Corporate Venturing & Startups

Valery Yakubovich

Spring Conference
March 22nd, 2024
• Why this topic?

• Global trends

• Local practices

• Conference agenda
• Evolving dynamics of innovation (Jacobides, MacDuffie, Tae 2024)
  
  – Mark 1: Creative destruction by *de novo* startups (Schumpeter 1911)
  
  – Mark 2: R&D by large incumbents (Schumpeter 1945)

• A new model of innovation for the BigTech era
  
  – Neither **Mark 1** nor **Mark 2** explains today’s innovation patterns in the industries disrupted by Big Tech
  
  – **Mark 3**: a complex interplay of collaboration and competition among startups, incumbents, and Big Tech firms
  
  – Multiple types of interactions: partnerships, ecosystems, M&As, alliances between competitors, strategic entries by Big Tech
The Mack Study on Corporate Venturing & Startups

- The Forbes Global 500 Largest Companies
  - The 2016 INSEAD study as a reference

- Publicly available data: Annual Reports and websites
  - Search by keywords: CVC, startup, entrepreneur, accelerator, incubator, small business…

- Analysis using Generative AI

- Interviews with companies, focus groups, roundtables, conference panels
First Findings from Annual Reports

Comparison of Total Corporate Startup Engagements found: 2016 vs. Current

- 2016 Report: 262
- Current Report: 271
Corporate Venturing Practices

Proportion of Engagements by Category

Category

Accounting Services
Legal Services
Hackathon
Marketing Services
Distributor Access
Debt
Co-working Space
Conferences
Supplier Access
Limited Partner
Private Equity
Sponsorship
Incubators
Business Services
Consulting Services
Technical Services
Accelerators
Microcredit
Spins-offs
Loans
Startup Programs
Mentorship
Mergers + Acquisitions
Community
Venture Capital Fund

Proportion of Engagement Values
The Mack Study of Corporate Venturing Practices

Proportion of Values by Category with "Other" for Under 3%

- Venture Capital Fund: 8.9%
- Community: 8.5%
- Mergers + Acquisitions: 8.3%
- Mentorship: 7.7%
- Startup Programs: 7.4%
- Loans: 6.5%
- Spin-offs: 6.4%
- Microcredit: 5.8%
- Technical Services: 5.7%
- Accelerators: 5.6%
- Consulting Services: 5.0%
- Business Services: 4.3%
- Incubators: 4.2%
- Customer Access: 3.3%
- Other: 12.5%

Wharton University of Pennsylvania

Mack Institute for Innovation Management
Engagement by Country

Country | Engagement Percentage
---|---
France | 89.47%
Canada | 88.89%
India | 81.82%
United Kingdom | 78.26%
Germany | 69.57%
China | 68.63%
Japan | 64.71%
United States | 45.74%
Engagement by Industry

Engagement Percentage by Industry Sector

- Banking: 90.24%
- Construction: 82.35%
- Telecommunications Services: 73.33%
- Food, Drink & Tobacco: 73.33%
- Utilities: 72.22%
- Insurance: 65.00%
- Materials: 62.50%
- Capital Goods: 60.00%
- Consumer Durables: 52.94%
- Diversified Financials: 52.63%
- Drugs & Biotechnology: 52.38%
- Oil & Gas Operations: 50.00%

Industry Sector
Engagement by Industry: CVC vs M&A
Engagement by Industry: Business Services vs Community

**Business Services**

- Financial: 56.50%
- Utilities: 32.50%
- Retail: 27.93%
- Technology: 24.80%
- Energy: 21.29%
- Manufacturing: 19.46%
- Pharma + Healthcare: 9.20%

**Community**

- Financial: 37.15%
- Utilities: 36.11%
- Energy: 31.61%
- Retail: 29.13%
- Technology: 28.73%
- Manufacturing: 15.69%
- Pharma + Healthcare: 12.80%
Engagement by Industry: Partnerships vs Venture Building
<table>
<thead>
<tr>
<th>Strategy</th>
<th>Team</th>
<th>Autonomy</th>
<th>Rewards</th>
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<tbody>
<tr>
<td><strong>Funding - Technology</strong></td>
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<tr>
<td>Discovery of new technologies and use cases</td>
<td>CVC</td>
<td>Independent</td>
<td>High fixed – high variable Portfolio-driven</td>
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<tr>
<td><strong>Funding - Ecosystem</strong></td>
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<tr>
<td>Ecosystem creation</td>
<td>Corporate</td>
<td>Interdependent</td>
<td>High fixed – medium variable Salary-driven</td>
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<tr>
<td><strong>Partnering</strong></td>
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<tr>
<td>Access to new technologies &amp; clients</td>
<td>CVC &amp; Corporate</td>
<td>Interdependent</td>
<td>Low fixed – high variable Stock-driven</td>
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<tr>
<td><strong>Building</strong></td>
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<tr>
<td>Problem-solving</td>
<td>Non-corporate</td>
<td>Independent</td>
<td>High fixed – low variable Salary-driven</td>
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Corporate Venturing Practices: Funding - Technology

