

THE COOKBOOK FOR SUCCESSFUL INTERNAL STARTUPS



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The Cookbook for Successful Internal Startups

DIGILE | N4S

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Preface

This book is the result of the (hard) work done by members of Finnish universities, research institutions, and companies in DIGILE's research program Need4Speed.

Digile: What kind of know-how does the Internet economy require? What works and what doesn't? Are we missing an algorithm or a business model? DIGILE's two- to four-year research programs are built and implemented in an open fashion together with companies, universities, and research institutions. These research programs follow the principles of agile development, and work progresses in sprints.

The Digile research guidelines (SRA, strategic research agenda, and SRIA, strategic research and innovation agenda) are affirmed by DIGILE's board of directors, and the funding comes from companies, universities, and research institutions, as well as financiers such as the Academy of Finland and TEKES.

<http://www.digile.fi>

Need for Speed (N4S): N4S is creating the foundation for the Finnish software-intensive businesses in the new digital economy. N4S adopts a real-time experimental business model and provides the capabilities for instant value delivery based upon deep customer insight. The program is executed by the foremost Finnish software companies. The consortium consists of 13 large industrial organisations, 16 SMEs, and 11 research institutes and universities. The four-year program of DIGILE (2014-2017) is partly funded by Tekes.

<http://www.n4s.fi/en/>



1. If you have time to read only one chapter, this is it

Cisco Systems chief *John Chambers* claims that 40 percent of companies “will not exist in a meaningful way in 10 years.” We are in an era of unprecedented technological disruption and change that only the most forward-looking companies will survive.

Over the past several years, companies have had to change to meet the threat of accelerating competition coming from startups and other global industry players. Digitalization is all the rage, and many companies are evaluating what to do in order to stay in the game.

Our answer to this question is to use internal startups as an innovation accelerator mechanism to better select and execute the correct innovations. This mechanism brings cheaper innovation execution and faster time to market, which eventually transforms the company into a growth company.

An internal startup is a setup in which a company launches a separate (semi-)independent initiative to pursue a new innovation or an idea. Internal startups can test (and iteratively re-formulate) the idea based on fast feedback, follow through to market making and product launch, and eventually end by integrating the initiative into the existing business portfolio.

Alternatively, the startup might fail quickly and be killed if the idea does not work. The model is built so that failing is cheap and comes early. The model does not start from building an expensive prototype to test if customers like the features, but rather from the question of whether the product should be built in the first place.

Internal start-ups should have freedom from the rest of the organization but still be integrated into the corporation. Freedom is needed for quick execution and market trials, as well as for re-focusing based on the feedback. Still, corporations have many assets and competencies, which will come handy during the process. For example, legal and pre-production services are just a call away.

// With internal startups, the company stays in the driver's seat, and additionally modifies the existing culture to be less siloed, rigid, and inflexible.

Why not just invest in external startups? Internal startups are most likely the best instrument if a corporation wants to try out new things and if the new things clearly fit into the corporate vision and strategy. Finding a well-matched startup from outside may be difficult, if not impossible. With internal startups, the company stays in the driver's seat, and additionally modifies the existing culture to be less siloed, rigid, and inflexible.

Top management is needed to make this happen. Corporations need a corporate sponsor with a budget to invest and a wide back to hide and protect the internal startup team. Additionally, there are some other changes that need to take place, but we will describe them in detail later in the book. A suitable operative mode needs to be defined and communicated to the organization. This means that a new culture and operative mode need to be built for internal startups to work efficiently and co-exist with existing business. Running the new with the old way of working is a bad idea and rarely succeeds.

Does this work? Yes it does — and there are several case examples in this book. In Finland, F-Secure, Tieto, and OP Finance Group have all used the concept.

Startups often create apps for ecosystems, but what if you're creating embedded products or hardware? Has this method been used in that context? Yes. For example, General Electric noted in the 2015 Lean startup conference that in their heavy-duty gas turbine division, they were able to shorten cycle time from 7 years to 4.5 years using FastWorks methodology (their version of a lean startup approach).

Does this all really work in a big company? General Electric has started using internal startups in a big way. GE has, for example, 150 full-time coaches to mentor the organization, which has widely accepted the methodology.

What if you're in a regulated industry, like medical, banking or elevators? This system has also been used successfully in these cases, within the borders of what the regulations allow. Typically, people with deep knowledge of the rules and regulations have been part of the internal startup team.

How to read this book

This book is a combination of different writers and different corporate experiences. Therefore, it has some overlap.

Chapter 2 details challenges that big corporations have. It is recommended reading if you come from the startup domain and have little experience in big companies.

Chapter 3 is for people who don't know the basics of startups, i.e., people with a background in big companies. If you know the startup world well, you can skip this chapter.

Chapter 4 is the theory section on internal startups and provides guidance on how to build such startups and what the common pitfalls are.

Chapter 5 is written from an internal startup leader with a team perspective and is based on a real example. If you are actually running, or planning to run, an internal startup, this chapter is for you.

Chapter 6 describes alternatives to internal startups and other related discussions.

Chapter 7 is for the Recipes.

Additionally, there are several company case examples in boxes at the end of the chapters.

Case: OP Financial Group Mobile Wallet App – Pivo

OP Financial Group won the Red Dot for interaction design in the Red Dot Award: Communication Design 2014 competition, for the interaction design of Mobile Wallet Pivo.

The Finnish banking market is dominated by just a few major players, of which OP Financial Group is the largest. Due heavy legislative requirements, user-centric innovation is both slow and difficult. To fight this, OP Financial Group set up a research and development unit in the northern city of Oulu, formerly a major site for Nokia-related development and consumer electronics. The location of the site was optimal — still urban and accessible to wide amount of talent, but at a distance from the headquarters, which allowed innovation to flourish.

The bank set its sights on launching a 100% Finnish mobile wallet, which would revolutionize the way application users would see their personal finances. One of the first goals set was to have a permanent spot on the first screen of a smartphone, as an app that would be used daily. In order to reach this goal, the app should be pleasant and delightful to use and beautifully unique by design.

What happened next was stunning — less than six months after its release, Pivo climbed to the top of the Finnish app store and claimed the spot of most frequently accessed banking app in the country. Pivo's unique selling point was its beautiful and effortless way to follow and understand one's own daily expenditures and tap into various offers (a mobile variant of US coupon offers) and loyalty programs at once.

The actual mobile payment functionality has now been added into the app, and a pilot for Android users is going on at the moment.

Pivo was created primarily to improve customer satisfaction, and at this it has been tremendously successful: Pivo users generally give significantly higher ratings for it when compared to other OP financial group's services. Some statistics:

- 33% of users open Pivo every day
- 66% of users open Pivo weekly
- 4.5/5 is the average rating for Pivo in the iTunes App Store
- 700000+ downloads as of 1.12.2015 (Finnish population: 5M)

Kristian Luoma is heading the team and tells us what they have learned from the case:

Originally, 3-4 years ago, mobile payments were noted in the OP Financial Group's yearly vision as work that should be important, but the topic did not clearly fit into anybody's agenda. So it was decided to form a team — a collection of people who knew about mobile payments. They started off with the problem.

The site in Oulu was new, and far from the headquarters. Most people were new hires, but the business owner of the problem was an OP Financial Group veteran, bringing in a wealth of banking experience.

The team started off by using the lean startup paradigm rather strictly and as an internal startup inside the OP Financial Group. Now, Pivo is its own company with its own management. Pivo became a separate company from the mother bank in order to be bank-agnostic, so it can be used by customers from all banks.

The lean startup methodology was found to be very good, but it also became clear that since it is a very disciplined model, if one follows it (like one should) then one needs to be prepared for it.

Initially the team created a set of assumptions, which, looking back now, were all wrong, and they changed them over time. But this is fine. The whole setup is such that fast learning is the key. Being initially wrong does not matter, as the methodology tests the assumptions early on and then calls for end-user feedback to be used to re-direct the project.

Over the years, around 100-200 versions have been developed and launched to learn more from customers. Initially, a new version was provided each Tuesday to study users and markets.

Here are recipes based on OP Financial Group's Pivo experience. Even though Pivo has been a success, the team learned some things they would have done differently from their experience, and they want to share them here with you:

- 50% new and 50% old could be good composition for the team. Old-timers know the application area and how the company works, while new people bring in fresh competencies and thoughts. The executive sponsor naturally needs to be a company veteran.
- The team needs to have a clear mandate to be able to work. One needs to minimize the disturbances of work. Fewer interfaces for people, management, customers, etc. means faster speed, which then enables fast changes and faster learning.
- Scale later rather than sooner. Scaling too early adds to interfaces and naturally slows the team down.

- Keeping the customer base limited also increases speed. Releasing the product to a lot of customers slows the process down, as the customers need to be taken care of.
- The internal startup model based on lean startups is a good model, but remember to provide enough time and money for the learning and development rounds.
- You should add the investor milestones in, which adds the reality of the startup world and creates a rhythm for development.
- Even if you run it as an internal startup, consider having an advisory board with externals in the setup.
- Remember that seldom the big number of features is the key product selling point.
- The key point to innovation is the problem and customer understanding. Understanding how to solve the problem requires time — recognize this and reserve time.



Pivo can track your finances, such as what is spent each day and what your account status is.

Case: Internal startup experiences from General Electric at Lean Startup 2015 conference, San Francisco, November 2015

At the Lean Startup 2015 conference, *Eric Ries* explained that, based on his experience, twentieth-century management is based on the standardization of work and minimizing variation, and that the Lean Startup concept is trying to get away from that. He went further, saying that the Lean Startup approach is applicable to small and big companies and also public organizations.

A recent piece of evidence for a large organization adopting the Lean Startup mindset comes from General Electric (GE), one of the biggest companies in the world. According to Mark Little from GE, they are spending \$5B a year on innovation, have 50,000 technologists, and are very successful in their chosen businesses. Yet they have chosen to start a major transformation effort based on the Lean Startup approach to stay competitive in fast-changing world.

FastWorks is the title for their Lean Startup approach, which has its roots in Lean and Agile principles. FastWorks enables simplification — making complex things simple. It will be applied to all kinds of work within GE, not just internal startups. The approach has already proven to be useful, for example making Flowmeter in multiple Minimum Value Product (MVP) iterations into a \$100M business. FastWorks also extends to more traditional industries. For example, in a GE heavy-duty gas turbine division, they were able to shorten cycle time from 7 years to 4.5 years. Currently, GE is scaling the Lean Startup approach. Five thousand leaders have been trained, there are 150 full-time coaches to support the transformation, and hundreds of FastWorks projects/products are ongoing. The impacts are starting to show: faster cycle time, winning new deals, getting better customer satisfaction.

Janice Semper, who leads the GE digital transformation, further explains FastWorks. They took Lean Startup methods and transformed them into GE FastWorks — the way we work. It is based on a strong set of GE values, where they redefined GE beliefs into the following:

- Customers determine our success
- Stay lean to go fast
- Learn and adapt to win
- Empower and inspire each other
- Deliver results in an uncertain world

These reflect a renewed emphasis on acceleration, agility, and customer focus. They also redefined the famous GE performance development program to be aligned with FastWorks. Obviously, there is a significant cultural change involved. The following list describes the related mindset changes:

- Prescriptiveness -> Discovery
- Command & control -> Empowerment
- Process & activities -> Impact
- Perfection -> Iteration

Janice Semper describes how the journey needs to be very personal for everyone — even for top leaders: “As I leader also I have changed my mindset, how I do my work, and how I lead others”.

They then went to 5,000 top leaders and asked them to set up a different environment aligned with FastWorks. So far they have trained 150+ coaches on FastWorks and change management skills. They have also trained GE customers in the FastWorks concept. Now, they are going through GE business segment by business segment — including regulated businesses and successful businesses. Altogether, GE’s target at this stage is to train 170,000 people (roughly 50% of GE personnel) in FastWorks.

Johanna Wellington describes one of GE’s internal startup experiences in more detail. They started with a truly disruptive idea — a hybrid fuel cell system. They launched an internal venture/startup using the FastWorks methodology. This endeavor is based on the following principles:

- Independent business with milestone-based funding and a board of directors
- A “garage” of their own — separate office with collocated space, no GE color schemes, processes, etc.
- Select their own DNA — 1/3 people from GE, 1/3 from startups, 1/3 from mature industries (hw products, commercialization, etc.)
- Empowered & accountable — tolerate failure, break the rules (“anything that slows you down”), “don’t wait more than two hours”, a meeting is not needed for a decision, etc.
- Stay lean and agile and go fast

They still have access to the “GE store” catalogue (tech support, supply chain, operational tools, global relationships, GE brand), and they pick those things that enable them to go faster.

They are driving a new culture where uncertainty exists and learning is required, and, when needed, they embrace the “pivot”. FastWorks provides the terminology and tools for the internal startup journey. This has also helped in discussions with the main organization — FastWorks rules and not the old processes. Though senior leaders have really bought into this, they receive critiques from (old) peers.

All in all, Johanna is very happy about running their internal startup. Their MVPs cost millions of dollars and they have already done MVP1 and MVP2. Her motto is: “We own our own destiny”. This means, e.g., hiring their own new people when needed. Compensation not very different — they considered phantom stock, among other things, but did not want to spend too much time figuring out new compensation schemes at the moment.

References:

<https://hbr.org/2015/01/ges-culture-challenge-after-welch-and-immelt>

<https://hbr.org/2014/04/how-ge-applies-lean-startup-practices/>



2. Big companies are very good at doing the old

“Besides SLUSH, nothing interesting has happened in Finland for 5 years”.

Mårten Mickos 12.11.2015, in the Accenture corporate track session during SLUSH 2015

Mårten Mickos, best known for his mySQL startup that he later sold to Oracle, gave this interesting quote in the keynote session at SLUSH 2015. His recipe was that corporations should learn from startups, renew, and innovate.

Big corporations, in general, are not known for their innovativeness. Of course there is innovation behind each company; however, what seems to happen is that a company initially has good ideas and then organizes itself around these innovative products and services that sell. The small team of people grows as more resources are needed. Work roles become more specialized as the number of people grows and clear roles are needed. At some point, the company notices that procedures and processes are needed to record the existing practice. Procedures are created so that people do the right thing, and the company runs in the most efficient way.

It must be from these origins that the risk of dinosaur companies emerges. What seem to happen is that companies then start optimizing and favoring existing business. There are targets and bonus structures that — although well meaning — cement the structure and create the current operative mode.

The white paper Hagel & Brown: Institutional Innovation – Creating smarter organizations to scale learning¹ says the following:

“To coordinate the efforts of larger groups of people to service larger markets, some companies create command-and-control hierarchies, rigid silos, and inflexible processes to ensure consistency and predictability.

¹ http://d27n205l7rookf.cloudfront.net/wp-content/uploads/2013/03/DUP293_institutional_innovation2.pdf

Unfortunately, these institutional architectures have a downside: the consistency and predictability they create to promote efficiency also limit an organization's ability to try new things or change.

As such, the scalable efficiency model forces a trade-off between efficiency and the ability to learn. While institutional architectures are effective during times of stability, companies that embrace them will face extreme difficulties during times of disruption and rapid change”.

This is all good, but top management needs to keep eye on how a company renews itself. Luckily, there are several strategies for this.

2.1 Big structural changes

Nokia is one of the best examples in this category of change. Actual Corporation was born 1865 with pulp mills and rubber works, and then evolved into cable and many others industries like consumer electronics, mobile phones, and telecommunications. Within the past years, Nokia has again renewed itself in a spectacular fashion: it sold off mobile phones to Microsoft, bought Siemens out of the previous networks-side merger, sold off maps division HERE, and has now bought Alcatel-Lucent.

This requires a very good strategic vision and strategy, especially when successfully estimating which megatrends emerge.

Additionally, a company still can — and should — renew itself “in the small”, meaning inside existing business where there are plenty of reasons and opportunities to change things and improve with innovations.

2.2 Wait and see

Some companies still use this humorous-sounding option. For example, one industry study done on Finnish companies revealed striking results. Companies’ reasons for not investing were that they wanted to wait and see if the gloomy economy will continue or become worse. Additionally, they wanted to see what happens with digitalization.

This is a very risky option, since things move so fast in the current economy. Startups appear and might disrupt your stable business model, as cases like Uber and AirBnB have shown.

It could be argued that the speed of change has increased. Gone are the times where you could repeat the Ford Model T strategies. The product was a disruption to the market — the first car almost anyone could afford with no initial competition. The Model T was in production from 1908 to 1927 and changed surprisingly little during this period, selling 16.5 million cars. Yet it still makes the top-ten list of the most-sold cars of all time (ranked eighth). There was only one model and variation was limited; most people remember this famous quote by Henry Ford: “Any customer can have a car painted any color that he

wants so long as it is black". A strategy like this has not been an option for a while.

