XONA PARTNERS

Strategic Advisory
The Case for a Disruptive Model

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Synopsis

Xona Partners ("Xona") team members have been heavily involved in developing various advanced technology and business innovation models, and observing what works, what doesn't, and why. After analyzing the latest shifts in the technology eco-system and the competitive positioning of lead technology players across key markets around the world, we have reached a startling conclusion: traditional consulting and advisory models are no longer optimal for the needs of leading edge technology businesses.

We are pioneering an execution-driven approach based on a shared risk and shared return model and focused on accelerating innovation disruption to create entirely new value chains for our clients. This model is based on a technology incubation approach, followed by a progressive spin-in into the client's business, creating as such new revenue streams in adjacent businesses.

In this paper we present the underlying rationale, highlight its fundamental components, and illustrate specific case studies conducted in the US, Japan, Korea, Hong Kong and Singapore of how this execution centric technology advisory model has been implemented in partnership with some leading technology companies and private equity investment firms.

Rationale

Collectively as a team, we have spent the last 2 decades fully immersed in various innovation ecosystems around the world, and we have approached the various aspects of technology innovation from different angles. This includes jumpstarting venture capital-funded startups and taking them to acquisition or public markets, building new businesses out of corporate and academic R&D work, assessing and executing merger and acquisition (M&A) for technology businesses, working with boards of directors on their business strategies, advising investment and private equity funds on their technology investments and management of their portfolio companies as well as directly leading angel and venture capital investments.

Our involvement has not only been focused in the Silicon Valley area, where most us built their technology startup roots, and where a lot of the technology disruptions in information technology (IT), Internet business models, cloud and data sciences are still happening. We have also participated in direct engagements within various innovation ecosystems in Japan, Korea, China, India and Europe, among others. These innovations have also been taken to markets in both the developed and the emerging world by Xona, are now running commercially with a validation of both the technology and the business models.

Over the last few years we have honed our methodology for assisting various technology businesses, technology investors, government organizations and policy makers in developing & executing new business models. This has primarily been a response to the observations made above: the inadequacy of the traditional advisory model. Why do we say this?

- The pace at which technology and information technology is progressing has shifted: this is leading to a brutally fast disruption of existing business models, accelerated convergence, and shifting revenue and margin dynamics between competing businesses. As an illustration, an observation of the market cap of various large technology businesses shows how disruptions happening over a timeframe of a few years can lead to a total reconstruction of the leading pool of players, from mainframe businesses in the 80s to networking vendors in the 90s to cloud and Internet players in the 2000s, and progressively into media and e-commerce players moving forward. This fast evolutionary pace has put pressure on boards and CxO's to increase risk tolerance and accelerate the speed of decision-making in terms of what to build and which adjacent market to target for expansion.

- The convergence of various industries driven mainly by the way information is exposed, exchanged and consumed, has led to the need to assemble a very diverse expertise to tackle the problems associated with new business creation. The need for technology-centric commercial expertise which can link into new business growth and which is readily available at short notice is growing and represents a clear value differentiator for decision makers.

- Successful integration of disruptive business models is hard. Apart from a very small number of technology players that have mastered the art of startup acquisition or larger business integration, few organizations have been successful in delivering disruptive value, forcing them to develop most of their new products in house with direct impact on the likelihood of success, bottom line and time to market. The Internet business model, where the "winner takes all," is likely to exacerbate this trend.

- The traditional technology and business strategy advisory model has remained as it was in the 1980s, 1990s and 2000s: focused on high-level strategy without direct coupling with operational execution, and focused on short-term technology and business trends without a deep dive into the implementation of technology to understand its impact on the creation of new businesses in adjacent markets. While this traditional model is still effective in some situations, it has not been successful in adapting to the changing information technology environment.

Given all the above, we believe that the speed of change in technology and the variety of options available for boards and management teams in expanding into adjacent businesses, requires an immediate access to deep technology expertise, combined with both operational know-how and strategic understanding of business implications are primordial. We have developed a model that we believe accommodates these requirements as it forms the basis of a new technology and business advisory practice.

The Advisory Model Explained – A Technology Spin-in & Incubation Centric Approach

Our advisory model has been developed and validated over the last 2 years in close partnership with lead technology groups aiming at expanding into adjacent businesses, as well as private equity groups focused on creating new value out of their portfolio technology companies through new business creation. It is based on the following guiding principles:

- Strategic Technology Incubation

By working with key decision makers (typically, the business/strategy and engineering leads) within a technology corporation, our team with create a collaborative plan to develop a specific solution focused on target adjacent markets, leveraging our specialized hands-on design expertise and business insight for new market insertion. Such know-how will progressively be transferred to in-house engineering and sales teams, via a tailor made enablement process. This would form the basis of the incubation process.

- Integration via a “Spin-In” Model

Our team will have as a goal, to first incubate and progressively develop a solution within a 12 to 18 months period, based on pre-agreed and designated milestones with the business stakeholders. This is primarily used to de-risk decisions for decision makers prior to committing broader company resources, and progressively build the required expertise to take over execution. The incubated solution will be integrated into the technology corporation’s mainstream process via a spin-in model.

- Progressive Integration of Synergetic Growth Models

The spin-in model is based on a milestone-driven approach. During this process, various strategic alternatives may be selected to penetrate these adjacent markets: This includes recommendations of possible technology acquisitions, in a buy vs. build model, a fast tracked strategic investment to speed up an existing development process, or an asset carve-out strategy leading to a more optimal business strategy. These various alternatives will be analyzed, contrasted and if relevant, recommended by our team as an alternative to a technology incubation and spin-in approach.

