Transcription details:

Date:	07-Feb-2017
Input sound file:	Moxie Podcast 47

Transcription results:

S1 00:14

[music] Hello, and welcome to another episode of the Moxie Podcast, the companion web show to the Moxie Sessions, an internet economy discussion group held once a month in Auckland, New Zealand. This is episode 47, recorded on the 26th of January, 2017, though the Moxie Session itself took place in November 2016. I'm Andrew Patterson with you here in Auckland. I'll introduce our panel shortly. But first, let me outline the topic that we will be considering in this session. There are lots of examples of big firms starting up or investing in small sidelines, start-ups, or spinoffs. Why do they do it? And are they having any success? With me to discuss this is Louise Webster, the founder and CEO of the Innovation Council, a national innovation and business growth network that was acquired by KPMG. She's also the program director and convener of the New Zealand Innovation Awards. James Hurman is a principal at Previously Unavailable, New Zealand's only pure play innovation consultancy, which he founded in 2014 after a career in advertising. And Ed Hyde is CEO of Spark Ventures. The ventures arm of Spark, the large New Zealand listed telecommunications company. He was previously CEO of Qrious, one of Spark's ventures. Welcome to you all. Well, James Hurman, to you first. You recently undertook some research looking at innovation practices within New Zealand as part of a report entitled Big I little i. What were some of the key findings from your research?

S2 01:56

Yeah. Thanks, Andrew. Yeah. A big part of our last year was a pretty major piece of research, which is actually called Big I little i, solving the wicked problems of innovation in large New Zealand organisations. So that study looked at how our biggest companies are innovating. We looked at 39 of the biggest companies in New Zealand, contrasted them against 5 of the most successful kind of founder-owned startup organisations. Really looked at what the challenges and the obstacles were that those large organisations were facing when it came to innovation and the launch of new products, new businesses, new models to the market. One of the interesting things that came out of that work was, if you look at the time that we're in, which is hugely kind of innovation-focused, right, in big business. We've never talked as much about innovation. We've never done as much kind of strategising and ideation around innovation. We've never done as much R&D. All of the inputs are there like they've never been before. What's kind of troubling is when you look at the outputs, if you look at our ability to take new products to market or our ability to generate new revenue from new product lines and new innovations, that's actually going backwards in New Zealand. It's not even staying still. It's going backwards. And that's particularly pronounced in the larger organisations. So that kind of an-- in a world where we're all very aware of the importance of innovation and effects of disruption, it's sort of economically problematic for us in New Zealand that we're talking so much, but we're actually doing so little in terms of getting new products and new innovations out the door into the market and into the hands of customers.

S1 03:43

Well, I'm pleased you raised that because that's certainly my sense as an observer in this space. That we seem to like to do the talking. We like going to the conferences.

We like hearing the speakers. But translating that into actionable outcomes seems to be problematic in New Zealand. Have you been able to put your finger a little bit more about what might be holding us back in that area?

S2 04:06

Yeah. I mean, we joke in our business. We're an innovation company and we work with those sorts of businesses to help them with innovation. And we kind of joke that the biggest cost in our business is talking about innovation. And so it's something that people will do ad nauseam. And actually, a couple of the CEOs that we talk to as part of that study did sort of say that they think that sometimes if we have a good kind of two or three hours really chewing the fat on, we almost leave feeling like we've done it [laughter], which just isn't the case. It couldn't be further from the truth. The problems are, actually-- they are really difficult ones, particularly in large organisations. And those issues or those barriers come down to cultural ones. It's difficult to get very traditional, risk-averse cultures to take more risks and experiment more. It comes down to, not often actually to money and resource, but more actually how you get that money and resource to get out of its own way, and allow things to make it through the system. One of the biggest insights was it's very rarely external forces that prevent us from innovating. It's not the markets, it's not our competitors, it's not consumers, it's not regulators stopping us from innovating. It's almost always ourselves. And so that's probably the biggest thing that we've got to kind of acknowledge and start to problem solve around.