Even if a business is sound and hugely profitable, it should renew itself. Remember the bad example of Nokia mobile phones? If a company plans too long and creates only evolutionary products, someone else will bring changes and disruptions. It is better that you disrupt your existing business, because you then have the luxury to decide what to disrupt and when. Nokia certainly must have had many prototypes and possibilities hidden in its labs, but they all were eventually killed, and existing evolutionary-based models were favored.

“Only a few companies have a fully working innovation system that operates in a controlled manner.

2.3 Changes based on changed vision and strategy

This no-brainer alternative is of course the standard way to do it. Corporations have leaders for strategy and normally have yearly corporate vision-strategy rounds. This set of meeting sessions and brainstorming should yield innovation items and future business proposals as a side product. However, these innovations and proposals need to be further processed. It is the authors' experience that this path provides excellent potential for innovation items. Just do not forget to process them.

2.4 Internal innovations

Internal Innovations are one big innovation potential for companies. However, it is the experience of the authors that this path often does not work.

Only a few companies have a fully working innovation system that operates in a controlled manner.

Still, most companies have some innovations coming from their ranks. Let us not forget that often these cases are such where the innovators have not given in but secretly continue realizing their own ideas, regardless of the opposition from corporate ranks. Examples are plenty, but we could mention Post-it notes, IBM System/360, and the Nokia Communicator. The latest example that the authors have heard about is Nokia Virtual Reality glasses, which are a result of one engineer who just wanted to make them no matter what — carrying out his own idea.

2.5 Mergers and acquisitions

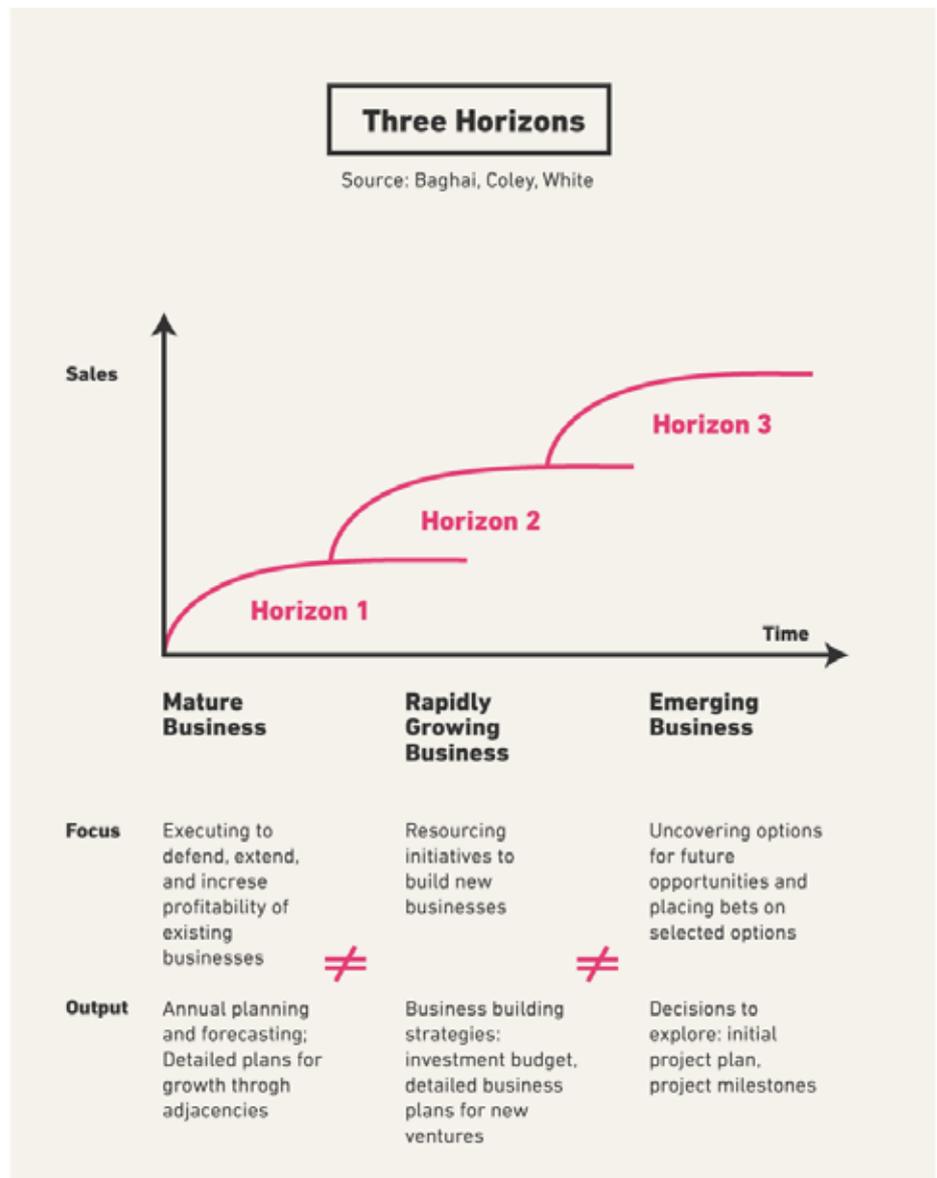
Many books and articles claim that merges and acquisitions are problematic and tend to fail. However, many companies use them as a path for renewal.

Cisco is the corporate example in this category. As 2015 draws to a close, Cisco has completed 11 acquisitions this year. Cisco states:

“Cisco segments acquisitions into three categories: market acceleration, market expansion, and new market entry. The target companies might bring different types of assets to Cisco, including great talent and technology, mature products and solutions, or new go-to-market and business models. Cisco particularly seeks acquisitions with the potential to reach billion dollar markets. Integration is essential to successful acquisitions.”

2.6 Three horizons

This is an interesting concept by McKinsey presented in the book *Alchemy of Growth*. This concept is a good tool for analyzing a business and what types of actions are going on within it. Horizon 1 is the existing business, Horizon 2 is the expanding and new business, and Horizon 3 is the emerging business, which, as the name suggests, is still unknown and needs to be explored.



Internal startup methods are especially helpful in Horizon 3 types of projects. (Source: Steve Blank)

2.7 How does an internal startup fit into the picture?

Internal startups are one way to organize the creation of new business. It has all the elements needed for a successful operation. In the next chapters we will discuss how you can do it, what you need to modify your current operative mode, and what kind of people you need to recruit. In addition, there are several examples of internal startups in this book so that you can learn from what others have done.

Case: Tieto – SPARK! Innovation program at Tieto

1. About Tieto

Tieto is the largest IT services company in the Nordics, providing full-lifecycle IT services. We also provide global product development services for companies in the communications and embedded technologies arena. Through industry insight, technological vision, and innovative thinking, Tieto proactively strives to inspire and engage our customers in finding new ways of accelerating their business.

Building on a strong Nordic heritage, Tieto combines global capabilities with local presence. Headquartered in Helsinki, Finland, Tieto has over 13,000 experts in more than 20 countries. Turnover is approximately EUR 1.5 billion. Tieto's shares are listed on NASDAQ in Helsinki and Stockholm. www.tieto.com

2. Innovating in large organisations

Innovation is a tricky thing for established and mature corporations. On the one hand, innovation is a necessity and a fundamental vehicle to become an established player. At the same time, innovation is hard, as it is so unpredictable and challenging to manage. The very management disciplines that optimize the performance of a corporation in its current business can actually be counterproductive to innovation and creativity. This dilemma is inspiring professors, consultants, and authors of bestselling books to share their views on innovation and its importance to corporate world.

The corporate world loves predictability, but innovation is always a discovery, and in reality no one knows which ideas will ultimately fly. Innovation deals with many uncertainties, such as customer behavior, competitor actions, and other changes in the environment. Therefore, the best these organizations can really do to improve their chances of discovering success is to empower individuals and teams to use their passion, curiosity, and creativity. In a world of unknowns, it is crucial for corporations to be able to experiment with customers, instead of doing exhaustive planning based on desk research.

3. Tieto SPARK!

Tieto's most recent innovation program, SPARK! — launched in February 2015 — has proven to be a successful way to inspire and promote innovation in a corporate context. The program was built on four important principles: team first, Lean Startup approach, time-boxing, and experimentation.

Typically, innovation projects are focused on collecting ideas. In Tieto SPARK! we focused on first getting the right people on the bus — teams that can execute and morph the idea. This is due to the fact that the initial idea rarely survives even the first customer meeting. A good team can modify a mediocre idea to make it a success, but a good idea will fail in the hands of a mediocre team.

The SPARK! program consists of four phases: discovery, boot camp, pre-accelerator, and accelerator. The start of the initiative was well publicized through company mail, town hall meetings, and special posters. In the first phase, we collected well over a hundred business ideas and teams, engaging with over 20 % of employees to collaborate on the ideas.

After the discovery phase, 10 teams were selected for the boot camp phase. During the boot camp, teams developed business models and tested the ideas with customers. The three most promising teams were selected for the pre-accelerator phase, where ideas were developed further. Two of the three teams proceeded to the last phase, where the goal was to create a proof of concept from the idea as well as to continue with customer development. The goals of the SPARK! program were also to identify growth opportunities, increase clock speed in explorative innovation projects, and improve Tieto's brand and employer image.

What worked well in SPARK!

- Getting the focus right from the start: The Tieto SPARK! program was, from the very start, able to position itself as a corporate program being driven from the very top and having the required mandate from the company. In this way, we got the attention of all the employees in the company. It was well publicized and the stakes were defined up front so that everybody could do their best.
- Using a time-boxed approach to things: The other thing that was both well communicated and well managed was the time-boxed approach to the entire program. Each stage had a clear timeline and objective, the deadlines were kept, the needs were well articulated, and the expected results were understood.

- Getting much-needed external support: The process also managed to incorporate some external mentors, such as real-life venture capitalists and coaches who work with some of the well known start-ups in the region. This was the much-needed external trigger to groom and guide the teams to help sharpen their ideas and present them in a business-friendly way.
- Instilling a healthy sense of competition: The program itself, as well as the selected teams at the boot camp, was able to generate a healthy sense of competition. The result was that each team inspired and motivated each other to do better and improve upon their own performance by learning from each other.
- Keeping it real and close to the customer: Last, but not least, one important element that clearly put Tieto SPARK! in a different league was the fact that it was very real and end-user focused. The solutions being developed by the teams were tested with customers as early as possible and their feedback was used to further develop them, keeping the process very agile and customer-oriented.

Tieto SPARK! areas for improvement:

- More open innovation: Three interviewees mentioned that limiting SPARK! to only Tieto's own employees limited the possibilities of the program, and that there should be more co-creation with customers and partners.
- The process created only a few disruptive innovations: People were more into ideas or improvements close their existing jobs or domains. We believe that implementing an open innovation strategy would fuel the creation of more disruptive ideas in the future.
- SPARK! should be faster: The most frequent opinion outside the SPARK! program participants was that the process should be a lot faster; one year is too long to see results. Opinions about the length changed from a few weeks to three months, but launching SPARK! just once per year is too infrequent.
- Innovation should be a continuous process: As SPARK! is run infrequently, it makes it challenging for employees to submit innovations and take ideas forward. Also, constantly running process could make the innovation process quicker and support a developing culture of experimentation.

Further reading

An excellent and very practical book by Geoffrey Moore, which analyzes a company's innovation activities (here mainly Cisco's) and how to create profitable growth in an increasingly competitive global economy, is well worth the time put into reading it. It is a rare holistic view on the matter (it is from 2006, but do not let it fool you — the theory is very fitting).

Geoffrey A. Moore, *Dealing with Darwin: How great companies innovate at every phase of their evolution*, Capstone, 2006.

This university textbook-type of a book about how to get innovations implemented is an interesting one:

Govindarajan and Trimble, *The other side of the Innovation – solving the execution challenge*, HBR Press, 2010.

This is a good link describing the challenges companies have with the shortened life expectancy of corporations:

<https://www.bcgperspectives.com/content/articles/strategic-planning-growth-die-another-day/>

A very interesting read on the fall of corporate titans and which five steps there are:

Jim Collins, *How the mighty fall*.

<http://www.jimcollins.com/books/how-the-mighty-fall.html>



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3. Startups 1-2-3

This chapter presents the classic startup and serves as a basis for understanding internal startups. We introduce some basic terminology around the startup phenomena as well as what characteristics startups often have. To act more like a startup, you should understand how startups actually operate and what makes them startups. If you are very familiar with startups, this chapter might not offer you anything new, so jump straight to the next chapter and dive into the world of internal startups.

3.1 What makes a startup?

"A startup is an organization formed to search for a repeatable and scalable business model."

Steve Blank has created this commonly used definition of a startup. According to the definition, once a startup ceases searching and selects a specific business model, it stops being a startup and becomes a regular business. The term is widely used in Finland and startup may refer to almost any new company. Scalability and repeatability are rarely discussed, and companies succeeding with their one fixed business model may be referred to as a startup for years.

The Lean Startup concept (which we will discuss at the end of the chapter) defines a startup as:

"A human institution designed to create a new product or service under conditions of extreme uncertainty."

Characteristics associated with software startups have been investigated and include a lack of resources, a highly reactive way of operating, innovativeness, uncertainty, and the need and will to evolve rapidly. Time pressure plays a major role in how startups operate. Also, for startups to move fast they become dependent on third parties, due

***“Building the dream team for a startup can be hard. However, the importance of having a good team cannot be overstressed. [...] A good team has motivation and enthusiasm towards the target so that they will be able to complete what they have started.*”**

to having to rely on external solutions instead of creating everything on their own.

The debate on what percentage of startups succeeds is not over. Some sources say that 90% will fail, while others are more positive but still consider it very risky to invest time and money in new businesses. However, success stories like that of Supercell make startups a tempting option. Research also indicates that the more you try, the better you get. Experienced entrepreneurs have a higher chance of success, even after failing miserably in the past. Serial entrepreneurs are able to avoid previously made mistakes and possess valuable experience that they can utilize.

3.2 Please work for free with little chance of success

Building the dream team for a startup can be hard. However, the importance of having a good team cannot be overstressed. An enlightened investor does not look just the idea, but most importantly at the team behind the idea. A good team has motivation and enthusiasm towards the target so that they will be able to complete what they have started. A good team must also be able to change their direction whenever it is needed. If the team is motivated, it has a good chance of finding solutions when something does not work as expected.

Recruiting for a project where there's no money to pay salaries and the probability for success is very low can be really hard. Teams are often formed based on friendship or coincidence. This also means that the team's skillset is not carefully built to support the startup's goals. The team structure should fit the target at hand — a typical team structure could be, for example, a UX-designer, a product marketing person, software and hardware developers, and a DevOps person, plus the lead.

3.3 Classic startup story

The classic startup starts with THE idea and THE team. These are also the first two things a venture capitalist (VC) would analyze and rate. A VC would look at whether the idea is excellent and if the team can execute what is needed. Many sources quote that entrepreneurship is mainly a question of execution, meaning whether you're able to create the product, test markets, adapt the concept, and keep executing until you come up with a killer product.

Normally, the main target of a startup is to find a suitable recipe for high growth. High growth then brings success in the long term; it is neither wise nor necessary to focus on profitability in the starting phase. In the startup scene, there is an existing belief that whoever is first takes it all, meaning that, for example, Uber or AirBnb were the first companies to arrive and now have the 90% of the market share.

New competition has a very difficult time entering the same space. Then again, Facebook was not the first to let people connect and share on the Internet, but it did it better than its predecessors and won the race.

There are typical financing rounds involved the lifecycle of a startup, which will acquire funds in financing rounds that are typically like this:

- Seed: 0.75M€
- Round A: 2-3 M€
- Round B: 7-10 M€
- Repeated as many times as it gets

Suggestion 1 for a process

- Fast development increments
- Fluid ideas
- Test early and often
- Use analytics
- New-age marketing
- Create new network
- Sign-up people with useful gift content, report, template, etc.
- Engage users
- Use analytics heavily
- Use Twitter and SlideShare

Suggestion 2 for a process

- Build the team (cross-functional)
- Select/pilot/develop the channel
- Measure the interest/clicks/tweets/text references/attraction/retention
- Market making
- Sales
- Growth

When it comes to structure and “process”, there exists a plethora of different resources on the web — perhaps too many just to find by “googling around”.

3.4 Continuous business planning

Writing a lengthy business plan doesn't work in the highly volatile world of startups. Situations change and new opportunities arise at a speed that means there's no time to keep the plan updated. Also, the plan would be based on estimations and guessing that isn't particularly helpful. However, startups need to plan and have goals. The business model canvas and, later on, the Lean Canvas have been introduced as faster, more flexible options for business planning. They can also be easily updated when situations change.

