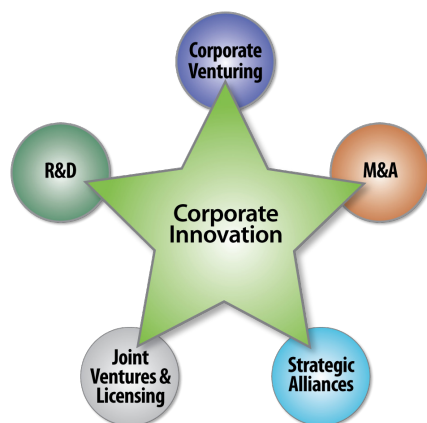


How to be a corporate venturer: first of three articles...

Corporate Venturing: The engine for growth

The past year has seen continued growth of corporate venturing initiatives: Global Corporate Venturing has even gone so far as to declare that this is the 'golden era' of corporate venturing, with companies becoming more adept at collaborating with startups, and more experienced in creating value through innovation.



In this golden era many companies are strengthening their innovation efforts by establishing integrated corporate venturing and innovation (CV&I) programs that support more effective planning, set clearer

objectives and expectations, and ensure a process of continuous improvement.

Innovation leaders recognize that traditional corporate innovation sources—R&D, M&A, strategic alliances, and licensing and joint ventures—are complemented by the external perspective and broader range of innovation sources that corporate venturing taps into, and that CV&I efforts can be a strong addition to the investment mix.

In this article I will describe the elements of an integrated CV&I group, and a best practice approach to developing a sustainable corporate venturing and innovation initiative, using the phases of corporate venture capital (CVC) group development as an example.

Models for an integrated CV&I group

A CV&I portfolio frequently includes ventures that are built on a variety of development models:

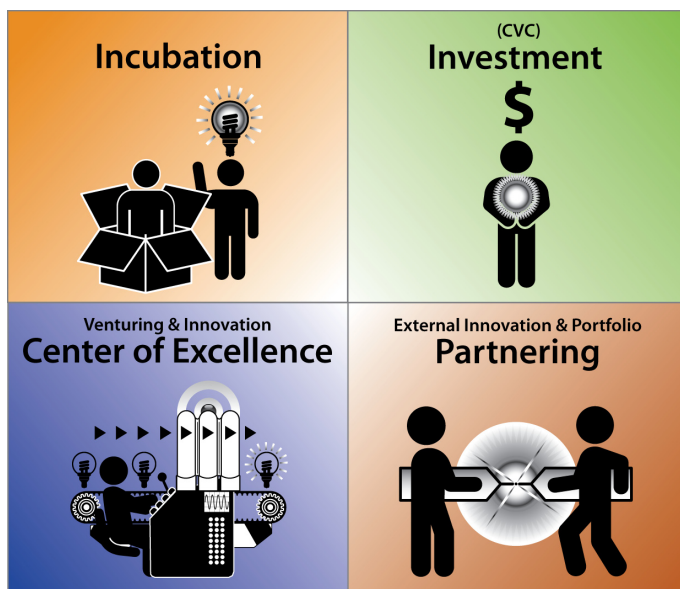
- **Incubation**, where a venture is established, often based on internally developed technologies, with the objective of spinning it into a division or spinning it out as a new company



Patty Burke, partner, Bell Mason Group

Corporate Venture Capital (CVC), where direct external investments are made, and/or a limited partnership is established with an external venture capital fund

- **Venturing and Innovation Center of Excellence**, where the CV&I group leverages market intelligence and venturing know-how to focus and support innovation cross-company, and in existing business units
- **External Innovation and Portfolio Partnering**, which strategically aligns the CV&I group with other companies, VCs, and ecosystem players to reduce risk and accelerate development



Building a sustainable CVC initiative: The four phases of development

With explosive growth in corporate venturing, we are seeing companies take a keen interest in the best practice guidelines for establishing new CV&I groups, or fine-tuning strategies and operations of existing groups.

Strategy	Process	Portfolio	Performance
Vision and Opportunity	Operating Requirements	Strategy and Operational Standards	Performance to Plan
<ul style="list-style-type: none"> Corporate innovation priorities, leverage points Strategic focus areas Venturing and investment approaches 	<ul style="list-style-type: none"> Team, plan and milestones Funding and governance Deal management Launch and "pilot" 	<ul style="list-style-type: none"> Portfolio balancing and management Investment management, venture KPIs Exit and "embedding" process Venturing career path 	<ul style="list-style-type: none"> Refined strategy and plan Performance management—venture, portfolio, unit metrics Unit funding commitment Operating process automation

Sample Timeline → Year 1-2 → Year 2-3 → Year 3-5

Bell Mason Framework for CV&I Unit Development

At Bell Mason Group we have analysed hundreds of corporate innovation programmes—both successful and unsuccessful—and have used that data to develop a four-phase framework for CV&I development that can be customised for innovation models, incubation or CVC, for example, and for specific corporate requirements.

