

**“We decided not to compete with the funds but to cooperate with them, thereby enabling us enjoy the best of both worlds.”**

**Andrew Clark, Director of Strategy for IBM’s Venture Capital Group, visiting Israel, explains why the model of business cooperation with startups instead of investing in them lets everyone come out ahead.**

by Batya Feldman

Last week, Andrew Clark, director of strategy for IBM’s Venture Capital Group, arrived in Israel to take part in the Israel Capital Association’s annual convention.

IBM’s model for involvement in the startup market is unique. In the past, IBM, like any other giant corporation, used to invest money in venture capital funds and companies directly. This model has changed, and today IBM is building on business cooperation with the fledgling companies. From IBM’s point of view, the new model increases the exposure to companies of all types, with less risk. From the young companies’ point of view, the model enables them to gain a certain amount of exposure to a giant corporation and its many customers worldwide.

Clark claims that it’s a winning model: “IBM did not start investing in venture capital quickly, like other corporations. We started in September 2000 with a different model, such that we were able to withstand the shocks wrought by the crisis. From the beginning, we decided we wouldn’t get into competing with the venture capital funds but rather partner with them, thereby enjoying the best of both worlds.”

When Clark talks about partnership, he’s not necessarily talking about dollars: “The funds put in the money and we can bring the companies to market, to customers and strategic partners. Therefore, we look at investments as a strategy and not as a financial element. We don’t get excited about every fluctuation in the market. It was actually when there was less money in this market that it worked well for us.”

**Why not invest capital and let the small companies acquire their experience at someone else’s expense?**

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doesn't work for us anymore. Reality has taught us that we have to do more. Our name is known, everyone knows about us, and we don't have to invest capital in order to build a brand. We've demonstrated enough value for venture capital funds and we no longer have a need to invest in equity."

According to Clark, IBM's model lets everyone come out ahead: "We provide the venture capital funds and the companies with the access to sales channels that no startup can gain. The relationship begins as early as the due diligence stage – before the investment is made. We meet with the entrepreneur and help the funds study the idea and see how realistic it is. Even if it's a biotechnological idea, we can help them study the idea. In many cases, the venture capital funds will decide if they want to make the investment on the basis of our response. If IBM is interested, it's a good idea to invest."

### **What do you gain?**

"Our close ties with the venture capital funds enable us to see what's happening in the market. Thirty-one billion dollars are invested in venture capital and we want to be kept abreast of what they're investing in. We see fields that we're very interested in and we can leverage these investments into solutions that we offer our customers. It's true that money doesn't change hands. We invest indirect capital, i.e. we help them reach the market and the right sales channels. For small companies, this can be a long, expensive process if they do it independently."

Clark says that a substantial percentage of IBM's revenue comes from its business partners: "It's important for us to create the next door of partners who will continue to add to the company's revenue. To identify them before our competitors do. IBM is in the service business and it's important for us to keep our products at a high level for our customers."

Therefore, in Israel we operate a division whose goal is to further partnerships with the young companies that are at the technological forefront: "A 2001 study showed that the companies from Israel have an impact on a \$14 billion market, and, therefore, IBM decided to set up a unique group whose goal is to act in the Israel market to develop partnerships with startups. That is the GTU Group. IBM doesn't develop applications. We develop hardware, software infrastructures and services. In order to fill in this void in our chain we cooperate with companies that develop applications. We can't compete in the application market, and, therefore, we prefer to work with business partners. It's important for us to bring added value to the field of applications, so for the past year and a half about 1,000 Israeli startups have undergone our labs and worked on our software in order to test their new development. Out of these 1,000 companies, we have cooperation agreements with 200. GTU examines the companies and works closely in Israel with the venture capital funds, the Chief Scientist at the Ministry of Industry, Trade and Employment and with the applications groups at the universities."

In Israel, IBM works with FIS, AMDOCS and Verint, but also with small companies such as CyberArk, Spira, Itemfield, Mainsoft, Voltaire, Shunra and Scibox."

The current model does not completely remove IBM from the world of acquisitions. As everyone knows, about a month and a half ago it acquired Israel-based Unicorn for \$10 million. Before the acquisition, Unicorn had been one of IBM's partners.