Global Corporate Venturing

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Industry showcases its best practices

The first anniversary of Global Corporate Venturing is also an opportunity to unveil the inaugural best practices among the industry stars. The cases are designed to be a way in for groups to explore what works well and showcase the best about an industry whose light has been hidden for too long. The certificates were presented at the Global Corporate Venturing Symposium and Banquet in London.

Ten maxims from the 10 best practices

S **Step up – be able to lead or price if you want the same terms (T-Venture)**

U **Unite – relationships take time to build but forever to repair (Unilever)**

C **Communication – internal and external (Hartford)**

C **Clear aims – consistency of approach and follow through on commitments (GE)**

E **Encapsulate – market insights to help value deals (Intel)**

E **Encompass – the organisation and deliver it to help the portfolio (WPP)**

D **Do no harm – avoid squashing the entrepreneur (Shell)**

I **Independence – of funding and/or organisation structure (Novartis)**

N **Now – move in time with others when events happen (Honda)**

G **Good – selection and timing of deals (Steamboat)**

"Success has a much greater influence on the brain than failure."

This was the conclusion of Massachusetts Institute of Technology neuroscientist Earl Miller in an article in magazine Scientific American on how the mind treats the two outcomes.

If so, it is appropriate to look at the lessons from the firms typifying best practices in the corporate venturing industry, as selected by the Global Corporate Venturing advisory board.

Fortunately, for the health of the sponsoring corporations and entrepreneurs, as well as the rest of the innovation ecosystem, these traits are spread more widely than the 10 firms selected this year. They are shared among the rest of the firms shortlisted as well as others among the community. This means the units selected are less to be seen as winners than archetypes showing what can be achieved over time.

Highlighting and praising these practices are the best insurance for an industry entering its golden age with a host of expanded programmes and newer entrants finding greater welcome from entrepreneurs seeing fewer alternative sources of venture capital (VC).

The mnemonic “succeeding” is built around important points from the 10 best practices chosen one per economic sector. The 10 maxims, or lessons, broadly fit into three categories – what aims should a corporate venturing unit have; what is its strategy; and which tactics will achieve those aims?

Unless the corporate venturing unit has clear aims for what it is trying to achieve, it will struggle. US-listed industrial conglomerate General Electric in the past year has set up corporate venturing programmes looking at clean-technology and alternative energy so entrepreneurs can find a way into working with the group. The markets are also sufficiently large to allow the law of big numbers to come into play and if the venturing groups are successful it will start to move GE’s revenues and profitability – an impressive achievement for a very large company with more than 100,000 employees. Part of GE’s remit through the Ecomagination project is to root out waste – with the money saved providing the capital for investment in further projects - and senior management has required as part of the annual appraisal each business unit to suggest ideas for backing.

Once the strategy has been set, the tactics to achieve the goals can be drawn up. For Switzerland-based drugs company Novartis, Reinhard Ambros, executive director of its Novartis Venture Funds, laid out a clear mission statement: innovation, patient benefit and superior returns. But, because healthcare investing can take a long time to see if a treatment works and can gain regulatory approval, Novartis chose to make its objectives primarily financial.

Ambros has said in a roundtable organised by accountancy firm Ernst & Young: “Knowing now what large pharma will want in five or eight years is very, very difficult because it depends on their internal programmes, competitor programmes, the amount of cash available, many different things. In principle, we say that as long as it is strategic to the healthcare industry, it makes a difference for the patient and we like it, then it is good for us.”

Structure is critical to how venture capital funds build and sustain successful partnerships
John Ball, Steamboat Ventures

Given such investment timetables, one of the best ways to be able to decide if a project should be backed by Novartis is to have the option to take up a promising treatment. Hence, Novartis set up its Option fund as a new concept, and in the past year licensed portfolio company Viamet’s proprietary Metallophile Technology for an upfront fee and potential milestones totalling more than $200m as well as product royalties.

The Novartis Venture Fund was started in 1996 with CHF100m ($110m) at the merger of Sandoz and Ciby-Geigy and has since grown to more $700m through a separate, independent legal structure, Novartis BioVentures Ltd (Bermuda), advised by management teams in the US and Europe and with a comprehensive annual report.

