

# Riding the 'fifth wave'

Corporate venturing has undergone massive changes in the past 50 years, tracking with the growth and evolution of venture capital (VC) in a sequence of phases or waves punctuated by economic downturns.

We have seen five clear cycles in this 50-year period, with each cycle teaching new lessons, as well as bringing volatility. Over this time, corporate venturing moved from a siloed and isolated financial experiment to an important and integrated element of mainstream corporate innovation.

Now, rising from the ashes of the 2008 recession, in what we call the fifth wave, we see unprecedented opportunity for all the pieces to come together, especially for corporations that know how to collaborate on innovation in this global environment.

The first wave rose in the 1960s, fuelled by the early successes of technology VCs that hit paydirt with rising stars like Digital Equipment Corporation, Memorex and Raychem. The Fortune 500 took notice, with 25% of companies in the index establishing divisions that emulated VC greats in the late 1960s and early 1970s. But, as the initial public offering (IPO) market dried up in the early 1970s, many companies quickly lost interest and shut down their corporate venturing programmes.

The second wave broke in the late 1970s, catalysed by large changes in taxation and regulatory compliance as capital gains taxes were slashed (encouraging longer-term investment) and pension fund investment restrictions were eased. A resurgence of corporate investment in new ventures soon followed, with high-tech and pharmaceutical companies leading the way. But with the crash of 1987, the



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IPO market once again dried up, and by 1992 the number of corporate venturing programmes had fallen by a third.

The dot.com era of the go-go 1990s fuelled the third wave in corporate venturing. VCs increased investment levels, realising incredible returns and creating incentives for corporate investors to participate in the fast-paced, evolving "new" internet economy. At the same time, companies that had relied on traditional research and development (R&D) approaches shifted gears, and began to look outside for ideas.

This led to open innovation models relying on joint ventures, acquisitions and academic ties. As their objectives began to align, VCs and corporate venturing organisations began to collaborate, albeit tentatively. Then came the end of the irrational exuberance of the internet run-up with the Nasdaq stock market crash in 2000, which happened at a speed and scale no one had thought possible.

By 2006, after a period of retrenchment on all fronts, the signs of recuperation were evident. VCs were investing again in early-stage companies, with high-profile IPOs (Google in 2004) and launches (Facebook), and the fourth wave gained momentum. With this wave, innovation had become recognised as paramount for large companies' future success, and corporate venturing gathered steam as an acknowledged vehicle for successful innovation. Then, just as VC investments were beginning to take hold and these large companies were beginning to re-establish and expand their innovation programmes, along came the perfect financial storm.

The distress of the 2008 financial meltdown threatened VC business models by slamming the door on IPOs, while big companies also took severe economic hits that forced them to retrench, wring any excess out of established business operations and pull back selectively on long-term plans. At the same time, many ►



## A view from the trenches

### Bell-Mason Group rules for acting on fifth wave opportunities

**Rethink management's role:** Today, innovation is a board-level priority, as corporations think through their strategies for growth and figure out how to act on innovation as a means to this end. But corporate strategy is about change, and the role of management is to build vision and drive that change. Make sure the right

players, with sufficient corporate clout, are in place to lead the charge. And consider the next generation role of the chief innovation officer, exemplified by leaders like Debby Hopkins\* at Citigroup, Rob van Leen\* at DSM, and Steve Meller, Procter & Gamble's chief innovation catalyst.

