CORPORATE VENTURING

Managing the innovation family in a dynamic world

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Copyright page

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Preface

This is a book about Corporate Venturing. Venturing is generally seen as an entrepreneurial activity aimed at setting up new businesses. In Corporate Venturing such an activity takes place within or in close co-operation with a large corporate organisation. We are talking about babies and children that need to be conceived, born and raised in the precarious environment of these large (mother) companies. Some of these children will be part of the corporate family (internal venturing), other children will grow up outside and will only have a financial and/or business relationship with the corporates (external venturing). Some will leave the family (spin-outs) and others will be adopted (acquisitions). This is precisely how we will describe the process of Corporate Venturing, knowing that large companies generally have the least problems with the conception and the early stages of life, as the baby is safe in the incubator and won't need substantial investments, in contrast to raising teenagers which can result in huge problems and challenges to overcome.

We wrote this book on the occasion of the tenth anniversary of the Corporate Venturing Network Netherlands (CVNN), sharing the experiences of a very diverse group of members who are all working within Corporate Venturing, each in their own field and each with their own views. We hope we will inspire the creation of new family members in corporate organisations and may the book also bring a smile to your face!

Corina Kuiper and Fred van Ommen

To our children Tom, Niels, Wieneke and Lyke,
since raising children is the greatest venture in life.

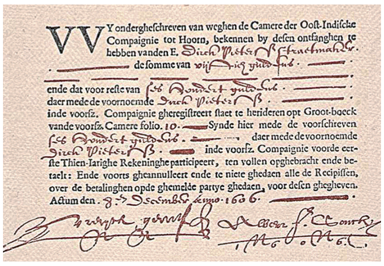
1 Introduction

1.1 Corporate Venturing: Go Dutch

Most companies wake up to the necessity of creating new business through Corporate Venturing, but many companies struggle to create new business areas alongside, or even outside, their current business scope. Should a company spend money on this and if so, how much? Companies love it when ventures '*Go Dutch*': sharing the cost of something, for example a meal. In this book we will see that partnering has become one of the key mechanisms applied in venturing and is crucial to everyone contributing to a venture. Many (corporate) venture capitalists aspire to behave like '*Dutch uncles*': people who give out friendly yet frank advice. Applying the principle of a '*Dutch Auction*' (i.e. starting off with a high asking price, which is then reduced until a buyer is found) is also common practice in venturing. Ventures need to find their position in the market and need to develop it. So the natural approach is to start in a high-priced niche and expand from there.

Many of these expressions using the word '*Dutch*' originate from the rivalry and enmity between the English and the Dutch in the 17th century, the period of the Anglo-Dutch Wars. Below we will see that there are more interesting facts to be noted about the Dutch from that period, which offer an interesting perspective on Corporate Venturing. The only expression we hope won't spring to mind while reading this book is '*Double Dutch*', meaning speech or writing that is nonsense and cannot be understood. (Even though it can also mean rope-skipping using two ropes, which is rather more innovative!)

Looking back, creating new business has always been an issue, even in the olden days when people went out into the world to discover new lands and establish new trade routes. A remarkable approach was adopted in 1602 by the Dutch when they set up the very first public company: The Dutch East India Company (in Dutch: Vereenigde Oostindische Compagnie, VOC or the United East India Company). The company was made up of commercial organisations based in various cities across the Dutch provinces of Holland and Zeeland. The VOC traded both in Asia, and between Asia and Europe. Between 1602 and 1796 the VOC employed almost a million Europeans and used 4,785 ships for the Asia trade. They netted over 2.5 million tons of Asian trade goods for their efforts. By contrast, between 1500 and 1795 the rest of Europe combined employed only 882,412 people. The fleet of the English (later British) East India Company, the VOC's nearest competitor, was a distant second to its total traffic with 2,690 ships and a mere one-fifth the tonnage of goods carried by the VOC. This spectacular trade with Asia made the Dutch Republic the world's key commercial hub.



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The VOC was a real venture as it was based on a complete new business model. In 1600 it was customary for a company to be set up only for the duration of a single voyage, and to be liquidated upon the return of the fleet. Investment in these expeditions was a very high-risk venture, not only because of the usual dangers of piracy, disease and shipwreck, but also because the interplay of inelastic demand and relatively elastic supply of spices could make prices tumble at just the wrong moment, thereby ruining prospects of profitability. The VOC changed the rules of the game by limiting the liability of the participants as well as of the governors regarding the paid-in capital. Until then the governors had had unlimited liability. Also, the capital would be permanent during the lifetime of the company. As a consequence, investors who wished to liquidate their interest in the interim could only do this by selling their 'piece of company' to others, hereby creating the world's first shares in 1606. Figure 1.1 shows its share price development over time.

