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And to all of those entrepreneurs who are fearless and go door to door trying to find someone who shares their vision, this book wouldn't even be necessary without you—keep on keepin' on. And to all those people out there who want to create wealth through growth—for whatever reason—it has been done before, and it can be done again.

FOREWORD

I wish that Sally Richards' book had been available when I started my first incubator in 1993. At that time I was working for Digital Equipment Corporation and was new to the concepts of incubation. I longed for the in-depth knowledge of those who were expert in the field, and I eventually had to hire one of those experts for a day to pick his brain. Sally's book would have made my life so much easier. Today, even after starting a dozen incubators, I find *Inside Business Incubators & Corporate Ventures* to be full of insight and to contain concepts that will serve me well on future projects. Sally has gathered the wisdom of those involved in incubation and corporate venture capital investment and distilled their successes and failures into a book that is accessible to everyone working with startups. In addition, the book is a great resource for entrepreneurs trying to understand how to leverage incubators, accelerators, and corporate venture capital groups to their advantage. After all, each of these three types of organizations focuses on how to assist entrepreneurs who are creating and managing new companies. It is the entrepreneur who is taking the risk and starting a business in order to create new wealth and fulfill a vision. The very essence of the entrepreneurial venture is growing a company (i.e., decreasing the risk associated with new business formation, accelerating the speed with which the startup grows, and raising the necessary capital for those early stages of growth). These are the tasks that good incubators, accelerators, and corporate venture capital groups all address as part of their efforts to assist startups. Proper use of these resources can greatly enhance the chances for a startup's success.

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Incubators, accelerators, and corporate venture capital groups have captured an increased level of public awareness recently, but the concepts behind each are still not well understood. Recent articles in the popular press, largely caused by the so-called Internet boom and bust, have tended to treat all three concepts in a superficial manner. Incubators and accelerators seem to have gone from the latest and greatest craze at the height of the Internet economy to an idea that engenders doubt and criticism now that the bubble has burst. Of course, the truth lies somewhere in between. Incubators and accelerators were never quite as good as described during the peak years of the Internet boom nor as flawed as the press represents them today. In fact, some incubator models developed during the Internet boom have failed miserably. Other new models have survived and flourished, while still other incubators follow models that succeeded both prior to and after the Internet bubble. Some very successful incubators, such as the Software Business Cluster, the Women's Technology Cluster, and The Enterprise Network, are covered in Sally's book and have been in existence long enough to prove their value. Good incubators and accelerators still offer substantial advantages to many startups.

Corporate venture capital was always a scarce commodity and a difficult investment to obtain until the Internet boom. As the dollar size and absolute number of corporate venture capital groups doubled and tripled in the late 1990s, their importance and availability to the average startup were also overstated. However, venture capital from a corporate investor and the possible strategic alliances that can develop still offer enough value to make this a topic of great interest to many entrepreneurs. Venture groups such as Philips, Panasonic, E*TRADE, and Autodesk are covered in Sally's book, and she provides rare insight into the motivation behind such corporate ventures.

Also, as pointed out in this book, these three concepts are merging in a way that leads to confusion. Accelerators are really an outgrowth of the incubation process, and many corporate venture capital funds have started to borrow heavily from the practices of

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incubators and accelerators. Meanwhile, many incubators and accelerators have started to create their own linked venture funds, including some corporate funds. Sally provides an in-depth look at the concepts forming the basis for incubators, accelerators, and corporate venture capital groups. She also takes the time to interview managers of successful programs and to examine some failures. Such an analysis is helpful to those who develop and manage such organizations, as well as to entrepreneurs looking for resources to help them start companies. When I developed that first incubator for Digital Equipment Corporation, corporate incubation was a relatively new concept, accelerators didn't exist, and corporate venture capital groups were used less often and were poorly understood. None of these organizations were typically viewed as business resources for the technology startup. There were a few resources that could provide some guidance to those creating their own incubators, but the wisdom of experienced incubator managers was not easily available. Most of all, as someone new to the field of incubation, I lacked a convenient way to understand the various creative models currently in play, as well as the nuances of why various incubator managers chose the approaches that made their models unique or successful. It was even more difficult to learn from the mistakes of others.

Later, when I helped create the Panasonic Incubator, I joined Panasonic Ventures as a principal in their fund, and I experienced similar problems. Although the Panasonic approach combined incubation and corporate venture investment into a new model, I wished for more insight into how other corporate venture groups operated and why they used their particular model of investment. However, very little had been written in this area, and almost nothing existed to give me a detailed glimpse into the thinking of those who were engaged in similar activities. Now, those designing or working in corporate venture groups have a valuable resource to assist them. *Inside Business Incubators & Corporate Ventures* provides detailed views of numerous creative and carefully developed corporate venture groups. Clearly, some corporate venture groups invest for

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profit, while others are more focused on strategic partnerships or on ways to spin technologies out of their corporations. The differences in perspective of these funds are instructive to others starting such funds and to the entrepreneur trying to identify strategic investors.

