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Strategic Disconnect

The Failure Of Corporate Development In The Pervasive Era

Traditional corporate development approaches run the risk of preventing companies from participating successfully in the Pervasive Internet arena. To be more effective, corporate development organizations need to better understand the unique and evolving technology, business and organizational challenges of the emergent “Smart Services” opportunity.

There have been a growing number of acquisitions and corporate development maneuvers in the last two months in the Pervasive marketplace.

- Honeywell acquires Tridium
- Sprint Nextel acquires Velocita
- APC acquires Netbotz
- TI acquires Chipcon (who earlier acquired figure8 Wireless) then turns around to sell its sensors and controls business to a private equity shop
- Numerex acquires Airdesk

Lacking True Vision

On the surface, these moves represent a tangible level of validation for the maturation of the Pervasive and machine-to-machine opportunity. In all of these examples, though, the acquiring companies are, for the most part, using acquisitions as a vehicle to extend their current business model or plug a “gap” in their portfolio. While these maneuvers are important to the continuing development of the Pervasive Internet opportunity, one could hardly describe them as original, creative or groundbreaking. Each move represents a single mode of corporate growth development – timid at best. These maneuvers appear to be driven more by risk management than by creative strategies.

In the past, companies often built corporate development functions with focused skills in mergers and acquisitions, venture development, or alliances. We believe Pervasive is ushering in a new chapter in how corporate development could function. We believe growth strategies for the Pervasive Internet cannot

be tied to a single growth model because this would fail to deliver the scope of value required by customers and the scale of growth anticipated for the intelligent device networking opportunity.

Whether we speak of large manufacturing organizations looking at the “Smart Services” opportunity fostered by continuous monitoring and tracking of assets or the supply-side opportunities in this space for technology suppliers, we believe companies such as IBM and HP are struggling to find a “position” in the Pervasive Internet market. Meanwhile, players like Schneider and Emerson have really only “crept” into the space – dipping their toes into the waters of Pervasive and too risk averse to make any bold maneuvers.

This Mould Needs Breaking

It is clear that changing market dynamics and technology trends are calling for new corporate development ventures, skills and roles. However, the many concepts surrounding strategy and new venture development practices that have evolved over the last several years appear to have blurred management's vision. We have created language and systems that seem to be a triumph of technique over performance. Corporate developers and strategic planners, like cost accountants, claim to have developed a uniform approach. But, mounting evidence suggests the knowledge developed is of little value to those trying to enter truly emergent market spaces such as Pervasive device networking and smart services. In short, traditional planning and corporate development has severely diminished our ability to compete in the new era of networked services by leading us further and further from the real opportunities.

The Cisco Way

In the face of an opportunity of such enormous scale, it seems curious that so few players have approached this the way Cisco originally approached the data networking opportunity. Like Cisco, we would expect to see the most innovative participants organizing a diverse portfolio of corporate development tools and capabilities to prosecute the opportunity. Broadly speaking, we ponder why more players haven't embraced several modes of corporate development? That is, assembling a tool kit of business building skills that would allow them to grow the Pervasive opportunity rapidly and turn their fragmented participation into pervasive kingdoms.

A “multi-modal” corporate development approach similar to what Cisco fostered could be driving extraordinary growth and value creation for a broad range of participants. However, with the exception of the recent “spike” in the economy, organic growth rates among traditional, large, diversified manufacturers have hovered in the low single digits. Few of them have been willing to leap into the era of “Smart Services” and technology “arms merchants” seem to be sitting on the sidelines wondering what the player next to them is going to do first. The combination of pervasive technologies and creative corporate venturing could transform established manufacturers into growth engines for “smart services”

and, in a corresponding fashion, drive equivalent growth and value creation in the technology supplier community.

We observed the announcement this month of the formation of a joint venture between Air Products and Chemicals and nPhase with great interest. Why? We believe this deal represents something much more than just line-of-business or portfolio extension. This deal may well be the first indicator of a new trend in corporate development and new growth ventures to fully prosecute the Pervasive opportunity. Many organizations recognize that there is a “loose-tight” coupling question with new ventures. That is, if I keep the venture too close to my core businesses, I might reduce its ability to conduct business in new and innovative ways. And, conversely, if I distance the business too far from the core I might not provide the venture with any advantages from the resources and skills resident within established businesses. We believe the Air Products nPhase venture appears to be addressing these questions through an innovative approach. There is clearly more here than meets the eye.

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