



**BW VENTURES**

# **SPAWNERS:** **THE PINNACLE** **OF CORPORATE** **INNOVATION.**

by Maarten van Kroonenburg

# TABLE OF CONTENTS



<b>Spawners: The Pinnacle of Corporate Innovation</b>	<b>01</b>
<b>Spawn: Let's talk fish</b>	<b>02</b>
<b>Spawners Framework: Back to Innovation</b>	<b>03</b>
<b>Categories: Not all spawn is created equal</b>	<b>04</b>
<b>1. Adjacent Spawners:</b> Different but Close Enough.	<b>05</b>
<b>2. Embryonic Spawners:</b> All about Nurturing.	<b>07</b>
<b>3. Cloner Spawners:</b> The Art of Copying with a Plus.	<b>10</b>
<b>4. Non-adjacent Spawners:</b> Venturing into New Territories.	<b>13</b>
<b>5. Apex Spawners:</b> The Ultimate Innovation Powerhouse.	<b>16</b>
<b>Non-Spawners: The Focuses Companies</b>	<b>19</b>
<b>The Power of Spawners: A new perspective on Innovation Management</b>	<b>21</b>
<b>Spawners: Making Innovation Work for all Sizes</b>	<b>23</b>

# SPAWNERS: THE PINNACLE OF CORPORATE INNOVATION.

Despite their success, many innovators are unfamiliar with Spawners, a highly effective type of innovative company. I'm here to ensure you're not in the dark about what Spawners are and how they operate.

The concept of the "Spawners Framework" was introduced by Mohnish Pabrai, a super investor from India. Now, I'm sure you are asking yourself:

“

**Why should I, focused on innovation, be interested in an investor's concept?**

Well, here's why it's relevant: Mohnish isn't just any investor; he's an entrepreneur turned investor with deep insights into business and innovation. His "Spawners Framework" has captivated many, including us at BW Ventures. It's a concept that's as intriguing for investors as it is for innovators. In this discussion, we'll explore the innovation side of this fascinating framework.

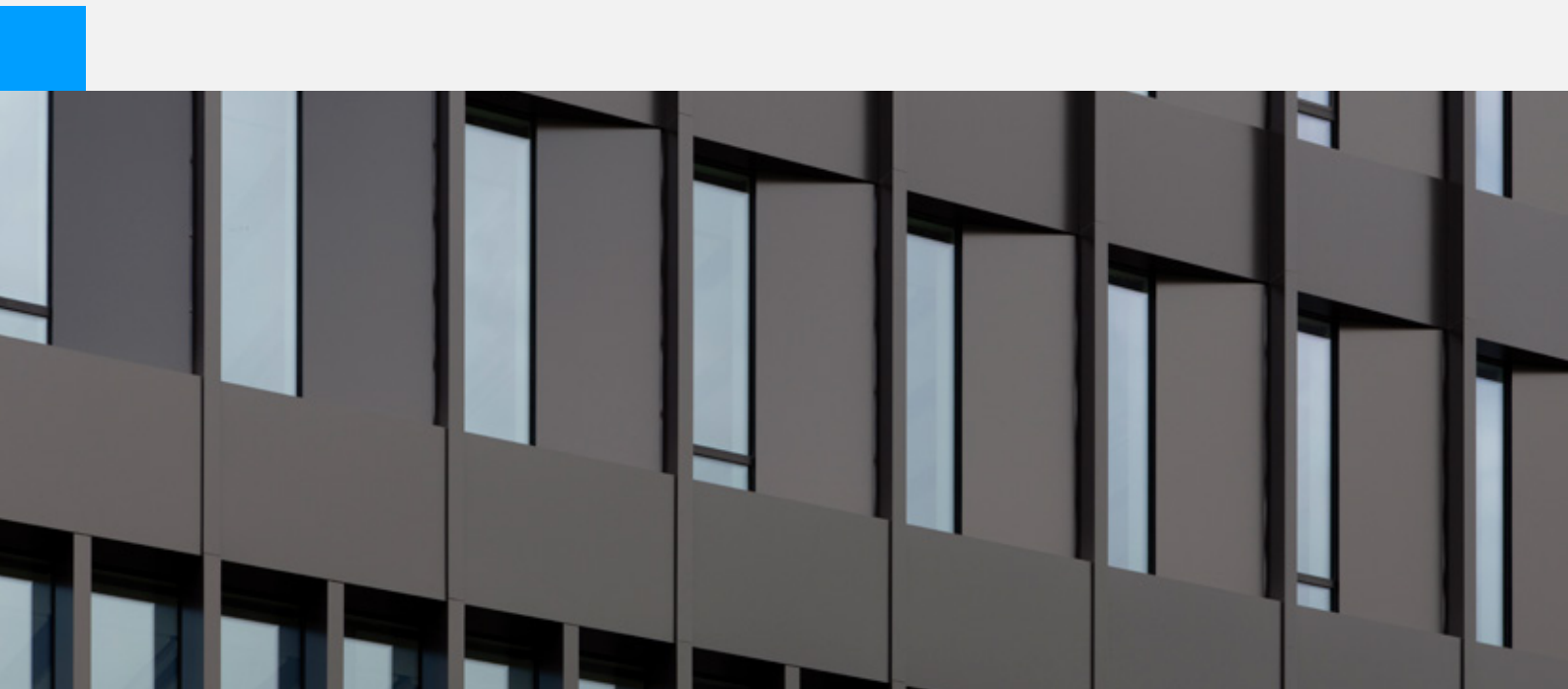
It all starts with fish, so let's *dive* in!