S1 05:31

Ed Hyde is CEO of Spark Ventures, which has certainly been one of the more interesting approaches, particularly undertaken by a large company. I recall a conversation I had with CEO Simon Moutter, who pointed out to me that when a company like Spark begins to engage in innovation and risk, that isn't automatically always well-received by the markets, particularly in terms of the way they start pricing the stock, so trade-offs come with this area. What has Spark had to do to adapt to, I guess, trying to really embrace an innovation culture? And how does Spark Ventures work within the mothership environment of Spark itself?

S3 06:22

Yeah. It's a great question. Over the last three years, Spark has invested in high, tens of millions across the venture's portfolio. And so three years in, we've built or invested in 10 ventures and it's been a really interesting journey. What we tend to see is, there is a huge amount of excitement when you begin the journey, and a huge amount of excitement when you launch a new venture and a new initiative. And then what you find is, somewhere around the 12-month mark by and large, up to probably about the two-and-a-half to three-year period, there's almost a sort of trough of enthusiasm, as the sort of pressure comes on and the business is really working hard to actually start to scale and show a return. It's that sort of period of time which really is the sort of danger zone, from my perspective, around the broad support for innovation within a large organisation. And I think the [sort of thing?] is actually, you've got to take a longer term view of innovation within an organisation. And it's a sort of-- I think as a minimum, it's a 10-year view. Because even if you're very, very successful with a venture, you'd be doing well to break even within a sort of three-year time horizon. And even at sort of three years, the amount of value creation, relative to everything else that's going on with the organisation, doesn't even register on the radar in many cases. And it really is a sort of 10-year period before actually successful ventures will start to materially contribute to the wider organisation's sort of financial and economic performance. And that has a tendency to be viewed quite negatively from the markets and from the analyst community. And I think one of the things that we will start to do much more overtly is actually start to provide market commentary around the fair value of the venture's portfolio and actually sort of talking about actually this progress that we're making if you conduct a fair value on each of the ventures that we're operating. And you start to-- and I think if we're successful in that, we start to build confidence from the markets that actually, yes, these businesses are tracking forward, and they will start to become materially valuable from a group perspective.

S1 09:26 Louise Webster is somebody who started a business and saw it acquired by a large organisation, in your case, KPMG. How has that journey been for you, particularly when you are wanting to protect what it is you've created, that's operating, obviously, within a larger paradigm?

S4 09:48 Yeah, thanks, Andrew. Look, it really is a very, very interesting journey. And what's even more interesting from my perspective, is having seen organisations go through this journey. Because the Innovation Council, of course, help other organisations innovate. So we've helped both small businesses be acquired by large ones in the past, and large businesses acquire smaller companies. And then, of course, did it ourselves last year. So what's really interesting is sort of finally putting that into practice ourselves. And I think there are a number of challenges, but there are also a huge number of benefits in doing that. From a small business perspective, you can get a whole of extra resource and capability. In our case, it was more staff, in order to be able to develop more programs, and to be able to order-- help more businesses at the other end. And in some other cases, I think it's things like international channels to market. So if you're a small business in New Zealand, it's incredibly hard. So we still have that [tyranny?] of distance. So it's incredibly hard to get your products and service to market offshore. And large organisations, especially multinational, already have those existing channels quite well established. So it's easy to sort of pump new products and services through those channels, or much easier than developing those pipelines and those channels yourself. So there's some really big benefits. And I think from the large organisation perspective, that quite often acquiring a business actually can help you reduce the risk of R&D. So instead of doing the R&D yourself, it reduces the timeframe for you and gets you fast sort of activated. But also you've got the opportunity to do due diligence [laughter]. And actually kind of pick and choose and look into the organisation properly, and understand what kind of risk you are taking on. So it's much easier to quantify. And of course, it also does things like help you change your organisational culture. So one of the things KPMG wanted was also to have a culture of innovation inside the business. And where by us being present and developing-- helping them with their innovation culture, and with their innovation journey, we're doing that in turn as well. So I think there are some fantastic benefits.

S4 12:19 On the flip side, I also think there are some challenges. And James and Ed have alluded to some of those challenges: that culture change thing, the piece around the culture that James talked about. That's inherently difficult in large organisations, because people like doing things a certain way. We like our comfort. We don't like change. And innovation is all about change, really. So we tend to hold on to the patterns of behaviour that we have over and over again. So that's one of the challenges between a large organisation and a small organisation. They have vastly different cultures and ways of operating. So you have to get those sorts of things lined up, and you have to put them on the table when you're negotiating and actually talk about how you're going to operate in that environment, or whether you're going to operate separately outside of it.