This structure provides the foundation for the management of venture investing.

“Structure is critical to how venture capital funds build and sustain successful partnerships over long periods of time that support entrepreneurial innovation,” according to John Ball, founder and managing director of Steamboat Ventures, one of the media sector’s largest and most sophisticated venture investors with its sole limited partner being Disney.

Overlaying Steamboat’s clear structure is the basis of another maxim: do good deals and time them well. Venture capital, as an equity investment, is cyclical and so follows the ebbs and flows of the economy. When Steamboat was set up in 2000, Ball said it avoided any deal-making for 18 months as the dot.com bubble reached its apogee and then deflated. This gave a chance for prices to rationalise and a new wave of promising new media companies to begin to emerge.

But venture investing requires greater optimism than value fund managers and when a company or sector takes off the best managers can react quickly to invest and inform the parent about what is happening.

This is what Steamboat showed with its Playdom social gaming deal. Disney’s agreement in July last year to buy Playdom for $563.2m, plus a potential $200m earn-out, was made just weeks after Steamboat had joined its $76m series A round consortium. This extended A round valued Playdom at about $345m, according to analysts at NextUp Research.

Steve Wadsworth, president of Disney Interactive Media Group, the business unit which acquired Playdom, in an interview with news provider PaidContent.org said: “This category [social games] is growing at a rate that is in a lot of ways unprecedented.”

It also shows the level of trust and communication between Steamboat and Disney's senior managers and business unit heads.

Strong communication with stakeholders provides the tool to see warning signals and successes early. Hartford Financial Services Group became the first US-based insurer to cover home-based electric vehicle (EV) charging stations after an investment by its Ventures unit in Coulomb Technologies last year. This garnered positive press coverage and was an early vindication of the strategic merits of venture investing and incubation.

Robert Ackerman, managing director and founder of venture capital firm Allegis Capital, advised corporate venturers to "spend as much time managing internally as you do externally".

He said: "Corporate venture programmes most often fail due to a lack of internal support. It is essential to build a strong internal base of support to sustain your programme through the protracted development/ROI [return on investment] cycle of a start-up. Find ways to measure and communicate 'soft' value in your organisation while waiting for the hard returns – dollars and strategic benefits – to materialise."

Corporate venture programmes most often fail due to a lack of internal support. It is essential to build a strong internal base of support to sustain your programme

Robert Ackerman, Allegis Capital

Ackerman, who has a 15-year record of working with companies as limited partners in Allegis funds and alongside its portfolio companies, said corporate venturers also needed to mind the "golden rule of venture capital – do no harm". He said this was particularly important for corporate investors who have to make sure they, "first, deliver on their corporate commitments and, second, ensure their corporations do not step on their portfolio company – whether intended or not".

Oil major Royal Dutch Shell's GameChanger programme is one of the few successful, long-term incubators partly because of following this golden rule.

The genesis of GameChanger was the need to put long-term projects into a separate place from the normal research and development projects and manage them differently and with a separate budget, according to Russ Conser, its head.

To create "space that would free minds for innovation", GameChanger was designed as a "proof-of-concept" process to work with an idea, not just analyse it, so that experience, rather than assumptions grounded in orthodoxy, drives later decisions as to whether to support or kill the project, he added.

GameChanger has been built on trust that decisions made are because of experiences learned through testing an idea, rather than from internal politics or arbitrary judgements.

This trust forms strong relationships and helps unite a group with its innovation ecosystem.

Relationships take time to build but forever to repair and Unilever Corporate Ventures, which invests for Anglo-Dutch-listed Unilever, a company that sells 160 million products every day, has shown how to leverage resources to cope with a world where innovation can come from any region and increasingly crosses sectors.

Unilever has cornerstoned the Langholm and Physic Ventures funds in Europe and the US, respectively, and successfully built partnerships with its peers as well as the venture capital firms and entrepreneurs.