# SPAWN: LET'S TALK FISH.

Let's start with the basics: To fully grasp the “Spawners” framework, it's helpful to understand what ‘spawn’ means. Stick with me here – it might seem off-topic at first, but it'll all come together.

In the world of fish, ‘spawn’ refers to the eggs or sperm released into the water by female and male fish, respectively. Females release a large number of eggs, while males release sperm to fertilize these eggs, in a process known as spawning. A key feature of spawning is that not every egg gets fertilized. However, because of the sheer quantity of eggs, the likelihood of successful fertilization – and thus, the continuation of the species – is quite high.

You might be wondering what fish reproduction has to do with innovation. Don't worry, the connection between these two seemingly unrelated topics will soon become clear – and quite fascinating, too!



# SPAWNERS FRAMEWORK: BACK TO INNOVATION.

Let's shift our focus from aquatic life to the corporate world, where the term "spawners" takes on a whole new meaning. In business, spawners are companies known for their ability to "incubate" new ventures, diversifying their core operations. These ventures are like asymmetrical bets - they come with limited risks but hold the potential for unlimited rewards.

The magic of Spawner companies lies in their knack for making numerous such bets. In scenarios where these bets don't pay off, the losses are minimal. But when they hit the jackpot, the gains can be substantial.

And crucially, when they find a winning idea, they're quick to scale it up significantly.

Thanks to this strategy, Spawner companies don't just grow; they often see exponential growth, sometimes expanding their value by a thousandfold. It's a fascinating approach that combines cautious risk-taking with the pursuit of substantial growth opportunities.



# CATEGORIES: NOT ALL SPAWN IS CREATED EQUAL

Mohnish Pabrai, the investment guru and brain behind the “Spawners Framework,” identifies five distinct types of spawners in the corporate realm. These categories help us understand the different ways companies can successfully innovate and grow. Let’s break them down:



- 1. Adjacent Spawners:**  
These companies branch out into areas closely related to their core business.



- 2. Embryonic Spawners:**  
They focus on nurturing and developing entirely new business ideas, like seeds sprouting into diverse plants.



- 3. Cloner Spawners:**  
These spawners cleverly replicate successful models or strategies from other businesses.



- 4. Non-adjacent Spawners:**  
They venture into territories completely unrelated to their original business, exploring new horizons.