- No seed investments; some product-market fit is a must
- A business unit's GM gets involved to assure strategy alignment
- Banks move strategic startup investments to balance sheets
- An investment for learning (e.g., a promising business model but it isn't clear how it might take shape, let's learn about it)
  - Tough to sell such investments internally
- A firm's employees go on sabbatical to work for its portfolio companies
  - Brings senior talent and experts to startups
  - Attract and retain talent at the firm
  - Entrepreneurship with a safety net
  - Employees come back as intrapreneurs
Corporate Venturing Practices: Funding - Ecosystem

• Internal (increase efficiency in processes) vs external (complementary service to customers)

• Samsung NEXT supports early-stage startups that leverage and transform the Samsung ecosystem.

• J.P. Morgan and Equinor cofounded the Offshore Wind Innovation Hub in NYC to create “a nation-leading offshore wind ecosystem.”
Corporate Venturing Practices: Partnering

• Technology: Done by business units with GM’s involvement

• Go-to-market: Giving startups access to clients
  Salespeople are motivated because they solve clients’ problems rather than just sell something.

• An employee identifies a market problem which is then solved by a startup, but the initiator must manage the product all the way to the market.

• The state as a corporate partner: startups’ access to the procurement system
Cisco Announces Its $850 Million Spin-In

BY QUENTIN HARDY  APRIL 19, 2012 5:38 AM  2

Cisco has notified its employees that it has funded an advanced networking startup, called Insieme, with $100 million, with the right to eventually buy the company for as much as $750 million more.

As reported in Bits last month Insieme was founded by three Cisco employees who have previously two other created Cisco-funded companies, one in data storage and one in high-speed networking.
Corporate Venturing Practices: Venture Building

• A challenging practice; one must get incentives right

• Nokia Bell Labs creates and invests in strategic startups for innovation outside the firm’s current business lines.
  – Partners: America’s Frontier Fund, Roadrunner Venture Studios, Celesta Capital

• Iberdrola’s Perseo Venture Builder creates startups that support electrification with the focus on recycling and difficult-to-decarbonize sectors
  – More than 25 technology trials annually
  – Iberlyzer – the first large-scale electrolyser manufacturer in Spain

• A company shares its need with a venture builder who creates a startup from scratch; the company has an option to invest but doesn’t have to.
  – To attract venture capital, the builder makes a case that it identified a gap in corporate R&D
  – Addresses the founder’s commitment problem which is endemic to venture building
Corporate Venturing Practices: Venture Development

• P&G Ventures: an internal startup studio as an alternative to CVC (loss of equity) and partnerships (too complex).
  – Focus on long-term relationships and building new brands in categories new to P&G

• Volvo’s CampX’ three tracks: Venture Builder, Incubator, Accelerator focused on electromobility, autonomy, digital solutions, and fintech

• J.P. Morgan partnered with Techstar to set up accelerator programs in major cities to promote racial equity in entrepreneurship

• An accelerator as a pre-investment stage
  – Allianz Digital Accelerator: building and incubating new ventures adjacent to the core business
  – Allianz Digital Corporate Ventures: investments in more mature startups with a proven BM, first customers and revenues
Today’s Agenda

9:40–10:40 a.m. — Corporate Venture Capital: Current Trends
Greg Bergamesco, Managing Director, Touchdown Ventures
Stefon Crawford, Partner, GM Ventures
Tereza Nemessanyi, Worldwide Partnerships Lead, Private Equity and Venture Capital, Microsoft
Moderated by Serguei Netessine, Senior Vice-Dean for Innovation, Dhirubhai Ambani Professor of Innovation and Entrepreneurship, The Wharton School

10:40–11:00 p.m. — Coffee Break

11:00–12:00 p.m. — Beyond CVC: Venture Clienting and Venture Building
David Charpie, Co-CEO, Mach49
Hari Pujar, Operating Partner, Flagship Pioneering
Youssef Kalad, Investor, AlleyCorp
Moderated by Gary Dushnitsky, Senior Fellow, Mack Institute for Innovation Management; Associate Professor of Strategy and Entrepreneurship, London Business School
Today’s Agenda

12:00 p.m.–1:15 p.m. — Networking Lunch

1:15 p.m.–3:00 p.m. — Industry Roundtables: Implementing Corporation – Startup Partnerships

3:00 p.m.–3:30 p.m. — Coffee Break

3:30 p.m.–4:30 p.m. — How Corporations Cultivate Entrepreneurial Communities

Ankur Jindal, VP & Global Head of Venturing, Technology and Innovation, Tata Communications
Katie Nash, Senior Director, External Affairs, University City Science Center
Laura Plunkett, Executive Director of Startup Engagement and Head of LIFT Labs, Comcast NBCUniversal

Moderated by Valentina Assenova, Edward B. and Shirley R. Shils Endowed Term Assistant Professor of Management, The Wharton School
Thank you!
mackinstitute@wharton.upenn.edu