The Business Model Canvas by Alexander Osterwalder

- Key partners
- Key activities
- Key resources
- Value propositions
- Customer relationships
- Channels
- Customer segments
- Cost structure
- Revenue streams

Lean Canvas, modified from the Business Model Canvas by Ash Mayrya

- Problem
- Solution
- Key activities
- Unique value proposition
- Cost structure
- Revenue

3.5 Marketing

Marketing — if anything — is very different in the current startup scene. You need to create markets, find users, create a network of interested parties, target the test marketing, analyze results, and change the original targets to better meet the target audience needs through pivoting. This all needs to be done, and it's a lot of work, as the old products have established marketing channels.

Gone are the Mad Men-type days of two cocktail lunches and the slow crafting of cardboard storyboards to market the product. Marketing and markets analysis needs to be instant and flexible. Pivoting requires knowing, based on facts, how things are going and what needs to be changed.

Therefore, web-based marketing tools to create and analyze traffic are a very hot topic. Some of these tools include iRate, KissMetrics, BuzzSumo, Mention, Autosend, ReferralSnip, Oktopost, Picreel, VWO, Tropical, Socedo, Canva, Ope.nr, Uberflip, Full Contact, and Person.

Marketing also has new acronyms, like SEO (Search Engine Optimization) and SEM (Search Engine Marketing), which, as their names suggest, concentrate on the means to enhance websites and optimization to get higher scores, and thus better visibility, in search results.

Links to good reads & tools for marketing

Marketing strategies and approaches:

<http://www.socialmediaexaminer.com>

<http://www.rignite.com>

<https://growthhackers.com>

<https://growthhackers.com/slides/how-startups-are-changing-marketing-as-we-know-it/>

Links to tools:

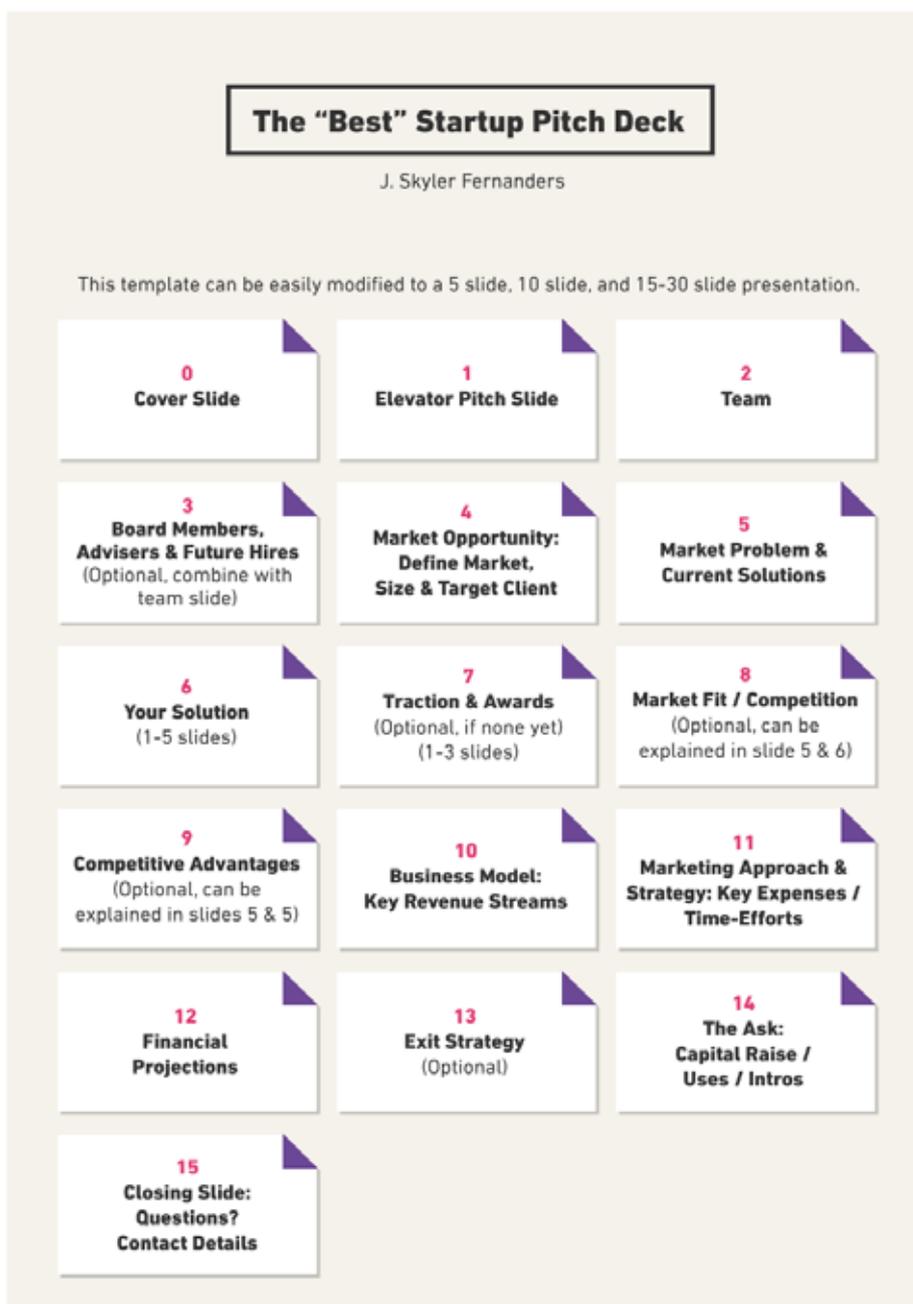
<http://www.entrepreneur.com/article/241570>

Very good tool to master Google Analytics:

<https://blog.kissmetrics.com/google-analytics-resources-2014/>

3.6 Pitch

An elevator pitch is a short description of your business idea. The idea is to give all the necessary information within an elevator ride and get the listener’s attention to continue the discussion in the future. Startup entrepreneurs train hard to give pitches that are convincing and tell their story clearly. Longer pitches are used to present ideas to potential customers, investors, or partners. Pitching events are organized to give startups visibility and a chance to introduce their business ideas to an audience that includes, for example, potential investors. Pitching competitions can also be places to gain funding. In 2015, the startup event Slush rewarded the pitching competition winner with €650,000. There are many ways to compose a pitch, and you can find more information in the materials listed at the end of this chapter.



3.7 Lean Startup concept

“The Lean Startup method actually has a good approach that minimizes risk and fails fast: namely, you should talk to customers and ask the question “should this product be built at all?”

In 2011, **Eric Ries** published his book *Lean Startup*, which was widely adopted by entrepreneurship educators and accelerator programs. The book developed further ideas presented by Steve Blank in his methodology of Customer Development from the mid 1990s. Even though there is no scientific proof that the Lean Startup method works better than other ways of developing business ideas, the concepts are known and utilized widely: people find the methodology very useful. The Lean Startup methodology brought entrepreneurs out from their garages to test their ideas before perfecting the products.

Lean Startup has a good approach for a radical new idea and a new startup trying to make a business out of it. Rather than building an elaborate technical prototype based on the startup founder’s vision and then trying to “sell the prototype to reluctant customers”, as is often the case, the Lean Startup method actually has a good approach that minimizes risk and fails fast: namely, you should talk to customers and ask the question “should this product be built at all?” If the answer is no, you’ve failed fast without much of an investment. Your attitude to failure should be positive, as this leads to increased customer understanding and learning.

In the Lean Startup methodology, everything starts from an assumption or hypothesis, which is turned into a concept that is tested and evolves immediately or after some customer feedback rounds into a Minimum Viable Product (MVP). The phases form a Build-Measure-Learn cycle, which then repeats in the continuing cycle. The steps of a startup, according to the Lean Startup book, are as follows:

- Have a vision
- Create a set of assumptions
- Test the assumptions with fast pilots — create an MVP (Minimum Viable Product)
- Collect measurements (real measures, not vanity metrics)
- Pivot (redirect or change one/many assumptions) or persevere (continue forward)
- Magic formula found (problem/product fit)
- Find formula for growth (product/market fit)
- Grow fast and take the markets (in Internet-based markets, the first success often takes 80-90% of the market share)

Assumptions

Assumptions are the key set of beliefs or hypotheses that fulfill the vision. Testing them quickly shows whether the functionality and the business model are right. In practice, it is always good to have this particular assumption on the business model attached “users are willing to pay for the product/ service because the benefit for them

is XXX". Thinking of the functionality and business simultaneously provides focus. However, there are opposing opinions in the startup communities where the business model is seen to be developing and changing along the way.

Pivot/ Persevere

A pivot is a re-direction after it turns out that one or many of the assumptions were wrong. Based on the information received in the pilots, you may change or re-formulate assumptions. If all of the assumptions receive positive feedback, you can continue forward (persevere). A pivoting point, for example, could be feedback that leads to changing one of the assumptions: the customer base is not consumers but business users. Pivoting does not mean that the vision changes.

Minimum Viable Product (MVP)

An MVP is a product that fulfills the nucleus of the assumptions; its purpose is to be a vehicle for validated learning. In its primitiveness, it might be a set of screenshots combined to look like an app, or there could be several MVPs for each of the assumptions.

Vanity metrics

You need to scientifically measure the outcome of the customer MVP rounds. The measurements can only provide accurate information if the measures are good, and this entails measuring the right things. Vanity metrics is a term for bad, unactionable metrics. An example of such a metric could be the number of downloads, which would not be enough to see how good the functionality is. However, this might be an okay metric to see if the target audience knows that the product exists and if your marketing campaign to sign up is working.

Actionable feedback for a later phase might be, for example, the question "How sad would you be if we took this product away from you, and what would you miss the most?"

Case: Supercell

Despite the small size, Supercell is one of the most profitable companies in Finland. In 2014 Supercell's turnover was 1.545 billion Euros while the net result was 421 million. However, the start of the success was not easy and required several companies, and learning from mistakes.

Like in many game companies, it all started from a hobby and enthusiasm. *Mikko Kodisoja* first established Kota Interactive in 1997 (p. 186). Kota Interactive was merged with Sumea in 2000. Matchon bought Sumea Interactive, but soon after that went bankrupt, and the establishers were left without money. After that, Sumea was established again. At the end of 2001, Sumea published a game named Racing Fever, which few operators bought. Ilkka Paananen then proved to be an excellent salesman; Sumea gained a good reputation and its mobile games won several international prices (Puustinen & Mäkeläinen 2013, p. 187).

In 2004, Digital Chocolate bought Sumea. Growth targets were set high, but bureaucracy froze game developers' enthusiasm. The matrix organization copied from Nokia made things complicated. Experienced game developers were promoted as line managers who interfered with other teams' work. Responsibilities were obscure and the quality of products was weakening. Teams lost their ownership to development (Puustinen & Mäkeläinen 2013, p. 187-188).

Mikko Kodisoja remembered his times in Digital Chocolate: "I was myself establishing a game idealization groups, from which you would need to get acceptance for everything. In the meetings we pushed our ideas to the teams from which followed that developers did not feel the games as their own. When we established Supercell, this was one thing among others that we wanted to do differently" (Lappalainen, p. 168).

Supercell was established in 2010, but success did not come as granted. However, the ingredients for success were there. Supercell owners believe strongly in ownership, meaning that people will achieve best results when they have as much freedom and responsibility as possible. When the idea is brilliant and there is top level motivation it is almost insignificant how much the salary is. (Puustinen & Mäkeläinen 2013, p. 184)

Because of the earlier experience, Supercell had contacts and was able to attract investors. Paananen talks about having more investors in Supercell during its early days: "The golden rule is: take as much

money as you can and take it when you do not need it, because that is when you get it easiest. If the applicant is in a state of necessity negotiation position is weaker” (Lappalainen, p. 171).

At first, Supercell had a vision of multiplatform games. That meant that you could play the same games in different platforms. The first game was Gunshine, and it reached half a million monthly players. After Digital Chocolate, Kodisoja started making the Gunshine game at Supercell, and this reminded him what it was like to make a game within a small team. “You felt living in there. There was no need for interrupting processes” (Lappalainen, p. 170).

However, people got bored within a month or two, which conflicted with Supercell’s original vision: to create games that will be played for years. Supercell realized that Gunshine was not the game it really wanted. At the same time, they realized that the multiplatform vision was not working, and all ongoing projects were cancelled. Supercell decided to concentrate on one platform at a time, starting with the iPad (Supercell 2015).

After that, Supercell cancelled a couple of games before they launched Hay Day in midsummer 2012, which turned out to be a huge success. Soon after that, in August 2012, they launched Clash of Clans, which was an even bigger success. There have been several games that have been launched since in test market areas, like Canada and New Zealand, but most of them have been cancelled. Boom Beach turned out to be big enough success in 2014. For Supercell, success has meant that the games are in the top-crossing lists and have a yearly turnover of billions.

A team of 5 members developed Clash of Clans. When the game started to fly, the team increased to 8 members. The time from the start meeting to product launch was 8 months (Puustinen & Mäkeläinen 2013, p. 184). Lappalainen (p. 165) explains Supercell’s success well: “Supercell has grown as an international hero because of exceptionally open organisation culture, good leadership and exceptionally fair sharing of success. Supercell consists of small teams that have freedom and responsibility. Supercell wants to concentrate only on the best games, which have potential to grow to the top of the world and which players play for years.” Fair sharing means that not only the top of the company, but also employees, profit from stock sells. New employees have profited through option programs. In addition, taxpayers have benefitted.

Highlights

- Avoid bureaucracy
- Learn from mistakes
- Small teams work the best
- Get the best people to work for you
- Invest in your employees
- Trust your employees: give freedom, but expect responsibility

- Share success
- Use investors to grow your business
- Motivation and enthusiasm are the key to success
- Concentrate on a single product platform at a time

The ingenuity of Supercell games is based on balancing the need to pay. A player must not feel as though they're being forced to pay — the game must not feel greedy.

Supercell also realized the importance of the Asian market. They began a cooperation with GungHo, which needed help in U.S. and European markets. Supercell included GungHo's characters and GungHo included Supercell's characters. (Lappalainen, p. 209). In 2013, the Japanese company Softbank purchased a 51% share of Supercell. However, Supercell continued to operate normally without interference from the new owner. In 2015, Softbank increased its share to 73.2% by purchasing stock shares from external investors like Accel, Index, and IVP. Again, Softbank has stated that they will not interfere with Supercell's way of operating.

References

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Elina Lappalainen (2015) *Pelien valtakunta - Miten suomalaiset peliyhtiöt valloittivat maailman?*, Atena, Otavan Kirjapaino

Supercell (2015), *Our Story* <http://supercell.com/en/our-story/> (accessed 21.11.2015)

Further reading

Most people see Eric Ries, *The Lean Startup* (2011) as a major authority on the book front, and it makes a good reading.

Puustinen Terho & Mäkeläinen Mika (2013), *Taivas + Helvetti - 18 yrittäjää, jotka saivat lähes kaiken + 3 jotka menettivät lähes kaiken*, One on One Publishing Oy, 2. Painos

Elina Lappalainen (2015) *Pelien valtakunta - Miten suomalaiset peliyhtiöt valloittivat maailman?*, Atena, Otavan Kirjapaino

Business Model Canvas and information on how to use it:
<http://www.businessmodelgeneration.com/>

How to create a winning pitch:
http://www.huffingtonpost.com/j-skyler-fernandes/entrepreneurship-101-the-_b_3637577.html

Omar Mohout (2015), *Hyper Scalable business models: the digital key to extreme growth for startups*
<https://www.linkedin.com/pulse/hyper-scalable-business-models-digital-key-extreme-growth-omar-mohout>



**Pertti Seppänen, Jari Heininen and
Mervi Koivulahti-Ojala with Jukka Märijärvi**

4. Internal startups

As discussed previously, bigger corporations have a problem with keeping innovation culture virile and on people's agenda. One approach to tackle this problem is corporate innovation tools, where ideas are collected for further processing. However, tools alone aren't enough, and the culture of gathering ideas and processing them actively needs constant re-vitalization.

4.1 Mission and objectives

Typically, established corporations are optimized to maximize short-term profits by investing in evolutionary processes. Innovations do not fit well in a corporate culture, where renewal through risk-taking is not actively encouraged. Innovations are often disruptive, which may mean that established parts of the organization affected by an innovation oppose new ideas.

Taking a startup-type approach in encouraging and maintaining the company's internal innovation is one way to keep initiatives separate from corporate politics, red-tape, and internal competition.