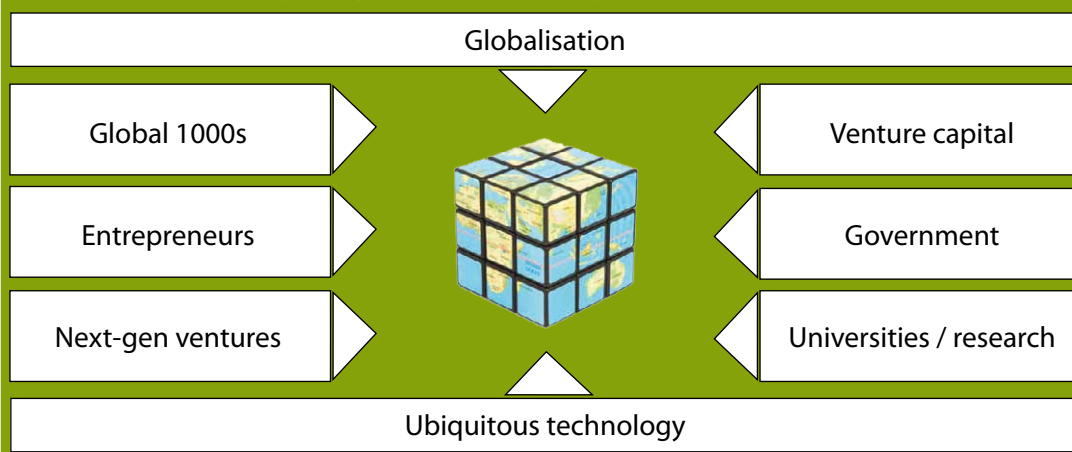
**Shift from vertical to horizontal thinking:** Eliminate silos and leverage global innovation ecosystems to help drive change, targeting customer-centric opportunities and applications in adjacent markets, as well as platforms that can spawn multiple businesses and breakaway ventures.

**Establish an internal innovation network:** Put the right level of internal touch points and access in place to deliver high value to ecosystem partners as a corporate collaborator. This group is likely to include mergers and acquisitions, corporate development, research, and the established businesses. Then set up complementary roles in both the corporate and partnering entities whose primary focus is on accelerating and augmenting growth.

**Define the external ecosystem partnering strategy and structure:** Identify strategic innovation themes and focus areas, map the associated ecosystems and structure the partnering program to address them. Make VCs, complementary corporations, universities and government laboratories a priority in areas where the company will bring the most value.

**Redefine performance measurement:** Measuring the success and value of a corporate venturing and innovation initiative is best approached from a range of perspectives. These include alignment with a company's strategic priorities, and measuring progress and what knowledge is gained. These metrics should provide an aggregate view that combines both strategic and financial performance measures that illustrate the indirect benefit and value of a portfolio of ventures to the corporation. \*Clients of Bell-Mason Group

#### Innovation partnering brings the CV puzzle together



leading corporations, such as Cisco, Procter & Gamble and Citigroup, saw this as an opportunity to double down on innovation.

As a result, the motivation for collaboration as a means to an end became the order of the day. VCs now needed corporations to serve as exit opportunities – acquirers of their portfolio companies. And big companies that knew how to play according to the rules of innovation and venturing were able to access opportunities of increasing quality, with VCs as potential portfolio partners. In the meantime, the environment was breeding new opportunities – global, horizontal, cross-segment, and cross-industry – in ways we had never seen before.

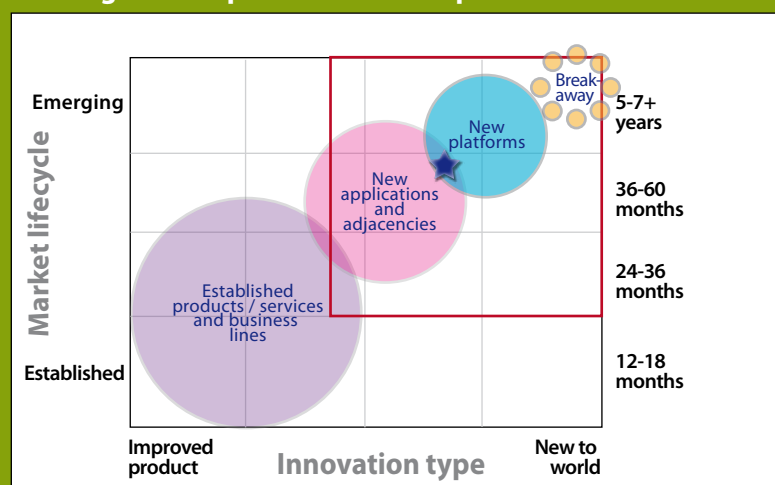
The ability to play successfully at these global levels and

in new ways also required an unprecedented level of collaboration. All the players, especially VCs and large corporations, needed to learn new ways of working with one another to succeed.

