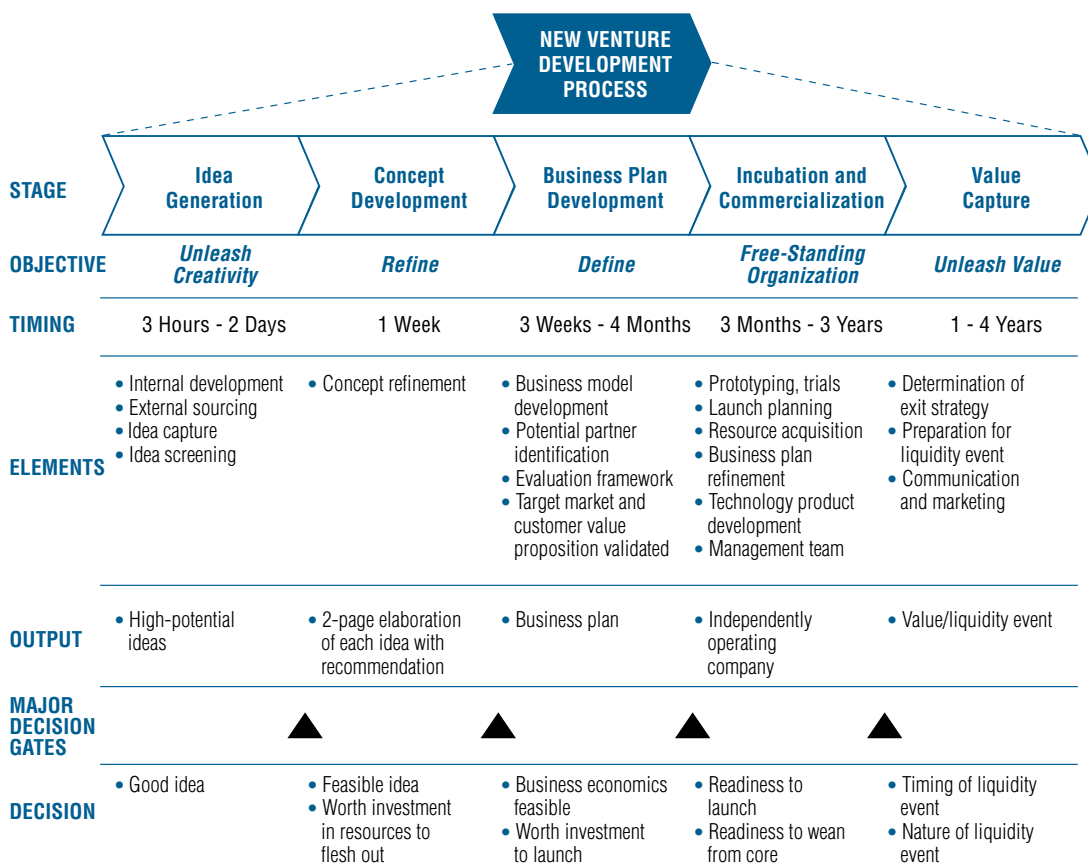
cept at each stage and optimizing the speed and risk/return profile of the entire process.

Idea Generation

The most robust new venture development processes leverage multiple sources to generate new ideas (see Exhibit 11). Idealab, for example, conducts monthly brainstorming sessions and focuses on those ideas that generate the most passion among staff members. Siemens holds Idea Competitions in which

employees are asked to submit ideas to a cross-functional screening committee. DuPont draws on the expertise of Wharton professors and outside strategic consultants through its Knowledge Intensity University. Nike holds bi-weekly Idea and Innovation meetings. Shell employees participate in what they call the “Gamechanger” process, during which they develop and vote on potential new business ideas. Attendees use a set of criteria focused on

Exhibit 10. New Venture Development Process



Source: Booz•Allen & Hamilton

merit, ingenuity, and potential value to narrow a list of nearly 200 ideas down to about ten.