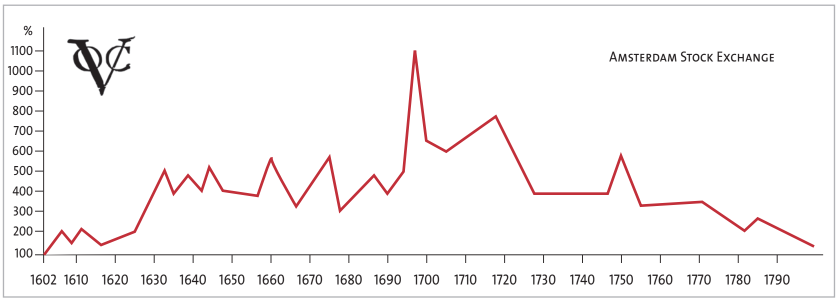

FIGURE 1.1 Stock price of the VOC [1,2]

The investors needed a place to trade their shares, which resulted in the formation of another 'venture': the Amsterdam Stock Exchange, resulting in a number of breakthrough financial innovations such as futures contracts, options, short selling and even the first bear raid. Isaac le Maire was the VOC's largest shareholder in those early years, and he initiated the first bear raid in stock history, selling VOC shares short in order to buy them back at a profit and buy additional shares.

It became the first truly multinational corporation and its ending was also spectacular: at the end of 1799 the VOC was nationalised. The State took over all property and debt amounting to 219 million Dutch Guilders (approximately 17.5 trillion Euros in today's money!). The Dutch government had tried to prop it up by taking it over and dismantling it, but suffered under its debts until well into the 19th century[3].

The VOC was confronted with the innovator's dilemma: the VOC had focused too much on its initial unique characteristics (the monopoly status granted by the Dutch government and its governance structure) and therefore failed to adopt new business models and ways of working. It needed to address the changes in the market. Many corporate ventures nowadays are still struggling with the innovator's dilemma, as the mother company often still hangs on to the current business models and is resistant to change.

Another common topic between VOC and venturing is the role of the government. When the company was established in 1602 the Dutch government, the States-General, sponsored the creation of a single 'United East Indies Company' that was also granted monopoly over the Asian trade. These days the role of the state in fostering the innovation needed for smart, sustainable growth is still a hot topic. Many people are of the opinion that the state is always lagging behind the dynamic private sector. Professor Mariana Mazzucato shows that the opposite is true: the private sector only finds the courage to invest after an entrepreneurial state has made the high-risk investments – from the green revolution to biotech and from pharmaceuticals to Silicon Valley[4]. She reveals that every technology that has made the iPhone 'smart' is government-funded: the Internet, GPS, touch-screen display and the voice-activated Siri. By not admitting the state's role we are socialising only the risks, while privatising the rewards according to Mazzucato. For many CVNN members (regional, national, European) government is an important source of funding.

1.2 Corporate Venturing Network Netherlands (CVNN)

Another Dutch venturing initiative is the Corporate Venturing Network Netherlands (CVNN) that was founded in 2002 by serial entrepreneur Wilbert Willems and well-known Corporate Venturing and open innovation expert Rob Kirschbaum (DSM). CVNN is a successful network of corporations active in Corporate Venturing and open innovation. It establishes relationships between large corporations and links them to small and medium-sized enterprises, universities, public private partnerships and start-ups creating an ecosystem for innovation in the Netherlands and neighbouring countries. In addition to the Dutch members there are a number of Belgian companies that have joined the network over the last couple of years. Moreover, it strives to bridge the gap between the corporate need of influx of new business ventures and spin-outs of (university) tech starters supporting valorisation.

The CVNN objectives are:
- Creating collaboration on corporate business development
  – Sharing best practices amongst members
  – Collaborating on creating tangible leads and new ventures, increasing quality and quantity
  – Learning from venturing experiences abroad
- Establishing an open innovation ecosystem
- Encouraging entrepreneurship

CVNN's creed is 'CVNN; for the members, by the members and through the members', which can be recognised by its governance and way of working. Network members meet approximately four times per year. These membership events are organised by one of the members. The content generally consists of:
- A presentation by the host company describing the corporate venturing set-up, way of working and the portfolio of ventures.
- Presentations by the entrepreneurs of the company's venture portfolio initiatives
- Presentation by an expert on a specific topic (e.g. how to recruit entrepreneurs for ventures, how to increase entrepreneurship within a large organisation, business model innovations and trends in (corporate) venture capital.)

The presentations are generally followed by a Q&A and a lively discussion. There will be plenty of opportunities to make and renew contacts.

Besides the quarterly network meetings, CVNN also organises meetings with business schools and other network organisations such as our Conference on Innovation Governance - together with IMD and Philips. The Benelux Venturing Round Table was organised together with the Belgium embassy in the Netherlands and Vlerick Business School.