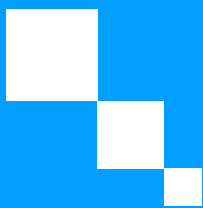
- 5. Apex Spawners:**  
The crème de la crème, these companies master the art of spawning across multiple domains, often leading their industries.

Understanding these types gives us a window into the strategic approaches companies use to innovate and expand. Let’s take a closer look at what makes each type unique and how they contribute to the diverse landscape of corporate innovation.





# 1. ADJACENT SPAWNERS: DIFFERENT BUT CLOSE ENOUGH.



Adjacent spawners are fascinating companies that expand their growth by stepping into markets closely linked to their core business. They leverage their existing strengths and knowledge to introduce new services or products that are related to their primary offerings. Here's how they do it:

Take Starbucks, for example. Known globally for their coffee houses, they've ventured into retail with bottled frappuccinos. But their innovation doesn't end there. Starbucks also introduced Verismo coffee machines, Starbucks Reserve, and even alcoholic beverages under their brand. Each of these ventures builds on the strong Starbucks brand, taking a step beyond their original coffeehouse concept.

Coca-Cola is another classic case. Starting from their iconic soda, they've branched out into an array of beverages like water, sports drinks, juices, milk, vegan drinks, tea, coffee, and energy drinks. A quick glance at their brands page shows the impressive range of products they've spawned.



**The success of these Adjacent Spawners lies in their ability to capitalize on their main strengths (like Starbucks' brand recognition and Coca-Cola's extensive value chain) and their deep understanding of their market. This insight allows them to create new ventures in markets related to their original business.**

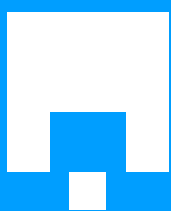
Adjacent spawners show us how extending your reach within familiar territory can lead to exciting new business opportunities. They exemplify the art of growth by smartly leveraging what they already do best.





## **2.**

# **EMBRYONIC SPAWNERS: IT'S ALL ABOUT NURTURING.**



Embryonic Spawners are a unique breed of companies known for acquiring smaller businesses and transforming them into giants. Their strategy revolves around identifying potential and nurturing it to achieve massive growth.

A prime example is Meta, formerly known as Facebook. They've made strategic acquisitions like Instagram, WhatsApp, Oculus VR, and Giphy. Take Instagram, purchased for \$1 billion in 2012, which by 2019 generated an estimated \$20 billion in ad revenue alone.

On the other side of the globe, we have Tencent, a less-known but equally potent Embryonic Spawner (and an excellent Adjacent Spawner too). Best known for WeChat (China's answer to WhatsApp) and its mobile gaming empire, Tencent harnesses its pool of talented developers to create diverse online platforms, integrating them into the WeChat ecosystem. This synergy is one reason they're such a successful Adjacent Spawner.

But Tencent's prowess doesn't end there. Their second core strength lies in their investment strategy. They make small but strategic investments in various businesses, always aligning with their core expertise in development and tech. Their knack for valuing and growing these companies is nothing short of remarkable.

Take a look at some of Tencent's better-known spawned businesses.



(Interestingly, they even have a partnership with Starbucks, another spawner we discussed.)



The essence of Embryonic Spawning lies in leveraging the core strengths to accelerate the growth of acquired businesses. It's about using your capital wisely to buy and build within your ecosystem. And remember, the key is to start with small bets and then scale up aggressively when successful. This approach can lead to exponential growth and a diversified, robust business portfolio.



# **3. CLONER SPAWNERS:**

**THE ART OF COPYING  
WITH A PLUS.**



To the untrained eye, it might seem like Cloner Spawner companies lack innovation. But that's a misconception. In fact, these companies are masters of innovation through imitation. They excel by adopting and enhancing what already works. This approach to innovation is often misunderstood, yet it's incredibly effective.