While the graphic above illustrates high-level considerations for a successful CV&I programme, the BMG Framework includes multiple levels of execution guidelines and tools.

Phase I—Vision and Opportunity (Year 1)

Most CVC groups start with ad hoc activities, such as direct investments in just a few strategic companies, or with a fund of funds that has a complementary market focus. Fund of fund investments often provide an easier way to learn about the market, build relationships, and introduce the company into the venturing ecosystem.

In Phase I, a review of institutional history and the results of previous venturing activities is in order, both to understand what approaches have—and

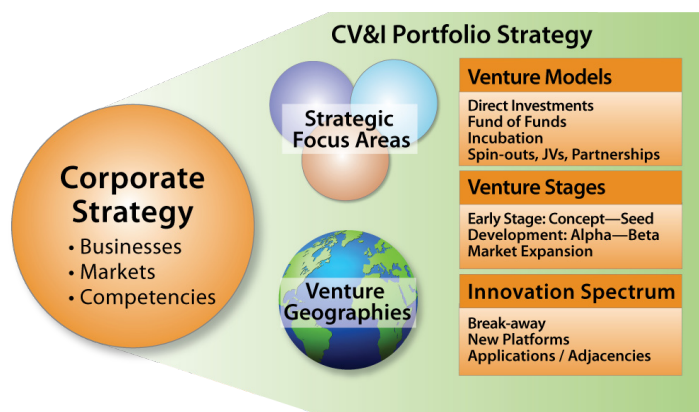
have not—worked in the past, and to understand any organisational or cultural barriers.

With history as a backdrop, the deliverable for this phase is to explicitly state the CVC group's investment strategy, and to get corporate buy-in for its vision, objectives, and strategy. Put simply, at this point the CVC team assesses current and projected corporate priorities, and then matches those priorities to industry and market innovation and growth areas to establish its strategy and investment parameters.

There must also be alignment with the CVC group's investment board and sponsors as to how the investment strategy will support corporate strategies and business objectives. Depending on the area of focus and stage of the investment—

breakaway or adjacency, for example—the group will have continuing discussions with business units and product groups to determine the venture's potential exit and embedding process into the business unit, or in the case of a breakaway opportunity, the potential to create a new business unit.

It is important to identify potential executive support and sponsorship during this phase, and to partner with existing venture and corporate networks to align objectives. Venturing groups often choose to work with a limited number of business units and



regions to start, usually choosing the unit that may be challenged by innovative competitors or have opportunities to leverage 'hot' new technologies, regions or market trends. Once a successful CVC/unit relationship and model is established, it can be duplicated and adapted for other units.

Phase II—Process: Operating Requirements (Year 1-2)

With strategy set and direction clear, the next phase is to establish the pilot process elements and operating requirements for the CVC group by developing a 100-day, first-year, and second-year plan.

BMG has defined 10 Operating Requirements for the Phase II CVC group plan. Among the most important are governance, deal management, and the 'marketing' of the fund through communication and outreach to targeted audiences and influencers.

While governance policies are by far one of the most challenging areas that will be faced when establishing a CVC unit, they are critical for providing the guidance and structure for efficient unit operations. The make-up of the investment board—which should include both venturing and domain experts—must be entrepreneurial, decisive, and empowered. All too often venture boards are a collection of executives representing major corporate functions, without the available time, industry knowledge or passion to help shape the venturing and innovation strategy.

Reporting to a corporate unit (innovation, strategy, finance or corporate development, for example) rather than a business or product unit is often the best choice to protect the CVC unit and its investments from the near-term focus that is typical of revenue driven business units. New categories of products or services demand a laser-sharp focus on an initial market segment as the team establishes new product, sales, and delivery models on a small scale prior to making major investments. Because business units are incentivised to bring in revenue fast, they may move too quickly to attack larger, highly visible markets, sometimes skipping important validation and iteration steps, and risking reputation damage.

Deal management is also an important element of this phase. In fact, one of the best ways to accelerate the often lengthy corporate investment process is to essentially pre-qualify deals by applying defined investment criteria, and following a phased due-

diligence process that brings in corporate resources and reviewers at appropriate points. Often CVC teams waste valuable time responding to and vetting internally generated ideas and referrals, especially 'pet' projects from executives and board members. Avoiding those traps demands a clear investment strategy that is understood and approved at the executive team and board level, empowering the CVC group to reject even the most cherished of these kinds of projects.

This disciplined approach also sends a clear message as the fund is marketed to the external innovation ecosystem—VC partners, academic institutions, and market influencers—again ensuring that the investment deals that are presented to the CVC group are both pre-qualified and a good strategic fit. In turn, the external ecosystem and network acts as the group's eyes and ears in identifying early stage innovations, complementing its internal champions from R&D, sales, and product groups, worldwide, that serve as entrepreneurial or influential 'scouts', following the markets and regions on which the CVC group is focusing.