Idea-generation sessions typically last a few hours to a full day, although some are structured around weekend retreats or specific creativity workshops. Their output is typically a list of one-sentence idea descriptions that the team believes are worth pursuing to the next level.

Concept Development

In the concept development phase, a promising one-sentence idea is transformed into a two-page outline of the opportunity covering such topics as: concept description, target market, value proposition, competition, potential business models, and opportunity size. Two to three individuals who bring the relevant knowledge and skills to the assignment (e.g., industry/technical expertise and institutional knowledge) flesh out the concept to determine if it is worth putting resources behind.

One of the keys to success at this stage is speed. Concept development should take weeks, yet many companies let ideas languish for months. By the time the idea has coalesced into a testable business model, the market has changed or competition has usurped the idea. Companies need to expedite the flow of innovative ideas through this phase and establish an approval “board” to usher to the next stage those that meet the “feasibility” test.

Exhibit 11. Idea Sources



Business Plan Development

At this stage a full-scale business plan is developed, and new capabilities are brought to bear on the venture, since those who are best able to generate ideas are not necessarily the best at translating them into workable business plans. Corporate venture groups often draw on external resources such as venture capital firms and incubators at this stage. In addition, there are new businesses emerging such as Garage.com that specifically help entrepreneurs develop ideas or concepts into viable business plans.

Effective business plans reflect both a strong grasp of technology and a firm understanding of the business and mar-

ket the new venture is tackling. Moreover, they are “reality-tested” with key constituencies, such as customers and investors.

The ultimate deliverable is a document that details such items as:

- Market opportunity
- Competitive evaluation
- Business model
- Entry strategy
- Financial projections
- Management team (proposed or described)

Incubation and Commercialization

Launch marks the point at which a business plan graduates from theory into practice. Now resources must be acquired or borrowed to establish the validity of the business model and test its

value proposition. During the incubation phase, seed funding is applied and dedicated advisors, mentors, or sponsors are assigned. Partnerships are established both internally and with external experts (e.g., legal, technology) to bring the new venture along. Enormous discipline and strong project management skills are needed to:

- Select alliance partners and define negotiation tactics
- Source, recruit, and train staff
- Implement support processes (through vendors or sourced internally)
- Secure funding
- Develop value capture scenarios
- Complete valuation of the business concept
- Establish the legal entity
- Create contracts with suppliers, parent, and potential customers
- Develop detailed marketing and sales strategy
- Implement communications plan

As the concept is fully commercialized, it is rapidly tested and scaled-up. While the project management team needs to recognize that the business model will evolve, implementation speed is critical. Learnings need to be rapidly absorbed and incorporated.

Incubators have a lot to offer in the way of valuable insights to brick-and-mortars looking to swiftly launch and commercialize new business models. One lesson is to keep key resources close at hand.

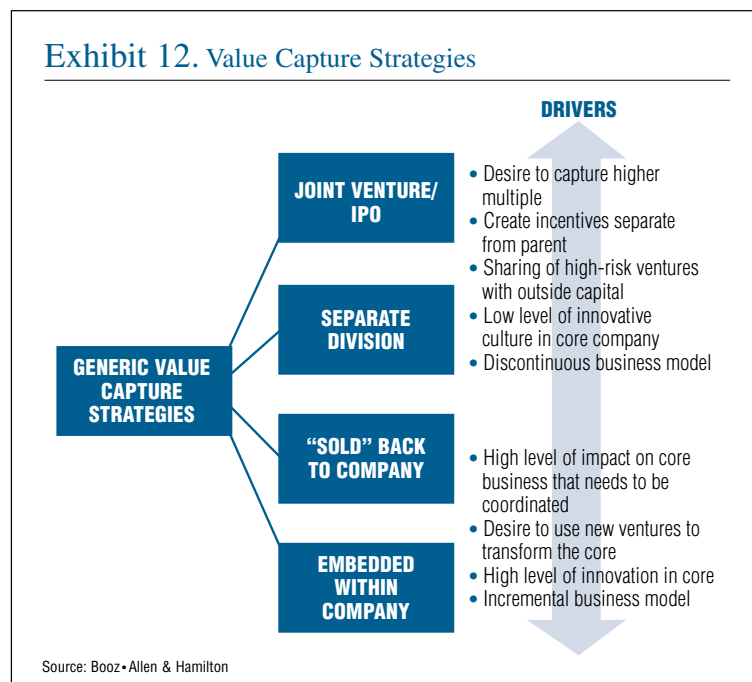
Idealab has developed in-house legal and staffing resources to accelerate the process of incorporating new companies and installing new management teams. CMGI offers centralized accounting, human resources, legal services, and financing support, and encourages cross-selling of products and services between portfolio companies. Booz·Allen & Hamilton's Australasian incubator has formed an alliance with a leading law firm and investment bank to create a nucleus of key capabilities it can offer portfolio companies.

