THE BASICS OF THE INNOVATION SPIN-IN

In today's competitive marketplace for business growth, high-performing, innovative companies seek agility, resourcefulness and acquisition. Oftentimes, they use a spin-out philosophy to innovation, which is pretty straight forward. An innovation spin-out occurs when employees or individuals working on behalf of a company create a venture in which the company owns all outputs and resources. This is a common practice for growth.

However, some companies are modeling their approach to innovation and growth after a philosophy called spinning-in. Spin-in has several implications for a business, and it's those assumptions, implications and processes we will be discussing in the article below. Stay tuned to learn all about the innovation spin-in and how it compares to a spin-out.

(This article is part of our Innovation in The Enterprise series. Use the right-hand menu to navigate.)

What is an Innovation Spin-in?

A spin-in is a special kind of venture, usually a startup, that begins with the intellectual property of a company's employees or affiliates. The startup that results from this intellectual property belongs to the employee or affiliate, but not to the company. The company, however, can choose to invest in the startup if they believe the idea is strong enough.

Ultimately, the goal of the company is to spin-in, or acquire an ownership share of, independent start-ups that make sense for their larger portfolio when deciding to invest in innovation. However, rather than providing resources and starting with ownership of the innovation before they know how it performs, as is the case with a spin-out, spin-in companies don't have ownership of the innovation initially, but if the startup performs well, the company in question may eventually invest in it or acquire it, spinning it into the company's portfolio.

Spin-ins and the importance of business agility

Spin-ins offer a company the ability to be more agile. That's because rather than trying to invest in getting a startup off the ground when a company chooses to spin-in a startup they can pick and choose from fully formed innovations that already have independent resources allocated to them. This gives larger businesses startup-type agility in their technology and ability to maneuver in their markets. This is important for all enterprise businesses to remain competitive, scalable, and ready for waves of future technology.

Spin-in vs. Spin-out: What's the difference?

Both spin-in companies and spin-out companies have to do with how parent companies interact with startups. So, what's the difference?

The biggest difference between spinning-in and spinning-out is who has ownership of the company. In a spin-out, an employee or affiliated person has an idea for an innovation that could be its own tech startup, getting pitched to the parent company. If the parent company decides to spin-out the idea, they provide the ground resources and maintain ownership control over the innovation, while the project team that developed the innovation becomes the operational leadership for the new spin-out startup.

Conversely, in a spin-in situation, the ownership of the innovation lies with the team that created it. They take the concept, develop it into a startup, and if the startup meets the expectations of the parent company, the parent company buys into it, increasing the overall agility of the parent company by adding a fully-formed startup to their portfolio.

Why so many companies spin-out

Many companies choose to spin-out instead of spinning-in. That's because spinning-out also comes with a number of benefits that are different from spinning-in, having a different impact on internal performance. Here are the advantages many companies gain from spinning-out:

- Dissociation of risk
- Solidified infrastructure
- Tax incentives and cash-flow
- Cross-marketing and selling

Dissociation of risk

When a company has been successfully spun-in to another larger business, the larger company absorbs all liability and risk associated from the startup that was once independent. When companies spin-out, they set up the startup's infrastructure and operations completely apart and aside from the original business, keeping it at arm's length from a risk perspective, which benefits the business in the event the innovation fails.

Solidified infrastructure

By creating a smaller, independent start-up business unit from an employee's idea, you can implement a more controlled infrastructure that is specific to the startup, eliminating unnecessary red tape, streamlining longer processes, and solidifying the roles of key team members in a way that is both practical and rewarding.

Tax incentives and cash-flow

By separating the innovation into its own business it has separate tax considerations and doesn't impact the liquidity of the larger business. Spinning-off allows for more effective budgetary balance and maintenance while reaping important tax incentives.

Cross-marketing and selling

When companies have financial interest in one another's success, there's a large opportunity for cross-marketing and cross-selling across platforms. This can include bundling technology in ways that make sense for the client. Think about how Netflix has run cross platform promotion with Roku that benefited both the parent company, Netflix, and child company, Roku.

Advantages of spinning-in

There are several advantages of spinning-in that companies benefit from; these are:

Increased business agility

Primarily large companies benefit by adding innovations that increase their agility. Innovations that are fully-formed are easier for companies to apply quickly and scale to their use-case and needs. These kinds of technology allow businesses to make better more informed decisions quickly, and by spinning in a company that meets their specific needs, parent companies don't have to wait for a startup to reach its full potential before making the most of the innovation.

Decreased risk

Because there is no obligation to buy-into a startup before it is spun-into the business, parent companies can decrease their risk of ending up with startup innovation that is costly and doesn't perform to their needs or specifications. This allows spin-in to be a top choice for companies who aren't looking to create custom innovations right away and have time to be discerning.

More choices of startup innovation

With time to be discerning comes more options. In a spin-off situation, if the startup fails, you've already invested resources into building it. However, with a spin-in, you don't have to bring a startup into the fold until you know it can do what you need it to. This allows you a wide range of options to choose from with no pressure to select one while building it from the ground up.