S4 13:14 There's a few other things. The other one would be the sort of "not on my watch" stuff, so. And we also talk about the immune system. So every now and then, that change kind of has a limit, and people start kicking back [laughter]. Because we like our comfort, and we don't like change much, and we are set in our patterns of behaviour. Sometimes when you go to change something, or adjust something, or do something new, you get that immune system that kicks in and kind of tries to reject the antibody that's just arrived [laughter]. So I think it's just being aware of those things, and actually being able to talk about them. But I also think there's benefit in really talking through those things upfront, and making sure you're getting the benefits out of it as a small business upfront. Negotiating resource and capability, or how your products and services are going to go to market right upfront in your sales and purchase agreement. Get that stuff agreed upfront so that you can hit the ground running when you come in, and you've kind of got permission to operate already.

S1 14:26 James Hurman, I wondered, in your research and in your own experience, what you had found, the track record of outcomes in this area? Because one of the points that was raised in the discussion session was this idea that the board and the executive love to talk about the new stuff. It might be 5-10% of revenue, but 25% of their time. How do you get the balance right between overly focusing on the shiny new thing, but actually making sure that not only is it contributing, but it's harmonising within the organisation overall?

S2 15:05 Yeah, I think what's really evident is that as a business community, both in New Zealand and globally, we're still very much in a phase of experimentation around this issue. So, has anyone cracked the model, in terms of venturing? I haven't spoken to anyone who reckons they've cracked that. Probably the person that I found the most confident that they were really onto something was a guy called David Butler who was the head of innovation at Coca-Cola up until last year, and they've done a big mentoring program which is actually very interesting. It was called Founders and it was where they partnered with experienced entrepreneurs in 10 different cities around the world to solve what they called the "shark bite problems" in the Coke system. So big internal kind of problems that were preventing Coke from being as successful as it could be. And so, they had this program that they had run for a couple of years, and when he was in New Zealand 18 months or so ago, he was very enthusiastic about how well that was working and had some amazing case studies. Then last year, just after the Moxie Session, actually, where I'd been talking about that case study, Coke actually pulled Founders, so [crosstalk].

S1 16:17 I was going to ask you about that.

S2 16:20 I mean, that's really, again, evidence that we are in this time of experimentation. We're trying new things. They're working sometimes; they're not working others. And I don't think anyone's sort of quite cracked exactly what the model is. I think what is positive though within all of that is, like I was saying before, organisations, sometimes the larger ones struggle to get out of their own way. I think it's when organisations sort of realise that, that they start doing things like Spark did with Ventures, and all sorts of other kind of ventures or [regulation?] programs that are running in other businesses. What it definitely does is, from my point view in terms of what I've seen, is kind of get the organisation actually doing things rather than talking about them, get them into a passion of experimentation, of moving a little bit more quickly. And I think that's such a critical stepping stone towards us eventually kind of cracking this issue. So, from my point of view, it doesn't look like we've cracked it yet, but there are some kind of real glimmers of hope and some real progress being made in terms of understanding how we get out of our own way and how we make better use of the entrepreneurial thinkers around us.

S1 17:35 Ed Hyde, Spark Ventures is often held up as perhaps the leading case study in this [inaudible] given the size of Spark as an organisation. But how do you deal with those cultural issues around competition for staff, losing them from the core business to the ventures, to the rivalries that go with that, and ultimately how do you measure success of an organisation like Spark Ventures, or do you? Do you simply look at the success of Spark in its totality?

S3 18:08 So from a success perspective, we periodically measure the value creation of the ventures portfolio and that for us is split into two. It's direct value creation and enterprise value of businesses that sit within ventures. But also actually we place a sort of value around the broader portfolio benefits for the group and so reasonably clearly we can start to talk about what we are contributing from a group perspective. That's taken a little bit of time to actually-- for our sort of processes to mature, but it's been a very important sort of step in the right direction as part of our overall maturity around venturing and innovation.