Value Capture

Best practice companies have clear, and often multiple, mechanisms for capturing value from their new businesses once they have been commercialized (see Exhibit 12).

For example, Xerox takes one of three different approaches. If the venture is related to a Xerox core competency but does not fit neatly into an existing business unit, it may become its own separate Xerox company. The venture may be assigned directly to a compatible Xerox business division. Or the new venture may be spun off to a venture capital firm if it does not strategically fit with Xerox's existing businesses or overall portfolio.

Shell incubates in a separate "lab" those ideas it thinks might have a long-term payoff for one of its businesses. Ultimately, these ideas are either absorbed back into the relevant business unit, carried forward as R&D projects, or written off as interesting but unsuccessful experiments.



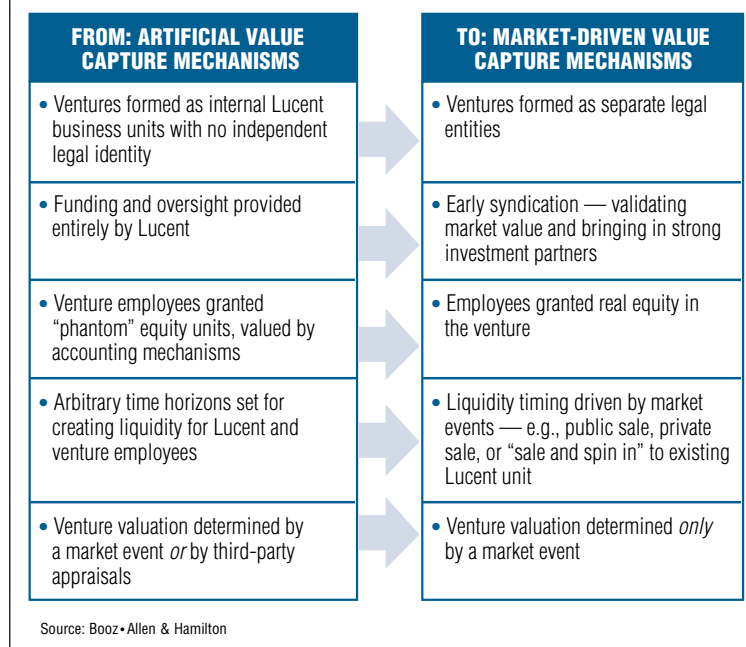
The Lucent New Ventures Group (NVG), like Xerox, leverages a number of different venture paths. However, in addition to spinning off the venture through public or private sale, NVG will sometimes “sell” a venture back to an existing Lucent business, rather than simply transferring it there. This mechanism was put in place to support the venture capital operating model of NVG and enable it to be used for more strategic new business development activities.

Lucent NVG is well ahead of the pack in addressing the challenges associated with creating value capture situations that motivate all shareholders. Since its inception in 1997, the venture unit has refined its model for venture creation, valuation, and exit. The new model creates incentives to attract and retain the entrepreneurs required to make these businesses work (see Exhibit 13).

