Boost your venturing results through data-driven venture scouting

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Recently, an increasing number of corporations have been using data to map and tap into growing ecosystems. This data-driven approach allows corporations and investors to explore opportunities in a more effective and structured way. As a result, corporations can expand and strengthen their positions in innovative ecosystems and optimize venture investments and related initiatives.

With more smart people outside than inside your corporation and knowledge neither centralized nor equally distributed, more and more corporations understand that they don’t have all the required innovation capabilities in-house and are looking outwards for solutions

When everybody dreams of unicorns

Everybody is innovating. We are swamped with warnings about the current pace of change. Most of us know by now that we have to iterate to fit a changing landscape, and adapt continuously to meet evolving market needs. Competition diminishes margins with disruption as a possible consequence.

Change used to trickle down locally, now it runs globally, cross-border and cross-sector. New technologies disrupt entire industries in no time and from unexpected angles. And it is more than just an economic and technological transition, it’s a social and cultural transition.

Individuals and corporations alike are experiencing a growing challenge to stay relevant and fit. There is friction between short-term and long-term goals with corresponding investment-, management- and cash flow- issues. We are searching for a balance between efficiency and creation.

Tapping into growing ecosystems

With more smart people outside than inside your corporation and knowledge neither centralized nor equally distributed, more and more corporations understand that they don’t have all the required innovation capabilities in-house and are looking outwards for solutions. We see successful examples of corporations that actively participate in growing ecosystems. They are working together with large and small corporations to adapt to change and fulfill the changing client and market needs.

Successful corporations share a common practice. Management has a dedicated team in place whose main purpose is to explore and pursue opportunities in related or (seemingly) unrelated business areas, while the majority of the organization focuses on the current core business. Typically, these teams work separately from the rest of the organization to such an extent that it allows them to employ a more independent approach to identifying and exploring opportunities. These teams look outwards and actively explore, participate in, and add value to innovative ecosystems. It should be stressed, however, that finding the right balance is important, as these teams should not become too detached from the organization. Corporate venturing is on the rise as an effective method to actively contribute to ecosystems.

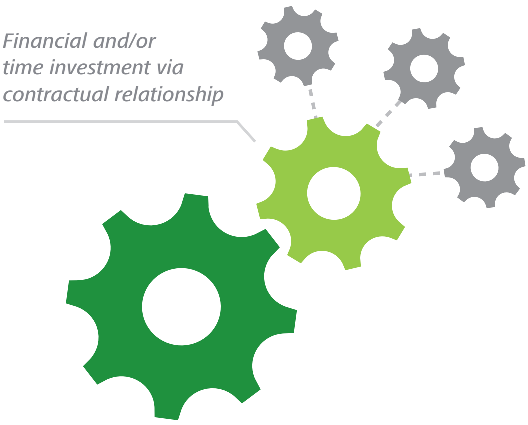
Several large corporates already have aggressive corporate venturing activities like Google Ventures, Intel Capital, Salesforce Ventures and Qualcomm Ventures (together, jointly these corporations have invested in over 300 ventures). These examples are limited to technology corporations. We observe, however, that an increasing number of less tech-savvy companies feel the urgency for corporate venturing. In the financial services sector, for example, significant budgets have been allocated to venturing activities in recent years and we have seen a large increase in the past few months. Allocating a budget is a first step. The second step is applying a corporate venturing model that suits your strategy, culture, and goals.

Four models to collaborate with fast-growing ventures

There is a variety of models available for working together with start-ups and fast-growing ventures, ranging in intensity from learning from each other and contractual relationships/joint ventures to minority stakes and full acquisitions.

Partnerships

Financial and/or time investment in multiple disruptive start-ups via experiments (contractual relationship)



Characteristic

Acquisition

Integration

Control

Best in class:
TomTom

Rationale:
Become an active ecosystem player and learn from start-ups

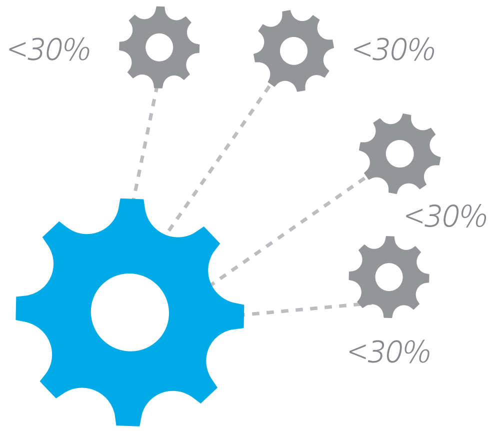
Criteria:

