

# XONNA PARTNERS

## A Foothold in Silicon Valley

Dr. Dean Sirovica, Dr. Riad Hartani,  
Dan Cauchy, Dr. James Shanahan,  
Dr. Anurag Maunder, Mano Vafai

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## Introduction

Silicon Valley has become a world-unique and proven birthing ground for disruptive technology startups. This is due to the complex ecosystem at the confluence of university research, innovation spirit, and venture capital. This ecosystem is further supported by a large number of businesses and institutions that feed into it, creating a seemingly virtuous circle.

Various players around the world—corporations, governments and investments houses—have been looking at ways of plugging into the Silicon Valley eco-system to learn from it and leverage the knowledge to improve and advance their technology or return on investment.

In this paper, we highlight our collective Silicon Valley experience in contributing to these goals, building from our involvement in the various components of the innovation value chain, from technology ideas incubation, to venture capital funding, to growth into global markets, as well as successful M&As and alternative business exits, to develop a Silicon Valley inspired technology and innovation ecosystem, and in allowing such players to develop a low risk, insightful presence in the Valley and kick start an evolutionary innovation centric environment of their own.

We illustrate our contributions via two recently concluded case studies: one aimed at developing a Silicon Valley-based proxy venture capital and technology scouting model for a global mobile operator, and one aimed at developing a broad and multi-dimensional partnership ecosystem including technology, venture capital, and entrepreneurial dimensions for a new innovation and technology ecosystem hub.

## The Drive to Plug into the Silicon Valley Eco-System

The story of Silicon Valley is well documented. It started with the defense industry in the 1950s and 1960s, followed by other industries such as integrated circuits, personal computers, and most recently, the Internet. However, another less visible but nonetheless very significant transformation occurred. Beginning in the 1980s, the US industry has witnessed a shift from in-house innovation (such as Bell Labs) to inorganic technology acquisition (venture capital ecosystem and M&A) as a model for new technology and business development.

In retrospective, the early decades of Silicon Valley were characterized by waves of innovation in very specific industries. Today, we see overlapping waves of innovation in many industries. These waves of innovation often create synergies that further accelerate innovation and create disruptive forces. A good example is the collision of Internet and automotive innovation behind Tesla and the Google self-driving car. This trend is likely to continue, and exert further pressure on various global stakeholders in the innovation ecosystem to harmonize and synergize with what's happening in Silicon Valley.

It is our belief that this model of technology and business innovation in Silicon Valley is here to stay despite periodic turmoil in financial markets and the economy. Most leading companies will, sooner or later, have a desire to establish a presence in Silicon Valley in order to tap into this source of innovation.

Many other parts of the US and the world are trying to emulate Silicon Valley. All the while, Silicon Valley remains by far the leader in the number of startups and the amount of invested capital. In our views, emulating this model may not be the optimal approach, and we would argue

for a learn and adapt to context approach based on specifics. This is a model being pursued by various technology hubs around the world.

## The External Innovation Model – More to Come

In the US, venture capitalists invested \$29.4 billion in 3,995 deals in 2013, a dollar increase of 7% and a number of deals increase of 4% over the prior year according to the MoneyTree Report by PricewaterhouseCoopers LLP and the National Venture Capital Association.

This level of capital to fuel innovation ensures a strong supply of talent eager to develop their own business. Large corporations find it hard to retain and motivate top young talent. Silicon Valley is full of serial entrepreneurs. These are free-spirited individuals who excel in startups and do not wish to settle in a corporate environment.

This and other factors have changed the old in-house innovation model to one where most innovation is created outside of large corporations. Corporations are forced to acquire new technologies and new businesses through M&A and partnerships.

With so much activity, most leading companies are opening offices in the Valley to tap into the flow of innovation. This not only gives them much valued and insight, but also provides an early warning of imminent change. There are many examples where companies failed to see the emergence of a significant competitor, especially in industries that Silicon Valley was not known for: BMW was blindsided by Tesla, and Honeywell by Nest. More towards the traditional core of Silicon Valley is the transformation of Cloud computing, software defined networking, and the Internet of Things. These new waves have left incumbents scrambling to adapt by riding along the waves of change to avoid being swept by them.

Many Fortune 100 corporates have opted to join the Silicon Valley innovation model by opening startup incubators, R&D outposts, and corporate venture funds, and by scouting for technologies to acquire. Some corporates have opted to spinout internal R&D projects into Silicon Valley with an option to be re-acquired at a later time so they can be develop unhindered by the corporate center. Many governments and policy makers around the world, with large investment funds under management have initiated Silicon Valley based incubators and established local technology and business development teams to bridge into their local eco-systems. Its our experience watching such developments, and in a lot of cases witnessing their limited success, that led us to develop specific models that would either complement or substitute such initiatives.

