Corporate venturing

Ecosystem thinking as a key success factor for corporate venturing

Corporate venturing companies are in an ideal position to become drivers of growth within the start- and scale-up ecosystem, given the fairly limited impact of the COVID-19 pandemic on their activities. With an ecosystem thinking mindset, they can create a win-win situation for both organisations, and help the overall ecosystem to grow.

Corporate venturing and the COVID-19 pandemic

In general, corporate venturing activities seem to be faced with little to no impact from COVID-19 due to their strategic nature and long term thinking. During our research, we did identify some exceptional cases of corporate venturing companies which were impacted by the crisis. However, for both of them the impact appears to be an indirect consequence of either their core business being impacted heavily (e.g. FMCG) or a general lack of strategy in terms of their corporate venturing activities. Respectively, they responded by shifting their investments closer to their core business and by focusing more on short term potential in terms of ROI and capabilities, or by refocusing on investments relevant in the COVID-19 context (i.e. digital and e-commerce) and decreasing their overall corporate venturing budgets.

Nonetheless, given the fairly limited impact of COVID-19 on corporate venturing activities, corporate venturing companies are in an ideal position to become a driver for growth within the start- and scale-up ecosystem, while meeting their own strategic objectives, such as to avoid disruption, acquire new technological capabilities, discover new revenue streams and business models.

The rise of ecosystem thinking

In his book “Corporate Venturing: Accelerate Growth Through Collaboration with Startups”, Omar Mohout, technology adviser and author, poses that the next step in corporate venturing is a shift from competing on the level of business models to the level of ecosystems. Ecosystems are the glue that holds together value chains. It becomes a competitive advantage as breaking or disrupting a connected ecosystem is much harder than disrupting a single company, while creating win-win partnerships and fostering strong long-term growth.

Corporate venturing in the more traditional sense focuses more on one-on-one collaborations instead of broader collaborations with multiple stakeholders within their ecosystem. With ecosystem thinking corporate venturing companies move from a “take-over” mode, where they are simply looking to acquire something, to a partnership mode which allows for more bidirectional benefits and opportunities across the entire ecosystem.

Corporate venturing companies, such as Bayer, D'Ieteren, ING and VRT, have already understood the added value of adopting the ecosystem thinking approach. Their purpose is to help grow their surrounding ecosystem, which in turn allows them to strengthen their network of customers, suppliers and complementary businesses and—by doing so—reinforce their position within the
market. Additionally, as is often the case today, this approach allows start- and scale-ups to keep a high level of autonomy.

Although we often try to categorise corporate venturing as one of four key types (namely ecosystem venturing, innovation venturing, harvest venturing, or private equity venturing), most of the time it is not as clear-cut in practice. This can, for example, be a strong mix of innovation venturing with a clear ecosystem-oriented approach. Corporate venturing companies do, however, often appear to have a strong focus on start-ups or scale-ups adjacent to their core, be it early stage start-ups or well-established scale-ups. This implies that they need to identify or attract the relevant players within their own surrounding ecosystem.

Besides equity participation and more common concepts such as accelerators and incubators—that leverage the knowledge and expertise of corporate companies to support start-up and scale-ups—we now see that corporate venturing is starting to take on additional forms in the Belgian market. For example, with the support of D'Ieteren, the company Lab-box was created to act as a start-up studio or excubator to help identify, develop and grow novel ideas to address the broader Mobility market. This allows them to monitor key trends within the market, while also avoiding being disrupted altogether. From an ecosystem's perspective, this is an excellent driver of innovation and growth.

Another example is public broadcaster VRT's VRT Sandbox initiative, which focuses on introducing new ideas and technologies in their media ecosystem. They offer their own networks as a testing ground for start-ups and entrepreneurs to help them validate and refine their ideas, and in turn act as an innovation pioneer within their own ecosystem to boost its overall growth. As a result of their successes, they even decided to co-create Sandbox Hub which aims to replicate their VRT Sandbox model on a European scale, allowing European broadcasters to share knowledge and expertise and give local start-ups access to their network throughout Europe, enabling them to scale further. In the context of the COVID-19 crisis, Sandbox Hub is even trying to alleviate one of the key pain points today, i.e. the lack of physical meetings. With their Tours initiative they seek to virtually connect European broadcasters with start-ups and scale-ups which are relevant to their own respective challenges.

**The benefits**

The benefits of corporate venturing, be it in the form of an investment or simply as supporting activity (e.g. accelerator or incubator) or partnership, are quite clear. In most cases, large corporates often struggle to keep up with the pace of shifting market demand. With corporate venturing activities they are able to keep their finger on the pulse to avoid being disrupted and are able to get access to new technological capabilities as well as discover new revenue streams or business models.

In addition to funding, start-ups or scale-ups can benefit from both the corporate’s knowledge and expertise as well as their network. In most cases start- and scale-ups have a smaller workforce and need to work with limited resources, a tight budget and often struggle to increase their overall visibility. When collaborating with a corporate venturing company, start- and scale-ups can gain access to a network of partners and clients which often generates new business opportunities. Depending on the level of involvement, this collaboration can even extend into the corporate venturing company providing resources, giving access to their facilities, or sharing know-how and
expertise in the form of mentoring. Regardless of the level of involvement, being associated with a corporate venturing company allows for start-ups and scale-ups to increase their overall visibility and creditability, and potentially even strengthen their branding.

When the ecosystem thinking is strongly embedded within both organisations (i.e. the corporate as well as the start- or scale-up), the aforementioned benefits are strengthened even further and radiate to the broader ecosystem. As such, this not only creates a win-win situation for both organisations, but also helps the overall ecosystem to grow.