Mohnish Pabrai himself is a testament to the success of this strategy. Known as the 'cloner-investor', he has emulated Warren Buffet's investment style, proving that cloning can lead to remarkable outcomes. This concept isn't limited to individuals; it applies just as powerfully to companies.

Cloner Spawners don't just copy; they adapt and improve existing models, creating products or services that stand out in their own right. It's a strategic choice that combines the security of tried-and-tested methods with the creativity of adaptation and improvement.

Microsoft stands out as a quintessential example of a Cloner Spawner, adeptly taking existing concepts and adding their unique twist.



**Internet Explorer:** Originally inspired by Netscape, but integrated seamlessly with the Windows platform.



**Azure:** Developed in the footsteps of Amazon Web Services, yet leveraging Microsoft's enterprise strengths.



**Teams:** A response to Zoom, but integrated into the Microsoft 365 suite.



**Word:** Evolved from early word processors like WordStar and Apple Write II, it became a staple of office productivity.



**Xbox:** Entered the gaming console market following PlayStation's lead, bringing its unique gaming experience.

Microsoft's edge lies in its expansive Windows platform and Microsoft 365 suite, serving as gateways for billions of users. This reach enables them to continually introduce 'cloned' products to a massive audience.

Apple, too, exemplifies the cloner strategy but with an added flair for innovation. Each of their products, though based on existing technologies, is enhanced and seamlessly integrated into their ecosystem, creating a unique and elevated user experience. From the iPhone's user interface to the entire range of Apple products, they excel in refining and redefining existing concepts.



**The key takeaway from both Microsoft and Apple's strategies is that cloning isn't inherently negative. It's about understanding the original concept and then enhancing it, adding unique value. Having an established platform, like Microsoft's Windows or Apple's ecosystem, is a significant advantage. It allows these tech giants to seamlessly introduce new, improved versions of existing products, ensuring their continued success and innovation leadership.**





# **4.**

# **NON-ADJACENT SPAWNERS:**

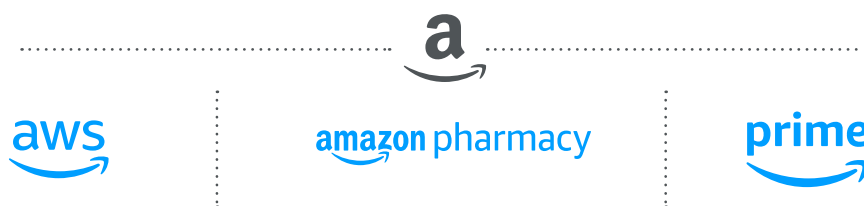
## **VENTURING INTO NEW TERRITORIES.**



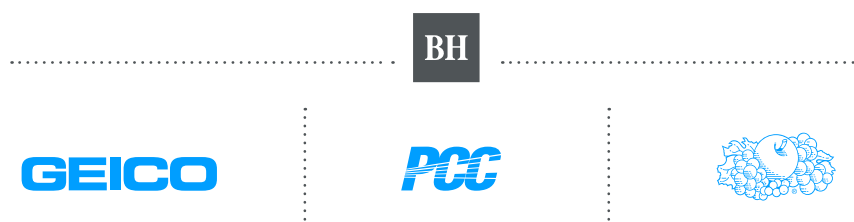
Non-Adjacent Spawners are a fascinating type of companies that venture far beyond their original realms, creating or acquiring businesses in entirely different markets. Let's look at some notable examples:



**Alphabet Inc. (Google's Parent Company):** Alphabet is a prime example of a Non-Adjacent Spawner. Apart from Google's core focus on search and advertising, they have ventured into wildly different areas. Waymo explores the future of self-driving cars, Verily Life Sciences delves into healthcare innovations, and Loon aims to provide internet access through high-altitude balloons.



**Amazon:** Known globally for its e-commerce dominance, Amazon didn't stop there. They've successfully launched into diverse fields like cloud computing with Amazon Web Services, entertainment with Amazon Prime Video, and even healthcare with Amazon Pharmacy.