## Changing Innovation Vehicles

The startup innovation model is changing. The biggest changes are at the early stages of the startup lifecycle. The startup exit, IPO and M&A, are mostly unchanged (with the exception of IPO changes caused by the Sarbanes–Oxley Act of 2002). The mid stage VC funding is also relatively stable and well understood. However, the early stages have seen significant changes due to an increasing focus by institutional and corporate investors, as well as regulatory changes.

Not so many years ago, the life of a startup before VC funding was very opaque. There was very little formal statistics gathering or institutional attention. When it was realized that startups are driving innovation and major business disturbances, investors and corporations have increasingly focused at the early stages of startup formation. More recently the US regulator has made changes

that allow for new funding models such as crowd funding for startups. These changes have created a number of early-stage vehicles to stimulate startup creation and early-stage growth.

On the investor side we have several types of angel investors ranging from individuals to professionally run angel groups, as well as many early stage boutique VC firms. Most universities have established spinout centers to facilitate commercialization of the IP generated by their research. There is an increasing number of incubators ranging from for-profit corporate incubators to sponsor and local government supported incubators. There are several startup competitions where winners often get funding and other support. There is an increasing online activity that blends social networking with investing to create crowd funding for startups. In addition there are a number of loosely defined often sponsor-supported spaces/venues where entrepreneurs meet, socialize, and work to create startups.

It can be a daunting exercise to understand, track, and engage with this dynamic ecosystem. Inevitably there are many cases of ineffective engagements with Silicon Valley, failed investments, and cost overruns. However, there are also many examples of highly successful engagements, rewarding investments, and lifesaving business transformations.

## Planting a Foothold in Silicon Valley - Contributions

A detailed look at the Silicon Valley offices of the many companies present there reveals significant variations in function, mandate, scope, size, and structure. Furthermore, these factors often change within each company over time. This is strong evidence that the winning formula for an effective engagement with Silicon Valley is elusive.

The function performed by these offices is based on various models, depending on goals and strategies. It would include some or all of the aspects below:

- Technology scouting
- Partnerships
- Startup investments from seed stage to mezzanine financing
- Research & Development
- Incubation
- Due diligence
- Venture capital fund management
- Spin-out & spin-in
- M&A support
- Public relations & branding
- Executive education through immersion in Silicon Valley activities

Through our experience, we have developed a model where we aim at addressing most of all of the goals above, in a partnership with the relevant partners, as a way to allow corporations or research

organizations to progressively leverage and synergize with the Silicon Valley ecosystem in a low risk, progressively integrated model. This is illustrated in the two case studies described below.

## Case Study 1:

### A proxy innovation and venture capital arm in Silicon Valley (Global Telecom Leader)

A worldwide telecom leader decided to place a foothold in Silicon Valley. The objective was three-fold:

- To tap into and absorb emerging innovative technologies that has significant disruptive potential in telecoms and IT.
- To strengthen the engagement with startups and venture capitalist to create additional leverage and reduces future risk.
- To provide an early warning of change to the macro business models caused by technology disruptions.
- To identify technologies and markets that are of interest to the clients of the telecom operator and take a customer focus approach that increases the business value proposition.
- To assist with the review of “internal” innovations at the telecom operator and help create appropriate spinoffs with proper incentive models to commercialize internal technologies and maximize benefit.

The Silicon Valley office was structured to best accomplish those objectives. It had a very strong executive team and working-level relationships with headquarters in Europe. It was critical to maintain a good connection with the core business units and engage them in Silicon Valley activities.

The focus of technology scouting was in two areas: (a) based on a deep understanding of existing products and services, we scouted for technologies that could result in significant improvement, and (b) scout for technologies that are adjacent to the core business and could create new business opportunities. The latter also has the potential to enter new areas that could eventually replace the existing “cash cows.”

The benefit of equity investments via venture capital are to enhance the relationship with a startup ecosystem, to improve the startup’s probability of success, while at the same time leaving the startup to develop naturally without suffocation by the large corporate entity. The equity investment is structured in way that gives certain preferential rights that can be exercised later, such as the right of first refusal.

Silicon Valley is a microcosm of bigger changes that will occur later. Having first-hand insight from research topics at local universities and research institutions, startup activities, venture capital flows, and industry conferences and gatherings allowed us to build an understanding of where things are going. This perspective was delivered to C-level company executives and was instrumental in shaping the strategic direction of the corporation.

