



Fast companies

By Ajit Kambil, Karen A. Monteiro and Erik D. Eselius

Fast venturing has proven to be a powerful force in getting dot-coms up and running quickly. But if this entrepreneurial model is not used properly, even the best ideas can be swept away.

Sure, we all know things move pretty fast in cyberspace. But is it really possible for a start-up to go from initial idea to full-blown dot-com launch in less than three months?

Not only is it possible—these days it's essential.

Just ask GoodHome.com. In 1999 founders of the home-furnishings startup managed to line up \$50 million from four venture capitalists. Their next challenge: how to scale quickly. Enter Simplement, an SAP implementation and software development firm that helped lay the groundwork for GoodHome.com's processing, tracking and billing system, and eFulfillment provider Submit-Order.com, which was brought in to facilitate inventory management and outsource distribution, ensuring customers a high-quality online buying experience. Total elapsed time: 10 weeks.

The GoodHome.com example illustrates the new reality driving eCom-

merce: Establishing a viable online business requires not only cash and lightning speed but access to ready-to-go execution capabilities as well. Increasingly, the ventures that make it to market fastest and with the best chance to succeed do so using a new entrepreneurial model known as fast venturing.

Show me the capabilities

Fast venturing is a strategy to bring a new eCommerce company to market with the requisite scale and quality, and at the speed necessary in today's hypercompetitive Internet marketplace. More specifically, in fast venturing:

- A new company with a distinct equity structure is chartered.
- Equity funding is provided by venture capitalists.
- The venture is supported by a network of operational partners—professional services firms, systems integrators, Web portal designers—

who help assemble the particular assets required for execution.

Fast venturing has been a successful model for pure-play eCommerce startups and for “bricks-and-clicks” ventures alike. However, this model is not for every business, and there are some things to keep in mind if you are going to follow this strategy.

For entrepreneurs with a solid idea and business plan, rounding up capital isn't the impediment it once was. Indeed, in 1999 a record \$48.3 billion in venture capital was invested in more than 3,000 US companies, most competing in eCommerce. In 1995, by contrast, roughly 1,300 companies received just one-eighth that amount.

But venture capitalists understand all too well that even the best new ideas will not fly without execution capabilities. Because of this, they sometimes referred the ventures they were funding to a consultant who provided a comprehensive plan and pulled in



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other resources as needed. This informal approach—appropriate in the old economy—was designed to gradually assist a new venture in getting up on its feet.

In the eEconomy, however, new ventures immediately face a variety of challenges—from site design to customer service to order fulfillment—that demand multiple skills. That calls for a group of experienced, in-place partners who can execute quickly. Indeed, in a recent Jupiter Communications survey, 73 percent of respondents said they would prefer to work with multiple vendors, rather than try to develop a site in-house or turn to a single vendor.

Bricks versus clicks

As it becomes easier to connect ideas with capabilities, fast venturing is gaining acceptance as a successful eBusiness model. What were once informal referral networks are quickly becoming fairly stable constellations of contributors—partnerships of venture capitalists and business management experts. These partners are establishing stronger ties with one another, forming alliances and, in some cases, combining multiple enterprises under one roof that feed off one another to create vital synergies.

It's a commonly held notion that corporate bureaucracies suffocate innovation and entrepreneurship. But don't tell that to Wal-Mart or Staples—retailing giants that have embraced fast venturing for their eCommerce plays.

Indeed, the dot-comming of Wal-Mart put newer pure-play eCommerce companies on notice that tougher competition in the online world from established retailers had arrived. In early 2000 the world's largest retailer opted to abandon building its eBusiness in-house and instead allied itself with Silicon Valley venture capitalist Accel Partners.

In relaunching Wal-Mart.com, the two parties—which invested several million dollars in the deal—set up a new, incorporated company with a separate board and dot-com compensation levels for its executives.

In this way, structuring an eBusiness as a separate legal entity—a typical fast-venturing model—offers venture capitalists the potential for higher returns because they are not buying stock in the slower-growth parent company. Wal-Mart did get the majority stake in the new eCommerce venture, but the deal was structured with the option for an IPO and to ensure the traditional company's commitment to the success of the new venture. The new Web site, which will be allowed to make its own merchandising and pricing decisions, will share buying power, logistical support and access to Wal-Mart's customers.