Building an interactive relationship with this ecosystem makes it possible to communicate your investment focus and process, set expectations, provide the WIFM ('what's in it for me') message, and gather market, competitive, and regional trend information, all at the same time.

Phase III—Strategy and Operational Standards Year 2-3)

With operational plans in place and a critical mass of investments, it's time to test and refine the portfolio strategy and standardize operating processes.

Generally, the progress of portfolio companies should be reviewed quarterly, and the portfolio strategy itself should be reviewed at least twice a year. At year two or three it is critical that an in-depth reevaluation of the initial investment strategy be performed to determine whether the portfolio balance is meeting the original objective.

To ensure ongoing visibility of venture progress, CVC groups will want to have an investment management system in place that tracks progress and metrics as ventures move towards 'exit': spin-in to a business unit, spin-out, IPO or trade sale.

Development milestones should be tracked across multiple areas of venture development—from product to marketing to management team composition—addressing key performance indicators by venture stage. The Bell Mason Framework for Venture Development is one way to manage and monitor the progress of venture investments, providing input for management 'dashboards' that give an investment board a consolidated view of CVC group investments in relation to each other, to incubated investments, and to other corporate innovation approaches.

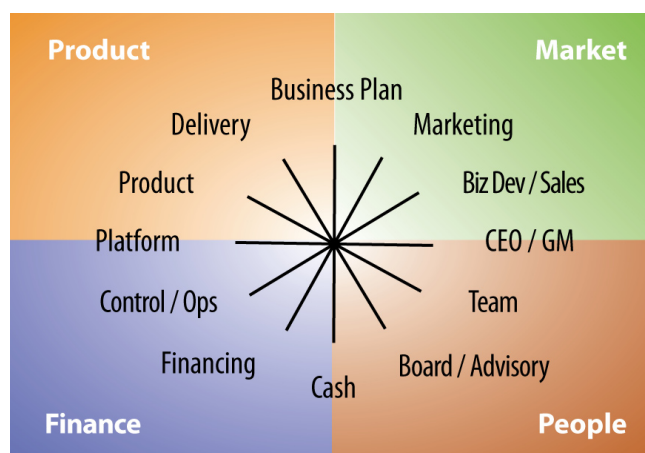
Phase III is also the time to review portfolio balance, evaluating the mix of ventures in terms of focus areas, venture types, stages, regions, and distribution across the Innovation Spectrum. The goal is to identify any misalignment and determine causes and implications. Have market and competitive dynamics changed? Are there focus areas that should be added or deleted? How has corporate strategy evolved? Based on this review, it's time to course correct and identify issues that should be addressed when the investment strategy is updated in Phase IV.

Phase IV—Performance to Plan (Year 3-5)

Building a CVC unit is like building a start-up: it's a continuous process of action, analysis and iteration. Phase IV, at the three- to five-year mark, is the time to step back and take a critical look at performance to plan. Issues and market dynamics identified in Phase III should feed into an update of the investment strategy, plan, and funding needs. Operational processes are also evaluated—both internal and external—ensuring that the group is functioning like a well-oiled machine.

Performance management is a key element of this phase. All CVC units monitor financial metrics, but in reality, any returns are rarely material to the company's overall performance, and even then aren't likely to be achieved in less than five years. Setting and achieving strategic milestones gives management near-term ways to measure the success of the CVC group, and to help refine its objectives and strategies. For example, the ability to preempt competitors or be first to market in a high-growth category are strategic metrics that can be identified and tracked prior to any significant financial results.

Establishing a system for tracking and reporting on these strategic objectives is one of the best ways a venture group can overcome both the 'corporate patience cycle' with its general expectation of a



Bell Mason Framework: 12 Dimensions of Venture Development

three-year return-on-investment, and the likelihood of an overall management and strategy change at the executive level. A formal executive level strategy review, featuring standard dashboard views that illustrate metrics at the venture, portfolio, and unit level, is the foundation of this presentation. This makes it possible to assess the portfolio's financial and strategic value, analyze the various elements against the original strategy model and portfolio mix, and determine appropriate changes.

Tracking venture, portfolio, and unit metrics needs to be part of a broader initiative that aggregates the performance of different innovation models across the company. We'll talk more about this subject in our next article in this series, Performance Metrics: Assessing CV&I Unit Impact.

Corporate Venturing: A Growth Engine

In today's dynamic technology-driven environment, innovation is a critical topic for every corporate board, with high visibility and even higher expectations. Corporate venturing has the potential to deliver real results that can transform the trajectory of even the most traditional corporations—the opportunities are certainly there.

Innovation groups that set clear objectives and develop sound processes and metrics will build a solid foundation to reduce risk and efficiently leverage these opportunities. The result will be innovation strategies and teams that can be sustained over management and market cycles, bringing innovative products and services to market and becoming an important engine for corporate growth.