To increase its flexibility to invest across regions and deals, Unilever's board has this year given unanimous support to expand into emerging markets and move to an evergreen funding model as returns from successful exits from portfolio companies are recycled into new deals.

Unilever's model of trusting partnerships to invest in specific areas and encapsulating the parent organisation's market insights helps value deals and provide support to portfolio companies.

Intel Capital, the corporate venturing unit of US semiconductor Intel, is regarded as the 800lb gorilla of venture investing with more than 400 portfolio companies on its books and having invested more than $10bn over the past 20 years.

But with power comes responsibility. Intel Capital has refined its processes to institutionalise and de-personalise venture investing, while trying to put the entrepreneur first in terms of providing support and avoid twisting its research and development solely for its perceived benefit. This allows the organisation to handle succession of senior leadership, which is usually difficult to do in a small partnership where one or two people have brought in and managed the best deals.

The Intel Capital team aims to help the information technology market grow by backing companies that will be profitable and encourage greater use of more advanced chips. This can take the form of creating new markets by using Intel's sales channel and existing suppliers and customers to encourage start-ups in a promising area.

Advertising services group WPP offers portfolio companies access to its organisation and delivers it to help the portfolio. By encompassing the full suite of market research, marketing and advertising tools, WPP has grown by successful acquisitions and integration. This area of business development is notoriously difficult to succeed at, with academics calculating about three-quarters of mergers and acquisitions fail.

Such insights usually remain hidden from most portfolio companies. However, soon after WPP's investment in Buddy Media, the portfolio company bought a peer to fill out its product suite.

As Mark Read, who is WPP's strategy director and chief executive of WPP Digital, said: "Our goal is to bring innovation to our agencies and clients and to get access to ideas and technology that it may not be practical or possible for WPP to control 100%.

"We pretend we own 100% in order to facilitate introductions. We have no more rights than any other investor as we try not to overcomplicate things."

In the past we looked to co-invest with VCs ... but recently that has changed and now we are also looking into earlier-stage deals, and taking the lead
Georg Schwegler, T-Venture

However, for most entrepreneurs, corporate venturing brings potential strings and pitfalls. Yavuz Ahiska, founder of five successful start-ups including most recently Approxy, by email ahead of his talk at the Global Corporate Venturing Symposium said: "Naturally corporate investment comes with a price – exit restrictions plus certain exclusive exploitation rights, board position to harness and control the start-up,s resources and so on. If not negotiated well, such an association could indeed suffocate and derail the development of a start-up with limited resources."

But just getting the same rights as other members of investment consortia can be hard. In order to do so, Germany-based telephone operator Deutsche Telekom's T-Venture unit has increasingly started to lead deals and set pricing. As the number of VC firms fall and many more cut their team sizes and fundraising becomes increasingly difficult, the requirement on corporate venturing units to take their place will grow.

Georg Schwegler, managing director at T-Venture, which had been started in 1997 and has its headquarters in Bonn supplemented by T-Venture of America in California and Washington, said its strategy had adjusted as VCs in the sector shrank.

He said: "In the past we looked to co-invest with VCs in series B and C rounds, but recently that has changed and now we are also looking into earlier-stage deals, and taking the lead if we get positive feedback from a business unit, especially in Germany where there are not many VCs."

Ackerman added: "If you want to be treated like a venture capitalist – act like one. Time is of the essence. Don't expect special treatment because 'we are a corporate investor'."

But time can be found by forward planning. Honda Strategic Venturing (HSV), the strategic corporate venturing unit of Japan-based car maker, uses its global Honda research and development (R&D) organisation to create the framework that then encourages timely investments.

Corporate venturing can take many forms and paths to succeeding in investing but in essence it comes down to finding good, motivated professionals; giving them the money, time and organisational structure to do their job; and having some luck and good judgement to find and back the best entrepreneurs. As a result of these selected firms, the world is being made a better place.

The awards

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Encapsulates all the potential within corporate venturing

Global Corporate Venturing Personality of the Year Award 2011: Arvind Sodhani
Best Practice in the Information Technology Sector: Intel Capital
VCs Perfect Partner: Intel Capital.

