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Global Corporate Venturing 201 Supplement

Performance: Assessing Financial and Strategic Impact

The venture imperative

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In all its forms, post-2008 corporate venturing has become 'main stage,' a foundational element of virtually every corporate innovation strategy for long-term growth and competitive advantage.

Corporations are uniquely equipped to leverage the benefits of venturing, with the ability to use powerful brands and global reach to accelerate markets, and experience in setting standards and establishing market platforms.

However, the past fifty years of corporate venturing & innovation (CV&I) history has been marked by numerous program starts and stops as CV&I units failed to meet (sometimes changing) business value expectations within a 'corporate patience cycle' that typically parallels 3 year CEO/executive sponsor tenure.

CV&I unit longevity mandates 'performance'

The single largest barrier to CV&I unit longevity remains the ability to demonstrate strategic impact that leads to long-term financial growth and competitive advantage.

Corporations establish CV&I initiatives for a wide range of strategic reasons. For example:

- Chevron Technology Ventures: *help Chevron embrace emerging technologies to create new commercial opportunities, reduce costs and improve performance*
- Merck GHI: *grow emerging health care solutions into meaningful businesses, adjacent to its pharma core*
- Intel Capital: *advance Intel's strategic objectives in computing and communications—new global business ecosystems, chip customers*

- Steamboat (Disney): *build long-lasting [ecosystem] partnerships and provide its portfolio companies with direct access to a wealth of resources and business development opportunities*
- Unilever Corporate Ventures (India): *support capabilities expansion into emerging markets and address consumption-driven business opportunities*
- BP AEV: *scale tomorrow's disruptive clean energy and carbon innovations to bring to global markets*

While baseline financial goals for investments and investment portfolios are table stakes; the ability to incrementally achieve and communicate progress on these strategic objectives that 'move the needle' keeps corporations in the CV&I game.

Capturing the full value of venturing activities = Strategic + Financial

Most CV&I units track their venture investment performance primarily in financial terms such as Internal Rate of Return (IRR) at 'exit,' or free cash flow. Financial metrics are easy to track, familiar to the established business, and provide credibility with the VC community. However for a 'strategic' (CV&I) investor unlike an institutional investor (VC), the most important financial metric is often 'don't lose money'…and ideally, become self-sustaining over time.

Despite the fact that the primary objectives for establishing these units are strategic; CV&I teams typically struggle to adequately capture strategic contributions.

Important leading indicators of strategic impact—such as kick-starting the company's involvement in a game-changing market ecosystem leading to development of a billion dollar new business; or the impact of an promising innovation on the core business or brand — have historically been seen as 'soft,' and not part of the 'business as usual' performance scorecard. And units are almost never given credit for input on decisions not to participate in 'hot' but short-lived new markets – even though the research and knowledge that the CV&I units contribute may save the corporation millions of dollars.

'Strategic' value tends to be measured and communicated only anecdotally; with strategic benefit cited to justify and defend investment performance during market downturns. And the performance of an investment is seldom tracked after it 'exits' the CV&I unit portfolio and/or is embedded in the core business, so there is no longer term view of that investment's true value to the company.

To remain sustainable and relevant CV&I programs must demonstrate both financial and strategic results that:

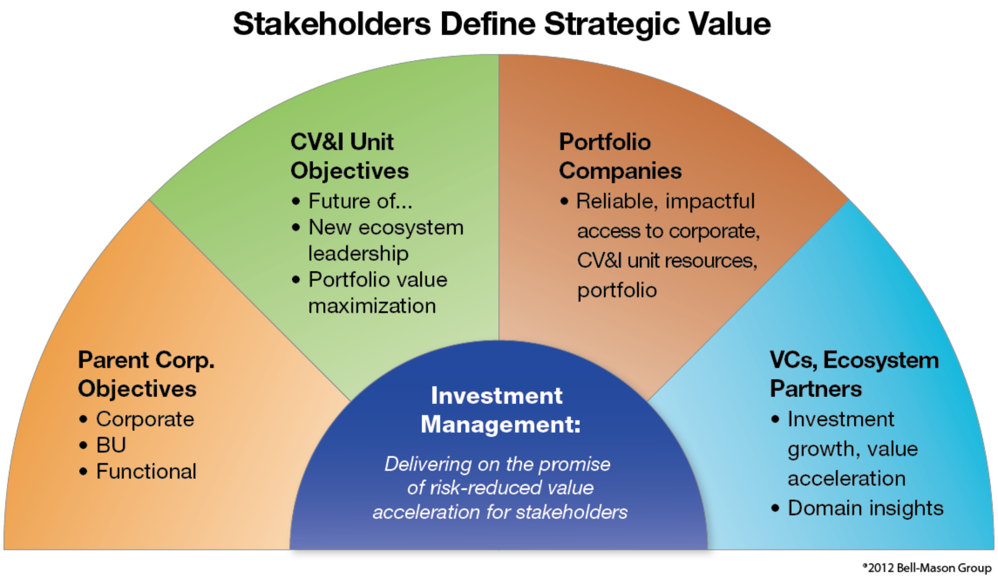
- Align corporate parent business urgencies, charters and lead time to return timeframes with CV&I unit portfolio strategy
- Demonstrate value to all key stakeholders
- Capture financial and strategic value incrementally, within the three-year 'corporate patience cycle'
- Ultimately 'move the needle' for the corporation: creating a new business unit, attracting a significant new customer base, or pioneering a competitive new business model

Key steps in assessing strategic impact

Definition and measurement

Bell Mason Group uses a structured approach to help CV&I units establish strategic metrics.