As corporates make innovation a priority in driving growth and industry leadership, corporate venturing in all its flavours – corporate venture capital, incubation, joint ventures, business partnering – now takes its place in a strategy constellation with the more traditional functions of R&D, mergers and acquisitions, and corporate development. Today, we are seeing many groups reborn as corporate venturing and innovation (CV&I) units.

So what is the foundation for successful corporate venturing, as we ride this fifth wave? Innovation partnering ►

## An integrated corporate innovation portfolio



allows companies that are adept at acting on the results to be the winners.

Innovation partnering takes place on two fronts. Internally, it is about stitching together an innovation network across the spectrum, while establishing charters and performance expectations relative to corporate strategy. Externally, it is about defining vertical and horizontal ecosystems (VC, academic, corporate and public sector) beyond the core business, and being prepared to invest time, money and resources.

It is critical to recognise that innovation partnering is a two-way street. Success requires a significant shift in corporate behaviour, and a new skill set – a “give to get” approach that is flexible and adaptable. Success also requires an understanding of the ecosystem, creating value for all involved and enabling different kinds of partnership structures. This give to get approach will set the theme of corporate venturing and innovation for the next decade, and that collaboration skills will be the language behind its success.

Fostering the development and embedding of complex platforms, adjacent applications and new business models is by necessity a collaborative and iterative activity. It is one that is not native to the operations of established businesses focused on quarter-to-quarter profitability. It is, therefore, important to take a strategic approach to building a CV&I portfolio based on the understanding the corporation with its established businesses has, at best, a three-year patience cycle for corporate venturing. Corporations need to see evidence

they are on the right path within that timeframe.

Corporate investments aimed to deliver after the three-year window should be balanced with investments in markets that are adjacent to the core business in markets ready to be catalysed for growth and so yielding early wins. With these investments, large companies can bring their outsized capabilities and global influence to help innovation ecosystems and markets. Their entry, in turn, opens the door to the full spectrum of innovation opportunities for corporate venturing

There is no better place to find these kinds of partnerships than with the best VCs. Often, these partnerships are in conjunction with other leading corporations that bring horizontal perspective of a sector and the ability to both leverage government incentives and provide infrastructure support. Best of all, both parties

can win because partnering with the world’s 1,000 biggest companies can also help the VCs’ portfolio companies commercialise their intellectual property, grow the ecosystem and expand globally through an increased awareness of their brand.

For example, Shopkick, a start-up in social media and location-based services funded by VC firm Kleiner Perkins Caufield & Byers, worked with companies Procter and Gamble, Kraft, Citigroup and Target.

In this era of the fifth wave in CV&I, companies are connecting all their innovation portfolios worldwide. These companies recognise CV&I can lead to sustainable growth and long-term success.

They will achieve success by collaborating with complementary partners and integrating novel approaches and new solutions. In doing this, the next generation of industry leaders may yet emerge, establishing their position and cementing their roles as collaborators that accelerate the commercialisation of innovation on a global scale. ■

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## Collaboration connects the dots



- **Incubation**  
Build ventures internally – then spin into a division or spin out
- **Investment (CVC)**
  - Direct: make external minority venture investments
  - Via VC funds: limited partner in external VC fund(s)
- **Venturing & innovation centre of excellence**  
Leverage market intelligence, venturing know-how to support innovation cross company, and in existing businesses
- **Innovation & portfolio partnering (external)**  
Align strategically with other companies, VCs, ecosystem players to reduce investment risk, accelerate progress