This year marks a year of anniversaries, both for Arvind Sodhani (pictured) and the corporate venturing unit he manages. It is, therefore, appropriate to award him the Global Corporate Venturing Personality of the Year Award 2011 for services to the industry over the past 12 months, while his team collects the Best Practice in the Information Technology Sector certificate and VCs Perfect Partner achievement.

For Sodhani, executive vice-president of Intel and president of Intel Capital, this year marks a number of milestones as it has been 30 years since he joined US-listed semiconductor maker Intel, while its investment division, Intel Capital, has been growing for 20 years to become the world's biggest investor in entrepreneurial businesses.

Sodhani took over the top job at Intel Capital in March 2005 with a mandate to expand internationally and continue investing.

This he has done. Intel Capital's portfolio is now more than 400 companies and it has invested more than $10bn since 1991.

Last year, Intel Capital invested $327m in 119 investments with about 44% of funds invested outside the US and Canada.

But Sodhani has been at the forefront of corporate efforts to make sure the US retains its lead in innovation and remains the world's largest economy.

Last year, Intel led the Invest in America Alliance of Intel Capital and 24 leading venture capital (VC) firms to invest $3.5bn in US-based technology companies over the next two years. Many of these VCs, along with others round the world as nominated by the US and European trade bodies and Global Corporate Venturing, selected Intel Capital as its "Perfect Partner" for ability to help entrepreneurs and drive value in investing. The selection was made out of the 10 corporate venturing units regarded as most influential in their sector over the past year, as rated by Global Corporate Venturing.

As Robert Ackerman, managing director and founder of venture capital firm Allegis Capital, said: “In terms of scope and longevity, it is impossible to ignore the Intel Capital corporate venturing programme. Intel stands alone in terms of the impact it has had on the global venture capital-backed innovation community.”

These Invest in America Alliance investments target innovation and growth segments, such as clean technology, information technology and biotechnology, while Intel Capital invested in less than 12 months its $200m Intel Capital Invest in America Technology Fund set up to meet its commitment. This was followed up in January with a further $200m promised for US President Barack Obama’s Startup America campaign to strengthen entrepreneurship in the country.

Over the past two decades, Intel Capital has made over 1,350 investments in US businesses, totalling more than $6.2bn.

Last year, Sodhani said: “Venture capital investments have played an important role in creating jobs at home and keeping America at the leading edge of technology globally.

“With $3.5bn of equity capital to invest in the most promising new ventures in the country, our collective goal is to continue to drive technology innovation and stimulate economic activity.”

The Alliance also saw commitments from 17 technology and other corporate leaders, including Intel, to increase their hiring of college graduates, some by as much as two times, to create the products and provide the services of tomorrow. Intel also said at the start of the year it planned to invest $100m directly into US university research over the next five years.

However, the year has not been easy for Sodhani as Intel Capital was the victim of insider trading by one of Intel’s former employees. Rajiv Goel, a former employee at Intel’s treasury department, pleaded guilty to insider trading and testified that he sought earnings information from a contact in investor relations for hedge fund manager Raj Rajaratnam, founder of Galleon Group, in April 2007 and also provided regular updates about investment plans by Intel Capital.

Rajaratnam remains free on bail until sentencing on July 29 and faces 15.5 to 19.5 years in federal prison after being found guilty of 14 conspiracy and securities fraud charges of insider trading in May.

One of the alleged incidents reported by news provider Financial Times involved discussions of the details of Intel’s planned $1bn investment in wireless broadband company Clearwire the day after the chipmaker’s board approved the transaction and weeks before the deal was publicly announced, according to recordings of phone calls played at his trial.

Rajaratnam and Goel discussed Intel’s $1bn investment in Clearwire, the terms of the deal and names of other strategic investors, including Google and Comcast. They also discussed that Clearwire’s board would consist of 13 members. None of the information, the Intel executive testified, was publicly disclosed.

