

INSIGHTS

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Corporate Incubation—A New Approach to Innovation

Corporate Incubators: Exploiting a Company's Intellectual Assets

Recent years have seen a wave of corporate knowledge management initiatives. They aimed at leveraging and disseminating knowledge and intellectual capital. These knowledge management initiatives have been launched to ensure that “everybody



knows what somebody knows”. While this knowledge is usually leveraged to achieve incremental improvement in what a company

does, increasingly corporations need to tap intelligence which can directly drive top- and bottom-line performance. It has become clear that in the booming marketplace of ideas, employees have a vital role to play. Corporate HR policies are adjusting to support the entrepreneurial management capacity of a company and employees are proving willing to jump on the start-up band wagon if they have the chance while remaining in a familiar environment. Obviously this career path is highly beneficial to the corporation when compared to the threat of its best intrapreneurs leave the firm. This is especially true for large scale engineering and computer science driven corporations where engineers often identify new ideas or even develop new products or services “on-the-fly” while engaged in their regular R&D projects. Even

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Overview

In today's business environment continuous innovation is a “matter of survival”. While product enhancements and incremental process improvements are generally managed through established internal processes, corporations now understand that their intellectual assets provide additional potential to grow shareholder value. Untapped intellectual properties—especially where these do not fit into existing lines of business—combined with the sheer creativity and intellectual firepower of employees, flourish best in an incubation model for launching new products and ventures.

Partly as a response to the recent dotcom mania, incubators have evolved to hatch new business ideas and provide all the services for a successful business launch and a fast TTIPO (Time to IPO) for entrepreneurs. Incubators such as CMGI, Internet Capital Group and Idealab! have become growth companies in their own right. Yet while corporations can learn many lessons from these incubator companies, corporate incubation has to follow a distinct set of best practice guidelines.

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without this entrepreneurial push, analyzing R&D results more rigorously can provide significant business opportunities. Studies show that only 20–40 percent of research results are actually transplanted to a corporation’s product portfolio. The remaining results are sometimes sold or licensed, but most are commonly unmanaged, and thus in effect wasted.

How to move from these ideas to real business? Learning from the recent boom of incubators worldwide (recent studies identify over 300 incubators), corporations can adopt this model and hatch so far untapped ideas with a Corporate Incubation (CI) capability.

Once an idea is ready to be taken to the market, Corporate Incubation can take two alternative routes: spinning the business or product back into the existing environment or spinning it out as a new venture (see Exhibit 1).

The Incubation Capability

Three basic components form the Corporate Incubation capability: Entrepreneurial Leadership, the Incubation Engine and, most important of all, the People involved.

• Leadership

In all the Corporate Incubators that Booz·Allen & Hamilton has analyzed, there is one common factor for the success of a CI: a top-down driven leadership which enables, empowers and follows through the CI undertaking. For most organizations a corporate incubator is completely outside standard procedures: special funds are needed, speed is essential, resources must be extracted throughout the organization, incentives also are different from normal compensation and frequently the results do not fit into the existing

PRODUCT INCUBATOR VS. VENTURE INCUBATOR (EXHIBIT 1)

	Product Incubator/Innovation Engine	Venture Incubator
Objective	To develop breakout ideas into new products/businesses	To develop new ventures
Focus	Tied to company core business	Focused on competency of incubator management
Process	Similar in both—involve acquisition, screening, support & evaluation and exit. However, the type of ideas acquired, screens chosen, level of support and exit criteria are different.	
Funding	Internal company budgets	Financial funds, often combined with VC
Management	Potentially part of parent	Distinct & separated
Exit Strategy	Reintegrate product/business into parent company-handoff to product development groups	Graduate company to capital markets or other source of funding

Source: Booz·Allen & Hamilton, 2000

business. To resolve these issues in a short time frame and provide a smooth path to the new entrepreneurship of individuals and teams, it is essential that top management sponsors and drives Corporate Incubation.

• Incubation Engine

Executives need to install a CI “engine”, comprising a standard incubation process and a CI team. Despite the fact that any CI must have a “garage” flavor, standard processes are essential to keep it manageable and to provide transparency to the corporation and to the intrapreneurs on why and how key decisions are being reached. Exhibit 2 provides an example of the process of incubation and the underlying incubation functions.