The first step is to identify the key stakeholders and define their priority objectives related to the CV&I unit. Within each corporation there will be a combination of corporate, business and functional representatives, with a range of innovation charters, and a mix of nearer-in vs. longer-term value return targets. Other important stakeholders include the portfolio companies, VCs and leading ecosystem partners.



The next step is to determine leading value indicators that suggest progress toward addressing these stakeholder priority objectives. Then to translate these indicators into ‘business impact metrics’ that can be quantified and communicated in terms that are relevant to key stakeholders (e.g. corporation, business unit sponsor or partner) — and generally relate to time and/or money.

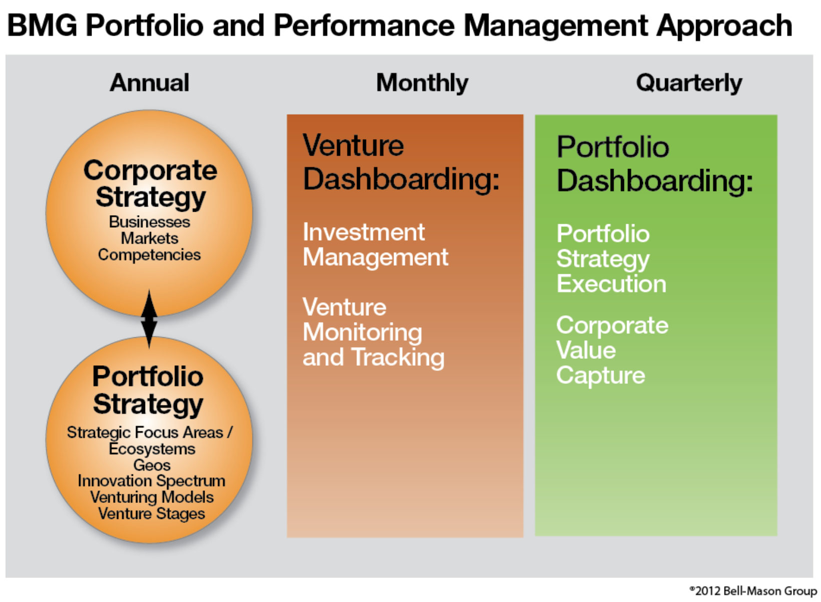
For example, in an operational efficiency play, the leading value indicator might be ‘technology transfers’ where ventures are introduced to the core business through pilot programs, joint development agreements, enterprise rollouts, or acquisitions. In these cases the relevant business impact metrics would be associated with value chain cost savings or reduced process cycle times.

Getting to the right set of leading value indicators and business impact metrics isn’t simple. BMG has found it to be an iterative process for every CV&I unit, with ongoing testing to determine which metrics are most relevant, optimal for executive consumption, and can be standardized for consistent tracking across the portfolio.

Tracking and Reporting

Making strategic value tracking and reporting an integral component of both the individual venture investment cycle and the portfolio management process is critical to effective operational use of strategic metrics.

The starting point is to identify potential leading value indicators and business impact metrics when evaluating new deals, and then lay the groundwork for the collection of supporting data once the investment is made. There should be just enough data collected to support the strategic case, without becoming burdensome to the portfolio company, the CV&I unit or the corporation. A streamlined, dashboard-based approach—like the BMG Portfolio and Performance Management Framework—can provide a consistent view while setting expectations for elements that management can monitor on an ongoing basis.



An annual planning process—via Investment and Portfolio Strategy and plan—a means to ensure alignment with corporate strategic priorities, balance the portfolio, refine unit objectives and set execution milestones.

A monthly venture status tracking and monitoring process—via 'Venture Dashboards'—used to keep investment managers and venture leaders engaged in assessing financial and operational progress, flagging risks and issues, and proactively highlighting incremental insights and added value that has been created.

A quarterly portfolio review—via a 'Portfolio Dashboard'—is an opportunity to assess aggregate portfolio performance and to highlight leading progress indicators to show that the CV&I unit is on track. This is particularly important for the increasing number of companies with an integrated innovation structure that includes corporate venture capital, incubation, innovation partnering, and commercial piloting. The performance of these different venturing models may be viewed separately, or aggregated as elements of an Innovation portfolio.

The CV&I unit also needs to be able to demonstrate that the sum value being created is greater than its individual parts. That could include reflecting the value created when the corporation is leading the development of a new market ecosystem, or combining multiple investments or partnerships to enable a new business vision or platform. One real-world example is Citi Ventures, which is using investments (ViVOtech, Billing Revolution) and innovation partnerships (MasterCard, Google, Nokia) to accelerate the establishment of mobile payments ecosystems.

Even after an investment has 'exited' the portfolio, it's important to establish mechanisms that ensure that strategic value is not lost with the transition, and that the CV&I unit is acknowledged for successful venture contributions. And, finally, it's just as critical to ensure that learnings and cost avoidance strategies from failed investments are captured.

Capturing the full value of CV&I programs

In this ‘golden age of corporate venturing,’ successful CV&I units have an opportunity to create value that goes beyond the financial performance of many VCs.

However, to demonstrate that full value to the corporation, CV&I groups must annually clarify and revisit corporate and other stakeholder strategic priorities, to be able to meaningfully and incrementally show evidence of both strategic and financial performance as the unit develops.

This requires stitching the concept of strategic value into the operational fabric of the CV&I unit, from individual deal sourcing, to investment management, to an aggregate strategic view of the portfolio’s integrated CV&I performance (internal incubation / piloting, corporate venture capital, and innovation partnering / joint venturing).

The leaders will be CV&I units that can make hard-to-capture strategic value concrete, and that understand how to communicate progress along a roadmap that demonstrates real business impact.