

## Understanding the culture of collaboration

### Case study

# Joined-up innovation

Two technology companies find common cause in pursuing innovation, writes **Rod Newing**

**T**he days of government-owned monopolistic telephone companies using their own proprietary technologies are long gone. In today's intensely competitive global telecommunications market, BT needs to minimise costs and create shareholder value by launching some of its new technologies into the marketplace. This is why it injects selected technology into a partnership with US-based New Venture Partners, which provides funding and business expertise to launch them into the market.

"It has gone amazingly well," says Mike Carr, chief science officer at BT Group. "This is both because New Venture Partners was a good choice in the first place and also because the shared goal helps us both to be flexible and compromise enough to achieve it effectively."

The value of the technology that emerges in a laboratory or university collaboration derives from its surrounding business context. Mr Carr says, for example, that good researchers and engineers may have a great invention but often they are unable to apply it to a real business problem in the market. The objective of the collaboration is to make the jump from a great invention to an attractive business proposition, a process called "incubation".

New Venture Partners – which was originally Lucent, the new ventures group of Lucent Technologies – had a similar relationship with Philips. As a result, it is now managing an extensive portfolio of companies and has launched nearly 50 new companies, of which about 10 have been sold or floated.

Incubation is about applying good technology to the unmet business needs of the market. BT injects the intellectual property and the core technology team into the new company. New Venture Partners funds the new business and recruits a chief executive, and the heads of marketing and finance respectively.

A business plan is produced, trials conducted and the first customer signed up. Typically, this takes nine months to a year. Venture capital is then brought in to expand the business and establish it in the market.

"You do not tend to progress the technology very much during incubation," explains Mr Carr. "The value creation is all about understanding the market context and applying the technology to a problem."

The two companies began discussions on combining forces as a result of an independent study on corporate incubation published by Ernst and Young, the accountancy firm, that voted Brightstar, BT's corporate incubator, as the best in Europe and New Venture Partners as top in the US. It took three months to work out a value proposition and complete contractual negotiations.

"The success of collaborations always depends on [the two partners] having similar goals," says

Mr Carr. "What was also interesting about New Venture Partners is that the individuals have a lot of corporate experience. That enabled them to understand our working practices and the way we think and make decisions. That does not mean that we are slow, we just think differently."

The wider global partnership brings an important element of credibility and confidence when recruiting management teams at the most risky early stage of a venture. It is also important when with venture capitalists.

Staff from New Venture Partners are based at BT's research centre, actively "grazing" the opportunities. "You have to have a trusted open relationship," says Harry Berry, a partner at New Venture Partners. "We have the 'right to roam' BT laboratories, look at technologies and talk to people, and BT knows that we will not transgress its intellectual property rights. It is the way to really get creative ideas going. It is impossible if everything is secret or hidden in little pockets."

BT's \$2bn annual research and development investment creates a massive number of opportunities to commercialise technology. "The only way we can handle these is to have New Venture Partners people physically with us," says Mr Carr. "The good thing about them is the simple way they can rationalise a business decision. They are able to quickly appraise all the opportunities and focus on the ones that are important."

Mr Berry points out that having a third party manage the spin out of innovation avoids a number of cultural issues that could inhibit large companies trying to do it themselves. For example, the third party is not bound by human resources policies in recruiting and paying a management team. It has a fund available to supply capital when it is needed that is not restricted by corporate budgets.

The other advantage is the trust that a long-term relationship brings. A venture capitalist firm may be very skilled in negotiating the best possible deal for itself in a one-off investment but a long-term collaboration ensures both parties share value equitably over a series of incubations.

"Although one of the reasons for BT ventures is to make some money, our key reason is to get our technology into the commercial world," says Mr Carr, "so we can go and buy it and incorporate it into our services. That isn't necessarily compatible with a straightforward venture capitalist whose only strategy is to make as much money as possible."

BT has spun out eight companies, five of them since the collaboration with New Venture Partners. Mr Carr expects to continue at a rate of about two a year.

"We practice open innovation and it could be more open than BT allowing us to manage their interests," concludes Mr Berry. "Successful incubation is about bringing together disparate cultures and working together in an open manner."