

Combining internal and external venturing. The spin-along approach.

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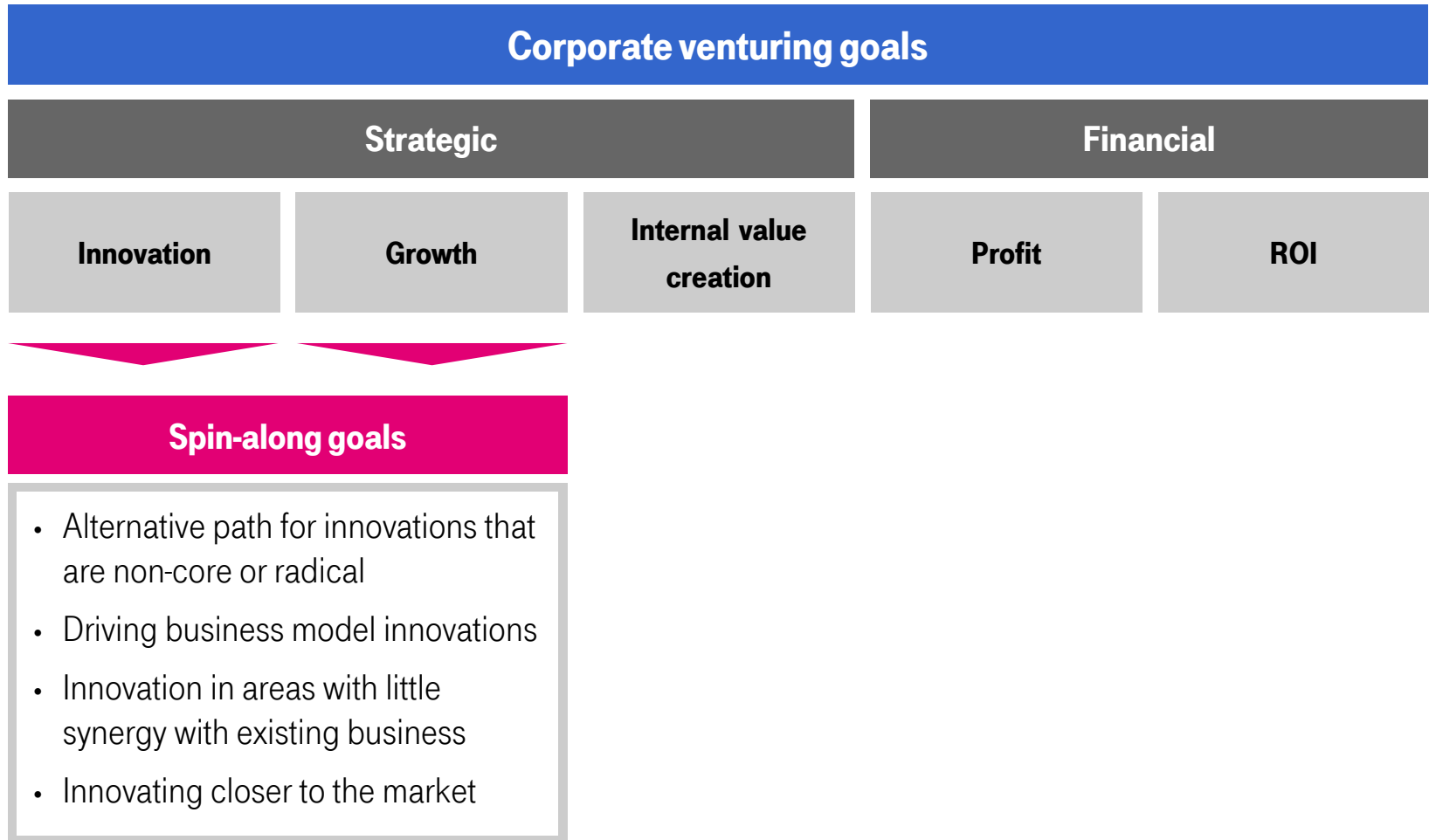
Limitations of incumbents in innovation.