Especially for European—and by extent Belgian—companies, this shift in mindset and culture is required to be able to compete with the Big Tech players located in the U.S. (i.e. FAAMG) and create sustainable business. If an organisation’s surrounding ecosystem grinds to a halt or in the most extreme case even collapses (e.g. due to the COVID-19 pandemic), their own growth potential will be indirectly impacted in the mid- to long-term which invokes a lot of risk. With sector convergence driving traditional players to the same ecosystem, this indirect impact is not to be underestimated and would have pan-European consequences.

**Avoiding the pitfalls**

As in most cases, there are of course some pitfalls which should be avoided. When adopting an ecosystem thinking approach, it is key that corporate venturing companies do not lose focus. One must always analyse the benefits for the existing business. However, this rationale appears to be used by most today, even during the current COVID-19 crisis. Although some corporations have the opportunity to capitalise on, for example, lower valuations of start-ups and scale-ups, they have no intent to act unless there is a clear strategic fit or a clear alignment in terms of vision between both organisations. With this in mind, some corporate venturing companies even indicated they refuse to do any of these “bargains” as they then start off on the wrong foot with these companies.

Another potential pitfall closely related to the above, is that corporate venturing activities become disconnected from the core business and strategy. To ensure cross-fertilisation between the core business and corporate venturing, it is of the upmost importance that corporate venturing activities are strongly embedded within the company’s core strategy and not merely function as a stand-alone business unit. By adopting ecosystem thinking across the wider organisation, a shift in mindset and culture can be facilitated, which results in more streamlined strategic objectives as well as more integrated benefits.

Balancing internal and external corporate venturing activities is another rather common challenge. Each type brings its own set of challenges and striking the right balance is a key success factor. When looking at internal (or inside-out) activities, an idea is put into a corporate venturing process and requires intensive investments, hands-on guidance and a strong network. With outside-in activities, a corporate has to actively look for relevant external solutions which can be a time-consuming process with external organisations often being hesitant to onboard due to potential restrictions regarding exit at a later stage. Although ecosystem thinking already alleviates some of these challenges, organisations must adopt a win-win mindset and clearly articulate the benefits for all parties involved.
**Thriving during and after the COVID-19 pandemic**

Nonetheless, as most corporate venturing companies' investment strategies appear to remain unaltered in the context of the COVID-19 crisis, they are now in a prime position to take on a more prominent role within the start- and scale-up ecosystem. Be it in the form of investments or merely support, they are one of the strongest actors within the ecosystem and can drive ecosystem growth, while further reinforcing their market position. This is, however, not just limited to larger corporations. The current situation also allows for SME players to take on a more notable role and pick up corporate venturing activities.

Additionally, due to the COVID-19 pandemic the pace at which market, consumer and company behaviour changes appears to have sped up even more, resulting in an increased level of uncertainty. Due to the collaborative nature of ecosystem thinking, companies can respond even quicker to these changes by avoiding lengthy one-off investments and focusing more on a partnership mode.

Strong collaboration within the ecosystem can act as a catalyst for economic growth on a European scale, allowing Belgian companies to thrive during and after the COVID-19 pandemic. We should move beyond the perception that corporate venturing is merely an innovation instrument to explore new technologies and business models. With an ecosystem thinking mindset, corporate venturing has the potential to become fully transformational, fostering a more entrepreneurial, risk-tolerant and fast decision-making culture. Instead of making small bets, making long-term commitments to the ecosystem will drive sustainable growth, allowing the broader Belgian ecosystem to thrive in the most uncertain of times.

**Key takeaways**

- Given the fairly limited impact of COVID-19 on corporate venturing activities, corporate venturing companies are in an ideal position to become a driver for growth within the start- and scale-up ecosystem, while meeting their own strategic objectives.
- With ecosystem thinking corporate venturing companies move from a “take-over” mode, where they are simply looking to acquire something, to a partnership mode which allows for more bidirectional benefits and opportunities across the entire ecosystem.
- When the ecosystem thinking is strongly embedded within both the corporate as well as the start- or scale-up, the benefits of the relationship are strengthened even further and radiate to the broader ecosystem. As such, this not only creates a win-win situation for both organisations, but also helps the overall ecosystem to grow.
- When adopting an ecosystem approach, it is key that corporate venturing companies do not lose focus on the benefits for the existing business, avoid becoming disconnected from the core business and strategy, and balance internal and external corporate venturing activities.
- With an ecosystem thinking mindset, corporate venturing has the potential to become fully transformational, fostering a more entrepreneurial, risk-tolerant and fast decision-making culture.
- Strong collaboration within the ecosystem can act as a catalyst for economic growth on a European scale, allowing Belgian companies to thrive during and after the COVID-19 pandemic.
Five key insights from our corporate venturing study

1. Faced with lower agility and flexibility, corporates and even SMEs have to embrace corporate venturing and ecosystem thinking to adapt and remain relevant in the new normal.

2. Partnerships accelerate the development of critical capabilities that are required to innovate. Even the most successful companies rely on capabilities outside the company to continuously innovate their value proposition.

3. A well-articulated strategy and endurance will lead to the right corporate venturing activities and help realize the overarching company ambitions.

4. Finding the right match in a vast pool of potential partners, by understanding the market and ecosystem dynamics, requires dedicated time and resources.

5. "Smart investments" that help amplify the company's objectives are more effective compared receiving "just" financial support.