

### Q2 2003 Alliance Advisory Interview

[Alliance Sciences](#), a global leader in organizational partnering consulting, interviewed Siemens Venture Capital's Harald Kirchner, Investment Partner at SVC, for their [Q2 2003 Alliance Advisory](#) newsletter. Harald shared how SVC incorporates equity alliance management best practices, particularly the importance and benefit of rigorous processes, management infrastructure, organizational commitment and departmental alignment.



Harald Kirchner  
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Investment Partner  
Siemens Venture Capital, Inc.

Harald Kirchner joined Siemens Venture Capital as a Partner in the beginning of 1999 and has more than seven years of experience in venture capital. Prior to Siemens Venture Capital, Harald worked at the Venture Unit of Siemens Medical Solutions where he developed his extensive medical background.

Past positions include assistant head of a research group for knowledge-based systems, responsible for acquisition, planning and management of applied research projects for small and medium sized enterprises. Harald was also the founder of *tim* – Team for Innovation and Management, an innovation consulting and acceleration company.

As an Investment Partner at Siemens Venture Capital, Harald focuses on investments in the areas of power generation, power distribution, sensor and actuator technologies, automation and healthcare.

Harald received a Dr.-Ing. (PhD) and Diploma Degree in computer science, both with highest distinction, from the University Erlangen-Nuremberg, Germany.

J: For the first question Harald, why does Siemens incorporate equity Alliances as a part of its corporate strategy?

H: Siemens Venture Capital invests in companies that have the potential to add significant value to the various businesses of Siemens. For example, medical solutions, power generation, information and communications or industrial automation. Siemens sees this as a way to utilize synergies to create a win-win situation, for both Siemens and for the company.

J: Yes, that makes sense. Siemens is known for utilizing a disciplined approach to management. Obviously, you have a lot of experience in this space. Does Siemens utilize any particular systems or tools or processes that you've seen as being critical or effective in your portfolio development or management as you go through equity alliances? Are there particular systems, tools or processes that have been of particular utility to you?

H: There's no specific tool commercially available, but that's a good question. Over many years Siemens Venture Capital has developed and also implemented, of course, a very thorough and efficient process for several reasons. First of all, we receive 2000 to 3000 investment proposals every year and on top of this we seek them out proactively through our dense network of operating companies, other internal units or other VCs. Our screening process must be able to effectively handle this volume so we are sure not to miss opportunities that can enhance our business. Second of all, everybody who submits a business plan to us may expect that we assess his proposal thoroughly and that he or she gets feedback from us; either why we do not believe it makes sense for us to invest or even more importantly what the next steps in our due diligence process are. The third reason for us having a process in place is we must make sure that we are consistent in the way we review proposals. Regardless of what door it walks through to get into our office, we have to make sure we are evaluating each one on a set of certain standard criteria. And finally, we are dealing with the shareholders' money; we must be able to explain why we have made an investment.

J: Right.

H: And, in addition to this, of course we run a thoroughly structured continuous portfolio review process that leads to action for and with each portfolio company wherever necessary. But all reputable VCs have such a process in place... from this point of view SVC is not an exception.

J: Great. That leads in to the types of investments that you seek. We've noticed that there may be a focus on internal investments, those within Siemens business units or subsidiaries of Siemens, there may be initiatives or innovations that you are seeking to occur that you may expand on. You may also serve as a typical VC investing in outside innovations. What types of investments does Siemens seek and what motivates those? Also, what's the primary motivation – is it more around technology creation or innovation or is it more around the financial returns as it starts off immediately?

H: SVC does support internal investments such as spin-offs and invests in venture capital funds that we call the "fund-in-fund" investments. But the main focus is the classical corporate venture capital model – that means direct investments in external startups. We are always a minority investor. We invest in all stages from Series A to Mezzanine rounds. We usually require companies to have at least a working prototype and a proven customer interest. Additionally, Siemens has separate organizations for seed stage investments in selected areas. The first priority for our organization is to find innovations and technologies that will support and enhance the technology of our divisions. Beside this we have to see a financial return on the investment. One of the reasons SVC is different is that the success is not only dependent on a successful exit (which is how it works with traditional venture capital firms), but our success is also measured by the value we add to the operating companies – that is, through the technologies that these firms bring our businesses and, ultimately, our customers.

J: That was exactly the spirit of the question. I appreciate that. In noticing the change in the markets, has that impacted your charter for how SVC approaches investments; has it changed your focus?

H: If SVC has decided to support a company financially...we stick to our decision even in difficult times. We feel as though we are a partner of the company. So we have always done very thorough due diligence and this hasn't changed due to the current market situation.

J: Has it changed any of your focus with regard to focusing on the value to the internal business units that you have; has it changed your focus on the internal investments versus the external perhaps?

H: No. I would just add to that if you look "globally" at Siemens approach to R&D and investing in new technologies and innovations, we understand that our success is dependent on our ability to offer our customers the most sophisticated and meaningful technologies and innovations. So while many other companies have sought to decrease their budget on R&D and investments in new technology, Siemens has "stayed the course". That will not change.