In 3 fields we have identified 10 barriers that hinder incumbents successful develop radical innovations.

Limitations	Barriers
Incumbent curse	<ul style="list-style-type: none">▪ Innovations with under critical mass are neglected▪ Strategy per definition rejects innovations that are to radical or non-core▪ Portfolio-management prevents projects with weak strategic fit from being funded
R&D operational problems	<ul style="list-style-type: none">▪ Difficult transfer of R&D results to receiving units▪ Lack of business and marketing competence in R&D▪ High-potential employees commercialize promising ideas externally on their own
Missing the window of opportunity	<ul style="list-style-type: none">▪ Wrong timing of innovations▪ Lack of marketability▪ Lack of entrepreneurial push▪ Lack of customer relevance of innovations

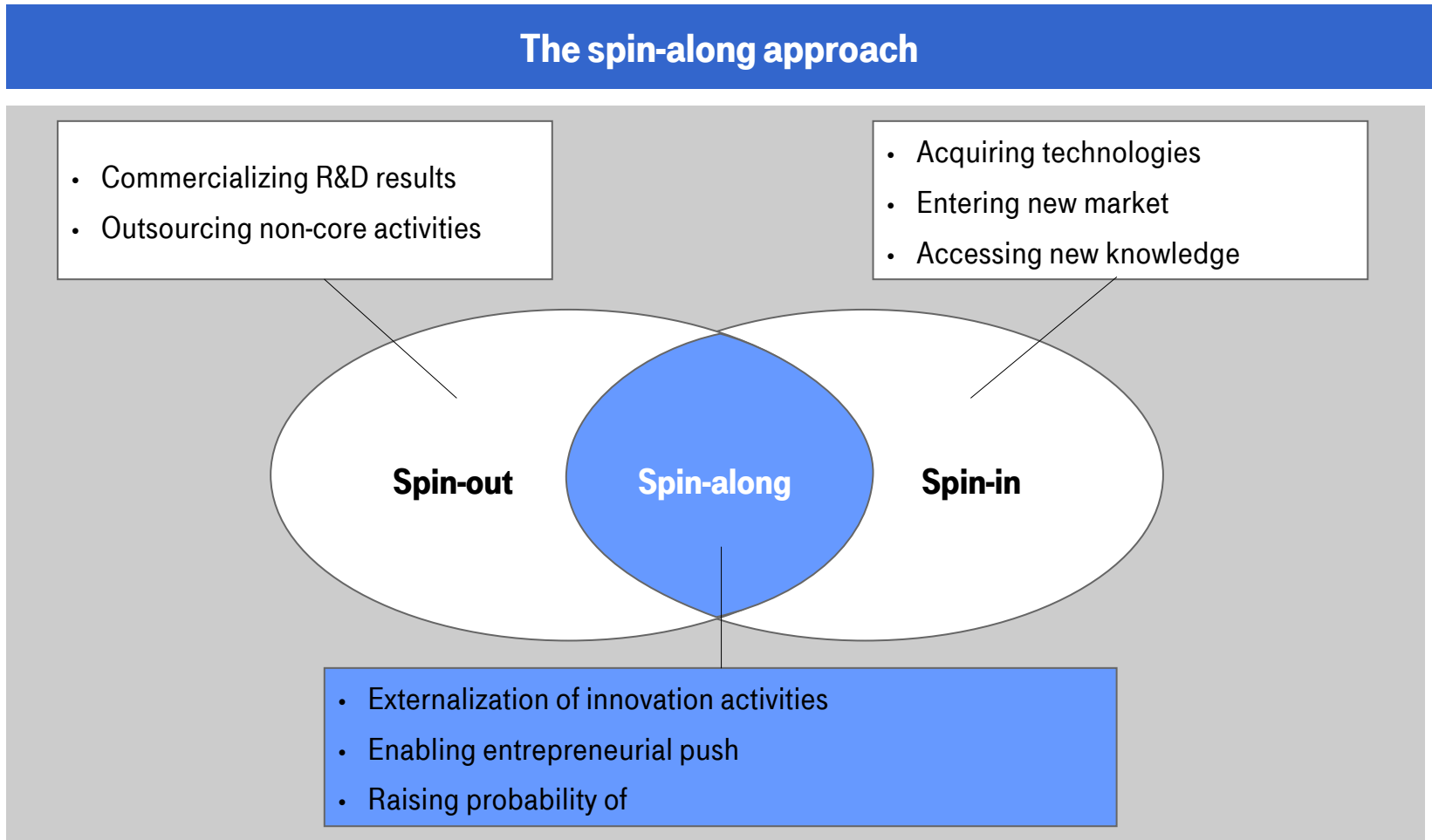
Goals of corporate venturing activities.