New business opportunities and growth are key reasons for the active nursing of new innovations. If corporations are able to turn new ideas into products in a real startup fashion, they will create the potential for new customers, markets, and sales. Growth opportunities are valued in most businesses; what company would not like to be valued as a growth company with a matching increase in their stock value?

Internal startups should have the necessary freedom from organizations and processes that are built to maintain the existing product portfolio and maximize the income from it. However, internal startups should still be integrated into the corporation. Freedom is

needed for quick execution, feasibility trials, and re-focusing based on the experiences gathered from the perspectives of risk-taking, market potential, and needed investments. Integration, in turn, is beneficial for taking advantage of the corporation's existing assets and competencies, which will come handy when bringing the new ideas to product. For example, legal, pre-production, marketing, and customer care services should be just a call away for the internal startup.

Why, then, not just invest in a new startup? An internal startup is an instrument for a corporation that wants to try out things that are really new but still fit into the corporation's long-term vision and strategy. In cases where the new ideas don't fit with the long-term vision, it is reasonable to consider spinning off the new idea from the mother company.

As defined above, an internal startup is a setup where a company launches a separate (semi-) independent initiative to push a new innovation or idea with a process supporting rapid development, fast feedback gathering, and fast refactoring. The process continues to market making, product launching, and integrating the initiative into the existing business portfolio if it turns out to be promising — or to rapid killing in the opposite case.

An idea to be processed by an internal startup typically does not come from the product or technology roadmaps that foresee the evolution of existing products, technologies, and businesses. The new idea can be from an expanding business area, be disruptive, or even cannibalize existing products or business. However, any idea to be run through the internal startup process should have a reasonable connection into the corporation's long-term vision and strategy. The startup type of approach seems to be a good framework, as it can be used to combine the controversial viewpoints of being independent and dependent at the same time: the final goal is the same, but the road to the target is different, a shortcut instead of a freeway.

An internal startup has many suitable elements demonstrated by real startups. The purpose of this cookbook is to be a practical guide to establishing, running, and exiting an internal startup. The target audience is the internal startup team, leaders of the internal startup team, and the CEO with the management team.

4.2 Preparing for the change

There will be people whose responsibilities change. One can argue that these are local changes and relate only to the persons involved, but generally it is good to inform people of what is going on in the company and explain, at least on a rough level, that there are now new roles and responsibilities. This also clarifies why a group of people is doing something different than before and explains why there are other people taking care of the "normal business" inside the corporation. The pitfall here is that without internal communication, rumors start to grow due to a lack of shared information. Here, we

present things to consider when bringing the internal startup concept into a corporation.

Internal competition noted and managed

Normally, internal startups must have a different operative model — and even a different remuneration model — than the rest of the company. This (and the compensation model) is likely to change the dynamics of the company and might create an us/them confrontation between the old and new teams. You need to be aware that this is likely to happen and manage it.

Assign someone to ramp this up

Someone needs to run the internal startup on full-time basis. As we all know, things do not progress fast enough. This is an essential decision; an internal startup is not an “in addition to other duties (IATOD)” type of project. Assign the responsibility and create the internal startup operations for your company.

Note that the responsible person perhaps should not be the executive in charge of operations, but rather a special internal innovations COO who will ramp up the operations.

Create an innovation board, or have an extension to the regular leadership team

What we are talking about here is two-fold ramp-up. The first is top-down, which means that the company must change its behavior and run the second operative mode, where innovations and startup trials can happen. For that, a person needs to be assigned to plan and make the big picture happen.

Another ramp-up is bottom-up. There needs to be startup teams with their missions and suitable personnel, with an entrepreneurial mindset and suitable roles and competencies. Remember that here the idea is that one team is actually a mini-company that can pretty much operate on its own.

4.3 The new roles and responsibilities

Building the internal startup team is an important step. However, the rest of the company needs to adapt to working with this particular type of team as well. Also, there needs to be clear roles for people outside the internal startup. For the internal startup to work efficiently, the rest of the company needs to be prepared for the new ways of working. Before the launch of the internal startups, you need to initiate some changes and see that they are executed.

After studying the experiences of past internal startups, we decided to create two new roles: the Corporate Business Angel and the Corporate Entrepreneur. The reason for this is to highlight the differences of the new roles compared to the typical executive roles in established corporations. Without clear definition of the new roles, there is a threat that executives will not recognize enough the

“The pitfall here is that without internal communication, rumors start to grow due to a lack of shared information.”

difference of being responsible for startups compared to their normal executive roles, like head of product development or CFO. As these roles are instrumental for the startup to be able to run and deliver, the prerequisites need to be in order. Thus, these roles should not be run with the normal executive autopilot on.

The Corporate Business Angel

The Corporate Business Angel is the main executive within the corporation who has the overall responsibility for internal startups. The Corporate Business Angel is the key person for seeing that the corporate culture is developed in a direction in which internal startups are utilized in the best way and are a part of the corporate vision and strategy.

The key skills for the Corporate Business Angel are change management, product portfolio management, a broad understanding of both the corporation's current business and its future trends, persuasiveness, personal innovativeness, openness towards others' ideas, strength to carry both success and failure, and readiness to take personal risks.

A Corporate Business Angel needs to understand the changes in both the corporation and the outside world and be able to run the changes needed to ensure the success of internal startups. This may include, among other things, impacting corporate culture, creating a new way of running startup projects, and creating a front-end for collecting ideas for new startups.

Depending on the resources available, the business domain, and size, culture, strategy, and vision of the corporation, the practical tasks associated with the Corporate Business Angel may vary. Cooperation with other executives is needed, since typically an internal startup's initiation, running, and exiting will require support from other functions.

The Business Angel has a key role in ensuring that all the units are able to work together with the internal startup. The corporate entrepreneur can turn to the Corporate Business Angel in case there are conflicts of the interest, unclear things, or other support needed to ensure the startup's progress. Understanding the business, strategy, and vision is necessary to understand how internal startups may support these three things. In the ideal case, an internal startup is in line with longer-term corporate strategy. In this case, it is expected, if successful, to continue as a new business.

To be successful, an internal startup does not need to be in line with short-term business goals but instead open new views for the corporate strategy and vision. If successful, it can even be sold, or a new company can be created around it. Therefore, the Corporate Business Angel should have a good understanding of the corporate business, strategy, and vision to understand how internal startups match with them.

The Business Angel should have the necessary authority to carry out this role. As with any executive, this person should be selected on the basis of their suitability in terms of knowledge, skills, experience, authority, and commitment. There is a threat that executives do not recognize enough the difference between being responsible for startups and their normal executive roles, like head of product development or CFO.

The Corporate Entrepreneur

The Corporate Entrepreneur is THE key role for the internal startup. The narrow definition of an entrepreneur is someone who starts a new business. Within a corporation, it's important to recognize the indications of a Corporate Entrepreneur-type person. For example, these can be:

The Visionary	The big-picture person with the ideas and vision
The Hustler	Highly efficient doing operational leg-work
The Engineer	Highly skilled implementer for realizing the vision within the given resources and timeline
The Challenger	Likes to challenge the corporate way of working and often gets frustrated by corporate red tape
The Skeptic	Sees problems everywhere but uses those as the fuel for fixing things
The Seeker	The old way is always boring. If there is no way to new frontiers, this person is motivated to create one

However, it is more common that the team is combined of competence-based roles — meaning sales and marketing, architect, SW developer, etc.

In the good old corporation, which is excellent at executing and fine-tuning existing assets, these kinds of potential Corporate Entrepreneurs can be seen as a threat to the corporation, or at least as difficult persons to manage. This kind of thinking can, in the worst-case scenario, lead to termination of employment instead of identification of great potential.

The creation of an “innovation greenhouse” inside the corporation, where conditions for internal startup growth exist, is an essential safe house for entrepreneur-type persons. From the corporation’s point of view, the seeds of growth and new innovations may be in the group of intolerable people. They may be the most suitable persons for internal startups, instead of forcing them to leave the company.

Internal startup advisor

If the company is on the bigger side, it is good to have a person or a team to manage the internal startups. This means that it is more efficient to have experts to maintain the company’s internal startup

practices and processes, so that they can then train and coach people to work in internal startup teams.

It is also a good idea to have this advisor coach and check presentations before they go for management or Business Angel review. This role might be the same as the one ramping up the internal operations at the first place.

“For internal start-ups, the innovation topic must somehow be connected to the business strategy and vision of the company.”

4.4 The team and its growth agreement

“Two is perfect, three is better than two, but any more than four is not worth the trouble”.

The normal startup is very focused on the idea and the team. The internal startup is more along the lines of the company strategy. For internal startups, the innovation topic must somehow be connected to the business strategy and vision of the company. There could be a situation where a startup is outside the company’s strategic domain, but the management sees that the idea is so good that they are willing to invest in it before it is sold or spun off. The idea in this case is naturally to get a better valuation for the idea/spun-off company if it has been developed long enough and shows clear signs of being a viable business. Ideas are cheap — execution is the key.

A normal startup is very much centered on team performance, besides the innovative idea. Some companies, such as Google and Facebook, actually acquire the team, scrap the original product, and put the team to work doing something else that may be something similar, but still not the same.

An internal startup has a problem with growth when the idea seems to be successful and the startup needs more people in order to continue its success. Especially if the internal startup is inside a bigger company, there is a problem with getting resources: senior managers elsewhere in the organization would have to give away good people already contributing towards products and releases of the established business. Having those people might even be in the managers’ interests, which would further make the managers resistant to changes.

The internal startup team itself needs the Corporate Entrepreneur. She or he needs to have a mandate to start building the team but should also consider a coaching type of approach. The type of the entrepreneur influences the composition of the core team. If the engineer is chosen first to kick off the internal startup, the second member could be e.g. a hustler-type person to get things moving.

A clearly understandable communication format for the startup idea is a must. The team should contain people who can communicate with executives and other stakeholders inside the mother corporation. The main theme from a composition of great music can be played with a piano using only one finger, but the player needs to know at least the basics of playing a piano. The main idea of the internal startup needs

to be told in a few sentences, and the communicator needs to know how to make the message understandable for different stakeholders.

The skeptic is also needed. Someone inside the team should have an intuition for whether things are going in the wrong direction over time.

The composition of the internal startup team has an analogy in the six thinking hats system designed by Edward de Bono. The idea here is parallel thinking and the efficiency that comes with it, instead of thinking or doing things serially. A good composition of different people with naturally different-colored thinking hats can get things moving in parallel, leading to the desired situation: proof of concept-type trials that can be done quickly.

Also keep in mind the starting point of this section: two is perfect, three is better than two, but any more than four is not worth the trouble. An internal startup should start small and fast and scale up later after decisions have been made on the evidence.

4.5 The role of the Board and the executive team

In a corporation, innovations start from the Board. The Board of directors must agree on an approach to boost and manage innovations. An important aspect in boosting innovations is the company's remuneration policy. If quarterly profits are overemphasized, it is questionable whether innovations will get enough resources and funding in the daily execution of the company.

This is especially true if and when times get tough and decisions have to be made on what to cut and what to keep. Even in the case of large cuts, investments in future businesses should be valued, keeping in mind not only the costs and risks tied to them but also the sustainability of the established businesses. While cutting the executive board figures out in co-operation with the board a new operating logic with fewer people. There should be a joint and clear understanding of the new business goals after the budget cuts, and the company's ways of doing things must be justified accordingly. The need for justification applies to internal startups as well; they must be evaluated in the light of the re-focused strategy.

Portfolio-based thinking may be useful here. The top management allocates budgets and resources to potential new product businesses, internal startups, and improvements for existing business. In the excellent book by Geoffrey Moore, *Dealing with Darwin – How great companies innovate*, analyzing and planning a company's portfolio is in focus at every phase of evolution. This includes knowing what products are at which phase of maturity and how to create a competitive advantage through innovation.

We think that internal startups would be a good methodology for implementing the parts of portfolio plans that deal with future products and businesses. The benefit of the startups is that they are — should be — well focused, run with limited resources, and striving to get fast feedback on the feasibility of ideas.

4.6 The role of the CEO and other executives

The CEO of a company plays a key role in implementing the structures and processes needed for running internal startups successfully. He or she is in charge of the current and future profitability of the company, and is the key person in setting the balance between investments in the established businesses versus future ones.

The role of a Corporate Business Angel (CBA), as proposed above, is close to the CEO role when looked at only from the perspective of future businesses. Combining the two roles in one person, however, is not a good idea, because both roles are very demanding. The CEO has to rely on his/her CBA to such an extent that delegation of a key area is possible. The CEO should select/hire the CBA and take care of the person's induction into new role personally. He/she has to ensure that the new CBA knows and understands the company's vision and strategy and what the goals of the internal startup setup are.

In the case of normal startups, the Business Angel is an independent player making decisions about how to invest his/her own money. A CBA within a corporation doesn't have money of his/her own; rather, the available assets for boosting the company's internal startups are from the home corporation. Thus, the CEO must define the responsibility area of the CBA and its borders. Ideally, the responsibility area is defined in the form of a budget, giving the CBA the freedom to make decisions about how the budget will be used.

Such freedom requires strong mutual trust between the CEO and CBA. Besides trust, a reporting and communication structure is needed to ensure that the CEO receives information on the doings and situation of the internal startup. Comparing this situation to that of external Business Angels and normal startups, we propose the following:

Normal startup	Internal startup
Own money	CEO's budget
Personal responsibility	A CEO – CBA meeting
Business Angel (BA)	Corporate Business Angel (CBA)
Startup's board: BA, other shareholders, CEO	Internal startup's steering board: CBA, relevant corporate executives, Corporate Entrepreneur (CE)
CEO's own steering body	CE's own steering body

The CEO and CBA need to have a structured way to communicate, which is called CEO – CBA meetings in the chart above. The CEO should not, however, use the meetings for micromanagement, but rather as a means for gathering information. The necessary steering should be done at the strategy, vision, and budget levels.

The internal startup approach not only places requirements on the CEO but on other executives as well. Typically, support from all key areas of the corporation, such as R&D, HR, Finance, Production, and

Marketing, is needed to run internal startups successfully. As shown above, we propose that those functions participate in steering the internal startup in a dedicated management body, which is called the internal startup's steering board in the chart above. Other members of the board are the CBA, the chair, and the CE of the startup.

Though we highlight the independent role of the CBA in running the internal startup, a steering board with other relevant executives integrates the internal startup with the rest of the corporation and gives the CBA the necessary support for running it. The role of the other executives in the case of internal startups resembles the role of other shareholders in the case of normal startups: they invest their existing assets into an initiative that is not directly under their control.

It is up to the number, size, and importance of the internal startups whether such a steering board is dedicated to an individual internal startup or takes care of several at the same time. The executive's personal participation in the internal startup's steering board boosts the status of the startup's work for the future and ensures that the board is able to make binding decisions.

To avoid overloading the CEO and other executives and to give the internal startup the necessary freedom, the proposed CEO – CBA meetings and the steering board meetings should be arranged every four or six months. Following the company's pace in making decisions on strategy, vision, and budget may be a guideline for figuring out the meeting schedules.

4.7 Organizational positioning

Agreement with the Board and the top leadership team

When forming a new internal startup, you have to go through the principles with the board and the top management team. Many of the startup's operative ways will be different, and the management team needs to run the operation in sync. Some people will have operations that are more different than others, but everyone in top management has to know and agree on the operation.

Funding

The internal startup funding model is one of the key topics. Normal startups have a tight budget, which is one way for them to focus operations and have a suitably fast heartbeat. Funding for normal startups might follow the path of giving money only in small amounts and tied with results.

The internal startup initiative could be killed off at any of the milestones. However, people have an incentive to tolerate tight budgets when there is a possibility of a very high upside at exit time. Having a tight budget alone is not motivational without the possibility of an upside.

Business leader supervision

Organizational placement is an important aspect, as normal management procedures (e.g. raises, options, future career path, future top managers search, etc.) happen through the line management system. Participating in an internal startup cannot be seen as a risk to career paths. If that happens, the most suitable and capable persons will intentionally avoid the risk of being part of an internal startup.

Total independence is an option when the internal startup is an independent company financed by the mother company. To some extent, this is also doable for an internal startup. Total independence on day one of the internal startup is a heavy decision and increases short-term investment needs.

Instead of total independence, a faster and easier way is to create a loosely coupled model where a newborn internal startup shuttle has defined connections to the mothership. In an organization chart, startups can be located directly under the top management, with interconnections with the corporation allowed when they are beneficial and “not allowed” if they lead to red tape for the startup.

KPIs in different phases of the startup

How should you measure the progress and success of internal startups? You should create key process indicators (KPIs). As the situation changes, the KPIs also need to change over the course of the internal startup.