The participants in the meeting are the senior representatives of Corporate Venturing and open innovation activities of the members. Various themes surrounding corporate business development are discussed. The information is treated with the strictest confidence in order to be able to discuss the successes, the lessons learned *and* the failures.

CVNN has a board consisting of at least three representatives of the members. The board is also the programme committee and responsible for the composition and execution of the programme. CVNN is an informal organisation co-ordinated by one of the members of CVNN (currently: DPI Value Centre). The CVNN co-ordinator acts as a representative of the board, and takes care of the daily running of the organisation.

Today's member companies are:

The membership shows the same dynamics as Corporate Venturing. There is a lot of start-stop, hence the list of companies that used to be members of the network is longer and contains companies like Shell, Agfa, Nuon, Philips, J&J, Akzo, Barco, NXP amongst others. This reflects how large corporates sometimes make short-term driven changes in a long-term activity as Corporate Venturing.

INTERVIEWS WITH THE FOUNDERS

INTERVIEW WITH WILBERT WILLEMS

Who is Wilbert Willems?

Wilbert: 'I studied Industrial Design Engineering at the University of Delft, where I developed an interest for the systematics of new business development. During that time I recognised the importance of business development alongside technology development, which was the main focus of R&D in those days. I started a consultancy firm (Willems & van de Wildenberg, now Bax & Willems) which focused on matching future businesses with future technologies through venturing and consultancy on improving the business impact on R&D. In addition to the consulting activities I have also always been drawn to venturing, both as an advisor to start-ups as well as an initiator and shareholder of a number of successful high-tech start-ups. (www.denssolutions.com, www.exo-l.com, www.ssens.nl, www.mchplus.nl, www.ibis-spr.nl). Presently I work one day a week as a Business Developer at the Technical University Delft, where I coach techno-starters, initiate new ventures and license IP to external parties.'

How did CVNN start?

Wilbert: 'In addition to the consulting activities, we set up the Corporate Venturing Network Netherlands in 2002, initially called "New Business Development Platform Netherlands", which consisted of an informal group of business creation directors working for Shell, DSM, Philips, Akzo, Agfa, Nuon, Norit and some major VCs. The activities focused on 'mining' and the incubation of potential ventures at materials & nanotech research institutes – creating spin-offs. We initiated this platform together with DSM's Rob Kirschbaum who brought a strong drive with him, being part of a company that was – again – preparing to renew itself. Companies were cutting down on the corporate research budgets and instead of developing new technologies internally, companies were looking for new business initiatives outside their own company. Technology scouting and creating a corporate venture fund to take equity stakes in start-ups became popular. During the CVNN meetings companies wanted to learn from best practices regarding valuation of early start-ups and how to persuade the company board to invest money in a corporate venture fund.'

What can venturing bring to corporates?

Wilbert: 'New business ideas often stay too long in Research. Companies can make far better use of these inventions if they were treated as a venture and not as a R&D project. By treating them as a venture the business component is added, and product and market are developed in parallel instead of sequential. In those days DSM was one of the first companies that started using venturing for their research projects'

INTERVIEW WITH ROB KIRSCHBAUM

Who is Rob Kirschbaum?

Rob: 'I graduated from the Technical University Delft (The Netherlands) as a Chemical Engineer in 1977. My present position is VP Open Innovation at Royal DSM. In my thirty year career at DSM I fostered various innovations (Dyneema fibers, Stanyl films and) up to full commercialisation. In 2010 I received the Giulio Natta Award for this work and for my contribution to implementing open innovation.'

What can venturing bring to corporates?

Rob: 'From 1997 I have been in charge of the DSM New Business Development BV, where internal initiatives were incubated in a separate unit. In this corporate 'Incubator' several early phase commercial activities and new ventures were combined to grow into sustainable businesses. All initiatives were technology-driven and encountered difficulties finding the need they were resolving. An example is the Dendrimer Project. Dendrimers are a new class of polymeric materials. They are highly branched, monodisperse macromolecules. The structure of these materials impacts greatly on their physical and chemical properties. As a result of their unique behaviour, dendrimers are suitable for a wide range of biomedical and industrial applications. Hence dendrimers provided a platform for many different applications. However, DSM was not a pharmaceutical company so those applications would be difficult to realise as they either remained at laboratory level or needed to be scaled up to very large quantities to prove feasibility. In the end the project was stopped. This was one of DSM's first experiences with the difficulties of internal venturing. The lesson from this is that one has to have a clear strategy with portfolio management and creating new business. This is also where the discussions with Wilbert Willems started on how to approach Corporate Venturing, in particular topics like portfolio management and valuation. One of the important challenges was finding a suitable host for a new business. This could be either inside DSM or outside. Melapur was one of the most successful companies that were spun out of DSM, having a business in melamine-based flame retardants. In the same period DSM also invested in venture capital funds to get a better view on the world. These activities led to the decision to start venture capital activities using all the available tools in Corporate Venturing. In 2006 DSM NBD Corporation was integrated into the DSM Innovation Center, venturing. DSM will be extensively discussed in chapter 3.'