J: OK. Got it, that's good. You mentioned earlier that you always place a minority investment in companies. When we refer to "equity alliances," we're speaking of the investments in other companies including minority placements, joint ventures and mergers & acquisitions. Is the focus with SVC specifically on minority investments or does SVC also handle the JVs like Siecor and the other JVs that Siemens has entered into?

H: No, SVC focuses on direct investments. We are not doing any joint ventures, although we support joint ventures between a company and the division.

J: OK

H: But we add not only financial support to the company but also additional value that the company (we invest in) appreciates. The additional value could be access to intellectual capital of the global company, external and internal customers or the reputation of the Siemens brand and the credibility it brings to a small startup competing in a large marketplace. Startups understand the significance of this additional value.

J: Yes.

H: And in many cases they take our advice; this means that we are influential even though we have only a minority investment. To that end, we also support the companies by taking board seats.

J: Yes, I can see that as being a big differentiator for SVC. Rather than my seeking funding from a traditional VC, by working with Siemens I get access to intellectual capital and as you mentioned as a major global leader, would I also have access to and potential for sales and distribution through Siemens? Even assets such as product development processes that you have in place and some of the physical assets like particular systems that you use to develop products?

H: Definitely.

J: OK. We've noticed that intellectual property is a hot button for equity alliances, and this comes up with international alliances as well where intellectual property can be a risk that needs to be managed. Can you just speak to how you address the issue of intellectual property – is it a concern in these relationships that you develop and do you use any type of processes to manage intellectual property transfer?

H: In the event intellectual property transfer makes sense for both parties, meaning for both the company and the business unit, we are trying to support this... but this is nothing we are actively pursuing. Any IP transfer is dealt with on a purely commercial basis between the portfolio company and the business unit, typically without any active involvement from us as an investor.

J: OK. In structuring the deals, as far as the paperwork goes, have you had to address intellectual property concerns if that's relevant to the particular relationship? Do you have different concerns about intellectual property transfer in different parts of the world – we've seen a lot of examples of less mature legal infrastructure in different regions of the world (for instance, Russia and China come up as examples) where sometimes there's sensitivity to what we need to put in the contracts because the legal infrastructure may not be as tight. Is that relevant to you or does that not apply?

H: No, that doesn't apply. We are not doing any investments in Russia or other geographic areas with a less established legal infrastructure. You need a lot of knowledge to do investments in these regions and so far it's not on our radar.

J: What are the primary geographies that you focus on, Harald?

H: We focus our efforts on Europe, the U.S. and Israel. However, that's not to say that we are exclusionary. In fact, we also have made an investment in Australia. So if it makes sense for Siemens and the company then we will make investments regardless of the location, but we do primarily focus on the first three areas I mentioned.

Having said that, I would just add that in the U.S., we have a few different internal Siemens organizations that fund startups at different levels. We have "accelerators" (early seed stage focus) for example in our mobile division. We also have an organization called Siemens Technology to Business Center (TTB), which is under our Corporate Research umbrella. Based in Berkley, California, TTB is a unit of engineers and entrepreneurs who develop innovative technologies and products in the areas of Information, Communications, and Industrial Automation. Successful results are transferred back into Siemens business units, used to establish "spin-ins" (Siemens owned companies), or incorporated to form independent start-up companies. Recently, TTB found an outside company that had a complementary technology to one they had developed and decided to sell their technology to that company and take a stake in it. In addition, two TTB employees went to work there. So we have different kinds of things going on at Siemens in addition to Siemens Venture Capital that speaks to our commitment to approaching technology innovations from all sides.

J: I see. This is an offshoot from that... in thinking of the structure within Siemens as it relates to investments, SVC – are you the central repository for these investments... and then do you work with the business units for them to manage these relationships going forward? Is your primary role to serve as the “bank” for Siemens on deciding whether or not these investments make sense; but the follow on management is more the responsibility of the business unit? Is that accurate?

H: We are very hands on. We do the investments; we walk alongside with the company until the (hopefully!) successful exit.. We are responsible for the investments and we try to manage the relationship between the business units and the company during our whole investment time. Therefore we are the lubricant I would say. We are the catalyst. We are not simply making the investments and then handing it over to the business units. We are the partner of the company.

J: OK. Backing up a bit – we talked about the intellectual property and you mentioned that you focus on Europe, America and Israel and also have done deals in Australia. To what degree do local cultures affect or play into the relationships that you have internationally? Is that a concern or is it a management focus that you have to operate in these different regions of the world? Do deals happen differently or are management requirements different in the States versus Europe versus Australia?

H: That’s an excellent question. The SVC team itself is multi-cultural and most people have profound international working experience which is a competitive advantage for us. After all, it’s a global economy regardless of where the deal is actually transacted. So I believe that culture is a big issue –not only from a country point of view, but also from a company point of view. Germany has a different culture than the U.S., and a company with more than 400,000 employees (like Siemens) has a different culture than a company with 40 employees.