The fierce competition between startups and established companies for the limited pool of Web-savvy talent is another reason to split off the new venture. What could possibly entice any self-respecting twentysomething programmer to take a job at an old-fashioned corporate behemoth? Answer: the opportunity to become rich quickly at an autonomous eCommerce firm affiliated with the company. Such firms, with their separate profit-and-loss statements, can offer competitive compensation packages and entrepreneurial freedom.

Transfusion

At Staples, the idea of an online business grew from an internal strategy group proposal. Like many bricks-and-mortar companies, Staples wrestled with how best to compete with emerging upstarts for talent. The \$9 billion office-supplies company lagged behind Internet pure-play competitors in having an online offer

ing; it needed a transfusion of eBusiness acumen.

To address these issues, Staples launched Staples.com in November 1998. The company issued a separate tracking stock in the fall of 1999, selling a 5 percent equity stake to a syndicate of venture capital investors. Stock options proved successful in attracting both internal and external talent. To expedite its eCommerce launch, Staples.com partnered with professional services firms to complement its existing staff, resources and skills in the design and development of its Web site. One company provided Web-based server tools and integrated the technology components; another provided advice on improving site usability; and an Internet marketing firm managed affiliate sales and marketing.

Concentrating the mind

Why should a Wal-Mart or a Staples, both of which can well afford to launch internal initiatives, adopt a fast-venturing model? Simple: Historically the return on internal corporate initiatives is less promising than that on independent ventures. One research review by Patricia G. Greene and Candida G. Brush, "The Corporate Venture Champion: A Resource-Based Approach to the Role and Process" (*Entrepreneurship Theory and Practice*, Spring 1999), suggests that compared with entrepreneurial startups, corporate ventures require a much longer incubation period before commercialization and take twice as long to reap a profit.

It's unclear why this is the case, but experience suggests five answers.

First, corporate executives tend to have a much smaller universe of ideas to choose from than does the typical venture capitalist. Second, they may have less objectivity about which ideas should succeed; this may be due to internal politics or hardened

views about their particular industry. Third, internal initiatives are limited by the company's own capabilities, which may fall far short of best-of-breed.

Fourth, getting the green light for an internal venture typically requires layers of approval that sacrifice swiftness for a certainty that is rarely attainable in today's fast-moving markets. Staffing allocation, annual budgeting and political power struggles all conspire to limit a company's ability to innovate.

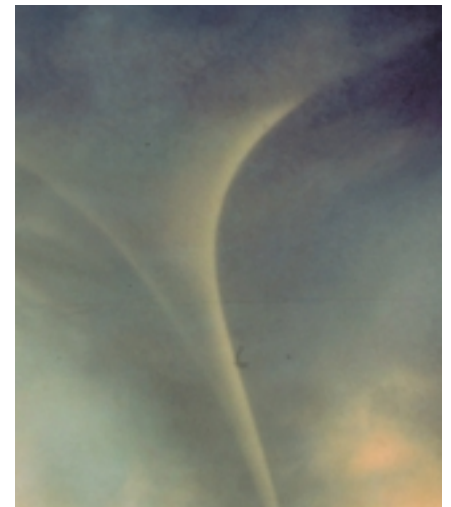
Fifth, and perhaps most important, corporate initiatives suffer because managers are seldom personally on the line. To paraphrase Samuel Johnson, nothing so concentrates a manager's mind as the prospect of an IPO in just three months.

In a corporate environment, a fast venture can minimize or eliminate these impediments. New-venture teams tend to make decisions motivated less by career advancement or company politics than by the opportunity for personal and financial gain, creating powerful incentives for success.

Hothouses

Fast venturing takes other forms, of course. Bringing the three elements of a successful fast venture—ideas, seed money and implementation expertise—into a completely integrated offering is the idea behind incubators. These hothouses for nurturing young companies contain a portfolio of ventures at a common location, providing office space, hands-on management assistance, access to financing, and legal, accounting and other support services in exchange for an equity stake.

Incubators speed up the growth cycle of a startup—critically important in the competitive eCommerce world—and can strike it rich if and when



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those startups go public or are acquired. Entrepreneurs' precious time is freed up to focus on their product or service, instead of on financial and operating issues beyond their expertise. An incubation program's main goal is to create businesses that are financially viable and freestanding when they leave the incubator, usually in two to three years.

California-based Idealab has pioneered the incubator model for eBusinesses. Emerging from the venture capital world, Idealab realized it could add value to the ventures it funded by providing advice on strategy, branding and corporate structure.