While individual company preferences for value capture vary widely, there are some general lessons that can be broadly applied:

- **Make your general intent — spin-out or absorption — clear.** One technology company originally told its new venture employees that they would be re-integrated back into the core business. When that didn’t happen, a perception of welfare took hold rather than a charged, entrepreneurial atmosphere. In another instance, an oil com-

Exhibit 13. Evolution of Lucent NVG’s Value Capture Model



pany delayed thinking about likely exit strategies and did not clearly articulate the end-game rules for its various incubation projects, resulting in high employee attrition among struggling ventures.

- **The race to capture value from the public financial markets should not be the primary rationale for determining the appropriate value capture mechanism.** Ziff-Davis and DLJ created tracking stocks in an effort to create an external valuation mechanism for their Internet subsidiaries, yet investors have not recognized significant value in their respective crowded spaces. In fact, Ziff-Davis plans to bring an end to its tracking stock structure by

merging the tracking stock with their publishing-focused common shares. Companies often are better served considering such factors as strategic fit with the core business in deciding how to capture the value of new ventures.

People

By leveraging existing assets and capabilities, traditional companies can unleash unprecedented value today, but only if they have the right people in place to exploit this potential effectively. In our experience, traditional brick-and-mortars have consistently underestimated the war for talent in an e-economy and the creativity and

investment needed to wage it successfully.

Leadership

Strong leadership is critical to successfully creating and capturing the value of new ventures — at both the new venture group and individual venture levels (see Exhibit 14).

Many companies agonize over whether they should hire internal or external candidates for these positions. Our answer? It depends. Given the need to tie new ventures back into the core organization, it makes some intuitive sense that new venture leaders be sourced internally.

However, where an infusion of fresh thinking is required, companies have looked outside.

While Chevron and United Airlines source many of their new venture leaders internally, Ford named a former GE executive to head its ConsumerConnect initiative, for example.

Companies confront the same insider vs. outsider dilemma at the individual venture level. Venture capital firm Kleiner Perkins hires experienced external entrepreneurs as “CEOs in waiting” and then waits for the right opportunity to arise. Enron employs a mixed approach, looking inside where it makes sense (and allowing executives to retain their title) and recruiting from outside the company where the right skill set cannot be sourced internally.

Exhibit 14. New Venture Leadership Qualifications

LEADER OF NEW VENTURE GROUP	INDIVIDUAL VENTURE CEOs
<ul style="list-style-type: none"> • Ability to bridge the core business and new venture group organizations and cultures • Charisma and courage to lead the core into a new world • Ability to envision the future of the new venture and yet stay focused • Knowledge of the core's businesses • Ability to tolerate and harness uncertainty and ambiguity • Experience with or an understanding of entrepreneurial or high-growth environments • Demonstrated ability to attract, retain, and build a strong team • Effective communications skills 	<ul style="list-style-type: none"> • Experience in building businesses • Knowledge of the industry or technology — key to formulating and developing the business strategy • Skills in business and cross-disciplinary management • Strong communication and networking skills • Ability to recognize that the needs of the venture will change over time as the concept and business matures

Source: Booz•Allen & Hamilton

Attracting and Retaining People

A new venture capability hinges on the ability to attract and retain key talent. Therefore, it's no surprise that people issues have quickly risen to the top of the CEO agenda at many brick-and-mortar companies. In their ongoing quest for growth and differentiation, leading companies are discovering that they need to scale up quickly to succeed and that the market expects and rewards a focus on human resources.