J: Right.

H: The important point is that these different cultures create synergies and not friction. Everybody who is in SVC is familiar with these differences and helps when necessary. This is also part of our additional value we bring to the table.

J: Yeah, that is a big point. Thanks for letting me go back to that for clarity... this is switching back to what we started on with regard to the management of the relationships. Equity alliances, even more so than other types of Alliances, tend to focus on “the deal”, on the paperwork. Through the years of experience that you have in this space, in equity alliances, how have you adapted your view on the importance of integration and management? The failure rates of mergers & acquisitions and the risks with venture capital are well known. There seems to be a tight management focus by many companies on the importance of the relationship after the contract has been signed. Can you just speak to that point?

H: For us the paperwork is only one step in this common walk. As I mentioned earlier we are pursuing a partnership with the company, we walk along with the company from the time of our

investment until the company is successful. We offer our help and we support the company when necessary but we are definitely not trying to integrate the company.

J: That's good feedback. Do you have processes that help implement? You spoke earlier to the processes with regard to identification of appropriate placements and that was a process of understanding your business unit needs and mapping that to opportunities that may exist for investments. Do you also have processes that you follow, Harald, that are somewhat documented on the management of the relationship after the contract?

H: No, we don't have these kinds of processes and I don't think that it would make sense. Every investment partner is responsible for a few companies and its like in the relationship between two people – you cannot have any processes in place to establish a good relationship between two persons and it's the same between SVC and the company.

J: You view each of these as unique relationships that you have to cultivate.

H: Yes, of course. I am in close contact with my companies on a weekly basis - at least. The investment partner, of course, has to keep contact with the CEO, the CFO, the top management and other employees. So we are really in a close – almost day by day – contact with the companies. This makes for a good relationship with the company.

J: Sure. Are you typically on the boards of these companies?

H: If it makes sense we take a board seat, at least an observer seat.

J: I see. What do you see as the most common mistakes made in equity alliances?

H: I don't know what the most common mistakes are – I would say that they are done somewhere else! But seriously, I would say the most common mistake occurs when venture capital firms lose focus of their mission and their strategy. Siemens' first priority is to find startups that can enhance our core businesses and which Siemens can add value to. While it might be tempting to invest in a company that has no relevance to Siemens because it seems like a good idea or “the next big thing,” that's not our strategy and so it would dilute our purpose to pursue it.

J: I see. Are there any particular successes that you would like to comment on that you've had or any recent investments that you're excited about... any type of news that we can report from SVC on current wins?

H: A nice example is an investment in Connecticut, ISOPure Fluid Technologies, which we did in November last year together with FA Technology Ventures and Advent International. This is a classic example of how we support a company; what kind of benefits we can deliver to the company. The company has developed an excellent technology for cleaning non-conducting fluids (for example turbine oils) and has a product in place. Siemens Mechanik Center in Erlangen, Germany, a highly qualified manufacturer produces the devices for the European

market and also acts as a distribution channel. So this is a good example of how the company benefits from their relationship with Siemens. Although they have an office in Italy, Europe is so big they cannot handle it on their own – they get the branding and support from Siemens. If you clean the oil of a very expensive turbine of a utility company, the user has to be sure it works. Having Siemens as a manufacturer and distributor helps to convince the customer that the technology works and that the customer can rely on this technology.

J: That's a great case study. Is there anything else you would like to cover and, additionally, for those that want to learn more about Siemens equity alliances, where would you like for us to direct them to?

H: I would just say the Web site which is [www.siemensventurecapital.com](http://www.siemensventurecapital.com) and all of the contact information is there, so that's probably their best bet... and then we also have a listing of our portfolio companies so they can get an idea of what we're looking for and the types of relationships we have. In any case, nobody should hesitate to get in contact with us.

### **About Siemens Venture Capital**

About Siemens Venture Capital:

Siemens Venture Capital (SVC) is the Corporate Venture Organization for all Siemens' businesses worldwide and plays a key role in the Siemens network of global innovation. The goal of SVC is to identify and fund investments in emerging and innovative technologies which will enhance the core business scope of Siemens. The SVC Fund is divided into funds for individual business segments and focuses its investment activities on the following areas of the Siemens AG business portfolio: Information and Communications, Automation and Control, Medical Solutions, Transportation Systems and Power. The portfolio is supplemented by two additional funds, one for direct investments in technologies which are applicable to more than one business group, and one for investments in venture capital funds.

To date SVC has invested over 500 million euros in more than 70 start-up companies and 25 venture capital funds, mainly in the USA, Europe and Israel. SVC is represented in Munich and in the USA in San José (California) and Boston (Massachusetts). For more information please visit our website: [www.siemensventurecapital.com](http://www.siemensventurecapital.com)

### **About Alliance Sciences**

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