The firm, which incubates 20 to 30 companies at a time, gives each startup CEO equity options in Idealab, which helps promote the sharing of ideas, techniques and skills across ventures. Idealab has successfully incubated WeddingChannel.com, CarsDirect.com and GoTo.com.

Avoiding the pitfalls

Other venture capitalists have quickly taken the cue. For example, Softbank Venture Capital, the investment arm of Softbank, a Japanese Internet powerhouse, recently created its HotBank incubator along the same lines. As entrepreneurs increasingly have their pick of funding sources in an economy flush with money, incubator capabilities are rapidly becoming a competitive necessity for venture capital firms. Management consultants, systems integrators and traditional corporations are also getting into the booming area of eBusiness incubation.

Fast venturing, of course, is not without risk. As a collaborative undertaking with multiple players, turf wars and other conflicts are bound to surface. The following guidelines suggest what

traps to avoid and what steps to take on the path to fast-venturing success.

Shared beliefs and careful cultural due diligence are prerequisites for avoiding downstream problems. Before selecting Accel Partners, Wal-Mart methodically reviewed several venture capital firms. Accel impressed Wal-Mart with its vision of how new technologies could be integrated into the retailer's business model; it was clearly a good fit. Unfortunately, some other companies have given only lip service to this kind of foresight, which has resulted in collaborations dogged by incompatibility.

Control

Tensions over control of the emerging eBusiness are never far from the surface. The management team of the new eCommerce company must have the authority to make strategic and operational decisions. Few individuals will break down doors to sign up as CEO of a new venture that isn't autonomous from the parent company. One large retailer's fast-venturing attempt crashed recently when the newly hired dot-com CEO discovered that the company's idea of entrepreneurial freedom meant regularly reporting back to the parent.

When Procter & Gamble recently launched Reflect.com, it made a crucial concession to its California venture capital partner, Institutional Venture Partners. The consumer-products giant invested \$35 million for a 65 percent equity stake in the venture but gave IVP the sole right to launch an IPO, scrapping its plan to reabsorb the venture into its corporate structure.

Equity structure

Any new venture must have a separate equity structure that includes the option to take the company public. Without such a structure, it is highly unlikely that top-tier venture capitalists or other equity partners will participate.

Additionally, a substantial amount of the eCompany's stock—between 10 percent and 30 percent—must be reserved for incentive compensation, which is vital for attracting and retaining management and other talent, and for ensuring employee commitment. Providing eCompany stock options to key traditional company staff further aligns the incentives of the new and traditional company staffs to make the new venture a success.

At the outset of a new venture, different innovators require different assets. By identifying the critical constraints on their aspirations—access to ideas, capital, capabilities or customers—they can select the lead partner that can best help them achieve their goal.

To help launch its site, Dan's Chocolates, a Massachusetts-based specialty purveyor of gourmet boxed chocolates, got both seed funding and access to customers from electronic greeting-card company Blue Mountain Arts (which is owned by Excite @Home). Dan's also contracted with Federal Express and other professional services firms. This investment enabled Dan's to compete with Godiva (its major competitor) for Valentine's Day traffic, even though it had only been in business for three months.

Leverage partners

New eCompanies are by definition entering uncharted territory. The business models that ultimately succeed may not be the ones defined at the outset.

To adapt to changing markets and effectively realize value from partnerships with equity and operational partners, the new-venture management should put in place processes to leverage partner assets at each stage of the fast venture. To obtain expertise to support its eCommerce initiatives on an ongoing basis,

Staples.com formed an advisory board comprised of some of its capital partners and other eCommerce experts.

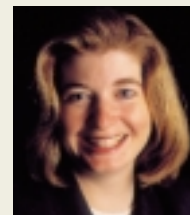
Other players, such as Idealab, have a stage model for launching companies, with various checkpoints for measuring performance and providing relevant incubator resources to each new venture. Building explicit processes to involve partners in each stage of the fast venture is critical for realizing the value of the partnership.

Fast venturing, like most things in life, involves trade-offs. Corporate managers and entrepreneurs alike must reconcile themselves to the reality that it means sharing ownership and control in the new eBusiness with others. Companies that have embraced fast venturing, however, have determined that because speed is the paramount concern—relationships that can cut months out of a launch cycle are worth a great deal. ■



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