While there are no hard-and-fast rules in this challenging and churning labor environment, two key strategies are emerging among best practice companies:

1. Crafting a *tailored employee value proposition* with the right mix of incentives and

rewards to motivate the required behaviors (see Exhibit 15):

- Monetary bonuses
- Development opportunities
- Mission and impact
- Lifestyle and culture

2. Crafting and deploying a *differentiated sourcing* approach that:

- Targets required talent segments
- Includes all potential sources (i.e., leverages partnerships, taps non-traditional channels)
- Leverages distinct brand identities
- Combines creativity and courage

For instance, Intuit tailors its recruiting to its two main talent segments, technical and marketing. Technical staff are enticed with foosball and fun, while marketers are sold on

Intuit’s fast-track, great brand, and industry-leading products.

Enron searches for the skills it needs in “un-traditional” places. When looking to build up its energy-trading capabilities, it recruited on Wall Street. Other companies leverage their board, employee, and venture capital connections for referrals.

Increasingly, top management is participating in the search for talent. Schwab’s CEO has personally met with Wharton students, while an IBM executive reached out to a college senior recently to “seal the deal.”

Leading companies are discovering how to balance the need

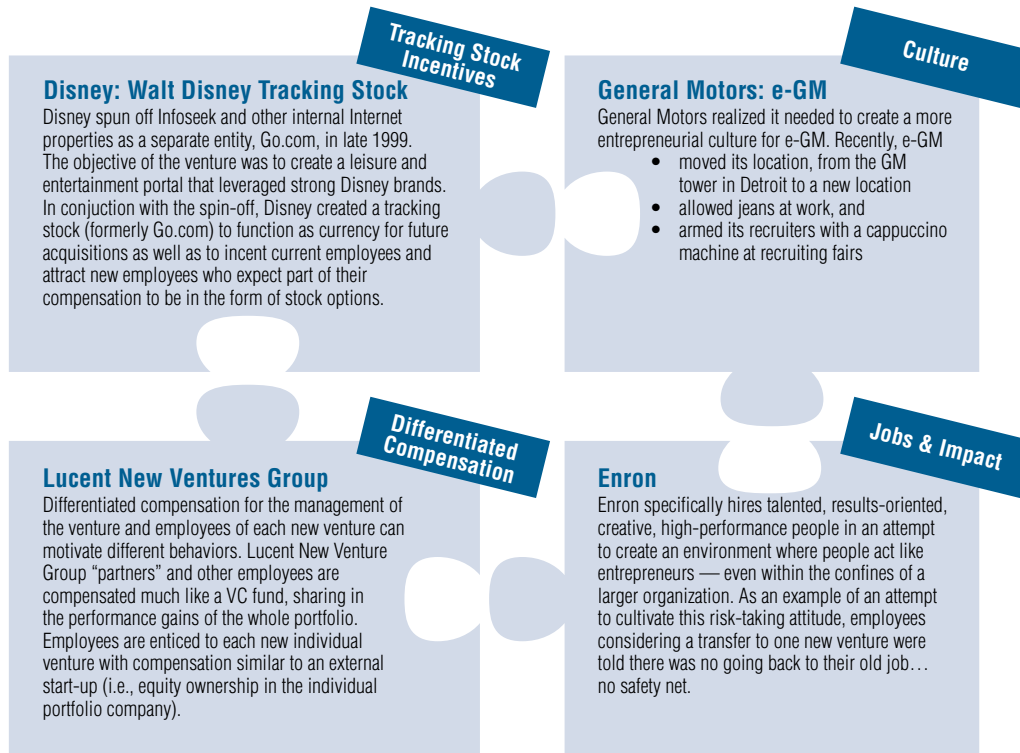
for differentiation and tailored incentives in staffing new ventures with the pressure for internal equity from the core (see Exhibit 16).

The most successful companies have placed stakes in the ground that “declare” how they will treat people and how they will differentiate performance and risk-bearing in new ventures. This declaration may be prompted by the company’s core culture (i.e., already performance-driven and entrepreneurial), a visionary leader’s initiative, or simply the need to survive. Whatever the case, it forces a self-selection process in which employees will-

ing to bear risks in return for the potential upside of a new venture will elect to join.