Clearwire has been Sodhani’s biggest deal since he took over the top job at Intel Capital but the company has struggled to profitably develop the Wimax market. Although Intel Capital this month said it would sell a tenth of its holding, it remains the biggest minority investor with about a third of Clearwire.

Elsewhere, the news has been better for Sodhani. Last month, Impinj, a US-based provider of radio-frequency identification (RFID) tags, filed for a $100m initial public offering (IPO) while Phoenix New Media, the digital media arm of Phoenix Satellite Television, plans to raise double that in its US flotation.

After such activity this past year, the future looks bright for the next 12 months.

Relationships take time to build but forever to repair

Best Practice Consumer Sector: Unilever Corporate Ventures

Unilever Corporate Ventures, which invests for Anglo-Dutch-listed Unilever, a company that sells 160 million products every day, has picked up the certificate for Best Practice in the Consumer Sector.

The board approval earlier this year for Unilever to set up a corporate venturing unit in India, and then China, as well as develop into an evergreen model in which the returns from portfolio companies are reinvested in new deals takes one of the most sophisticated venturing models to its next level.

Unilever already invested or acted as cornerstone limited partner in teams covering the venture to leveraged buyout stages in Europe and the US but moving into emerging markets puts it into the category of the largest, most successful teams.

Martin Grieve, managing director of Unilever Corporate Ventures, said: "We have been given unanimous support from the top of Unilever to expand into emerging markets. We have numerous options but it will be India and China first this year. Strategically, emerging markets are a high priority for Unilever, and this is the right time in the development of Unilever Corporate Ventures to leverage our model."

Grieve said the attraction of emerging markets was the expansion in the number of people earning more than the basic. He said: "We are seeing exciting investment opportunities as rising income levels and the trend towards urbanisation create demand for consumer goods and potential for new product categories.

"For Unilever, India and other emerging markets represent the expansion of a successful strategy that in September 2002 saw the company commit €100m ($140m) to create Langholm Capital Partners Fund, buying mid-market European consumer-facing businesses as an independent firm, and €70m over three years in Unilever Ventures and Unilever Technology Ventures, which invest in early-stage business in western Europe and North America respectively as subsidiaries of Unilever."

The challenge of finding the right teams, cultural differences and remotely managing investments has precluded most firms from going global, as well as the difficulty of funding usually a larger number of deals.

Unilever has built its reputation through strong relationships with other players in the ecosystem to form a consensus, leverage resources and shape a sector.

Unilever is a cornerstone investor in Langholm and Physic Ventures and has reaped some strong exits, with a 2.1-times return so far from Langholm's first fund.

Grieve said: "The past decade of deals through Physic, Langholm and Unilever Ventures should lead to exits this year, such as HaloSource [which floated last year four years after Unilever Technology Ventures' first investment] and [biofuels developer] Solazyme."

Grieve added: "Brainjuicer is a great example of our model, where we invested in a business with €100,000 turnover, introduced market research expertise and Unilever as a lead customer, successfully listed the business in 2006 and grew revenues to in excess of €16m today."

The challenge it has taken on is to apply the same skills to finding success in emerging markets, where talent is mobile and governance challenges remain severe.

Do no harm – avoid squashing the entrepreneur

Best Practice Energy Sector: Shell GameChanger

Oil major Royal Dutch Shell's 15 years of managing its GameChanger programme to incubate an idea to a proof of concept and then potentially on to a business or technology has been one of the few long-term and successful programmes and chosen for the Best Practice Energy Sector certificate.

The genesis of GameChanger was the need to put long-term projects into a separate place from the normal research and development projects and manage them differently and with a separate budget.

To create "space that would free minds for innovation", GameChanger was designed as a "proof-of-concept" process to work with an idea, not just analyse it, so that experience, rather than assumptions grounded in orthodoxy, drives later decisions as to whether to support or kill the project.

GameChanger is an autonomous team of 10 who invest about 5% to 10% of the R&D budget in testing the ideas that pass its initial and extended panels. Successful projects, which cost GameChanger on average about $500,000 in being tested and refined over two years, graduate for further development under the separate R&D programme, a licence to another firm or a new venture company, such as Swellfix that was last year absorbed into Tendeka.