This book also provides some perspective on the Internet boom and on where we are headed in the future. Boom times create big visions and ambitious agendas. However, as Sally clearly shows, many of the incubator and venture programs developed during such times have not proven to be sustainable as financial markets weakened. Yet, as large corporations lay off employees and vacancies increase in the commercial real estate market, opportunities abound for entrepreneurs, incubators, accelerators, and corporate venture groups. Many of the companies that went IPO in the late 1990s had their start during the weak economy in the early to mid-1990s. Well-run corporate venture funds, incubators, and accelerators offer tremendous value to startups during a period when traditional venture capital funding is tight, by providing management assistance, mentors, established networks of professionals, and partnership opportunities. In fact, it is likely that the value of such organizations increases in bad economic times.

The incubation and corporate venture industries are maturing, and an increasing number of organizational models have been developed. The current economic climate and the high level of experimentation occurring today create both confusion and an exciting opportunity for change. *Inside Business Incubators & Corporate Ventures* gives all of us the perspective we need to take advantage of these changing resources and to improve them in the future.

Jim Robbins
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PREFACE

Lots of things have happened in the industry since I signed the contract to write this book. The market is going through huge ups and downs in a wild NASDAQ ride where everyone investing in technology purchased the perverbial “E” ticket. It’s been crazy. Since that time I’ve received concerned calls from my editor, Jeanne Glasser, who had to make sure we were still on track—that investing in technology incubators was still a viable option in this current environment and that corporate investment arms were still investing. *Yes*, I assured her, *despite the crash technology keeps moving*.

Technology never rests and companies are undervalued right now, but fortunes are born out of this kind of market chaos. And people, companies, and corporations continue to invest and make money. It’s all a risk, though. Always has been, always will be. All you can hope for is that you make the right investment at the right time in the right team with the right technology. Seems so simple, huh?

It’s difficult at best. I’ve interviewed leaders in the fields of incubators and corporate venture arms as well as the investors who fund them, the entrepreneurs who use them, the attorneys who fight for them and against them, and the analysts who judge them. All of these people have opinions as to which way the market is swaying, where people should be putting their capital, and how it should be managed.

Since I made the first calls for interviews for this book six months ago, idealab! closed its Silicon Valley office; one of the incubators in this book, campsix, shut down, and the market

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plummeted to even deeper depths. CMGI, hotbank, and Bill Gross all refused to participate in this book.

Funny thing though, companies still start up and startups are still making value for their investors. Money happens. Okay, so the market correction isn't allowing the majority of investors to make 300 percent-plus profits anymore, but realistically that never should have happened in the first place. The higher you go, the harder the fall. The ground has shifted and most who were in this purely for the sake of profit lost. We're seeing the aftermath and shakeout of the models that will work, and there will be big winners in this field—and they won't be the ones forcing companies to grow and take excessive amounts of equity without giving back quality.

One of the things I noted while writing this book is the continued optimism of investors who realize that the tech market is cyclical. It has always been the people who've taken risks and come out the other end of the deal, a little richer for their time, effort, and investment.

I remember when I first spoke with Eugene Kleiner, coined the “father of tech investing.” I was impressed by his self-assuredness that comes from a seasoned, serial entrepreneur who knows that bad times pass. He knew that investing would continue. He was an entrepreneur who came west with his wife Rose and their young family, leaving his secure, promising job at Bell Labs. He came to work for Bill Shockley because his dream pointed him west. When those eight visionaries broke off from Shockley Semiconductor and formed Fairchild Semiconductor—*whew*, that started a series of spinoffs The Valley has never seen before, or since. The entrepreneurial turbo-spirit was ignited and startup after startup was born, and then the crash of the '80s hit and we went down. Hard. Then, as now, you saw the square footage of vacant office space expand and expand as companies die one after the next. Tech carnage litters the market and the industry scales back further. Now, 29 years after cofounding his firm with Tom Perkins, the firm of Kleiner, Perkins, Caufield & Byers is still going strong and is a leader in the industry.

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But, as history tells us, after the worst happened and that stagnant lull that followed the crash finally stirred, we came out the other end a stronger industry with business models and technologies that were solid. The market grew and those who had invested in those hard times lost money, but they also made money, a lot of money. And they learned how to make more; many of them now head up investment firms.

If we've learned one thing in all of our cycles, we've learned to take our cue from history and take with us the lesson that technology never sleeps, and if those who invest do they will lose.

May you invest wisely, and with many happy returns.

SALLY RICHARDS

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