**Berkshire Hathaway:** Under Warren Buffett's leadership, this holding company is a tapestry of varied businesses. From insurance with Geico to manufacturing with Precision Castparts, and even retail with Fruit of the Loom, Berkshire Hathaway's portfolio is a testament to successful non-adjacent spawning.



The strategy of expanding into non-adjacent markets might seem unconventional, but it's a potent way to diversify and strengthen your company. This can be achieved either by acquiring existing businesses in these new markets or by innovating and building your ventures from the ground up. The crucial factor is to deeply understand these new markets and devise ways to amplify the value you deliver. Following the footsteps of giants like Alphabet and Amazon, the approach is often to place multiple small bets across various domains and then focus on scaling those that show promising potential.



# **5. APEX SPAWNERS:**

**THE ULTIMATE INNOVATION  
POWERHOUSE.**



Imagine a company that embodies the ultimate form of innovation – one that simultaneously utilizes every category we’ve discussed. These are the Apex Spawners, or as I like to call them, ‘Spawners in God Mode.’

Apex Spawners are the elite, the pinnacle of innovative strategy. They’re not just dabbling in adjacent markets or cloning successful ideas. They’re not limited to embryonic ventures or non-adjacent market exploration. Instead, they’re doing it all at once – a feat that requires immense skill, resources, and vision.

These companies are the masters of the innovation universe, seamlessly deploying strategies from every type of spawning to stay ahead in the game. They’re the rare breed that can navigate multiple terrains of the business world, creating an incredibly diverse and robust innovation portfolio.

Here are some examples:



#### Amazon

- **Adjacent:** Music, clothes, marketplace, Everything Store
- **Embryonic:** Zappos, Zoox, Ring, Audible, Whole Foods
- **Cloner:** Amazon Food Delivery, WebPay, Fire Phone
- **Non-Adjacent:** Amazon Web Services, Kindle, Amazon Fresh

## Alphabet

#### Alphabet

- **Adjacent:** Chrome
- **Embryonic:** Android, Youtube, DoubleClick, Waze, Nest, DeepMind,



#### Alibaba Group

- **Adjacent:** Alipay (Ant Group)
- **Embryonic:** AliBaba Pictures Group, AliHealth, AutoNavi
- **Cloner:** AliGenie, T-Head, Aliwangwang (chat)
- **Non-Adjacent:** Alibaba Cloud, Hema Supermarkets, Alitrip (Figgy)



#### Berkshire Hathaway

- **Adjacent:** Berkshire Hathaway Reinsurance
- **Embryonic:** GEICO, Mid-American Energy, Nebraska Furniture Mart
- **Cloner:** Three Insurance, BiBerk
- **Non-Adjacent:** Berkshire Hathaway Home Services



#### Tencent

- **Adjacent:** Tencent Comic
- **Embryonic:** Riot Games, BitAuto
- **Cloner:** WeChat, Weibo, Tencent Video, Tencent Pictures, PaiPai Auctions
- **Non-Adjacent:** Future Mobility



#### Baidu

- **Adjacent:** Baidu Translate, Baidu Baike (encyclopedia), Baidu Tieba (forums)
- **Embryonic:** xPerception, TrustGo, Raven Tech, Peixe Urbano
- **Cloner:** Baidu Maps, Baidu Wangpan (cloud)
- **Non-Adjacent:** Baiduo Apollo (autonomous cars)



Being an Apex Spawner is about more than just variety; it's about the exceptional ability to blend different innovation strategies and execute them all effectively. This level of innovation prowess is what sets Apex Spawners apart, making them a force to be reckoned with in the business world.





# **NON SPAWNERS:**

## **THE FOCUSED COMPANIES**

Many companies, while exceptional in their fields, face a significant hurdle in evolving into spawners. It's not that they lack capability; rather, their intense focus on core businesses can sometimes be a limiting factor. This deep dedication to their primary market often leads them to view ventures into other businesses as potential distractions.

