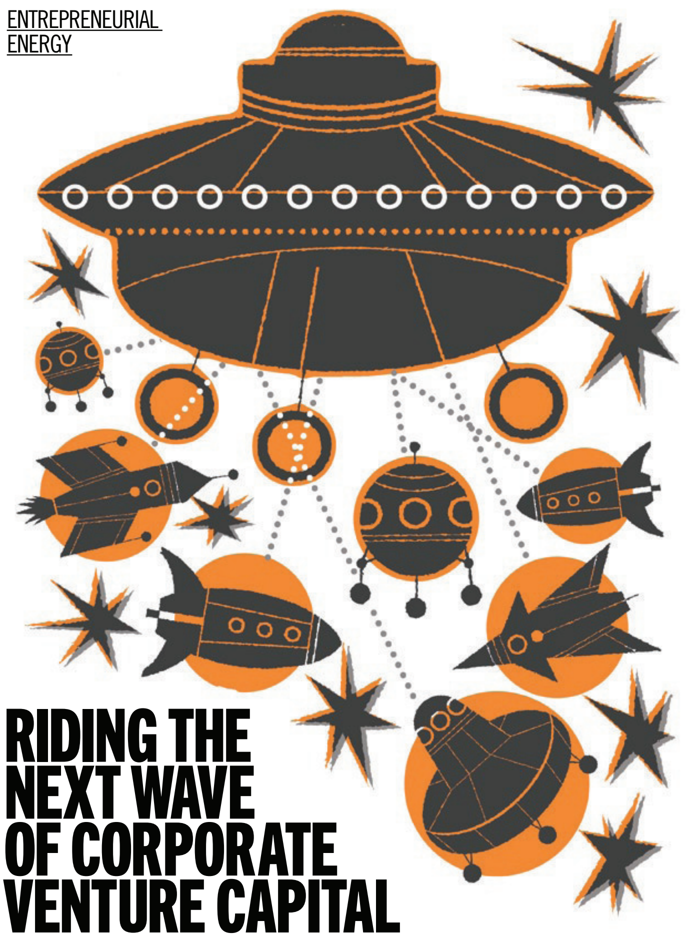
ENTREPRENEURIAL ENERGY



RIDING THE NEXT WAVE OF CORPORATE VENTURE CAPITAL

How can established companies harness the innovative power of entrepreneurial ventures? Corporate venture capital is increasingly the answer as more and more corporations use it as a key component of their innovation strategy. ***Gary Dushnitsky*** *examines its resurgence.*

Today, corporate venture capital (CVC) is increasingly regarded by organisations as a vital weapon in their entrepreneurial and innovation armoury. According to one 2009 study, around 20 per cent of the Fortune 500 have created a CVC unit. CVC occurs when a large corporation becomes, in essence, a kind of venture capital firm. This happens when a mega-corporation, such as BASF, Cargill, Dow, Deutsche Telekom, GlaxoSmithKlien, Intel, Johnson & Johnson, Reed Elsevier, Siemens, or UPS, create an entity that can fund much smaller companies — with the aim of benefitting both the entrepreneurial venture and the larger firm. Such CVC activity goes back at least 50 years, and corporate interest in such ventures has ebbed and flowed.

Now the tidal direction is clear: CVC is on the rise. And among those riding the next wave of CVC are some of the corporate world's sexiest and most successful names. Consider the CVC activity of the search engine giant, Google, in recent years.

In October 2009, Google Ventures led a $15 million investment round in Adimab, a biotech venture. Adimab is developing a computerised platform that scans millions of molecules in search of candidates for further, more expansive, laboratory tests. Executing complex searches over large amounts of data is a Google competency. It is hoped that the Adimab investment may unlock a new industry domain.

A new wave, a sea of change

CVCs, predominantly a large company phenomenon, are a recognition by big corporations that they do not have a monopoly on the next big thing. These firms create CVCs in the hope that they may help them identify novel products, services or technologies that have the potential to be substitutes for those they currently provide. In industries in the midst of rapid change, CVCs allow insights into new developments taking place that companies have been unaware of. They also can be used to fund ventures that may assist in building an ecosystem, namely increase the value of existing corporate businesses. Basically, corporate venturing activity is an acknowledgement of the importance of having a way to scan, identify and leverage innovative ideas developed by others.

Of course, CVC has been popular before (see related box). But the new CVC wave exhibit a sea of change. It is different from previous waves in a number of respects:

Should we fold or stay in the game?

In the past, the average lifespan of CVC programmes was 2.5 years — a third of the average lifespan of investments by independent venture capital (VC) funds. Today, the average CVC programme has been in operation for 3.8 years, and many notable programmes are entering their second decade of activity. More than 40 per cent of the 350 or so corporate investors between 2000–2009 had been in operation for four years or longer, nearly double the length of those in the previous waves — a change driven by significant persistence in venturing activity and one that may be a reflection of a broader pattern of transition towards embracing external sources of innovations.

CVC MYTHS

THE MYTH: CVC UNITS ARE SHORT-LIVED

In the past, the average lifespan of CVC programmes was 2.5 years. During the 2000s, however, the average lifespan is 3.8 years and more than 40 per cent have been working for four years or longer.

THE MYTH: CVC IS A US PHENOMENON

The fraction of CVC investments in US-based venture declined from 88 per cent between 1991–2000 to 75 per cent between 2001–2009. Also, VentureXpert records a slight decrease in the fraction of investment disbursed by US-based corporate investors: down from 83 (1991–2000) to 78 per cent (2001–2009).

THE MYTH: CVC IS PURSUED ONLY BY IT OR PHARMA FIRMS

While IT and pharma firms are highly active, CVC is also increasingly important to industrial firms where scaling-up capabilities are important.

CVC occurs when a large corporation creates an entity that can fund much smaller companies — with the aim of benefitting both the smaller and the larger firm.