- Starting phase KPIs
- Progress follow-up KPIs
- Exiting KPIs

It is essential to define and communicate the KPIs to be used in different phases. Clearly agreed-upon measuring benefits the company and the internal startup, and cuts away unnecessary hassle and reactive reporting.

4.8 The role of corporate functions

The company is established to do its thing in the most efficient manner. Adam Smith introduced the division of labor for the sake of efficiency, so different functions have their own focused roles and targets. We have found that many of these well-intended activities and routines do not work well with internal startups.

Human Resources

The role of Human Resources is to set the policies and an annual clock of actions. Yearly repeating events, such as salary adjustments, performance reviews, and stock options nominations, plus additional resource competence analysis are, of course, important.

With internal startups, the mode should be such that no extra work should be placed on the startup team or the Corporate Entrepreneur.

The startup team needs to focus on the task at hand. So, if necessary, any of the above mentioned tasks should be postponed until the startup is in a suitable situation for these things or completely dropped.

However, HR policies are important for the compensation side. It is important that the team is committed and focused on the task at hand. There was one example in which the internal startup team wanted to have full yearly vacations in the middle of important activities. Incentives and policies should be set so that everyone is at work during the critical periods. Another option is for vacations to be arranged in such a way that they do not jeopardize the targets.

Legal and IPR

The legal function is probably the best friend of the Corporate Entrepreneur. Legal help is useful to have, as there will be many types of collaboration, licenses, and other situations where it is better to be safe than sorry. Also, in many disruptive cases like Uber or AirBnB, the new startup rattles the gauges of the normal operational practices.

Brand and communications

When it comes to brand, the problem lies in the high risk of internal startups. Startups fail very often, and internal startups are no better. Ninety percent of startups will fail, based on this Fortune magazine article.²

You should think about this risk to the brand. Constant failures are also a challenge to manage. How do you balance being a successful company and failing very often with new product concepts? The general public and the corporate brand are likely to tolerate failures when the operation produces real success cases once in a while. Still, bad publicity is not a good thing, and bad publicity might be difficult to control in these times when news spread so quickly via the Internet.

You might try to alleviate the problem by controlling the publicity of your internal startup. Normal startups seek publicity. They live through publicity, getting as much publicity as possible to seek users and attract financing. From a brand point of view, it might be worthwhile to be in stealth mode at the very beginning of an internal startup, or at least passively public. What we mean by this is that the internal startup could create a new offering under a different brand in order to see how it progresses.

Brand regulations might be a hindrance in executing an internal startup. Big companies have brand policies. If you launch pilot products, you might have a problem with the brand policy: for example, how buggy a demo could you launch under the brand name?

Pivot is the Lean Startup book terminology for a change, but not just for any kind of change. It is about changing the assumptions, vision, target customers, or business model if the products or services do not gain traction in the market and amongst target users. This is about radically changing the course of action based on real and relevant metrics. Intelligent data analysis and discussions with users will show

“The general public and the corporate brand are likely to tolerate failures when the operation produces real success cases once in a while.”

2 <http://fortune.com/2014/09/25/why-startups-fail-according-to-their-founders/>

if the startup is not delivering with these assumptions, and thus if a pivot is needed to change course.

Marketing and sales

The marketing and sales approach depends very much on the similarity of the internal startup initiative to the normal product sales portfolio. Typically, you should build the startup team so that it also takes care of marketing and channel activities, and therefore a product manager type of role should be a part of the team.

If the internal startup product or service is not particularly disruptive or does not cannibalize the existing portfolio of products and services, it might be a good idea to start making early plans for a growth situation — but only when the time is right. Adding people too early will only slow things down.

A key role for marketing and sales in the case of internal startups is to help the startup team to measure the feasibility and business potential of the new product being generated. This may include arranging pilots, conducting market studies, and cooperating with possible friendly users.

IT, processes, and tools

A common misconception about both normal and internal startups is that the operative mode is so free-flowing and anarchistic that no rules need to be followed, not to mention using any tools or processes.

Startups are, like many references state, 5% innovation and 95% execution. Additionally, venture capitalists (or the corporation, in the internal startup case) that invest in startups actually require much structure in the operation through reporting and controlling the status of their investments.

Additionally, later on, when the startup succeeds and there is a scaling up phase, it is very difficult to scale up effectively if there is no structure or IT support tools. A normal startup needs to be fluid and agile in sensing people's needs, but a certain structure and planning needs to be there too.

For internal startups, the situation might be the contrary. First of all, you need to make sure that the existing corporate IT tools and systems are not a burden. They are mostly conducted from the point of general efficiency and minimizing costs. The internal startup may need to break away from this and have affordable but matching tools for the tasks at hand. Internal startups, of course, should utilize basic corporate IT tools in a reasonable way. The e-mail system, corporate software licenses, and laptops are examples of such cases. Typically, corporate-level agreements with vendors also lead to a significant cost advantage for the internal startup.

The authors of this book have seen examples in several companies in which an innovation tool is not used to its full potential. There are cases in which the tool is deployed, but dies out when no ideas are inputted or the ideas inputted are too modest to really transform the

business. This may be the result of many reasons, such as a lack of training, management attention, or incentives.

Deploying an innovation tool is no different from deploying any other tool. Management support, training, and incentives are all necessary for the tool to reach its full potential. The purpose of the tool and its role in the innovation process should be defined accordingly. Typically, tools are used in the early phase of the innovation process to ensure that all the ideas will be gathered and analyzed.

Later on, during the build-measure-learn phase, the same tool is no longer used. The follow-up on progress is typically done formally or by using the same follow-up process and tools as are used in the organization. If there is a large portfolio of projects running at the same time, the follow-up can be supported by processes and tools. If the number of startups is small, then typically less formal reporting is needed.

Neste Oil

Neste Oil in Finland has made substantial efforts to create an innovation tool and process through which ideas are systematically collected and analyzed, with the best ones selected for the R&D phase. There are 50 trained facilitators who have trained to use suitable tools to facilitate idea creation. The target is that all ideas, from coffee rooms, corridors, and meeting rooms, are put into a tool, and the business unit representatives and subject matter experts review the ideas. And the tool approach really works — one of Neste Oil's recent innovations, Neste Pro Diesel, is based on an idea that was inputted into the tool, according to Neste Oil innovation coordinator Pirjo Kuuppi.

The challenge with establishing an internal startup culture in a corporation is that change is needed at every level of the organization and in all functions. For example, the legal department may have no competence at all with the SW cloud licensing model, HR may be familiar with existing incentive models but has no experience with others, and middle management may be more familiar with continuously developing a product rather than inventing a new one. There are cases where even project manager skills are missing for this kind of a special project type.

To success in transformation, it should be understood that:

- To enable successful internal startups, changes are required in every level of the organization and in all functions.
- Follow-up and new changes based on the implementation results are needed to ensure continuous success in startups.

“Remember that companies have a lot of skills and working practice, so the idea is to improve and build on the existing good practices.”

Evaluate your current innovation process, skills, and competencies

Evaluating your current innovation process, skills, and competencies is always wise before a new way of working can be launched. Unfortunately, based on our experience, the evaluation of current practices may be neglected or not supported for several reasons. There may be arguments such as “the current process is not working so let’s start from scratch” or “we know already where the problems are so let’s concentrate on those”. We recommend that you always evaluate the existing innovation process, skills, and competencies. For example, if a new process is used without considering existing processes, it is likely that some good and well working processes and practices are inhibited. Remember that companies have a lot of skills and working practice, so the idea is to improve and build on the existing good practices.

Evaluating skills and competencies is also important. There are several areas in which new competencies and skills may be required. In some organizations, training project managers is necessary to ensure that they are able to run projects that are different from traditional projects in terms of uncertainty. If project managers are used to working in an environment in which the target is well defined or there is no customer involvement, you could think about using external project managers instead.

The evaluation of innovation process, skills, and competencies could include, but is not limited to:

- Are new innovations systematically documented, analyzed, and decided, and are the best ones taken into the startup phase?
- Does every employee understand what the process is and how (s)he can contribute to it?
- Does every employee have the incentive to create new ideas?
- Do you have skills and competencies for the new roles (described in this chapter)?
- Is there an agreed-upon way to follow up with the new idea generation process systematically in all levels of the organization?
- Is there an agreed-upon way to follow up with the progress of the initiatives/startups in all levels of the organization?

4.9 Physical location

An internal startup needs to have a location of its own for the team. This doesn't mean that on day one it should have its own top-floor office section with a 180-degree sea view. A garage type of approach increases the startup look and feel and can even speed up the innovative atmosphere and create a "let's solve these things" way of doing. Garages contrast with corporate office surroundings, where there are design curtains that match the brand logo colors, and thus indicate that now we can and we will do things differently.

The most important thing is that the location is dedicated to the startup for the time being, not the meeting room to stay in every now and then while others use it in between. A corner of an abandoned factory hall is much better than that. A good-quality coffee machine with good-quality coffee beans is always a good investment for any kind of startup. Days will be long and basics need to be in place. This gets us back to the possibility of utilizing common sense: if the location can be found inside or near the corporate office, where coffee stations, printers, staplers, parking slots, WLAN, and other essentials for working spaces can be accessed, go for it. If the location is somewhere too far away, be prepared to invest in everything, starting from the chairs. Office hotels can be surprisingly expensive locations that can be easily forgotten in the corporate world, and where you can live for years without any contact point with the arrangements in working places.

Organizational positioning and physical location resonates in many ways. For internal startups, utilize from the corporation whatever boosts your startup needs, whether HR services, a high-speed Internet connection, software licenses, or the water supply. From the corporate point of view, provide your internal startup with such utilities. Refuse and ignore from the corporate culture all of what slows down your startup from progressing, including innovation-limiting policies, time-consuming reporting meetings (keep the necessary ones with reasonable intervals), and excessive acceptance rounds with tens of people involved. Keep things moving, be creative, and allow for founding a new ecosystem with a totally new clock speed inside the mother corporation.



5. Big company boost and inertia

In Chapter 2 we outlined ways of working of a big company or organization. The company strategy, organization, financials, reporting, management processes, HR practices, and incentive models have been gradually optimized over the years to support the established business operation. Big companies are usually very efficient and effective in doing the old, but they often face difficulties when encountering situations that call for renewal of their established practices.

In Chapter 4 we introduced the internal startup phenomenon and way of working, and we can immediately identify both elements of synergy and collision between these two worlds. In this chapter we will look into how an internal startup can reap immense benefits of the established big organization and we will also discuss elements of the big company that the internal startup should avoid so that it can increase the likelihood of its success.

We will use a real internal startup as a case study, namely F-Secure Lokki. F-Secure Corporation is an Internet and cyber security company, established in Finland in 1988, listed on the NASDAQ OMX stock exchange. The company strategy renewal project in 2012 identified “People Protection” to be a prospective new product and business area, and a new family location sharing service concept “Lokki” was developed by a small concept design team. The company leadership team decided to build the service and bring it to the market with a rapid schedule, and the guidance from the company CEO to the concept creation team leader was to “work like a startup!” The service reached some tens of thousands of users with moderate marketing efforts but it was eventually ramped down as it did not fit within the company strategy framework well enough, but the learnings of the internal startup way of working, together with some of the software features are being deployed and further developed in current F-Secure consumer security and privacy products and services.

In the chapter we will look into the good and the bad that the internal startup can inherit or should avoid from the big company practices, compare these practices against real startups out in the wild, using also the Lokki internal startup as our sounding board. This includes aspects like decision-making, customers, sales and marketing, technologies, manufacturing, brand and communications, human resources policies and practices, financials, budgeting and reporting, legal, and IPR. Often there are lots of internal stakeholders to a big company internal startup, and the opportunity and challenge for the internal startup founder or leader, and for the whole internal startup team, is to reap the maximum benefit of these sponsors, supporters, helpers, and free labour, while trying to avoid the nay-sayers, slow-movers, high priests of established processes, back-stabbers, and meeting mavens.

5.1 Strategy, target-setting, and focus

An internal startup is usually established by the company's top management for a certain business strategy reason. The reasons often include seeking new growth from a new product or a new customer segment. A by-product of the new business may be the creation and injection of new and improved ways of working for the whole organization. Balancing the top-down strategic direction setting for a big company and for the internal startup may be a difficult topic for the startup team and for its stakeholders and necessary collaboration partners in the big company organization. In order to be successful, the internal startup must define and execute its mission with independence and focus, yet remain collaborative enough not to derail itself completely from the company collaboration partners. Big companies run a multitude of steering teams, coordinating units, councils, and boards, and for the internal startup, being able to maximize the Build-Measure-Learn Lean Startup cycle speed often conflicts with the decision-making mechanisms of the big company bodies.

5.2 Customers, sales, and marketing

An established company already has a customer base, marketing channels, and a sales organization to reach customers. For an internal startup, the company brand and existing channels for reaching a wide audience can be a major upside. An existing customer base is likely to trust the new product when it arrives from the company they already know and trust from their previous experience. The product or service developed by the internal startup can also be easily marketed to the big company's existing customer base, often practically for free from the perspective from the internal startup, simply by targeting a marketing campaign towards the existing customers. The existing customer base or social media fan base of the company can also be

used when the internal startup tests and validates the new product launch. For example, the F-Secure Lokki team ran quick surveys of the upcoming service design elements, such as asking company followers to vote on a set of proposed app icon candidates, on the F-Secure Facebook page, and received valuable feedback. Obviously, this kind of an approach requires the big company customer or fan base to represent the target audience for the product or service that the internal startup is developing.

If the big company has a presence in the global marketplace, the internal startup can gain a significant benefit by using this global operation to validate the appeal of its new product or service globally. As an example, at F-Secure Lokki, the internal startup team relied on the foreign sales offices' marketing managers to recruit small consumer focus groups to collect feedback on the proposed product name candidates. The internal startup was able to study how the proposed name candidates resonated with native speakers of 14 different languages across the world, with zero budget, facilitated by professional marketing experts.

// The small internal startup team usually cannot afford having people with narrowly defined functional roles; rather, they should be more cross-functional [...]

5.3 Hiring, incentives, and HR policies

A big company has a diverse workforce, ranging from research and development to sales and marketing, design, customer support, business development, legal, management, and other functions. Some employees work on creating new business and products, while usually a large part of the workforce keeps the existing business operating. A big company's new employee hiring profile is thus quite diverse. The company organization is often built around functional teams: you have consumer marketers in one team, customer support in another, and designers in a third.

The internal startup team, on the other hand, should be staffed with profiles more closely following a real startup. The small internal startup team usually cannot afford having people with narrowly defined functional roles; rather, they should be more cross-functional, what Ideo's Tim Brown calls T-shaped people. Also, people in a startup should be highly motivated to create new solutions to complex, multi-disciplinary problems. They should be self-starters and proactive communicators, joining the internal startup on a (semi-)voluntary basis. One of the lead software developers in F-Secure's Lokki internal startup said that good startup developers are lazy — they don't want to do any extra work, so the resulting code is highly efficient, in addition to being of high quality. It has been said that productivity in knowledge-intensive work varies a lot, and in a small team it is obviously key to get highly productive performers on board.

Big companies offer stable monthly salaries and often some kind of a bonus or incentive system in which people are measured against their personal targets or rewarded based on the company's success. A real startup often initially burns the founders' money. Key people

“An internal startup, on the other hand, needs to progress rapidly under a limited budget, and is thus often willing to compromise on many of the prerequisites that are in place for the established organizations.”

work on a sweat-equity basis and there is a looming risk of failure for the startup and of losing money for the investors, but for the owners and employees there can also be a potentially massive and financially rewarding upside in the form of a rewarding exit when the company is sold to another company or investors. An internal startup usually does not aim for a similar exit, but the risk and reward should be balanced accordingly. Sometimes it can be quite challenging to establish a high-risk/high-reward system for an internal startup in the big company context, due to the company’s HR policies or employment laws. People may be expected to work long hours, and often people in internal startups do, but the official HR policy may hinder this. In the F-Secure Lokki internal startup, the team members agreed with the company HR team to stop following their working hours, and a special internal startup project bonus was established, measured against the actual launch date and customer satisfaction.

In the case of the corporation Tieto, Taneli Tikka is leading an Internet-of-Things unit with 30 people, half of whom were hired internally from Tieto and half of whom were external. They all accepted about a 30% salary cut compared to Tieto’s salary norms when they joined, and they own some share of this “internal startup company”. Thus, if their products and projects turn out to be profitable, they will receive a personal financial upside.

