
APS1012 Management of Innovation – Final Team Projects, Spring 2013 (online class)**Acquisition Start-ups as Innovation Channels**

Based on individual interest of the team members, we decided to study the side of acquirers and also touch parts of the problems that the acquired companies faced with limited extension. This formed a basis for the scope of project.

In addition to large scale companies which have abundant resources to fund their internal R&D activities, start-ups are important sources of external innovations in the domain of high-tech development. Our goal is to study “growing by acquisition” which has become a common strategy for many large companies especially in telecommunication, Internet, and computer industry in recent decades. Following acquisition strategy, start-up acquisition is taken as a complement or in some cases as a substitute for internal innovations.

The main focus of this study is the rationale behind acquisitions. We specifically investigate aspects including why to acquire start-ups, internal development vs. acquisition, and common traits among start-ups. Each of five team members chose one of the five following companies to conduct the case study on: Microsoft, Google, Facebook, Yahoo, and Cisco, that are all in the field of telecommunications, Internet and computer industry. In each case study, we go through some of the key acquisitions carried out by selected companies and examine the acquisition strategies used by each company.

Based on the research results from those individual companies, we draw the following conclusions on the three subjects:

Subject 1: Why to acquire start-up?

1. To gather innovative technologies and products to strengthen up the existing products or expand its product portfolios; at the same time to keep up with fast changing technology.
2. To acquire customers or users in the scenario of web service such as news and blogs.
3. To enter new market (horizontal expansion).
4. To eliminate competitors who are threatening in terms of leading technology or to help the firm to secure its leading position.
5. To prevent rivals achieving the targeted start-ups thereby striking the opponents.
6. To hire talented employees and recruit outstanding entrepreneurs.
7. To create new revenue generating fields.

Subject 2: Internal development vs. acquisitions

The following are the major reasons which explain why acquisitions are preferred to internal development:

1. To keep pace with rapidly evolving industry. In some business areas, the innovation speed is so fast that keeping innovating in-house with external innovation pace is very challenging and utterly impossible even for a large company with plenty of resources. For example, Cisco has followed different approach, i.e. “A&D” – acquisition and development, for growth.
2. Time-to-market. In certain situations, a large corporation has financial resources and ability to develop a particular technology, but the company cannot afford taking the risk caused by the delayed delivery.
3. Expertise. In the case of acquisition of Yammer, Microsoft just lacks that part of “gene” enabling it to create that kind of technology and business model, even though it has plenty of resources.
4. Lowering Risk of innovation. Acquirers often have witnessed the success of start-ups’ technology and business models before the acquisitions.

5. Human talent. Large companies often find it is impossible to obtain talented employees from inside.

Subject 3: Common traits among start-ups

1. Most of acquired start-ups are in the fields which are closely related to a rapidly growing market. This implies that the first important thing start-up founders are to foresee is where the emerging market is and choose the right direction for the company.
2. Most acquired companies are small in size and brought latest cutting edge technologies, products, or services early in market. This suggests that whether a start-up can succeed is mostly determined by what they do and who they are instead of its size or age.
3. Started with Innovative idea and worked on breakthrough technologies.
4. To realize the innovative idea to commercial state were backed up by venture capitalists or investors.
5. Quick turnaround time from innovation to realization i.e. from idea to commercial product. Mostly within a year or two.
6. Mostly young, passionate, entrepreneurial spirit of founder members and very skilled employees working to make the product successful. Especially young technologies that are very new or at research level.
7. Less overhead and infrastructure costs.