To achieve this sort of “tracking” and maintain a working balance between the core and the new venture, leading companies generally create a separate structure for the new business and two or more value proposition “paths” that allow employees to choose the career route they prefer. They reinforce this people strategy in their recruiting and promotion policies, communications, performance metrics, and leadership.

Exhibit 15. Tailored Employee Value Propositions



Source: Booz•Allen & Hamilton

Exhibit 16. People Strategy Balancing Act

WHAT IS THE BALANCING ACT?

What the Core Values...

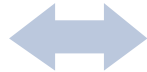
Preservation of internal equity

Risk aversion

Results focused on department or business unit

Stable, well-defined career path

Central resource management



What the New Venture May Need...

Reward for performance

Risk tolerance

Results focused on cross-team or cross-BU performance

Self-selection of career path

Open market staffing

Source: Booz•Allen & Hamilton

Partnerships and Alliances

There is a clear benefit to establishing an in-house corporate venture group or incubator since this structure allows traditional companies to retain ownership and control of new ideas. However, building a corporate venture group from scratch may not be desirable or feasible for a number of reasons:

- Too slow
- Leading edge capability difficult to maintain
- Risks are not shared
- Specific capabilities don't exist in-house and are difficult to build
- Easier to buy some "relative commodities" from the market
- Internal demand is sub-scale

As a result, many traditional companies have formed partner-

ships and alliances with other firms in order to secure the talent and resources required to both build a new ventures capability and to support individual new ventures.

Choosing the right set of partners can be a complex and daunting task. While a number of factors come into consideration, we've identified four key criteria that tend to influence selection:

- Capability/service requirements
- Stage of development
- Track record
- Cost

Capability/Service Requirements

Capability or service requirements tend to fall into four broad categories: funding, operational support services, manage-

ment expertise and advice, and network (see Exhibit 17).

Given the recent strong economy and the proliferation of Internet incubators, the first two requirements — funding and operational support services — have been relatively easy to come by. More often than not, we find management expertise and network connections to be the differentiating factors.

Networks are important, particularly for traditional companies looking to extend their reach into new markets. Internal resources may not have the specific knowledge and/or contacts to navigate this new environment successfully, much less create an entrepreneurial culture, value a start-up, or establish the appropriate organizational structure. So they draw on the Rolodexes and experience of venture capital firms, incubators, and consulting groups to share knowledge, leverage lessons learned, and even fill board seats.

Stage of Development

The choice of partner also will depend on what stage the venture group or individual venture has reached in its development. Companies typically look to incubators, for example, to help in the early stages of new ventures' development when business plans are being drafted and basic support services (e.g., legal, payroll) are being set up. They'll partner with other service providers when the venture matures.

DuPont has leveraged alliances at various stages in its new venture development. Its Knowledge Intensity University partnership, for instance, acts as an ideation and screening capability for its new ventures efforts. It also has partnered with incubator ICG to staff and resource CapSpan, a neutral, Web-based B2B marketplace.

Track Record

A potential partner’s track record is an important consideration, especially since most venture groups or incubators (whether corporate or independent) are too young to have established a track record of their own. Indeed, most of these efforts have not been around long enough to see any new ventures through commercialization and value capture, although many have taken concepts through several rounds of funding.

Cost

The costs associated with forming alliances can vary dramatically. Some potential partners will extract an equity stake in the venture in return for their services or capabilities. Some simply charge fees for services while others use a mix of equity and fees.

Incubators, for example, can demand equity stakes ranging from 5 percent to 75 percent (with 30 percent being a reasonable average), depending on such factors as the source of the idea, the stage of investment, and the capital provided. Typically,

higher percentages are charged for internally generated ideas and early stage investment and/or capital infusion.

Many general management consulting firms use a mix of equity and fees tailored to suit the situation and needs of their client. Technology providers have generally had to transition from equity stakes to fees for service, except in those cases where they offer unique value to the partnership (content, proprietary technology, brand).