What can CVNN bring to its members?

Rob: 'There have been several joint projects with partners, for example the ASML collaboration on a 'liquid lens' system to create materials that influence the refractive index. In general CVNN has been the basis for numerous tangible collaborations. The informal structure of CVNN has played an important and supportive role here. We shared the developments we saw happening in the world of Corporate Venturing and we shared deals and other opportunities. CVNN can bring best practices to companies in Corporate Venturing.'

What about the future?

Rob: 'A point where CVNN can play a role in the future is in defining and participating in government-stimulated valorisation projects. We can help introduce long-term thinking, which is required for Corporate Venturing. Many individuals are now involved, but we could be even more effective by creating a more common strategic approach using the joint experience of CVNN members. Also sharing early deal flow is an area where members could benefit. We should challenge each other within the safe environment that CVNN offers to promote Corporate Venturing in order to create new business in our own organisations.'

1.3 About this book

We have noticed that the scope of Corporate Venturing has changed significantly over the years. In the past the main focus of Corporate Venturing was often on external venturing, i.e. a corporate taking a stake in a start-up. Today the scope of the corporate venturing function is often considered to be much broader incorporating internal venturing (incubation) and innovation partnering. There is no ‘one size fits all’ approach to Corporate Venturing and each CVNN member has their own preferred method.

We were asked by CVNN to write this book to provide insights into the various types of Corporate Venturing and to share the lessons learned by the members with a larger audience.

Yet there are also some common themes, i.e. issues each member has had to deal with irrespective of their set-up. These common principles will also be addressed.

This book is aimed at a broad spectrum of readers: not just for experienced corporate venture people, but for novices too. This book can be helpful to entrepreneurs building the ventures, providing them lessons on how to interact with corporates.

We have organised the book in four logical chapters. Chapter 2 talks about Corporate Venturing in general: What is Corporate Venturing? What are the key issues the venture children as well as the corporate parents are confronted with? What does literature tell us to do? In chapter 3 each member will describe its method of Corporate Venturing. Some companies already have a long history, others members are relative new to Corporate Venturing. Chapter 4 is dedicated to the lessons learned. What can we learn from the stories of the CVNN members? Are the principles we read in literature consistent with what we see in practice?

If reading this book has made you curious and you would like to find out more about what we do, please visit our website on www.cvnn.eu. Further information can also be found on www.bizzinnovationgroup.com and www.innovation-family.com. Lastly, please don’t hesitate to contact us by e-mail: corinakuiper@innovation-family.com and dr.fredvanommen@bizzinnovationgroup.com.

2 Corporate Venturing – Principles

2.1 Corporate Venturing: a contradiction in terms

Venturing in corporate organisations sounds like a contradiction in terms. Ventures are generally seen as small, agile and entrepreneurial, whereas corporates are seen as colossal, slow and inflexible. In addition, ventures would like to use new business models, target new customers and use new channels that are often on bad terms or even conflicting with the current business models, market and go-to-market approach of the large corporates. In fact, start-ups often look upon corporates as the dinosaurs that are out to kill them. It's no secret that many successful companies struggle to grow beyond their core offering. This is not because organisations can't identify new opportunities or develop new and novel concepts; many can and actually do. However, companies often have problems launching these new concepts. Internal politics, risk avoidance and the fear of failure weigh heavily on these new business initiatives. It's easy to underestimate just how much inertia exist within the core business of a company, as the entire organisation has evolved around its success.

In the past, numerous corporate venturing programmes were started, but also stopped when they failed to meet the business value expectations within the so-called corporate patience cycle which typically parallels three-year consecutive terms[1]. Large companies like to create babies and in the first years of their lives these are 'cheap' and can easily fly under the radar. Although they have access to many free competencies, facilities and tools within the mother company, they are discouraged to play outside and experiment with strangers. This impacts negatively on their health and they are not able to test their business model assumptions thoroughly in the market. After two to three years the baby has turned into a teenager and requires more money to test its proposition in the market place. The mother, who hasn't seen any results yet, runs out of patience and forces the child 'to launch in order to sell' rather than 'to experiment in order to learn'. The mother also put the child on a diet, i.e. reduces the investments. The child's health will deteriorate due to limited external exposure which in turn will lead to poor validation of the business model assumptions in the market. The teenagers suffer from 'anorexia' and many will die before growing to maturity. Only those companies that can stick with Corporate Venturing for at least seven to ten years – the time needed for a baby to grow up – will feel the benefits. Most companies don't have the patience to wait this long, as the start-stop cycle and company's patience last on average three years.