GCV-BMG 2018 CVC trends and insights project

An excerpt of report findings and analysis

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Introduction

In our inaugural 2017 CVC Trends & Insights summary report *(http://www.bellmasongroup.com/insights/)* we capped a look at the last five years' explosive growth of global corporate venturing programs, highlighting the professionalisation of CVC specialty practices, the standardisation of foundational CVC team roles and with now documented external benchmarks framing compensation design, and noting the progressive acknowledgment of CVC as a mainstream contributor to corporate innovation strategy and growth.

For 2018, we're continuing that line of questioning and also looking forward: How are Corporate Venturing programs, at various maturity levels, leveraging their current mainstream positioning to accelerate scale and ongoing sustainability, particularly as a potential market correction period may be approaching? In the past, market corrections and economic downturns have signaled the end of a cycle for CVC programs, as they are often among the early victims of cutbacks when parents respond to market uncertainties by retrenching and reorganising with more near term focus on cash conservation and core business profitability.

Is this time going to be different? If so, what are the key factors that will improve the odds of ongoing, uninterrupted CVC program operation? How are CV professionals currently accelerating their program's strategic impact and financial performance in ways that persuade parents of their continuous value to the company?

In this year's research, we zero in on end to end investing, fast becoming the unique hallmark of Corporate Venturing & Innovation Partnering (CV&IP) practices and performance enablers. This perspective is accompanied by improved understanding, new clarity in definitions and starting point formalisation of key elements and tools that enable end to end performance: dedicated Corporate Venturing BD (CVBD) capabilities, high performance innovation partnering programs, up-levelled role of CV portfolio management. All these elements, taken together, translate into new types of CV programs, tools and team designs that more effectively deliver on timely and mutually impactful parent/portfolio co. engagement.

In the external investment ecosystem, we explored what's behind the current up-levelling of CVC investor positioning and syndicates, the increasingly common occurrence of CVC-CVC collaborations, and integration of new types of funds, as well.

In this article, we provide some high-level excerpts of our 2018 findings, sampling some of the most notable trends and CV program developments, as well as a current friction points and key corporate antibodies between CV programs and their parents that may hobble newly-charged end to end investing impact.

Top-level 2018 CVC market trends

- Growing importance of CV program/leadership in corporate strategy – – As CVC has become a mainstream corporate innovation tool, CV teams are playing more important roles in bringing outside-in perspective to guide corporate strategic thinking and drive innovation impact –and increasingly have more operational roles in corporate strategy development. Corporate perception of CV and its specialty practice skills continues to evolve, from optional tools in corporate innovation tool kit to a required corporate capability, critical to effectiveness of parent's core business pivots and transformational initiatives.
- Broad recognition that an integrated CV end-to-end investing focus and process – from initial investment to business relationship and "landing spots" – is fuelling high performance CV program, team and network design, and is seen as essential to acceleration of CV program impact that is both meaningful to the parent, and enhances investment value and market making potential. This is achieved through effective integration of specialised CVC investment, business development, partnering and portfolio management practices, with dedicated senior level CVC/CVBD professionals and managed internal/external CV partner and portfolio co. relationships.
- Emerging professionalisation of specialised, dedicated corporate venture business development (CVBD) practice, program, processes and team design for accelerating portfolio development/strategic leverage for parent company – the key to enabling faster/better commercial traction and advancing CV program strategic performance. CVBD team designs, job descriptions, comp and career path options have become more visible, are just now in early days of taking more formal shape/standardising, with growing understanding of essential qualifications, best practice requirements, including depth of internal/external networks (from corporate executive leadership to soft middle), etc. Note: CVBD following in footsteps of CVC path to specialty professionalisation. Core functions/early team in place in 0-3 years as portfolio momentum quickly developed; formalisation of CVBD programs and dedicated team, plus internal/external innovation partnering programs initiated by year 4.
- CVC, CVBD and Corp BU/Functional collaborators working together to more effectively track/measure impact of strategic investing and innovation partnering – CVCs now beginning to track their end to end investing waterfalls from deal sourcing through to investee landings targeted at accelerating portfolio/portfolio co. value and commercial traction. Strong investment financial performance seen as table stakes for most, also as evidence of rigor and discipline re: fiduciary responsibilities to corporate parent, as well as means to end in certain program goals for evergreen or offset funding.
- Corporate-to-corporate collaborations and new types of investment syndicates being proactively developed (portfolio partnerships – investing and engagement) to accelerate market/ecosystem development, startup commercial traction opportunities and increased valuations.
- CV LP positions in specialised Funds – re-envisioned and also on the rise (e.g., for specific domains, geographies, ecosystems, stages) – redefining the role of funds as element in CV program strategy and design, as well as CV Program/professionals proactive side by side involvement in them (note: LP fund positions previously seen as passive investment vehicle for CV programs who lacked skills or didn't seek to build out a dedicated investment program/team. Not any longer)
- Growing trend: newer programs are leap-frogging established programs' development paths and lead times to scale – setting a new high bar, 50% continuous acceleration over

past high performers. Current high performers in the program startup phase (0-3 year) have learned from their own senior level experience, CV peers and others who have gone before them. They are accelerating sophisticated program creation, development and impact at a rate 50% faster than was possible for the mature programs/teams who pioneered ways forward, in different times and circumstances. Strategic vision drives charter and array of initiatives, integrated tools and team design, required to achieve results in more imminent time horizon (e.g., 2020 goals), with directional strategies for investment/business development focus areas. Given rapidly changing environments, focus areas and roadmap design are understood to be variable over time, require senior level domain, landscaping and ecosystem profiling skills. Also, newer programs with experienced teams are quicker to attract quality co-investors/syndicate partners, as well as reliable, sophisticated CVC to CVC collaborators and innovation partners at the strategic portfolio level (design for building multiple points of value for each individual investment).