S3 19:05 The second part of your question around employees moving within the organisation, probably for me fits into a broader topic which is the inter-relationship between the venture's portfolio and the wider organisation. And so, I and my team work very, very hard and allocate a reasonable amount of our time to stakeholder management, pulling the strategic levers that the wider organisation has in order to make the ventures a success. As a group, we've got millions of customer relationships, we've got great distribution, we've got a good brand, and many of these assets have the potential to add real value to the individual ventures to make them go faster. And so making sure that we're actually using those levers as well as we can, has been something that we're getting much better at, but it takes quite a lot of time and investment. Within that, that starts to drive a more collaborative working approach. So one of the things that we've done over the last six months is we are running with virtual teams where we've got people seconded from our consumer business, or our enterprise business, or from our legal team and they're sitting under the venture's umbrella and operating as a sort of single cohesive unit on a particular topic. So that's something that didn't exist in the first 12-18 months, but it's something that we've introduced. And actually, it starts to break down the barriers and it's been very, very useful.

S1 21:02 And Louise, I wondered what you felt about the promotion of this idea of larger organisations acquiring smaller ones, or thinking more about how we create a blueprint around that area, or should we? Should this be something which is simply left to its own natural devices rather than trying to be perhaps force feeding the larger organisations on this idea? Where's the balance in that, do you think?

S4 21:34 Look, I'm really pro-partnerships between large organisations and smaller ones. And I think there are a huge number of benefits really compared to the cons. And I think that the things that are difficult about partnering with different size organisations can all be worked out, and they're no different from any partnership. You just have to make sure you keep an open dialogue and the more of that sort of stuff that you discuss up front about expectations from both parties, the better aligned you're going to be when you hit the ground. But I would absolutely advocate acquisitions and partnerships and I think-- we've been in the innovation industry for over 13 years, and when I think back to 13 years ago, the aptitude and attitude from large organisations to purchase smaller ones was very, very, very limited, but now there's more of a openness to wanting to partner with smaller organisations. Because I think there's a realisation that, actually, as a country, we have a vast number of small businesses that have amazing new technologies and products and services and that they actually need help to grow. And still, one of the biggest issues for those small businesses is finding partnerships and getting revenue developing their R&D, and growing and exporting to international markets. So I think they've got a lot to contribute to each other, and I think there's a recognition now from large organisations that actually they don't need to come up with all the ideas. That there's a vast array of organisations out there that all ready have great new technologies that they can apply to their own existing markets and develop new markets through those acquisitions and through those companies. So I think there's massive benefits on both sides, and the risk is reduced significantly for the larger organisation because they can actually do due diligence, decide where they want to go with their strategy, and partner in order to be able to do that, to licence a new technology from a small business or to acquire it at actually a fairly low cost to them with a lower risk, and they can do that faster. So I would really advocate it. I just think there's a few key things that you need to watch out for in that process. And that would be just making sure that upfront your expectations are set from both sides. And it's really important that you outline, as a small organisation, why are you actually doing this? Are you doing it to exit, or are you doing it to grow? And they're very different things. And the activation inside the large organisation looks very different, too. So I just think that you need to work through it, but I would love to see a blueprint [laughter].

S3 24:55

I would [inaudible] a lot of what Louise has just said, and we've made a reasonable number of investments over the last couple of years, and we very much aspire to be a sort of investor of choice. So we want to work with founders and CEOs where we hold our side of the bargain. And so we're very clear and upfront as to why we might want to make an investment or an acquisition. But we're also very deliberate about how are we going to operate in relation to that business post-transaction. And so there is an absolute risk of acquisitions of small business, single-digit millions of turn-over, that if you put them in the wrong part of the organisation there is a very, very high risk that they will get killed, and the antibodies will come out and the investment will not make sense. You just won't get a return. And so being sort of deliberate about where the businesses that you're investing in go and the rational behind that makes a lot of sense. On the reverse, we've also acquired some bigger business. $50 million turnover businesses - Revera, the data centre business being a good example of that - where we're being very, very deliberate about leaving that business alone to do what it needs to do because we don't want to get in the way. And so that has been a very sort of successful strategy. The Revera business now is sort of north of the $100 million worth of turnover, and that for us is getting to the sort of size and scale that it's strong enough to actually sort of survive in a more embedded world moving forward. I was talking to someone about Cisco's investment strategy, and so for Cisco, they believe their threshold is $500 million before a business is big enough to survive within the core organisation. So being very cognisant about some of these things is critical.