- Adjacent Business Growth Via Shared Risk and Shared Return

The fast pace of information technology innovation, leads to a large number of business alternatives to chose from with the goal of entering new adjacent markets. These choices come with a significant business risk as well as a high execution cost. As such, a shared risk shared return model is the most viable approach for decision makers. This approach mimics the technology startup model, and creates an incentivized environment. Our team would be sharing the innovation and execution risk with the business stakeholders as a way to de-risk their decision to get into adjacent businesses.

Our technology advisory practice provides clients with an exclusive capability: the ability to deliver innovation and disruption in a risk-mitigated and value-optimized form. This model, aligned with the few leading technology companies who have successfully achieved this with in-house teams, enables organizations to maximize incubation and spin-in approaches. Our aim is to make such a model available to a larger set of technology players based on our team’s diverse experience and expertise, risk and return sharing DNA and focus on operational execution.

This model is valuable to a set of stakeholders, and primarily to:

- Advanced Technology Organizations

Such corporations represent the primary beneficiary as they are, and will increasingly be, likely to be expanding into adjacent markets and building corresponding large businesses. As such, they would be the primary partners in the proposed risk/return-sharing model.

- Technology Investors (Private Equity, Venture Capital)

As shareholders in the various businesses they invest in, the benefits from this model are clear. Assisting portfolio businesses in either developing new businesses in-house via the spin-in model, or moving into tackling growth via an M&A model, or in other cases, executing technical & commercial due diligence, converging on asset carve-outs and undertaking strategic restructuring for better long-term synergetic growth.

- Policy Makers (Development of Innovation Eco-Systems)

Along with technology businesses and investors in technology policy makers responsible for bringing innovation into their own ecosystems would also be beneficiaries of our innovation advisory model. Specifically, this would be via working with regulatory arms and investment groups to better position new technologies for the specific needs of the ecosystem, and therefore enabling the emergence of the appropriate climate for innovation with direct implications on the development of new technology markets and businesses.

To better illustrate this model, some use cases will be briefly discussed with highlights of the value proposition to the stakeholders.

Adjacent Growth Businesses Incubation - Case Studies

We have experimented with several case studies. Most of these engagements are described in select whitepapers (1). Overall, all of these engagements have in common the following characteristics:

- The team brought immediate technology and hands-on expertise that wasn't readily available to the client.

- The team worked with the business stakeholders, either management or investors, to analyze various technology trends and associated business impacts and zoom-in on a select set of new adjacent markets to address. These markets would be of a Greenfield nature for the client, and would take 12 to 18 months to bring to market commercially.

- Addressing these markets would still consider alternative approaches to the in-house spin-in incubation, such as M&As or business assets carve-outs.

- The team formed a task force as an extension to the client's team, to lead technology, business development, customer engagement, sales enablement and solution validation with lead customers

- The team defined milestones jointly with the client, and compensation was on a shared risk/return basis, in a very similar way to the technology venture capital startup model.

Select use cases that we have conducted over the last 24 months, in North America, Japan, Korea, Singapore and Hong Kong are briefly presented below to illustrate the work done in various technology areas. The respective references point to detailed information describing how these projects have been executed with various technology clients.

a) Data center hosting providers have a clear need to evolve towards hosting new technology eco-systems. As such, we put together an architecture, design and execution model for the development of a new revenue generating business based on hosting the fast growing ecosystem players in real-time bidding for online advertising (2).

b) As various businesses explore ways of leveraging the availability of vast amounts of data as well as big data frameworks to manage it, we developed data science centric solutions to create new revenue streams from the analysis of these data for various adjacent markets to specific industry verticals, including mobile payments, mobile analytics and vehicular technologies (3).

c) The evolution of mobile health, in conjunction with the emergence of more robust health centric wearable devices, opens up the opportunity for mobile and virtual operators. We developed and implemented a new health vertical for mobile players (4)

d) The emergence of cloud delivery models opens up interesting disruptions for various industry players, and new entry points into adjacent businesses. We architected a solution leveraging open source models as an entry point into the hybrid cloud service business, complemented with tailored IT and big data transformation services (5).

e) Telecom operators are under increasing pressure to optimize capex and opex models. Sharing infrastructure is key to achieve savings. We have developed and implemented new solutions for active infrastructure sharing and developed a baseline for partnership with OTTs as MVNOs (6).

f) Financial technologies are under pressure to leverage new IT and data science models to optimize their bottom lines. In this context, we have developed new technology and business solutions around data sciences for financial industry players with a focus on integrating intelligent automation into wealth management in this context (7).

g) As various eco-systems around the world aim at leveraging the advantages of digital economies, a race towards the creation of technology innovation hubs, blending academic, private and public capital funding has been occurring over the last decade. Building on our methodology of incubating new businesses, in partnership with the various players in the eco-system, we have partnered with different corporate groups in a way to best synergize with the already successful Silicon Valley innovation eco-system (8).

Conclusion

We have highlighted the rationale for a drastic change in the way strategic technology and business advisory is being conducted, in a world where fast changing Internet & Information Technologies is at the center of innovation, leading to drastic business disruptions. The fundamental reasons for such disruptions are highlighted, forming the basis of a new model, which we have developed, tested and validated.

This model is primarily built on our broad Silicon Valley technology startup culture, with a shared risk and return philosophy. It leverages the disruptions seen in the information technology world, as far as rate-of-change, industry transformation, and business models mutation, and is based on a technology incubation model, complemented by an operational focus and a shared risk return execution philosophy. Through the recent successes in deployment with various technology businesses and investors in technology, we believe this represents a near-optimal approach for technology and business advisory in the near future.

References

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(5) Development of an IT transformation Service business based on cloud and big data technologies
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(7) Development of data driven intelligent advisory software in financial technologies
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(8) Synergizing with the Silicon Valley innovation eco-system
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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.

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