Finally, there are those in the marketplace who are truly undifferentiated and who will sell their services to a corporate venture group for next to nothing to

gain the leverage of that association in their other negotiations. These alliances are more and more common in our experience.

Partnership and Alliance Forms

Partnerships may take on a number of different forms from “spot buys” to long-term joint ventures (see Exhibit 18).

For example, the “spot buy” of a service is common, particularly for one-time or commodity-like purchases (e.g., legal, HR, non-proprietary technology support). These are generally fee-for-service relationships.

Traditional companies are increasingly leveraging longer-

Exhibit 17. Partnership Capability/Service Requirements

CAPABILITY OR SERVICE	DESCRIPTION
1. Funding	<ul style="list-style-type: none"> • Seed financing • Early stage (1st round) financing • Later stage financing (2nd/3rd rounds) • Mezzanine financing
2. Operational Support Services	<ul style="list-style-type: none"> • Finance, accounting, legal • HR, recruiting • Sales, marketing, public relations • Technology • Operations, distribution • Office space and facilities • Administrative support • Network and communications infrastructure • Product development
3. Management Expertise and Advice	<ul style="list-style-type: none"> • Entrepreneurial talent (CEOs) • General management expertise • Business strategy development, know-how, experience • Industry or functional development
4. Network	<ul style="list-style-type: none"> • Industry and functional experts • Relationships with access to potential customers, business partners, board members • Access to venture capital

Source: Booz•Allen & Hamilton

term and more strategic alliances to both establish and maintain momentum in their venture development efforts. BP, for example, has leveraged Booz-Allen to supplement their capabilities in everything from ideation to business model refinement to partner negotiations. Hewlett-Packard, CREDO, and FutureStep have teamed up to create LaunchPad, which offers start-ups expert advice in the three critical areas of business, technology, and people. LaunchPad's strategic alliances with law firms, accountants, mar-

keting services companies, and venture capitalists are specifically designed to help turn venture ideas into profitable businesses.

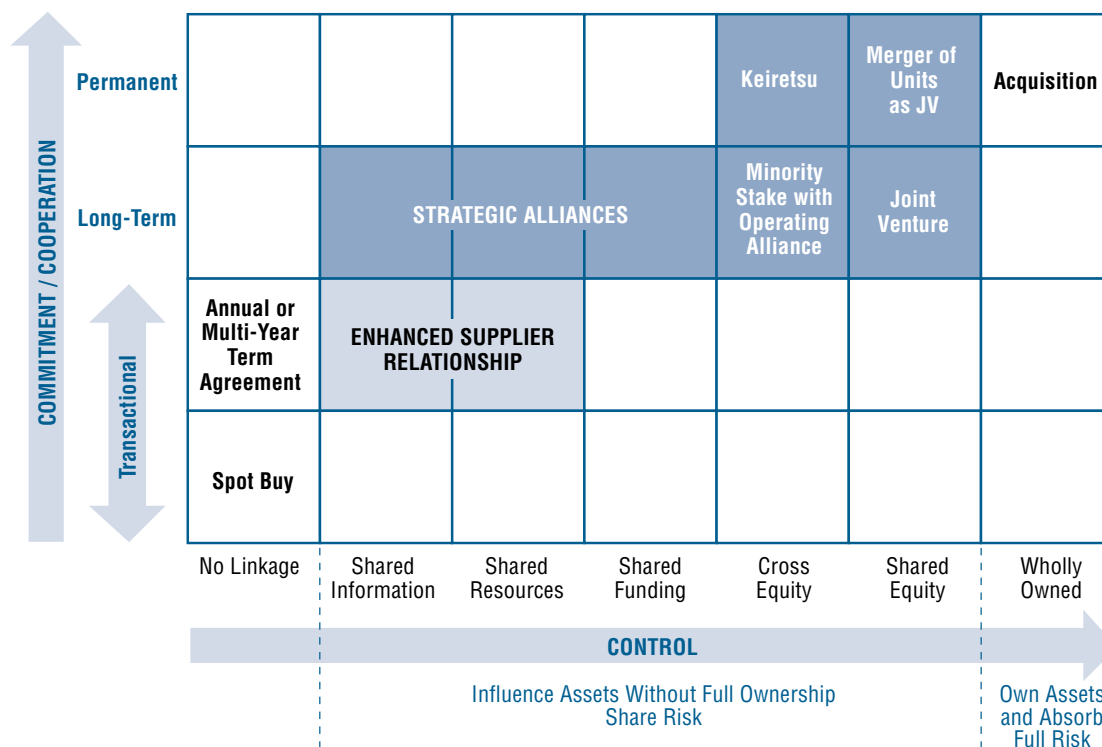
Divine Interventures, an Internet incubator headquartered in Chicago, has adopted the "keiretsu" approach to partnerships, strongly encouraging its portfolio companies to work collaboratively, and sometimes incenting them with cross-equity stakes.