S4 27:19

Yeah.

S1 27:19

Finally--

S4 27:20

Sorry. I just want to add to that. With our transition, for instance, we deliberately, and agreed upon, keeping all our systems and processes, all our budgets, and everything separated from the main organisation. So that we still had power and mandate to operate on our own, but with the support of all the extra resources and the additional benefits that were going to come with that. So I think it really is important to really thrash that out right up front.

S1 27:50

Finally, just wrapping up with the few minutes we have left available, if I could ask each of you to perhaps give us a key learning from your perspective in this space that you would like to share. And James Hurman, if we could kick off with you.

S2 28:10 Gosh. There's one really interesting thing that we learned looking at the incubators at accelerator programs around the world and how they evaluate propositions. So if you look at something like Tech Labs or Y Combinator who have been followed locally by programs like the Lightning Lab, for example, where they're looking at who they bring into their Accelerated Programme, they look at the quality of the team and whether that team is capable of the very difficult job of taking an idea from a kind of concept right through to a product, or a service, or a business that's in market. It's a sort of uniquely difficult thing to do that some people are brilliant at and others aren't. And I think in the big business world, often we sort of tend to evaluate the idea. Is this a good idea for us to go in this direction, or pursue this sort of business, or this sort of product? We tend to look at that first. And then we sort of give the job to sort of someone who's around, internally often. And I think if we looked at what the accelerators have learned, you get them to do it the other way around. Firstly, you've got to give the responsibility for innovation to people who are genuinely, really kind of naturally talented at it. And then kind of evaluate whether it's the right idea. I think we sort of-- we get it back-to-front a little bit. There's a little bit of a fashion of innovation should be everyone's job, which certainly, everyone should be encouraged to be creative, but if we really want to be successful with innovation, actually, the particular type of person that we should be looking for to execute, rather than just sort of giving that responsibility to whoever might be around. So I think that's probably one of the kind of the main outtakes and insights that we have taken out of our work the last year or so.

S1 30:16 Yeah. Good point. Ed Hyde.

S3 30:19 I think the key main thoughts for us would be, this is a journey, and it takes time and commitment to build up the expertise around investment [theses?], investment processes, how working practices relative to the wider organisation. And it's not something that, as an organisation, you should expect to crack within a 12-month time horizon. It's a multi-year journey of getting started, and refining, and building. And if you can bring expertise in to fast track this process, you absolutely should. So the outtake for me would be around commitment.

S1 31:10 And finally, Louise Webster.

S4 31:12 Yeah. I think building on Ed's comments, I think if you're a large organisation purchasing a smaller one, then make sure you understand what the gap between what you currently do and the services you currently deliver, and the company that you're purchasing. For example, KPMG Purchasing and Accounting, another accounting firm, are really close to what they do and quite easy to sort of integrate into their system. Purchasing and innovation company is a slightly different thing. So the gap is wider between the case of the [inaudible]. And I don't know of a problem there. It's just that you have to see the expectations as to how you're going to bridge that gap, how long that's going to take, and what revenue you're going to derive off that. So the further the gap, the longer the revenue generation is going to take. To come out the other end is what Ed was talking about. And I think it's just a matter of setting all those expectations upfront, and it is a journey, and just a matter of continually talking through that. So even advisory board, and we meet regularly just to talk through any of those issues, whether they be cultural or systemic. So, yeah, that would be my take on it [inaudible] upfront.

S1 32:37 Thank you all for joining us and for your contributions. I've been speaking with Louise Webster, Founder and CEO of the Innovation Partnership, James Hurman, Principal at Previously Unavailable, and Ed Hyde, CEO of Spark Ventures. I'm Andrew Patterson.

Thanks for joining us for this Moxie Podcast. I hope you can join us again at some point in the future. [music]