In the corporate venturing model the spin-along approach is strategically motivated and fosters innovation and growth.



The spin-along approach.

The spin-along approach combines elements of spin-in and spin-out activities.



Spin-along activities at Cisco Systems.

The spin-along approach at Cisco has produced successful companies and has overall strengthened innovation capacity.

Description

- Spin-along activities are driven by **venturing unit**
- Cisco **encourages own employees** to **spin-out**
- Later selected companies are **acquired back**
- Cisco usually **holds** around **30% of equity** and reserves **first buyer right**
- **Setup costs** can range up to **\$50m** (Nuova Systems)
- **Buy back prices** range from under \$20m to **\$750m** (Andiamo)



Assessment

- Spin-in strategy **proved successful** in addressing tricky challenges including
 - **Time-to-market**
 - **Recruiting and retaining top talent**
 - **Adopting** new and **innovative technologies**
 - **Strengthening** of own **innovative capabilities**

Source: Mcjunkin, J. and Reynders, T. (2000); Mayer, D. and Kenney, M. (2004); Vance, A. (2006)

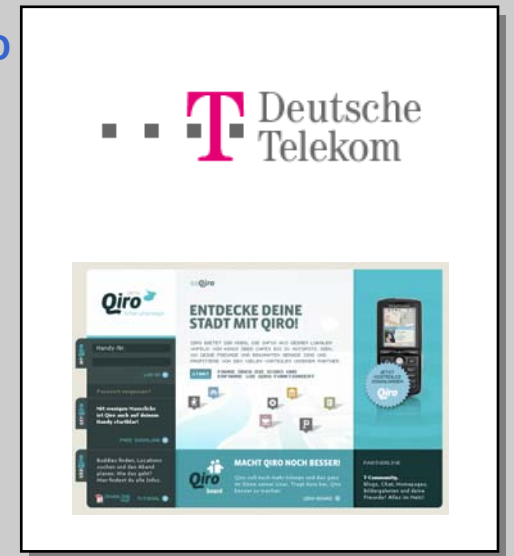
Link: http://www.theregister.co.uk/2006/08/11/cisco_spinin/

Spin-along activities at Deutsche Telekom AG.

After the creation of the first spin-out company the future will have to prove that the perceived success of the approach is valid.

Description

- Spin-along activities are **driven by corporate R&D**
- **Candidates** for the spin-along scheme are **proposed at** the **commercialization gate**
- The spin-along alternative is used for **commercialization of R&D results** that have **not** been **transferred** to the business units
- Reasons for a not successful transfer include: **lack of synergy** with existing business, proposed business model **does not match corporate strategy**,...



Assessment

- Spin-along scheme has so far **only produced one spin-out** company
- **Financial commitment** of parental company is **comparatively small**
- **Final assessment can not be made** because of the short period that the approach has been implemented

Source: Internal documents

Conclusion.

First evidence from the assessment of the spin-out approach suggests that it is a successful alternative innovation path.

Benefits

- **First evidence** from the assessment of the spin-along approach **suggest** that...
 - ...it is an effective **alternative innovation path**
 - ...it is **successful** at increasing the innovation capacity for **radical innovations**
 - ...**seems** a **promising** way for incumbents to **foster innovations** in fields **with little synergy with existing business**

Downsides

- **Difficult reintegration** of spin-out management
- **Envy** is created by the different financial rewards of internal and external innovation activities

Thank you for your interest.



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**Further
Information**

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