Joint venture structures have allowed participating companies to develop critical mass around breakthrough business

ideas while limiting risk.

HomeAdvisor is an online home loan automation service offered through the Microsoft network that draws on the experience and best thinking of Microsoft, Bank of America, Chase Manhattan, the Federal Home Loan Mortgage Association, Norwest Mortgage, and GMAC-Residential Funding. The joint venture, Identrus, leverages Chase technology across global banking networks, including those of Citibank, Barclays, and Deutsche Bank, to support its business customers.

Exhibit 18. Partnership and Alliance Forms



Source: Booz-Allen & Hamilton

Finally, outright acquisitions also can make sense for some traditional companies looking to jumpstart either specific ventures or their new venture capability, in general.

Looking Ahead: The Next Generation Organization

Traditional companies are now at a stage in their e-business development where they are pursuing a wide range of opportunities destined to transform their business. They are leveraging existing assets and capabilities to create significant shareholder value.

The leaders are learning to overcome the organizational barriers that plague so many traditional companies. They recognize that differentiated organizational models — service provider networks, enterprise-wide customer management groups, corporate venture groups, or corporate venture capital arms — are required to effectively pursue new value creation opportunities. These new models promise not only bottom-line benefits, but also shed light on the new organizational models that are likely to prevail in the future.

Corporate venture groups are likely to be particularly fertile ground. Not only are these groups pioneering new business concepts with promising value creation potential, they are defining next-generation organization models. The plans they are drawing up regarding structure, process, people, and partnerships will serve as the blueprint for the corporation of the future.

The new models that companies are introducing today will not eclipse traditional structures overnight. We believe that they will coexist and compete, forming hybrid organizations that will bridge the divide as the old and new economies converge.

What Booz-Allen Brings

Booz-Allen & Hamilton is a global management and technology consulting firm. In more than 100 countries, our team of 10,000 professionals serves the world's leading industrial, service, and governmental organizations. Each member of our multinational team has a single common goal — to help every client we serve achieve and maintain success.

As world markets mature, and competition on an international scale quickens, we are harnessing the strengths of our entire firm to address the needs of our clients. Specifically, by combining the deep functional and industry knowledge of our Worldwide Commercial Business with the technology expertise of our Worldwide Technology Business, we are uniquely positioned to solve the most challenging e-business problems.

We assist clients in developing their e-strategy and agenda, launching and implementing specific e-opportunities (e.g., new businesses, customer management, portal/Web site strategy, e-sourcing, value chain restructuring, innovation, etc.), and developing Web sites. Additionally, we support venture capital firms and private equity fund managers to increase the success of their e-business ventures.

Consistent with our position as a business thought leader, Booz-Allen sponsors *strategy+business*, a quarterly journal containing the best ideas in business. Visit the Booz-Allen Web site at www.boozallen.com or the *strategy+business* Web site at www.strategy-business.com.

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