It is essential that strict screening criteria are established to ensure that only the best ideas are funded. Usually a first screening identifies the business ideas that fit with the CI’s objectives, then more detailed planning activities are launched to identify the opportunity and develop a business case. Especially in technology driven companies, engineers

require marketing and business planning support in these phases to understand the demand profile and the economics.

Entrepreneurial culture must maintain that “failure is success” so that intrapreneurs can take on new tasks without losing face.

This early stage can be funded by specially allocated seed money or undertaken as a “Stealth Project”, i.e. done in overtime or on the back of another project.

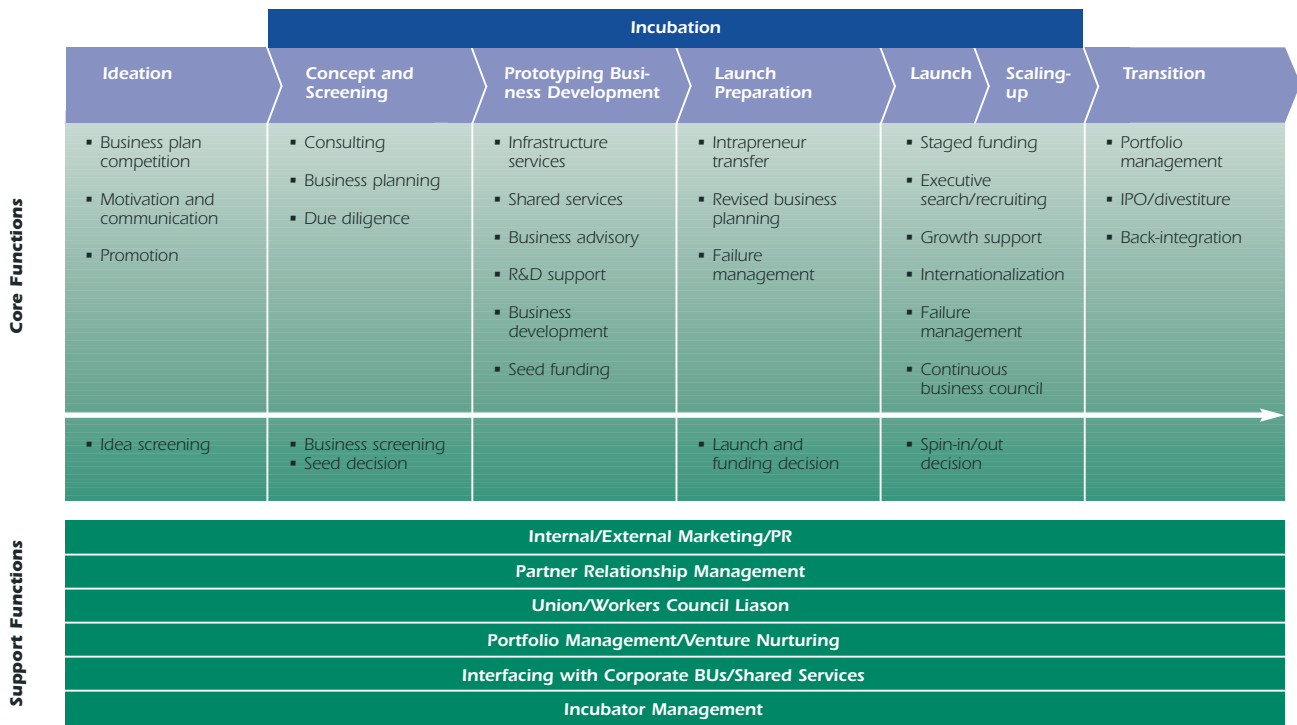
Once an incubation decision has been reached and funds have been allocated, technology-savvy CIs tend to push for early prototypes to prove the concept before actual implementation. Milestones throughout the incubation process are essential to ensure a fast track to the market; they most often function by triggering staged financing. Milestones also provide appropriate exit points. Here again, entrepreneurial culture must

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PROCESS OF INCUBATION AND UNDERLYING INCUBATION FUNCTIONS (EXHIBIT 2)



Source: Booz - Allen & Hamilton, 2000

maintain that “failure is success” so that intrapreneurs can take on new tasks without losing face. Close to product or service readiness, decisions have to be made about how to proceed: transfer to a current business, or create a new business unit, or spin off.