5.4 Technologies

A big company often may have a technology strategy built to support the existing product strategy and portfolio, and there may be considerable investment in the development or manufacturing tool chain, both digital and physical. Important factors behind the chosen technology strategy often include elements like reliability, maturity, viability across the product portfolio, support, vendor locking avoidance, and cost. Some of the technologies used by the company may be purchased from technology vendors and some may have been developed in-house over a lengthy period of time. Specific new technology validation and approval processes may be in place in the big company to embrace new technologies in a controlled manner. It is usually a lengthy process to bring a new technology into an established organization, due to dependencies with the already existing products, technologies, vendors, and teams.

An internal startup, on the other hand, needs to progress rapidly under a limited budget, and is thus often willing to compromise on many of the prerequisites that are in place for the established organizations. New high-productivity technologies and tools exist, such as for prototyping mobile apps (e.g. Marvel and Proto.io), embedded IoT gadgets (e.g. Arduino and Raspberry Pi), or ramping up cloud services (e.g. Amazon Web Services and WordPress). These are commonly used by startups, but they may conflict with the big company’s established technology strategies. Obviously, a smart internal startup CTO will

assess which of the big company's in-house technology components, tools, and technology standards are beneficial for the startup and will speed up building and launching the MVP.

In the case of a physical product internal startup, being able to produce early-phase mockups and physical prototypes inside the big company organization can speed up the prototyping and design validation phase considerably and remove a substantial cost element from the internal startup cost plan. Without the in-house capability of prototyping and production, the internal startup needs to staff some of the skills internally and rely on consultants and external service providers for the remaining phases of the industrial design, electro-mechanical design and engineering, 3D printing, prototype manufacturing, and volume production.

5.5 Funding, budgeting, and reporting

In an average consumer software startup, a winning team or an "A" team would be built around three roles: technical expert, cool designer, and savvy businessperson. However, the knowledge and experience of the team members may vary and they may not have easy access to the expertise and experience that shapes the best practices of the industry, or they most likely will not know all the hidden risks that may later materialize. In other words, they do not know what they do not know, and they have to do anything possible to challenge and go against the odds.

Around an internal startup in a big company, there are numerous smart people, teams, and assets to help the fledgling startup for free, and they can play a nurturing role in helping and supporting the internal startup.

Take budgeting as an example: an internal startup has been allocated an internal budget from the respective department or the corporation. This initial funding helps the internal startup to keep their main focus on building the MVP (Minimum Viable Product), finding the MVM (Minimum Viable Marketing), and testing the MVP with the MVC (Minimum Viable Customer). On the other hand, in a traditional startup, one of the key tasks for the startup founders is to secure funding while building the "next big thing".

To be funded by external investors, a traditional startup will face the valuation phase, which determines the monetary value of their company, both currently and in the future. Founders and investors in the company usually agree on a formula to determine the valuation of the company. For a startup, it is all about convincing the investors of the potential of the product or service they are creating, which provides an attractive reward to the investors.

Another aspect of internal funding is that there can be multiple objectives in the corporate environment. Commercialization or monetization of the internal startup's ideas is an important goal. However, there can be other objectives for the initiation of an internal

startup; for example, the lessons from the experiment of the internal startup can be beneficial for top management to apply to other units and lines of business. Therefore, the failure of an internal startup is not quite as devastating compared to a small startup that starts off in a garage.

On a positive side, the internal startup can often benefit from getting workspace for free from the big company, in addition to the usual office facilities such as coffee, computers, and occasional IT support.

A big company drawback that slows down a small startup is the often-mandatory compliance requests for reporting practices. Employees in a big startup are requested to report their working hours, line managers may be expected to pre-approve even the smallest external purchases, and purchased equipment often needs to comply with the IT department's purchasing policies and process. The startup founder may struggle when told she cannot get the desired tools for her team and needs to wait longer to get more expensive equipment that does conform to company guidelines.

5.6 Business development

A startup and a big corporation approach business development very differently, because the value that the company creates for the customers and stockholders varies depending on the stage of the company (Scott Polack at Creator³).

One critical part of a startup's success is to find the problem/solution fit and product/market fit at an early stage. The main challenge for the early-stage startup is to find the "long-term value" in a fairly short timespan. For a pre-seed or series A funded startup, the lifespan is about six months to validate their ideas, find the right market to target, find the right customers to collaborate with, and pivot the business idea to the right direction or drop the idea if it has little commercial viability.

In this iterative process, hunting down the success formula is often a combination of sales, marketing, and product development. For startup companies with little business background, such as a group of founders who are engineers with technical backgrounds, they need to find external business development help to translate a technical solution or design into a viable business. The challenge is to deal with numerous variables in business that is unknown to industry outsiders. Despite the number and speed of business iterations, it can still be a long learning process with a high learning curve, given that the original business idea has commercial viability.

A corporate internal startup has another clear advantage in their business development expertise and experience that has been fueling

³ <https://creator.wework.com/knowledge/business-development-differs-startups-big-companies>

the operation for years, if not for decades. Big corporations deliver long-term value by nurturing and milking their cash-cow business with a proven business model, as well as optimized management and operational practices and processes. They are very good at solving a known problem systematically, compared to a normal startup's trial-and-error process.

On top of that, big corporations have accumulated more knowledge, expertise, networks, and other resources that can help in solving the puzzle of a new business. For example, a business development manager may understand the deeper needs of customers early on and help the internal startup to pivot to the right solution and avoid under- or over-tweaking it. The marketing department may know the customer segments in the market and what would make different segments tick. The social media experts in big corporations may have the existing customer or "fan" base for the internal startup to test-launch its concept and get feedback from customers to know if a new business idea or solution would fly or flop.

Internal startups can have easy access to professional expertise and advice by walking through the doors of business development, marketing, and sales experts in the company and get initial advice on an idea and how to fine-tune or pivot the idea over a few cups of coffee.

Conversely, taking social media as an example, a traditional startup would have to go through a tedious and normally time-consuming process to build its visibility online before it has an audience to talk to or potential customers to get feedback from. It is as if you are in an auditorium, and no matter how loud you shout, no one in the audience can hear you.

With the experience, knowledge, and resources to create long-term value, a big corporation's business development team can help the internal startup become much more focused and effective in solving the puzzle of the "problem/solution fit" or "product/market fit" early on. They can also help focus-test the idea externally from their established business networks or relationships with customers. The fight for budgets, resources, and executive approval all dictate which growth opportunities will be green-lit and which will be passed over.

5.7 Brand, design, and communications

The big company has built a brand for itself and its products over the years. Through the company brand, customers recognize the company and have certain expectations about its products. The brand is often quite rigorously managed by the brand management team, and they may be afraid of a team of internal cowboys or cowgirls releasing something immature to customers that would hurt the company

“Internal startups can have easy access to professional expertise and advice by walking through the doors of business development, marketing, and sales experts in the company and get initial advice on an idea and how to fine-tune or pivot the idea over a few cups of coffee.”

“When building a new product, it is crucial to get rapid feedback from the early users to guide the design and development for the next biweekly product release.

brand. On the other hand, the internal startup wants to launch exactly this Minimum Viable Product to get rapid feedback from the markets. The big company's communications team may be equally protective of the content and tone of the messages the company is sending to their customers, partners, and investors, and a fast-moving internal startup may not be fully trusted with going solo without the official spokespeople being aware of what's going on. A big company may also have a quarterly communications schedule for product launches and other announcements, and having individual un-controlled teams not working by the same schedule may be seen as distracting.

Leveraging the big company brand and existing customer base may not be an optimal solution for an internal startup that is developing a new business or product targeted at a completely new market, be it a new customer segment or a new geographical market area. The big company often may have product design guidelines targeted at the existing customer base and covering the existing products, but if, for example, the company has established the internal startup to break from products for B2B customers into the B2C markets, the existing product design guidelines may no longer be valid.

When building a new product, it is crucial to get rapid feedback from the early users to guide the design and development for the next biweekly product release. In a big company there is often a customer care organization with established processes for responding to customer issues and complaints, but in the internal startup it is key to optimize the Build-Measure-Learn loop and give user feedback directly to the internal startup product team. When developing Lokki at F-Secure, the internal startup team members tried to respond to user emails, tweets, Facebook messages, and comments in the mobile app stores within hours, and sometimes within minutes. This not only allowed them to resolve user problems and gain valuable insights into how to improve the product, but it also helped to turn annoyed and dissatisfied users into Lokki ambassadors. When the number of users of the new product grows big enough, it is obvious that the direct feedback mechanism may no longer scale, and it's time to move to the big company customer care model.

In the rapid Build-Measure-Learn cycle of a startup, it is often enough to launch a version of the product supporting only one language, be it English, Finnish, or some other language in the test markets, but the official policy of the company may be that products under the company brand must support a certain defined set of languages. On the other hand, the big company often has a localization team that can help the internal startup get the product and marketing text translated into the desired languages.

One approach to the branding dilemma applied at e.g. F-Secure has been to establish a separate “cover brand” to collect feedback from the markets if the prototypes being tested are felt to be too immature or controversial for the big company brand.

5.8 Legal and IPR

Legal topics may be one of the areas ignored most by novice startups. Usually, most of the founding members of a startup are not legal experts, and therefore IPR, patent, and copyright-related issues can often be overlooked and are not foreseen, which can pose a threat later. A startup does not have the capital and finance to protect itself if things go wrong. This is also related to the high cost of legal consulting fees and patent protection fees that may be required to protect an idea that may or may not take off in the market. Of course, experienced entrepreneurs would understand legal protection and all the matters that need to be taken care of when they move forward with the idea.

In a corporate setting, the internal startup can often get legal consulting “for free”. Sometimes the legal risks may come from patent evaluation and protection; sometimes the legal risks may not be obvious even to a professional team. For example, if the market segment on which the internal startup is focusing is not allowed to be targeted, a premature marketing campaign without considering the legal sensitivity may cause big trouble for a normal startup. However, with the legal strength of a large corporation, the internal startup can easily navigate the potential legal risks. The F-Secure Lokki location-sharing service was built for families, including children, and the in-house legal team was of great help to the internal startup team in developing an appropriate privacy policy, end-user license agreement, and marketing strategy, including the potentially children-sensitive aspects.

One special area in contemporary digital products and services is privacy and data protection. National and international legislation defines the practices and behavior for online service providers who collect, store, and distribute users’ private and sensitive data, and usually the average startup does not have expertise in or even awareness of what’s required from them. The internal startup has the benefit of getting free in-house legal counsel, and if the in-house legal experts can’t help, they can usually direct the internal startup team to an external legal office.

Another element crucial to the fate of a startup is external competition from an established incumbent in the industry. These large incumbents normally have strong resources to tackle legal issues. It puts the traditional startup in an adverse situation whenever there are legal issues related to patent or copyright infringement. For example, the large corporation may easily have the resources and capability in the case of legal action. In contrast, the small startup may not have enough financial resources to withstand a long-lasting legal process, especially if the major source of a startup’s funding is from external investors, such as VCs. These investors may chicken out and leave the startup if the legal situation becomes less favorable to the startup or may drag down the startup’s growth. Lack of funding may

cause the startup to lose its lifeline financial support and leave the industry early on.

On the other hand, the internal startup may be protected by its corporation's legal arm from competition and legal attacks from another incumbents. However, this protection is without a price. Normally, any invention or IPR created by the internal startup team is the property of the mother company. The startup team does not have ownership of the IPR. Is the internal startup team willing to give the fruit of their work to the big company, especially if the IPR could bring a much higher financial reward than their salary? They might have the opportunity to become the next PayPal, the next Dropbox, or the next Google, upon realizing their dream. The big company management might ask themselves that by excluding such a strong incentive potential, would the internal startup team be functioning to maximally realize its purpose?

5.9 B2B versus B2C internal startups

B2B companies tend to be driven by sales, while B2C companies tend to be driven by marketing. A B2B company usually deals with a smaller number of customers, and those customer relationships are managed by a human salesforce. A B2C company, on the other hand, often relies on various media-based marketing activities to reach a larger-volume customer base. Closing a B2B deal can often take months or even years, and having a professional human salesforce is crucial in making that happen. Making a B2C product successful can require sizable consumer marketing efforts, but it can be done using various volume marketing or growth-hacking techniques and tools.

The internal startup thus needs to be able to invest in B2B sales or B2C marketing, either by staffing these activities inside the startup team or by relying on the big company's established sales and marketing teams for this purpose. Sales organizations and people are usually heavily incentive-driven, so in the case of a B2B internal startup it is key that the big company sales team's incentives also cover the internal startup product; otherwise, the likelihood of success through relying on the big company sales team is weak. For a B2C internal startup, it may be easier for the startup to build up its own B2C marketing activities using various inexpensive growth-hacking techniques.

5.10 Key takeaways

An internal startup established by a big company can enjoy a tremendous upside because it is able to get free support from stakeholders, functional teams, and asset owners in the big company. Being able to get timely support, e.g. from the legal team or business developers, can give the internal startup a tangible competitive advantage compared to a fledgling real startup that does not have

such expertise in the startup team and may not have the budget to hire expensive consultants for its work. An even bigger upside comes from being able to utilize the big company's sales and marketing channels to reach a wide prospective audience for the new product or service being developed in the startup.

The downsides of the internal startup working under the big company umbrella are unfortunately equally plentiful. Direction-setting from the big company's top management may be unclear or conflicting, and culture collisions may slow down the progress of the internal startup. Even if the big company's top management and the internal startup team share the same vision, the middle management in the big company may not be equally supportive of allocating appropriate time for their teams to support the internal startup team, or they may actively oppose the startup team for behaving in a too anarchistic manner against the established big company processes and responsibility areas. Also, while the startup may have been established to explore a new customer segment and product concept, the bean-counters in the big company may soon start to question the startup for revenue figures. Being forced to follow the big company's reporting practices and use its standardized technology components may slow down the internal startup's progress, and a lack of feasible incentive models in the big company's HR playbook may hurt the capability to hire or motivate the internal startup team members.

The key for the top management sponsor and the internal startup team is to find the appropriate balance between support and collaboration with the big company organizations and processes while retaining enough independence and control to steer and execute the Build-Measure-Learn Lean Startup loop, in order to listen to the markets and iterate the new product or service towards a scalable new business. Finding this balance usually depends on the company culture and values, the established management structures and HR policies, company ownership, working time legislation, competitive situation in the marketplace, characteristics of key people involved, relevant B2C or B2B ecosystems, key technologies and IPR, and other factors.

Additionally, it is important to point out that there is no "one-size-fits-all" solution or a "perfect model" that guarantees success for internal startups. What works in one company may not be possible in another company, even if they have the same business or operate in the same industry. Simply collecting all the internal startup practices of other companies without understanding the context or the underlying rationale can easily mislead and drive the management down a risky path. The management needs to take into account the stakeholders' needs, the corporate culture, and the existing corporate structure and policies to ensure that internal startup initiatives will take off successfully, create long-term value, and maximize synergies with existing operations.

“Additionally, it is important to point out that there is no “one-size-fits-all” solution or a “perfect model” that guarantees success for internal startups.

Case: Lokki by F-Secure

F-Secure is an Internet and cyber security company established in 1988 in Finland. One of the new opportunity areas identified by the company's growth strategy in 2012 was "people protection", and a family location-sharing service concept was developed by a small cross-disciplinary team of technologists, designers, and business developers as a special project in addition to their normal duties. The concept team lead (this author) pitched the concept idea to the company's top management in December 2012. The product concept was appreciated and the team lead was then tasked with "working like a startup" and bring the product out in the market in mid-August 2013, when first-graders start school in Finland.

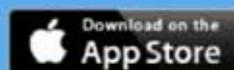
F-Secure has a long history of experimenting with various in-house innovation methods, 10% free time projects, hackathons, and an in-house innovation team, but now the top management wanted to inject more of a "startup mindset" into the organization. Previous examples of this model did not exist, so the internal startup was also an experiment to bootstrap new ways of working. The goal was not only to develop and launch a new consumer product in a rapid fashion, but to develop and spread new methods and tools within the organization.



F-Secure LOKKI

Share your location with friends and family.
Go undercover when you want.

F-Secure Lokki brings together your friends and family, and their locations — on a map. How often have you worried about where your kids are? Or where your friends are when you are supposed to meet up? F-Secure Lokki gives you this information so that you no longer need to worry.



A small full-time team was recruited from inside F-Secure, consisting of three senior software developers and a UX graphic designer, with the team lead becoming the “product guy”. In a self-organizing fashion, one of the developers took on the role of CTO, one became the lead mobile app developer, and the third took responsibility for the server design and implementation. When hiring the team, we especially looked into the candidates’ desire to build a new consumer product and their eagerness to learn and contribute to the concept design, end-to-end customer journey definition, and business model. The full-time team started working in April 2013, and the Lokki Minimum Viable Product (MVP) consisting of an iPhone app and a secure location-sharing server was launched in early July.