Specifically, the Silicon Valley office recommended concrete strategies for integrating Wi-Fi into a mobile service, avoiding WiMAX, embracing mobile advertising and accelerating entry into that business through VC investments. These are just a small number of specific deliverables that had a major strategic and business benefit to the company.

## Case Study 2:

### Contributions to the development of a technology innovation ecosystem (Asia and Europe based)

We describe a case study we have been working on addressing a very specific angle among the various ones we have described: namely, working with a country based innovation ecosystem, including their venture capital arms, government R&D arms and academic and technology innovation institutions, to bridge them into the silicon valley ecosystem, and define the best strategy for short, mid and long term cross-fertilization.

Taking into account this country's aim to evolve towards becoming a Tier 1 R&D innovation technology hub, there was an opportunity to contribute to this evolution, strategically and tactically, based on the past experiences we have in the Silicon Valley innovation hub. Specifically, the goal was to assist with the development of a technology incubation initiative, from idea inception to an early stage go-to-market strategy of select R&D initiatives. This included:

- Work with a select set of entrepreneurs to launch technology startups and with academics to optimally jumpstart their ideas. We jointly built a path towards leveraging innovation towards commercialization success.
- Analyze and review select ideas with the incubators and ventures capitalists and structure them based on defined goals and target markets
- Work with the potential early-stage incubation fund and investors on the due diligence
- Work with the various actors of the overall innovation ecosystem on putting the right elements in place for success
- Bridge-in Silicon Valley venture capital process as part of the value chain engagement
- Develop relationships and explore synergies with the Silicon Valley system

The following approach was taken to achieve this:

- Spend significant amount of time with the various stakeholders, working with them on building a path towards developing early-stage ideas, with an objective towards a startup venture.
- Develop a good remote working model to achieve optimal collaboration with the various stakeholders, with a focus on mentoring some of the new ventures, working with the venture capitalists to bring in high value funding, and bridging-in into some key technology players that would be potential partners, channels to markets or in some cases, acquirers of such ventures.
- Experiment with the above and refine based on progress, as far as model and engagement, tactically and strategically.

This engagement did involve few of our partners who all possess extensive experience in terms of building Silicon Valley startups and are heavily plugged into the venture capital and innovation ecosystem. This resulted in some positive outcomes on various fronts, including the initial launch and mentoring of successful technology ventures. Specifically, it did open other synergistic relationships with Silicon Valley for various stakeholders, including the entrepreneurs, venture capitalists and government funding groups.

## Take Aways and Partnership Proposal

Xona Partners has a long experience in Silicon Valley. Our partners have held roles in startups, VC institutions, large companies, and led the Silicon Valley offices of large multinationals. Xona has rich and deep network in Silicon Valley that span decades.

Depending on the strategic needs of the client, we can offer a white-labeled presence in Silicon Valley. If the client wishes to have its own longer term presence in Silicon Valley, we can build an “instant start” Silicon Valley office for the client by transitioning from white-labeled Xona staff to client’s staff through hiring and training in a smooth transparent process without business disruption. Our aim is to provide the most expedient and efficient way for our client to establish a foothold in Silicon Valley and reap the benefits that it can provide.

In our experience, we have seen the tremendous power of participating at the leading edge of technology and business disruptions. We can confidently predict that, when executed correctly, the investment into a presence in Silicon Valley will have a much higher ROI than the company’s own business. Furthermore, the reduction of the probability of being blindsided, and/or the incubation of a new area of business, could have life saving consequences. Finally, the executive who has the wisdom to plant a successful foothold in Silicon Valley for their company often receives long-lasting praise.

## Acronyms

<b>PR</b>	Public Relations
<b>M&amp;A</b>	Mergers & Acquisitions
<b>ROI</b>	Return on investment
<b>R&amp;D</b>	Research and Development
<b>IT</b>	Information Technology
<b>VC</b>	Venture Capital

Xona Partners (Xona) is a boutique advisory services firm specialized in technology, media and telecommunications. Xona was founded in 2012 by a team of seasoned technologists and startup founders, managing directors in global ventures, and investment advisors. Drawing on its founders' cross functional expertise, Xona offers a unique multi-disciplinary integrative technology and investment advisory service to private equity and venture funds, technology corporations, as well as regulators and public sector organizations. We help our clients in pre-investment due diligence, post investment life-cycle management, and strategic technology management to develop new sources of revenue. The firm operates out of four regional hubs which include San Francisco, Paris, Dubai, and Singapore.

Xona Partners

[www.xonapartners.com](http://www.xonapartners.com)

[advisors@xonapartners.com](mailto:advisors@xonapartners.com)