• People

Most corporations set up their CI organisation with a dedicated Core Team, an Extended Team and a network of external partners. The Core Team (of usually between 10 and 20 people) drives the process and manages the CI. It is a key concept that these people provide the experience and skills required to hatch infant ventures and accelerate business development.

Usually the Core Team comprises marketing specialists, business planners and technology generalists as well as business developers and general managers. This Core Team

draws upon the support of an Extended Team which has management and technology expertise from across the corporation. The Extended Team not only provides valuable input to the CI process but because of this early integration of business units also ensures buy-in to achieve a smooth reintegration at a later stage. Finally, a network of external partners should be established to provide specialist services ranging from market research to legal advice and PR support.

Corporate Incubator Success Factors

Interestingly, the case examples given in Exhibit 3 provide a significant range of differences, starting from the corporate objectives to the core implementation issues. Nevertheless, we believe there are common success factors in these new corporate initiatives, as outlined in Exhibit 4 (p. 5).

• CI Vision

While leading CIs differ significantly in their objectives, all of them demonstrate that the direction set by management has significant impact on the entire CI capability. The exit path in particular is driven by the vision. Does a corporation intend to boost its own core business and therefore make sure that employees are retained and reintegrated in their former position? Or does it intend to spin off businesses, requiring the intrapreneur therefore to sign a “no-return” ticket once the idea has evolved from the initial concept to the spin-off plan?

• CI Culture and Rewards

Culture and rewards are the likely make-or-break factors in a successful CI undertaking. Although failure in the corporate environment is less likely than in the start-up world, management must assure that “failure is success”.

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CASE EXAMPLES OF LEADING COMPANIES' CI (EXHIBIT 3)

	High Tech Manufacturer	Technology Conglomerate	Large Multinational Corp.	High Tech Manufacturer
CI Launch	Q1.00	Q1.99	Q4.99	Q4.99
CI Type	Product	Product	Venture	Venture
Strategic Objective	<ul style="list-style-type: none"> Develop discontinuing technology Employee retention 	<ul style="list-style-type: none"> Develop new business in white spot areas Employment assurance 	<ul style="list-style-type: none"> Attract entrepreneurial talent Access to new businesses and technology 	<ul style="list-style-type: none"> Exploit IP and R&D intellectual capital Employee attraction and retention
Owner/Sponsor	CTO	CEO	CEO	CFO
CI Services	Funding, Corporate commitment	Business planning, funding	<ul style="list-style-type: none"> Off-site infrastructure Professional services support by internal resources 	On-site Infrastructure, full CI professional services support, professional network, funding
CI Engine	Virtual Group plus team <5	Dedicated team <10	Dedicated team of 10+	Dedicated team of 10+
Corporate VC	"Unlimited", i.e. funds freed as required	Dedicated seed and VC fund	Dedicated seed fund	Dedicated seed fund
Idea Source	Anybody internal	Anybody internal and external	Primarily external	Anybody internal plus venture team
Idea Generation	<ul style="list-style-type: none"> Technology experts Focus meetings Employee application 	<ul style="list-style-type: none"> Business plan competition Intranet supported employee application 	PR, Events, Universities	<ul style="list-style-type: none"> Proactive screening of not used IPRs Employee application
Intrapreneur Benefit Participation	Stock option bonus	None, implicitly through shareholder value	Share in subsidiary	Equity stake in new venture
Intrapreneur Return Ticket	None	Fully assured work place	Not formalized but normally job offer	None, intrapreneur expected to participate in new venture
Idea/Business Integration	Assimilated by BUs after market introduction or new BU opened	Early BU sponsor desired, else eventually spun off	JVs or spin-in as new business unit	Business spin-off required

Source: Booz - Allen & Hamilton, 2000

Pull-through intrapreneurship must be rewarded with direct equity or Economic Value Added participation.

While North American CIs have less of a problem with this, European corporations tend to struggle with it. Corporate development and HR must develop special return paths to encourage would-be intrapreneurs to leave their safe work havens. The ultimate reward for doing so must be an incentive

directly linked to the incubated business.

While implicit participation in the shareholder value creation should be given, we believe pull-through intrapreneurship must be rewarded with direct equity (in the spin off case) or EVA (Economic Value Added) participation for the individual.

In highly competitive environments such as Silicon Valley there is no other choice: as long as VC money is available, employees can easily take their idea and go outside. Hence, corporations must mirror the rewards of the outside market place—even if this means

that a very successful intrapreneurial engineer could in a single year (theoretically) earn more than the CEO. At the same time CI team members will compare their efforts with the external market place too.