We started to build a “family location tracker”, but after initial user research we learned that nobody wants to be tracked, and few people want to track their family members. Consequently, we gradually pivoted the product to an “unlike family tracker” and later to a “Google Latitude replacement” — after Google had ramped down their location-sharing app. We wanted to build a service children would want to use so that their parents would be able to check where their kids are going. If kids disliked the app, they would not use it, and parents would not use it either. We wanted to make it appealing enough for kids so that eventually we would be able to create a sustainable business model and get parents to pay for some functionality in the service.

The team worked on a bi-weekly release cycle in DevOps mode, collecting continuous feedback from Lokki users and making several bigger pivots during the course of development:

- Support for children’s friends was added (to boost kids’ use of the service)
- The mobile apps were re-built from scratch after launch with more efficient technology
- A chat feature was added and dropped (to boost active usage, but we learnt that we could not beat WhatsApp!)
- An initial continuous location hotspot detection feature was dropped due to battery consumption reasons

A part-time digital marketer supported the Lokki team, and we also got substantial help from the in-house legal and other teams — developing a location-sharing app for minors has significant privacy and data protection issues when a security company wants to do things properly.

The top management monitored our progress in Dragons’ Den sessions, and in early 2014 the management decided to terminate Lokki after it was felt that it did not support the company’s security and privacy strategy tightly enough. Different final pivoting options were considered, including spinning off the service into a new company, co-owned by the team and F-Secure, but eventually we decided to open-source the source code. Afterwards, the Software Factory of the University of Helsinki took over this OSS project; they have been using

it in one joint project with leading US universities and Facebook, and recently they re-launched the service at www.lokkiapp.com.

Top positive lessons from the Lokki internal startup	What would we do differently now?
Independent cross-disciplinary team with maximum control over people, budget, and process (laws and company values permitting)	Certain technology components were “given” to us, but later we had to re-build the Lokki mobile apps anyway with better tools we chose ourselves
Executive sponsor in the company's top management helped to resolve cross-company issues (with HR, brand management, and other functions)	Our targets were not fully aligned with e.g. the consumer marketing team, so they did not have enough capacity to help us when we needed
The startup team must be in control of the MVP/product launch for maximum speed and feedback	The team, and especially the team lead, must have minimal other obligations in the company

We reached tens of thousands of users for the Lokki service, and the figure was growing until the service was pulled from the market. Users liked it (4+ star ratings in the app stores), and both the Android and iOS apps were momentarily in the top two in the Finland app stores. We have been reusing some Lokki software code in subsequent consumer security products in the company, and we have been deploying internal startup ways of working in these new product development projects — so we feel the exercise was definitely a success. Time will tell what happens with the open-source version of Lokki.

Further reading

Tim Brown, *Change by Design: How Design Thinking Transforms Organizations and Inspires Innovation*

Jez Humble, Joanne Molesky, and Barry O’Reilly, *Lean Enterprise: How High Performance Organizations Innovate at Scale*

Tom Kelley and Jonathan Littman, *The Ten Faces of Innovation: IDEO’s Strategies for Defeating the Devil’s Advocate and Driving Creativity Throughout Your Organization*

Geoffrey A. Moore, *Escape Velocity: Free Your Company’s Future from the Pull of the Past*

Trevor Owens and Obie Fernandez, *The Lean Enterprise: How Corporations Can Innovate Like Startups*

Eric Ries, *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*

Web:

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www.lokkiapp.com



6. The lifecycle and alternatives of an internal startup in an organization

6.1 Background

A company's decision-making body must decide when and how an internal startup is founded and ended. In particular, the decision-makers need to understand that the internal startup is only one attractive option, and other similar alternatives exist. In this chapter, we elaborate the internal startup method along with other similar alternatives for new product, service, and business development. We review them from the stage of idea incubation to that of business scaling.

A product or service innovation project can take several forms, of which internal startups are the essential concept of this book. Broadly, an innovation project can take place under at least six different classes:

- ***New product development (NPD) project.*** This is a traditional innovation or development project for products or services within a company. It typically includes the company's strategic work and follows the company's established practices and structures.
- ***Internal startup.*** Internal startups take place within a company but work much more independently than NPD, or even entirely independently. Thus, internal startups have different levels of freedom from the company's standard policies.
- ***Company subsidiary (spinoff).*** A company can found a "child" company to take care of an innovation project. Typically, such a subsidiary has more freedom, responsibilities, and financial incentives than an internal startup.

- ***Incubating corporate subsidiary.*** A variant of a subsidiary is an incubatory subsidiary. “Incubatory” means that a subsidiary is not founded for a specific innovation project; rather, the same subsidiary exists continuously and innovation projects are carried out within it.
- ***Acquisition (M&A).*** Rather than making innovations by itself, a company can merge with or acquire another company, thus internalizing innovations.
- ***Company startup.*** Innovations can also take place in independent startups, in which the originating company has no official control other than ownership. This can take place, for example, when employees leave the company to start new business by themselves. A corporate venture can also be founded to cooperate with the startups rather than establishing startups itself.

In terms of internal startups, the four first classes are the most relevant ones. M&A is also relevant because the company will have control of the company subject to M&A. On the other hand, independent startups are outside the scope of this book if the original company does not have an official relationship with them. However, independent startups can, for instance, license certain IPRs or establish partnerships with the originating company.

These different classes of organizing innovation projects, or more broadly internal startups, are relevant because product or service innovation goes through different stages over time, and the work can be changed to suit these different kinds of organizational entities. Accordingly, Figure 5.1 illustrates the four stages of the startup lifecycle by Mohout (2014).



Figure 5.1. The four stages of the startup lifecycle, Mohout (2015)⁴

For the scope of internal startups, the four stages can be mapped and summarized as follows:

- **Idea stage:** In this stage, the internal startup should focus on understanding the problem or need that it wants to tackle in detail. By the end of this stage, the startup should have a holistic understanding of the problem domain and an MVP or concept to start concept validation with real customer and users.

⁴ Mohout, O.: Startup Master Class II: Exodus | problem-solution _t. (2015)

- **Problem/solution fit:** In this stage, the internal startup should focus on further developing the concept to be an optimal solution for the first-lead users and customers. Customer acquisition is the second key activity of this stage.
- **Product/market fit:** Once the optimal solution for the lead users is ready and the internal startup has been able to acquire new customers and users, its focus should move to customer retention and further generation of the business model. In this stage, the internal startup should focus in particular on pricing strategy.
- **Scaling:** When the internal startup has found a scalable business model, the focus should shift to actual scaling. In this stage, the internal startup should focus on accelerating the business. The acceleration typically requires large investments in marketing and business development.

The length of these phases varies widely. Moreover, the stages can partially overlap and are not clear-cut. According to the authors' knowledge from the field, the main focus of each startup typically follows these stages over the startup's lifecycle. If the project does not succeed, it will face its end and be discontinued, which can happen during any of these phases.

Table 5.1 combines the organizational alternatives and lifecycle phases results in a two-dimensional space through which each project take its path. In the next section, the case examples illustrate different kinds of paths that are summarized, and the mechanisms or forces affecting the chosen path are elaborated.

	Idea Stage	Problem/Solution Fit	Product/Market Fit	Scaling
New Product/Service Development				
Internal Startup				
Corporate Spinoff/Subsidiary				
Incubating Corporate Subsidiary				
Mergers & Acquisitions				

Table 5.1. Two-dimensional view of the lifecycle and organization of product or service innovation.

6.2 Case examples

Case: Corporate Subsidiary

F-Secure founded a corporate spin-off F-SOS to establish a new business concept and model. The spinoff used F-Secure's existing technology without developing the core technology further. Rather, the core solution was based on F-Secure's existing technology, and the key idea was to make a new kind of service-oriented business and service concept. The first release was not especially successful, but the second solution release, around a year later, showed major success. A year after the successful launch and operation of the product, the spin-off was merged back into the mother company and the solution became a strategically important, if not the most important, business for several years. The key idea of the solution was to turn F-Secure's existing technology into a "software as a service" (SaaS) model in the business. In fact, around the same time, F-Secure reshaped its business by discontinuing other product offerings. Later on, the mother company had the subsidiary within its unit, and the people of the subsidiary as a cross-functional team tried to establish other similar SaaS model-based solutions that turned out to have moderate success at best.

Case: Incubatory Corporate Subsidiary

F-Secure has a subsidiary DF Data in which any new kinds of concepts can be tested. Although there are products and services marketed under this incubatory company's brand, these products use the subsidiary as a test bed and are currently not making any revenue. Thus, this company operates as a kind of incubating place, for example to test and learn about social media marketing, test beta-products, and test concept products and technologies. All this is done without sacrificing the mother company's brand name. The company has been used to publish beta versions for several products, such as FS Cloud and FS Protection. The product concepts include Secure Selfie Camera, Funny Hat Stickers, and Snapwallet: Photo Safe.

Case: Internal Startup

F-Secure has a history of four internal startups. The statuses of these four cases are as follows:

- *Case 1: The end of business life (Lokki)*. The first internal startup was founded within a business organization. The entire product was based on new software implementation along with a new business and service concept. The internal startup has been discontinued and its product, along with the technology, has been open-sourced.
- *Case 2: Searching for the scalability (Freedome)*. The second internal startup was founded within a strategic unit. Existing technology was leveraged for part of the startup's application,

“However, there have been challenges with scaling the business; the line and market extensions have had more challenges than anticipated.

and some parts were developed from scratch. The first stages of the internal startup were a great success in terms of the set objectives, such as attracting new users and downloads as well as receiving good public reviews. The internal startup was later integrated into F-Secure’s consumer business organization. More recently, the product has been adopted for business customers and has been subject to other kinds of markets and extensions. However, there have been challenges with scaling the business; the line and market extensions have had more challenges than anticipated.

- *Case 3: Searching for the product/market fit (Key).* The idea for the third internal startup was incubated in the strategic unit. After the strategic decision, the internal startup was founded in the consumer business organization. The case has had challenges in finding the product/market fit and a competitive advantage over the competition. The resulting application is still offered as complementary to other offerings, but it has not proved to be attractive enough alone for the markets.
- *Case 4: Searching for the problem/solution fit (Sense).* The fourth internal startup was founded after a decision by the senior management, and the business is still in its infancy. The focus of the internal startup is to develop a hardware-based security solution. An essential part of the new product’s core consists of software security technology from the parent company’s existing technology. The product is still under active development, and the internal startup is currently searching for the problem/solution fit.

Case: Corporate M&A

Over the past 26 years, F-Secure has carried out several business exits and company acquisitions. Here, we briefly elaborate two recent ones.

- *Case 1: An acquisition to enter a new business area and the later business exit.* In 2009, F-Secure acquired a French company called Steek that provided software for online storage and data-management solutions and employed about 50 people. F-Secure wanted to grow its operator business, and the acquisition offered both new operator customers, such as SFR (France), Virgin Media (UK), Singtel (Singapore), and Terra (Spain), and online backup technology. F-Secure further developed the technology and business as the Younited service until exiting the business in early 2015. As a result of F-Secure’s strategic change, the business was sold to Synchronoss.
- *Case 2: An acquisition to enter to a knowledge-intensive business.* In summer 2015, F-Secure acquired nSense, a privately held Danish company employing about 70 experts in security technology and knowledge-intensive services. Accordingly,

F-Secure's acquisition strengthens the company's expansion into this enterprise segment. The acquisition allows F-Secure to offer and further develop complete defensive solutions and services for modern cyber threats.

- *Case 3: Case internal startup and startup.* Aptual is a small company that focuses on creating better marketing communications and exploring new frontiers for its customers. The company has historically carried out customer-specific projects that it has further developed and commercialized. This has resulted in a set of small solutions that have each had a good problem/solution fit for a single customer. However, a poor product/market fit has required a significant amount of customer-specific work with the next customers for scaling. Therefore, Aptual decided to narrow down its number of solutions to three. One of these three was Johku, which is today a software-based solution for travel service providers, such as cottage renters. The initial version of Johku was developed as a typical Aptual NPD project. However, Aptual carried out different kinds of analysis about the market, resulting in a decision that the value proposition of Johku needed reshaping and sharpening as a part of a significant development project. As a result, Aptual decided to establish an internal startup for Johku that was financed by the two other revenue-generating solutions. The essence of the internal startup was to make an explicit internal investment and clarify the role of Johku as an upfront investment in development rather than trying to productize existing projects. The internal startup developed an MVP and started to search for product/market fit. A startup that takes care of Johku was spun off very recently. While the startup considers the existing MVP to be ready for scaling, validation from larger markets is lacking.

Case: Quality Intelligence by Qentinel

Qentinel Quality Intelligence (QI). Qentinel's background is in software quality assurance. Qentinel is a professional services company providing knowledge-intensive quality consulting, project management, quality management, test automation, and testing. Qentinel did not use to own any valuable products or IPRs of its own. Labor-intensive parts of testing consultancy, which used to be the lion's share of Qentinel's business, had been increasingly under pressure to become bulk-work, where mainly volume and price matter. Such testing has traditionally focused on either the continuous testing of products that have frequent releases or the testing of information system deployments before usage.

Around 10 years ago, Qentinel started to think of shifting its business to a different kind of offering. The corresponding vision guided it towards a sophisticated understanding of quality through the concept of value. That is, quality assurance has no intrinsic value per se, but the results and information that the customers achieve make the difference. All the information should be available and each stakeholder should be provided with the information they need: for example, a programmer needs bug reports, whereas a manager needs information on the risks of releasing a product to the market with current quality, and so forth. On this basis, Qentinel eventually established an NPD project (2007-2008) to develop a software and service offering for measuring and predicting value. The NPD eventually became known as Quality Intelligence (QI). This NDP project was run in a traditional NPD manner, resulting in prototypes, etc. The NPD was a drastic change for Qentinel because the objective was to develop its own products and services with protected IPR, which was different from and even in conflict with the existing business model.

However, the market was not yet ready for the more elaborated concept of value, and the project was not a business success. Secondly, Qentinel's existing business continued to be successful, which hindered the development of the new business concept. Indeed, as the CEO of Qentinel says in a blog post, "The more successful your business is, the more likely your transformation is to fail."

During the turmoil of the global financial crisis in 2008, Qentinel's strategy work led to an important observation: information systems that fulfill all their quality requirements may still fail to create value for businesses. Qentinel began exploring ways to measure quality-in-use and quality of IT-business integration. The new emphasis on quality proposed that it is not just the testing of software releases

or information system deployment that matters. Instead, quality is linked to four important value dimensions, such as user-perceived and business value, that should be measurable and presentable in the purchase and the use of an information system. At that time, however, holistic quality assurance solutions for runtime information systems did not exist in the market. Only technical monitoring solutions existed to inform users whether an information system was up and running properly. This type of holistic and four-dimensional runtime monitoring became the basis of QI's vision.

Qentinel acquired a technical monitoring company in 2011 as the basis for the development of QI. The company already had the required competencies and technology that Qentinel itself lacked at the time. This technology-based service, which monitored one of the four dimensions of quality, was supposed to finance the solution development of the other three dimensions.

The theoretical concept of QI was novel enough that was even patented. At this stage, although potential customers were interested, they did not start to use QI quite yet; the target market was not ready, or the proposed value was not yet accurate.

Some people at Qentinel strongly believed in the potential of QI. However, the QI project was relatively time-consuming and used resources from the other profitable business areas. The loss-making was not supported internally by the working culture of the consultancy business. It was confusing that the company invested in an NPD that only consumed money without having proper paying customers. The organizational culture hindered, rather than boosted, the development of QI.

To clarify the role of QI, Qentinel ended up making QI an internal startup with dedicated people spending 100% of their time on it. It was also highlighted that QI would initiate new deals on its own. This somewhat clarified QI's identity. In fact, QI's business started to operate better and it began to get some pilot customers. Nevertheless, QI still remained tied to the old consultancy-oriented organizational culture.

Less than a year later, Qentinel decided to restructure its whole organization. As a part of this, the QI internal startup was moved to a separate corporate subsidiary.

Although the move caused some uncertainties at first, things finally started to go well in the subsidiary. QI was independent, without the burden of the old organization, and the QI employees realized that they were responsible for getting new prospects and customers. For them, it was a new situation to get out of the building with a solution that was not completely ready, in their opinion. Actually, going out with the not-completely-ready solution boosted solution development in the right direction. Moreover, the new situation empowered the employees to really get sales.