- Potentially disruptive
- Learning opportunity
- Partnership (yet not exclusive)

Dedicated innovation team

Venturing

Invest minority stakes in multiple disruptive start-ups



Characteristic

Acquisition

Integration

Control

Best in class:
Salesforce

Rationale:
Become an active ecosystem player and learn from start-ups

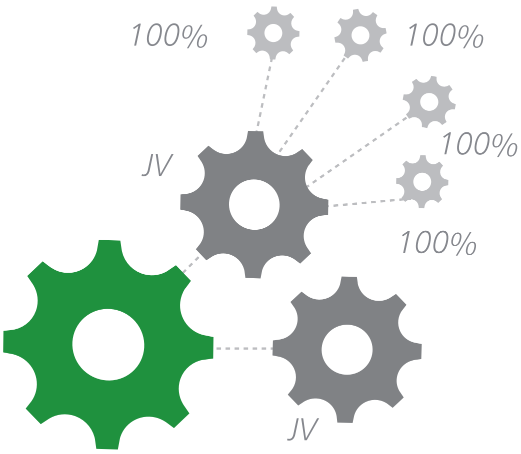
Criteria:

- Potentially disruptive
- Learning opportunity (board seat)
- Partnership (yet not exclusive)

Dedicated venture team

Buy & Build through platform company

JV (Joint Venture) with platform company to initiate (pan-European) consolidation in still fragmented industry



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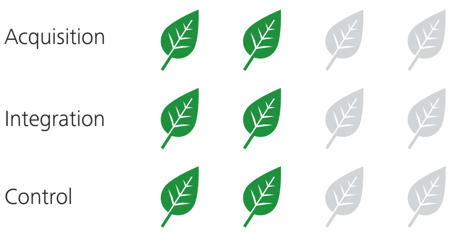


Best in class:
Axel Springer

Rationale:
Benefit from entrepreneurship (partner) and scale, funding & skills (M&A)

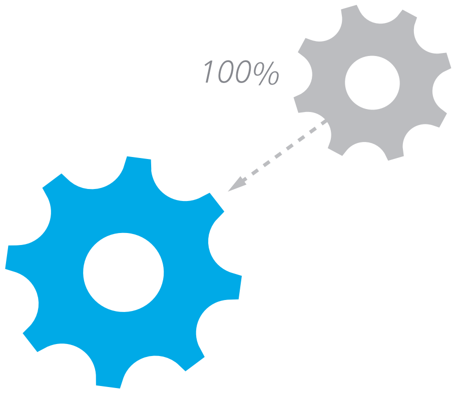
Criteria:

- Activities are adjacent to the core
- Yet, potential to become the new core business through buy & build
- Medium to large investment

Board ownership & dedication M&A

Full acquisition

Acquire 100% of the shares and take full control



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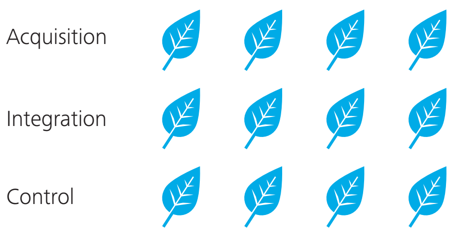


Best in class:
Cisco

Rationale:
Take full control of growth and synergy realization through the business

Criteria:

- Activities are core to the business
- Proven technology/business model
- Synergies are manageable

Business responsible

Traditional M&A focuses on acquiring capabilities with strong synergies with your own capabilities or geographic expansion and growth ambitions, or simply acquiring a direct competitor to expand market share or protect own business. With the continuous development of dynamic ecosystems, this is no longer sufficient. Two related trends drive the need for a more flexible M&A model. One is the increasing speed of continuous change through technological innovation; an investment decision today might be obsolete tomorrow. Secondly, due to increased connectivity and digitalization, global capabilities are suddenly within reach; it is no longer necessary to internalize all required capabilities for your business. You can achieve the same goals just as easily by tapping into an ecosystem of corporations in a specific segment. Diversifying your M&A model will increase the level of flexibility to adjust your choices based on changes in your ecosystem. Connecting yourself to a wider and more diverse group of adjacent capabilities can add significant value to your current business.

When connecting through corporate venturing you can use several different models. Each model provides different levels of control and integration, which should fit with your specific goals. Your choice of model is not only vital for the success of your innovation drive, it also affects the level of learning within your own organization.