Most companies still struggle with designing an appropriate incentive system for the CI team as it needs to go significantly beyond current bonus systems. At the same time, however, most accept significant attrition in the CI team as CI team members switch roles and become executives of the ventures they have helped to hatch.

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COMMON SUCCESS FACTORS IN NEW CORPORATE INCUBATOR INITIATIVES (EXHIBIT 4)

0. CI Vision		
▪ Clear, approved and communicated expectations		
1. CI Culture and Rewards	2. CI Processes	3. CI Resources
<ul style="list-style-type: none">▪ Top Management Sponsorship▪ "Failure is Success"▪ Directly linked incentives	<ul style="list-style-type: none">▪ Efficient end-to-end process▪ Institutionalized internal and external idea/deal flow▪ Clear cut milestones and tollgates▪ Transparent pursue-or-exit path▪ Intelligent, staged funding	<ul style="list-style-type: none">▪ CI team▪ CI facilities▪ CI services▪ CI funds

Source: Booz-Allen & Hamilton, 2000

• CI Processes

Incubation is about decreasing time to market. Target lead times from idea submission to seed money approval must be in terms of days. VC funding approval or rejection must happen in the space of a few weeks. Ground breaking new ideas cannot be nurtured without efficiency throughout the incubation process. This also requires that non-defined paths are explored and decisions are taken faster than usual.

The idea flow must become a routine process, i.e. submitting ideas must be natural. At the same time, idea approval or rejection must be performed according to clear and understandable criteria. While the reasons for approval usually become obvious as there is a clear business case for it, the reasons for rejection need to be explained with appropriate effort. Failure here can significantly block the idea flow. Intelligent, staged funding offers the means to allocate flexibly a budget within boundaries and allows the corporation to track progress.

The toughest process, however, is to kill-off ideas further down the

line. The "just another million, just another 3 months" proposal occurs too often and can harm the entire CI portfolio and its reputation. While these instances must be carefully assessed, it is vital that "stop" decisions are taken quickly and decisively.

Many corporations
have established
a clear rule:
No entrepreneur,
no incubation.

• CI Resources

First and foremost many corporations have signed up to the clear rule: No incubation without entrepreneurs, i.e. even great ideas must go unpursued if the originator is not willing to follow it through. But the intrapreneur cannot succeed without a dedicated CI team. Often corporations have opted to bring in this team from the outside, ensuring dynamism and out-of-the-box thinking. This team must provide the incubation services and draw upon a large network of external partners (VCs, legal

advisers, researchers, etc) and internal subject matter experts. This is a dedicated full time task and requires enthusiasm for the subject.

CI's must be located
"far away" from
the core business
but be "close enough"
to the BUs.

When it comes to the question of where actually to locate the CI services, corporations must develop a fine balance between "far away" from the core business and campus to "close enough" to the business units which depends on the results of the incubations. The more a re-integration into a BU is the most desired option, the closer the incubator should be.

However, one of the hurdles larger corporations have to overcome is that incubated businesses face the "not-invented-here" syndrome, and may not readily be accepted for spinning in by the BUs.

Last but not least appropriate funds must be allocated to the CI. CIs must certainly be prepared to provide (pre) seed finance for very early stage ventures. Typical contributions range from \$50–500 K. Once the venture has left an infant stage a decision has to be taken whether its future will be better as a spin-in into the corporation or a spin-out involving a further financing round. For this next round it most commonly happens that corporate incubators partner with VCs to co-fund the venture and eventually lead it to an IPO or trade sale.

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Booz·Allen & Hamilton Approach

As an integral part of Booz·Allen's service offering Booz·Allen & Hamilton has set up several incubators around the globe (www.innovate@boozallen.com). Our intention is twofold: to help young entrepreneurial start-ups to develop their business quickly and to support our "bricks and mortar" clients to develop their e-business capabilities. Apart from this "incubation" service we have developed a proven methodology for our corporate clients to create, launch and run corporate incubators.

Booz·Allen & Hamilton's service addresses the range of steps required to create a CI out-of-the-box. We approach the task in four consecutive phases: Baselineing, Visioning, Blueprinting and Implementing. Each phase includes best practice CI components as well as significant "customized" elements to tailor the CI to the particular needs of our customers. Contact the authors for more information or visit our website.

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