

# Killing the Golden Goose

By Mike Rainone



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**F**lying home from the East Coast last week, I was presented with another example of how American corporations mishandle new product innovation through the abuse of acquisition in the form of “organic growth.”

I was seated next to a young bioengineer who said he was working on a cancer drug for a small startup company that had recently been acquired by one of the behemoth drug companies. When I asked how things were going, it was obvious I had opened a can of worms.

He said that the tentacles of the bureaucracy had managed to stifle all creativity, stall the progress on the primary drug, stop work on additional variations of the primary drug, and run off all of the folks who had created the innovation in the first place. Does this sound familiar?

I have been watching organizations since 1982 when I taught organizational behavior at the University of Texas - San Antonio business school. Over the years, I have observed the way big business deals with the intellectual property and innovative technology that comes from their own R&D efforts or is somehow acquired for their competitive portfolio. I have studied smaller, innovative businesses as they are gobbled up by Goliath. It is not a pretty picture.

First, the bad news. I don't know of a single case in which the big guys have ever successfully incorporated an acquired small company. By successful, I not only mean the transfer of technology, but the maintained essence of the innovative spirit and drive that made that small entity such an enticing target in the first place. I'm sure it has happened somewhere, but I can't point to one example.

Once again this brings us to organic growth, an astonishingly deceitful notion. When businesses say they want to grow organically, they're looking to buy existing business with technology relevant to their core business in order to complete or supplement an existing product line.

The company's pursuit for “organic growth” shows that they are too inept or bureaucratically constipated to develop the technology on their own. Companies don't seem to understand that the same poisonous conditions that nourish an internal new product development team inevitably kills off the acquired entrepreneurs that have created, developed, manufactured, and launched the prod-

uct they cherished enough to buy.

I know of a tier one auto supplier who purchased a wonderful, family owned, creative developer of interior automotive systems — in order to acquire the systems as well as the creative culture to help their own stodgy new product development (NPD) processes. This company did everything right, including regular charter flights from one end of the state to their new Mecca of creativity, all intended to immerse everyone in the new culture.

You know the drill: cross training, design studios, corporate rah-rah meetings, posters of Chairman Mao, etc. Of course, we know how the fairytale ended with the small outfit shut down and the studios emptied. RIP NPD.

I do have some good news, however. I have found a company that knows what they are doing. That company is Shell.

Shell, of course, is one of the largest explorers and producers of oil in the world. They also spend a significant portion of their profits on both oil-related and non-oil-related R&D (approximately \$1.8 billion last year). For some strange reason, Shell understands the nature of entrepreneurs and the special relationship between those who create and those who drive to commercialize those creations.

A note about the “oil patch.” I have been involved with NPD for nearly 20 years, and there is no industry for which I haven't worked or innovated. The oil business is at the extreme end of every relevant aspect of NPD. Creating products for this industry is the most difficult task you can ever imagine.

The well environment makes conditions in deep space seem like a weekend walk in San Diego; the speed of adoption makes medical product development look simple (a ten-year adoption cycle in the oil patch is average); the patent minefield is dense beyond belief; and the testing and reliability requirements (in spite of what you think after the Deepwater Horizon fiasco) are interminable.

NPD in the oil patch is incredibly tough, competitive, and highly proprietary. It is not the kind of environment that would lend itself to giving inventors loose reigns on potentially valuable intellectual property. In the light of this misery, Shell's strategy is even more astounding.

Because of the barriers, Shell spends a sizable

chunk on internal R&D and looks outside of the company for technologies, which makes its attitude toward spinoff and investment even less likely.

The company's first action is to spinoff some of the terrific technologies that are internally created, lock, stock, and barrel, along with the inventors and the entrepreneurial types that came up with the technology.

They are clever enough to keep a small part of it, but leave the rest for the inventors and the entrepreneurs to grow and nurture. And when they find an outside technology that they need, they invest in the company without smothering it. They leave the entrepreneurs to run it, but with enough money to make a serious go of it. They don't try to fold it into their gigantic, accounting-driven bureaucracy.

Over the past few years, Shell can lay claim to over 150 innovations and start ups that were spun off, not tethered, but free to innovate, grow, or fail by their own efforts. Shell's innovation activities, which they call Game Changer, have been well documented at <http://bit.ly/bB4ST5>.

I don't know anyone inside or outside of Shell that can explain such insanity, but if this way of thinking caught on with big business it just might tip the scales away from our apparently inevitable domination by the Pacific Rim. Those of you with black thumbs, those of you in corporate acquisitions who couldn't grow a weed or an acquisition if you tried, should commit this link to memory.

P.S. I would love to hear from those of you in the trenches about your experiences with acquisitions, positive or negative. I would love to find acquisitions that really paid off, those that helped the acquirer without destroying the acquired.

Finally, neither I nor my company has ever done work for Shell, or otherwise made a penny from them.

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