Top-level 2018 challenges for CV program impact investing – friction points and corporate antibodies

- Executive/board level support for CV program and open innovation as key part of corporate strategy doesn't always translate into committed resourcing and middle management-driven execution and accountability. Still hesitancy on part of many corporations to commit to multi-year funding to enable minimal viable CV program implementation. Also, exec level governance on CV investment decisions and strategic priorities doesn't insure priority alignment and implementation support in soft middle of parent company.

- Portfolio company landing spot impediments: Natural cultural, operational and organisational challenges/antibodies at BU/functional levels threaten effective portfolio company landing spots in parent corps, with eventual timelines for hand offs from CV team. In addition to agreement on approach, this requires creation of performance objectives and incentives that align desired behaviors as frame for professional development support for BU/functional dept. catchers. This is essential if corporate engagement with startups is to consistently work well, with trackable, meaningful performance.

- CVC investment teams with significant portfolios are running into bandwidth issues in staffing critical board/observer positions with qualified (parent-certified) senior professionals – increases risks, raises opportunity costs on senior people's time/rate-limits growth. Typically, certification requires specific corporate curriculum & on-the-job shadowing – can be up to 2-4 years before ok to solo. And even senior new hires require time to effectively season in board/observer roles at level that ensures competency, corporate familiarity and reduction of corporate risk/exposure.

Note: General agreement that effective CVC board member or observer roles are increasingly important for managing risk and accelerating value of portfolio. This is forcing senior qualified investment professionals to exceed recommended number of board/observer positions per person (5) in order to manage – eating up limited time resource, while also increasing risks and potentially reducing quality of support per portfolio company.

- CVBD team recruitment and retention – While more programs have successfully addressed CVC investment professional role definition, recruitment and retention, sophistication of CVBD organisation design and its build-out (in early stages of specialty practice standardisation and professionalisation) may often lag, being misperceived as rotational, non-dedicated junior level role, subordinate in positioning, compensation and career path opportunity to the more established category of CVC investment professionals. CVBD skills vs. more general, junior to senior-level BD skills are not yet well-differentiated, leading to internal confusion and distributed, ad hoc BD support vs. dedicated CVBD program personnel recruitment and retention.

- Program maturity and scale is no guarantee – No room for complacency. Cycles of executive transitions and corporate reorganisations, shifts in corporate strategy, business pivots, or more dramatic turns driven by changes in parent company status – for example, M&A, market share losses, poor financial performance and so on – demand ongoing agility and adaptability and even painful, disruptive CV program redesigns or creation of other options. Well-known, successful CVC programs, with lengthy track records and brand positioning, are increasingly experiencing different types of team retention threats, especially if there are changes in team incentive structures or if experienced team members have topped out on their internal career paths. These professionals become increasingly attractive recruitment targets for other Corporates and innovation investment ecosystem players. The potential of loss of key professionals can, for their current CV program and team, be a real setback and even create a crisis for making program performance goals, covering already stressed board and observer positions, keeping rest of team in place, and having to rebuild internal, external relationships and network nodes.

For a complimentary copy of the complete GCV-BMG 2018 CVC Trends & Insights Report, email your request to *info@bellmasongroup.com*.

Stay tuned in coming months for more of our 2018 findings as part of GCV webinars, drill-down topical articles, and events.

BMG-GCV CVC insights project

Our annual Global Corporate Venturing–Bell Mason Group CVC Trends & Insights Project came about as an effort to document five years of rapid and remarkable changes in corporate venturing strategies, program design and development.

Our goal and research approach: Get in front of the data to qualitatively capture key trends and implications through an annual series of confidential BMG discussions with a select group of about 30 leading corporate venture professionals – global, cross-sector, and grouped by the maturity of their CVC programs.

Topic areas for annual drill down discussions: Market trends, operational agility and innovation, new opportunities and challenges, as well as perspective on continuously improving best practices, program, process and team designs for accelerating performance and overcoming the typical corporate antibodies that inhibit program impact and scalability.

Standard analysis and report format:
- High-level trends and challenges.
- Drill down across five dimensions: charter, process, team, innovations partnering, performance.
- Trends, best practices, friction points and CVC-corporate antibodies across three phases of CVC program development:

1. Program start-up (0-3 years): Foundational design and first build-out of CV program and core team. Testing while doing: operations/ organisation/ governance structures.
2. Portfolio development (4-6 years): Core team retention and expansion, early performance indicators and operations and organisation refinement for standardisation and institutionalisation at scale.
3. Scale and sustainability (7-9-plus years): Continuous mainstream program and core capability in corporate parent strategy and operations for innovation and growth; funding and operations that routinely survive management reorganisations, strategy changes and down-market cycles.