Successful corporations don't rely on luck; they apply a structured, data-driven approach

Partnerships

Some corporations appoint a dedicated innovation team tasked with creating partnerships with start-ups and fast-growing ventures to learn from culture and capability differences, accelerate required transformations, or to integrate or develop new products and services. This approach is specifically suitable when a corporation is starting to explore new adjacent business areas. Strategic partnerships are formalized through contractual arrangements.

Venturing

Venturing entails taking minority stakes in multiple potentially disruptive start-ups active in strategic focus areas. The obvious, but valuable, advantages of minority stakes are that they are more flexible. Investing can be executed either through a captive investment strategy with your own dedicated fund, or by partnering with an external fund. In general, starting with an external fund can help to develop and internalize the necessary venturing expertise. Corporations often lack internal subject matter expertise to appropriately screen cutting-edge sectors.

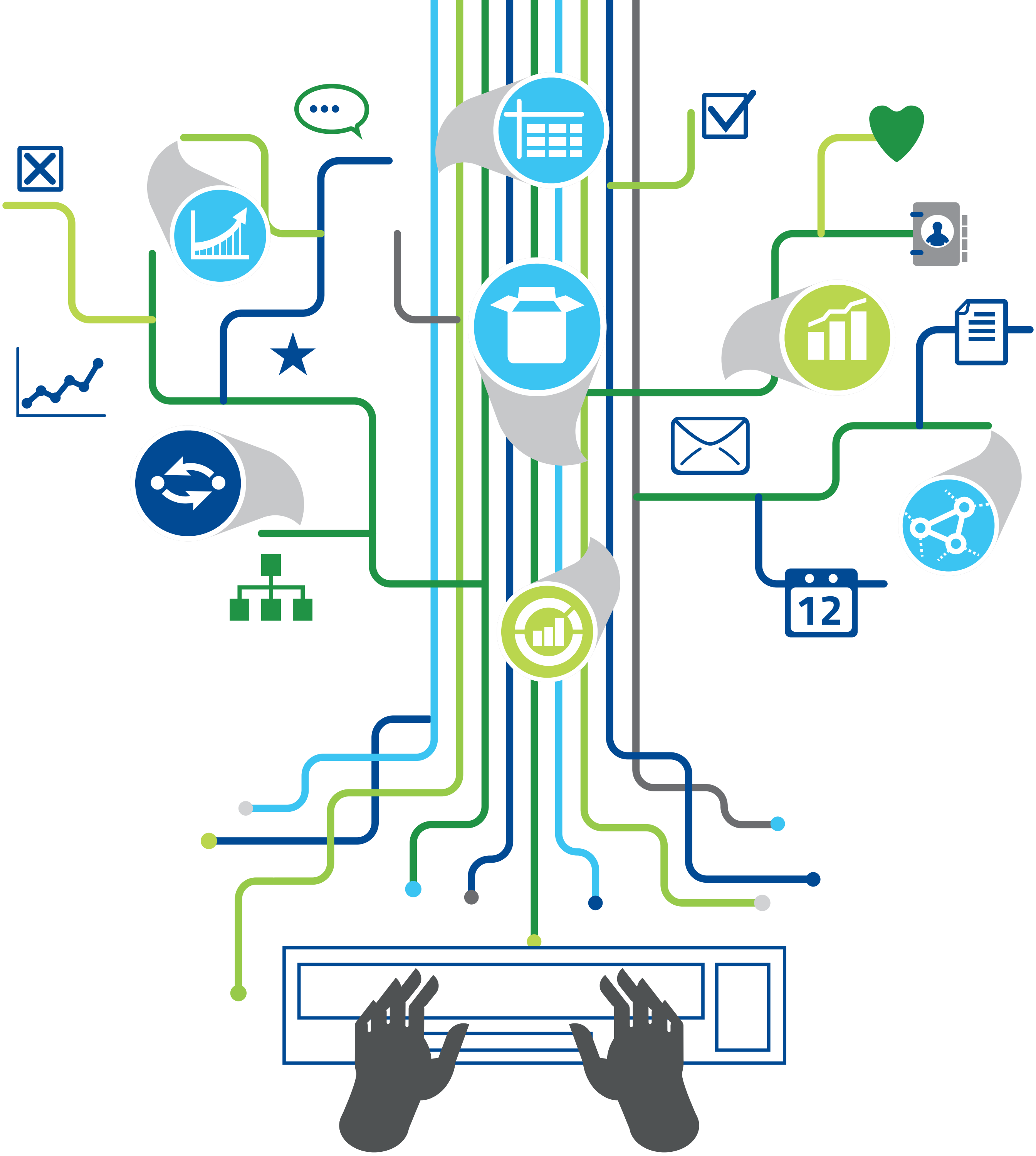
Buy & build

If the specific disruption to your business is well defined, and a significant leader exists in that segment, venturing through a platform corporation can be the right way to go and give you a head start in an adjacent market and its ecosystem. Through further acquisitions of this platform corporation, you will build a new business, which can eventually become the new core business.