Shell sold a majority share in its separate Technology Ventures group, which was designed to back larger businesses, to form an independent firm, Kenda Capital. However, the firm has been exploring how to develop the nascent businesses more effectively.

Between half and 60% of all ideas submitted to GameChanger come from Shell's employees, but the process is open to all and all are judged by the same process.

About 5% of projects passing through GameChanger graduate to R&D and end up as technologies used by Shell.

One of the important reasons for GameChanger's success has been the consistent level of top executive support with an understanding for how long the projects can take to be realised, having a separate fund and dedicated team and autonomous authority.

Autonomy in making investment decisions and steering projects exists within a culture of transparency about the reasons for those decisions and the subsequent methodology.

Most crucially, as a company, Shell has people who work to the long term. Every three years, people model what the world will look like in 25 years and GameChanger then translates these themes back to technology.

As Russ Conser, head of GameChanger said last year, the greatest challenges came from the "human dimensions of radical innovation.

"The genius of GameChanger is it is a little mechanism to create the right conversation, not to pin the tail on the donkey but to bring soft knowledge to bear on an idea. Innovation is down to a paradigm - how to look at a problem."

Sophisticated marriage of venturing and incubation with effective communication

Best Practice Financial Services Sector: Hartford Financial

The crucial steps to build a successful corporate venturing programme for the longer-term are to do good deals, with an early win and where the parent organisation can gain a strategic edge over its competitors through the connections and insights gained from the portfolio.

US-based insurer Hartford Financial Services Group's Hartford Ventures unit picked up the certificate for Best Practice Financial Services Sector through showing just what can be achieved in this way.

Hartford became the first US-based insurer to cover home-based electric vehicle (EV) charging stations after an investment by its Ventures unit in Coulomb Technologies last year.

Hartford's revised homeowners insurance products will by the end of the year offer: EV charger coverage and green rebuilding coverage, which offers additional coverage for using environmentally-friendly materials or processes to make repairs after a covered loss or making necessary replacements with more energy-efficient or environmentally-friendly property.

There are expected to be 27,000 electric cars sold this year and Hartford said it would install EV charging stations from Coulomb at its Hartford, Simsbury and Windsor campuses.

Liam McGee, Hartford's executive chairman, said: "Installing electric vehicle charging stations and providing insurance coverage for them [EVs] demonstrates our support for developing the electric vehicle market and our commitment to a cleaner environment."

In September, Coulomb raised $15m in its series C round from Siemens Venture Capital, the corporate venturing division of Germany-based conglomerate Siemens, and Hartford Ventures, an investment division of Hartford Financial Services Group, and venture capital firms Rho Ventures and Voyager Capital.

The four had provided $14m in February as Coulomb's series B round and reinvested in the C round.

Hartford Ventures' crucial advantage is being, as it said on its website: "As the only dedicated corporate venture capital group in the insurance sector, Hartford Ventures provides our portfolio companies and co-investors with unique insights into the insurance industry."

Jacqueline LeSage Krause, vice-president, ventures and innovation, said: "Hartford Ventures is a strategic direct investment group tied to Hartford's business divisions, but not to the investment management arm. Corporate venturing is one part of our broader innovation group that both invests in start-ups and acts as an internal incubator."

The group is tasked with helping "get Hartford to the future faster by accessing emerging trends, technologies and business models through long-term external venture investments and partnerships".

The idea of combining innovation and venture capital had been part of Hartford Ventures' original remit a decade earlier but after a few deals, such as BuySafe and Insurance.com, momentum drifted for a few years and the company hired LeSage Krause to overhaul the group.

She said: "In late 2007, the company wanted to increase its emphasis on innovation to make sure the businesses had an eye externally on developing new capabilities and opportunities."

Krause said the investment thesis in Coulomb was primarily on both safety and understanding the future of the car. A secondary benefit was the company's clean-tech credentials, which fit into other corporate initiatives.

Krause points out that in financial services in general there is an increased intersection between technology and financial services in these customer-facing areas as social media, mobile and cloud computing converge and people looked to deal with their portfolio online and while being mobile.