Qentinel also had to consider the potential brand threat of the subsidiary. There were concerns about whether to use the Qentinel's brand for QI or to develop a completely new brand. The weaknesses of the former option were that the existing brand image was not

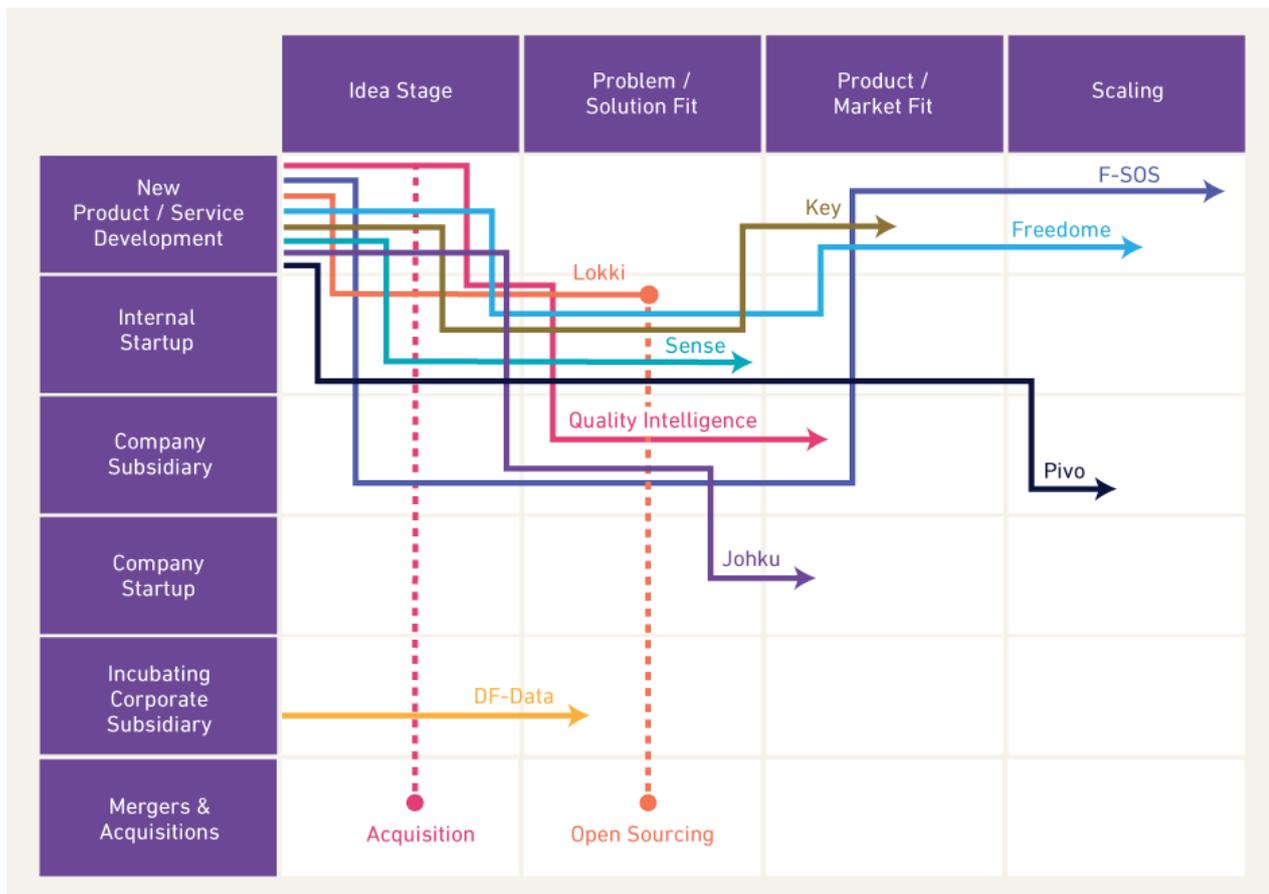
directly fitted to QI. Moreover, if QI would fail, it would have a negative influence on Qentinel's brand, which so far had remained faultless. That risk has not been realized so far. The weakness of the latter option was the costs. Developing a completely new brand was considered to be too expensive compared to the benefits.

At the moment, QI is growing, but its business is not yet turning profits because of the heavy development investments. QI is still operating as a subsidiary but might later be merged back into the main company. There are tight ties with the main Qentinel company that, for instance, owns the IPRs of QI. Customers have started to value QI, and thus the rest of the company has begun to appreciate QI more and more. Interestingly, QI has also helped the parent company's sales. The example set by QI may also have accelerated innovation in the old business. The offering is appealing to potential customers and offers the parent company's sales personnel a means to get new prospects for the existing offering of the parent company.

Consequently, gradually making QI more independent from the existing organization through the phases of NPD project, internal startup, and subsidiary seemed to be a successful business transformation path. The development of QI, both as a business and as a technology, was fastest during the internal startup phase. However, the founding of a subsidiary does not necessarily fully explain the recent success. During the transformation, the QI offering matured, the market seemed to be more ready, and the technologies used within the major digitalization trend have shaped the business environment. Nevertheless, separation seems at least to have advanced QI's progress, while too-close ties with the old organization hindered its progress.

Summary

The paths through the lifecycle phases of alternative ways to organize innovation work are illustrated by the example cases in the figure. The x-axis shows the different phases; it does not indicate the absolute length of the phases, e.g. in terms of months, but rather is roughly proportional in relation to the phase length, such as whether the transformation was carried out at the beginning or at the end of the phase. For example, the lifecycle of Lokki and QI are presented in this same figure, but the lifecycles were roughly one and eight years, respectively.



There does not seem to be any strong indication that it matters where the ideation is done. However, in most of the cases with which the authors have experience, the ideation starts in the main company and proceeds there for some time to work on the concept formation. For example, Freedom, Key, and QI were ideated and have been a part of the strategic process for a long time. Freedom and QI were incubated for a long time in strategic units. Key was soon merged into a business unit where it operated as an internal startup. Lokki had mostly been within a business unit. Nevertheless, all these took place in the main company. In the DF Data case, the ideation was there, but DF Data is very closely linked to the main company.

Each path shows a transition during the ideation phase from the main company. In many cases, an internal startup was established. One case is an example of going directly to a subsidiary, while another case (QI) first established an internal startup before moving

to a corporate subsidiary. In the case of DF Data, as a subsidiary there was no transition. As a general rule, it seems that independence from existing business lines has positive effects. A threat that comes with establishing an internal startup is that it remains too close to the existing business, whereas a corporate subsidiary can be a means to gain more independence.

There does not seem to be an essential point when the transition should take place. On the one hand, the QI case indicates that delaying decisions does hinder progress. On the other hand, an immature concept may not survive when on its own too early. A startup, be it real or internal, needs a sharp and bright vision.

A successful, independent internal startup or subsidiary can even be a disruptive boost to the existing old business, as happened in QI. Moreover, internal startups and subsidiaries can be more undisciplined as well as radical and quicker to test something new, and are thus used as a test bed and a way to learn good practices for existing products.

It seems that there is no hurry to end the startup, whether it is an internal startup or a subsidiary; indeed, delaying this decision seems more beneficial. Three cases came to the end of their startup lifecycle and were brought back into the main company. However, until a scalable business model has been found, there are indications that the business line is not the right home. Being too closely related to existing business lines is bad, especially for radical innovations. A reason might be that the innovation is felt to threaten the existing business or does not fit in with daily routines. In fact, the more radical or disruptive the innovation is, the better a corporate subsidiary or other means of being made independent is. In more general terms, independence seems to be a good indication for good operations — or freedom from existing practices that are hindering or controlling.

In fact, a consideration when ending the startup lifecycle is whether the developed concepts have their proper home in the existing business lines or whether it is worth it to establish a new business line for the new innovation. The cases show that one case turned into a scalable business within existing business lines, but even that case was able to later repeat the success only moderately. The other case is still looking a scalable model within the business line, and the final case was discontinued.

If the innovation is unsuccessful, there are other options than simply discontinuing it. For example, Lokki is continuing as open-source. The Funny Hat Stickers of DF Data was first developed as a funny add-on to the cloud services, but once the cloud services were discontinued, there was no strategic use for Funny Hats. However, the Funny Hat Stickers app had users and worked on its own. Thus, Funny Hat Stickers was changed to be test bed for trying new things, such as learning and testing the use of social media channels for various purposes.

IPRs always make things more difficult. If there is no existing IPR involved, why make a spinoff? A real startup might be better, or you could just make it an internal startup. Whenever there are existing IPRs

involved, internal startups and subsidiaries become more relevant and a successful means to handle IPRs. However, while IPRs do not seem to be an obstacle for startups, they do require more agreements.

Incentives are a challenge. In the case of QI, the organizational culture did not appreciate spending money. Unrealistic expectations, e.g. in terms of profit, can prevent a corporate spinoff, especially when going into a new field.

THE RULES OF SUCCESSFUL F-SKUNK WORKS PROJECTS

By F-Secure

1. Independent project with maximum control over people, budget, and process (laws and company values permitting)
2. Clear top-level target-setting and top-level sponsor
3. Aligned targets with in-house stakeholder teams
4. Clear focus; no other obligations for teams and team leader
5. Somewhat unrealistic schedules and targets balanced with full authority
6. Physical co-location of the cross-disciplinary team, led by the product person
7. Team must take product/prototype to the market
8. Minimum Viable Product. Build-Measure-Learn. KISS. No dogmas!
9. Accept/expect/appreciate some people getting upset by broken rules
10. Continuous improvement and lessons learned

Adapted from Lockheed Martin's 143-day P-80 jet fighter prototype project in '43

6.4 Conclusions

In this chapter, we illustrated the lifecycle of an internal startup with a path through the phases of ideation, problem solution, product/market-fit, and scaling the business. Along this path, an innovation goes through an internal startup phase or other alternatives, such as corporate subsidiaries. Regardless of the means, it is essential to establish an environment with sufficient freedom for an internal startup to create a novel or disruptive innovation.



7. Recipes



Recipe 1

Real benefits and return of investments

Context:

When starting an internal startup initiative, all kinds of ideas can proliferate in a big corporation.

Problem and forces:

Even in a big corporation, in the beginning it is difficult to tell if an idea will fly.

Solution:

Management needs to have the "end in mind" by understanding and planning different ways the internal startup could benefit the corporation's main business, instead of focusing solely on the revenues generated by the internal startup. The key is to decide whether all the benefits justify the cost.

Consequences:

There may not always be a direct financial return from the internal startup. But the corporation can benefit from trying out new technology, learning new and effective management practices, and gaining publicity, brand reputation, and customer mindshare.



Recipe 2

Branding

Context:

You want to promote your organization or product. You may also want revenue from licensed products.

Problem and forces:

Successful branding postulates a good plan and large-enough user base.

Solution:

You will start or follow systematic branding. This requires planning and also user studies. You may also think about branding early on when developing a product by selecting recognizable elements, like characters.

Consequences:

In early phases branding may be optional, so the initial costs may be low. In this case, costs can be scaled.



Recipe 3

Learn from mistakes

Context:

You are doing innovations and trials, and you want to promote creativity and risk-taking.

Problem and forces:

Having a positive attitude towards failing is not typical human behavior, so it must be learned. It is also not easy to kill projects. An essential part of a failure culture is to recognize failures early enough; however, those trials that have potential should not be killed too early.

Solution:

The organization will see failures as possibilities and part of the normal product development process, rather than as negative events. Projects that are not promising are ended early enough so that the company and its employees can concentrate on projects with greater potential. Employees need to know this, and you must somehow promote a positive working atmosphere towards failures, e.g. by positive learning events when a failure is recognized and a project cancelled.

Consequences:

You will need resources for this. Moreover, this will require a certain organizational culture. It is easier to build the culture in a new company than to transfer it to an existing organization. However, one possibility is to create a special section of an organization that starts to follow new practices.



Recipe 4

Lifecycle of an internal startup

Context:

Different organizational considerations exist for internal startups throughout their lifecycles, from idea to market dominance, including the path or changes made.

Problem and forces:

How do you ensure freedom from corporate policies, burdens, duties, etc.? What control is needed for internal startup? When do you end the internal startup and make it a part of the company's normal offerings?

Solution:

To ensure good operation of an internal startup, one option is to use a corporate subsidiary, or at least to have a clear separation from normal business lines. Do not rush with merging the results of an internal startup with existing business lines.

Consequences:

There needs to be freedom and investment without the normal level of control to create really novel or disruptive innovations. It is better to cannibalize your own products than let competitors do it.

Context:

You have a software product that has a large target customer segment, and you want to test if the product is viable in a restricted customer segment.



Recipe 5

Soft launch

Problem and forces:

A soft launch requires a certain type of product. You also need to select the target area so that it presents the actual customer area and is large enough, but does not draw too many customers away.

Solution:

You will do a so-called soft launch. This means that you will launch the product to a restricted customer area that reflects the product's true, larger target area. This allows you to follow how well the product performs, and early bugs can be caught and improvements can be made based on the collected data and customer feedback. You will select the area so that it is not too big (e.g. the US or China) nor too small (e.g. Malta). Typical areas that game companies have used are Canada and New Zealand, because these areas are seen as reflecting international markets well.

Consequences:

You need to have a mechanism to collect data and measure your product's usage in the restricted target area. A soft launch requires resources, but it is still a relatively cheap way to test a product's market value.



Recipe 6

Avoid Bureaucracy

Context:

To improve productivity and creativity as well as to improve the job satisfaction.

Problem and forces:

You want your employees to be able to concentrate on their work and avoid routines that are not necessary for them. In small organizations, the capacity for secretarial and administrative services is a big factor in productivity. However, in large companies one can be tied with too much corporate red tape like reporting and meetings, be part of too many projects and such.

Solution:

Avoid bureaucracy. Be aware what your employees use their time to. Let them concentrate on their core work and avoid multitasking, which is the result of giving multiple parallel tasks to a single person. Often, extra bureaucracy can be avoided by trusting employees. Additionally, specialized persons, like secretaries and administration, can deal with routines that are required for legal reasons, like taking care of travel claims or receipts for bookkeeping.

Consequences:

Increased efficiency and less overhead.



Recipe 7

Top management sponsorship

Context:

To allow an internal startup to achieve its purpose, the top management needs to be involved and committed.

Problem and forces:

As a stand-alone unit, internal startups can have difficulty in positioning themselves in a big corporate environment. How the top management is involved can make or break an internal startup.

Solution:

At least one committed and powerful sponsor in the top management is required to support the internal startup. The right sponsor should be willing and motivated to take a progressive role in it.

Consequences:

Despite the involvement of top management, an internal startup still needs to prove its value to the corporation. On the other hand, a top management sponsor needs to spend time with the startup and use part of the budget he or she controls to fund the internal startup.



Recipe 8

Use shadowing

Context:

You have a prototype or a working product and you want to know how users feel about it, and then make improvements to it.

Problem and forces:

The product should be mature enough so that you will get feedback about its actual market value, not bug reports.

Solution:

Use shadowing as one way to improve and observe your product. Give your product to users and follow what is happening. You may also record the sessions. Most importantly, you will get a new perspective on your product and may find improvements for it, especially from the user-experience point of view. It is also easy to do this on the fly — for example, show your prototype to your friend and ask how he or she feels about it.

Consequences:

As shadowing is a light method, it is easy to use and can provide useful information. However, shadowing is also subjective and typically based on few observations. Also, using this method requires that there are no strict product secrets. The product should be mature enough; otherwise you will get mostly information about problems you already know.



Recipe 9

Exiting

Context:

When the internal startup proves to be a market-viable business, the question is whether to keep or exit this new line of business.

Problem and forces:

In some cases, the new product or service created by the internal startup does not fit with the corporation's focus areas.

Solution:

There are several paths to exit: create a corporate spinoff while the mother company owns shares in the startup, sell the solution through the corporate's business and customer network, or contribute to a social cause and improve the corporation's brand, reputation, and social responsibility.

Consequences:

The corporation may have a number of options for exit and the possibility of choosing the best way to receive immediate benefits from the exit plan. However, there could be internal frustration among the internal startup team members, and a reinstatement plan should be in place help with the transition.

DIGILE | N4S

The Cookbook for Successful Internal Startups

Over the past several years, companies have had to change to meet the threat of accelerating competition coming from startups and other global industry players. Digitalization is the name of the times, and many companies are evaluating what to do in order to stay in the game.

Our answer to this question is to use internal startups as an innovation accelerator mechanism to better select and execute the correct innovations. This mechanism brings cheaper innovation execution and faster time to market, which eventually transforms the company into a growth company.

Internal start-ups should have freedom from the rest of the organization but still be integrated into the corporation. Freedom is needed for quick execution and market trials, as well as for refocusing based on the feedback. Still, corporations have many assets and competencies, which will come handy during the process. For example, legal and pre-production services are just a call away.

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