Full acquisition

Full acquisition is one of the more traditional models. It will give you full control over the acquisition target and gives you the option (which doesn't necessarily mean you should) to integrate the target fully into your own corporation.

As is clear from the descriptions above, there is not a "one size fits all" model. The appropriate model will depend on your goals, structure, and assets; it may change over time and may differ per opportunity.



Data-driven venture scouting

Whatever model is appropriate in a specific situation, there is one common starting point. It all starts with finding the right partners or investment opportunities. Large corporations spend time trying to identify the right ventures to work with, and ventures spend time trying to network with the right decision-makers. The majority of corporations' venture relationships come from referrals and are opportunistic in nature. Relationship-based networking methods lack scale and people struggle to find and connect with the right decision-makers.

Strategic scanning of the ecosystem is a must. However, the old approach of having several scouts on your payroll with a great local network attending events and reading a lot is outdated. It is too local and too ad hoc, wishing for serendipity; it is no longer effective in a world where new entrants can come from anywhere around the globe and from any industry.

In this global and digital era with an abundance of information, we now have the means for a data-driven and structured platform approach to scan the market, compare the various options and share the information across the various divisions within your organization. Successful corporations don't rely on luck; they apply a structured, data-driven approach.

Tapping into ecosystems will boost your innovation capabilities beyond your company limits

It's all about combining different data sources and using algorithms to search, filter and compare company profiles or create visualizations of markets and trends. The number of new corporate intelligence offerings rises quickly. They use a wide variety of data sources to build a comprehensive database: high-end non-public company data sources, publicly available information on listed and unlisted corporations, patent filings, crawling information from important social or data platforms, tech sites, and start-up incubator and accelerator programs.

In different ways, these new corporate intelligence tools track investment patterns, patent filings, press releases, and job postings to find early signals about any start-up or venture you are interested in, the entrance of an unexpected player in the market, or an upcoming product launch. We see a shift from regular lengthy reports to ongoing intelligence streams to identify threats, thus enabling a proactive approach.

These intelligence tools are continuously improving and with advanced natural language processing capabilities, you are able to query unstructured data to see all the significant events relating to the market you are in.

By incorporating this data-driven approach, you can:

- Take any corporation and see its competitors across dimensions including narrative positioning, IP, acquisitions, social media sharing, key executive moves, and compare multiple data streams to give you a different perspective
- Look at financial news about a topic, and then compare with the patents that are being filed within this space. You can quickly identify leaders, laggards, and the outliers that are bridging markets in new ways
- View summaries of any selected corporations, group them by growth rates, funding activity, or new entrants
- Zoom in on the most attractive investment targets, reveal hotspots of innovation through the mathematical patterns within patents, scientific papers, and capital allocation
- Use visual business intelligence and patent analysis tools to map the areas of IP that are highly contested versus being dominated by a single organization
- Understand the relationships between established sectors, identify technology whitespaces, and find opportunities for commercialization

Information technology should also be used to have employees from one business unit share favorite insights, visualizations, trends, or company profiles with other colleagues at other business units or your M&A, strategy or business development division. Sharing insights will ignite fruitful communication that will result in action and new value. This will increase the number of scouts in your organization; your corporation will in effect open up more to its business environment and steepen the learning curve of the employees involved.

By obtaining these types of working methods and a solid data-driven approach, you drastically improve the value that you will derive from the extensive corporate venture investments. Instead of being disrupted by new entrants, you can now cooperate with new entrants.

Principles for successful corporate venturing

When you make the choice to go for a structured corporate venturing approach, you need to keep some important principles in mind:

- The majority of relationships come from referrals and are opportunistic in nature. A structured data-driven approach enables you to remove subjectivity from your selection process
- To effectively use search technology, you need to know what you are looking for. Use subject-matter experts and text-mining technology to come up with as many words as you can to describe the capabilities, solutions, offering or corporation you are aiming for
- As large corporates, we sometimes tend to think that money buys us everything. But just offering money is not enough. To become successful in your venturing strategy, you need to define the specific differentiating added value that your corporation will bring to the venture and ecosystem

Conclusion

Tapping into ecosystems will boost your innovation capabilities beyond your company limits. A data-driven approach will enable you to drastically improve the value that you will derive from the extensive corporate venture investments. Will you be the disrupted or cooperate with the disruptors?