These companies might encounter fantastic business opportunities, but they often choose to step away prematurely. This decision is typically driven by a desire to maintain undivided attention on their core operations, even if it means missing out on potential growth avenues.

A classic example is McDonald's and its involvement with Chipotle. Early on, McDonald's recognized Chipotle's potential and acquired more than a 20% stake in the company. However, McDonald's eventually viewed this venture as a distraction from its core fast-food business. As a result, they divested their stake in Chipotle in 2006, despite Chipotle's significant growth potential – a decision made evident as Chipotle's share price later soared by approximately 3,200 %.

This scenario underscores a common dilemma for many companies: balancing the pursuit of new opportunities with the need to remain focused on established core businesses. It's a challenging tightrope to walk, highlighting the strategic decisions that businesses must make in their growth journeys.



# **THE POWER OF SPAWNERS:**

**A NEW PERSPECTIVE  
ON INNOVATION  
MANAGEMENT.**

Now that we've delved into the world of Spawners, you can probably see why this framework has become a favorite in understanding business dynamics.

The Spawners concept offers a fascinating lens through which we can view how businesses skillfully use a variety of innovation tools. From mergers and acquisitions (M&A) to corporate venturing, investing in startups and scale-ups, and forming joint ventures, these strategies are instrumental in continually creating new business ventures.

These companies aren't just randomly experimenting; they have developed sophisticated innovation systems. These systems help streamline their decision-making processes, making innovation more efficient and effective. What's more, each of these businesses fosters a unique culture that not only encourages but thrives on experimentation. They're keenly aware of their risk appetites, allowing them to balance innovation with practical business sense.

A great way to learn more about these companies is to dive into their public records. Most of them are publicly traded, which means there's a wealth of knowledge available in their shareholder letters and annual reports.

By studying these resources, you can gain deeper insights into their strategies, successes, and even their learning experiences. This kind of analysis can be incredibly valuable, whether you're looking to apply these lessons to your own business or simply to broaden your understanding of modern business innovation strategies.



# **SPAWNERS:**

## **MAKING INNOVATION WORK FOR ALL SIZES**

When we talk about innovation, it's easy to focus on the big players – the large companies that dominate headlines. But why do we often spotlight these giants?

It's because their stories make the concepts clearer and more relatable. However, it's crucial to remember that these principles of innovation aren't exclusive to the corporate titans. They're equally applicable and achievable for smaller businesses too.

Let's consider this: many of the companies we've discussed were not even on the map 30 years ago.

The exciting truth is that as long as your core business is healthy and generating cash flow, the only limit to your growth and innovation is your own ambition and willpower. Here are some key strategies for success, regardless of your company's size:

- **Cultivate Patience:** Allow your initiatives time to grow and mature. Innovation isn't an overnight process.
- **Develop a Top-Notch Capital Allocation Framework:** Craft a solid and effective system for governing your investments. This involves setting up clear criteria and processes for selecting, backing, and monitoring financial ventures.
- **Identify Low-Risk Opportunities:** Start with ventures that offer minimal risk. As you notice positive developments, gradually increase your investments.
- **Be Ready to Pivot:** Don't shy away from stepping back from projects that aren't panning out. Remember, asymmetrical bets mean you can cut losses without major setbacks.



- **Foster the Right Culture and Skills:** Create an environment that encourages exploration and is equipped to seize new opportunities.
- **Leverage Your Core Business:** Understand and use the strengths of your existing business as a springboard for new ventures.
- **Develop a Systematic Approach to Innovation:** Implement an innovation system that clearly outlines how you will generate and manage new business opportunities. This will help guide discussions on which directions to pursue.

Whether you're a budding startup or a small local business, these principles can guide your path to innovation. With the right mindset and approach, you too can write a success story that resonates for years to come.

**And that wraps up this chapter!**

**I hope you've gained some valuable insights.**



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Keep innovating and remember:

**Don't create unicorns,  
Let's breed blue whales.**



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