Given its support for Coulomb, they also have security when they recharge.

Corporate venturing – common issues that benefit from sharing

Leading a corporate venturing unit in a large organisation can be a lonely and frustrating role. Executives often feel they are on the leading, or sometimes 'bleeding', edge of process and deals when creating new ventures. The Corporate Venturing Network, facilitated by H-I Network, has been running for over six years initially as the Corporate Venture Senior Executive forum (CVSE) and, more recently and by popular demand, as a Network in its own right. The original germ of this idea took root at Eindhoven airport when there was a delayed flight following a Network meeting and a group of like-minded individuals began to discuss the frustrations, challenges and opportunities confronted regularly in their corporate environment.

These initial discussions have developed over time into today's Corporate Venturing Network. Members now come from across Europe and meet on a quarterly basis to share experiences and deal opportunities. They represent organisations such as ARM Ventures, BASF, BP AE Ventures, Philips, Syngenta and Unilever Ventures.

The aspirations of the Corporate Venturing Network's members are best summarised as a desire to share a journey of high quality learning, understand best practice; build the reputation of Corporate Venturing inside and outside organisations and to build a Network that can operate at a personal as well as business level (sense of humour essential).

Recent meetings have addressed issues such as 'The challenges of technology exploitation in the current environment' and 'How strategic corporate venture capital groups need to be more active in early stage investment due to the break-down of financial venture capital model'.

The members of the CV Network have found it increasingly beneficial to bring the power of the network into play to achieve a collective range of insights into particular issues. We are currently exploring:

- Overlaps in technology and business models for agriculture, biotech and convergent technology
- CV Strategy review with the corporate main board interviews
- Emerging market strategy for CV with a working meeting in Shanghai
- Health & Wellness Joint Collaboration for leading corporates

Future meetings planned include:
23 June - Stephen Lake, Managing Partner at Cody Gate Ventures
'New collaboration models and gaining government funding'
29 September - Martin Grieve, Managing Director of Unilever Corporate Ventures
'Corporate Venture Capital in Emerging Markets'

At the request of a number of our members we are also organising a Corporate Venturing Practitioners Workshop over the 26-27 October this year. The format for the workshop will follow the philosophy of the CVSE group which is to address topical issues and opportunities and current market climates through in-depth discussion other participants' valued perspectives. Key topics that CV leaders have asked to be addressed include:

- Developing and demonstrating the strategic value of CV
- Reporting and accounting approach to CV investments
- Deal structures with approaches on equity, debt.

The Network's collective gatherings in various guises are free to all CV Network members; subject to an annual membership fee. Non-members can participate in an event to sample the experience when considering the possibility of membership. The overall value and benefit is best summed up by fellow members:

"H-I has been supporting Unilever Ventures for over nine years, providing a great network of contacts and insights into venturing. They are the best connected and networked partner to Corporate Venturing groups in Europe, which has proven invaluable to us in identifying new investment opportunities, co-investors, new management and sourcing solutions. I have recommended to other leading organisations that they actively participate in the H-I Network if they are looking to achieve value from their corporate venturing activities."

John Coombs, Managing Director, Unilever Ventures

"The H-I Network provides Carbon Trust Enterprises with great insights into corporate venture approaches and a depth of knowledge in new business development."

Andrew Wordsworth, Managing Director, Carbon Trust Enterprises

If you are interested in becoming a member, or would like to know more, please contact Andrew Gaule on 07798 616 934 or at *andrew.gaule@h-i.com*
Other Networks include: Innovation, Leadership, Operational Excellence. Please go to *www.h-i.com* for further information.

Independence of funding and organisation structure

Best Practice Healthcare Sector: Novartis Venture Funds

Switzerland-based drugs company Novartis has picked up the Best Practice Healthcare Sector certificate for its innovative $200m Option fund, an early-stage biotech fund with a dual mission, financial as well as strategic. The other Venture funds aim for a financial return as long as it meets the programme's overall goals of innovation, patient benefit and superior returns.

The certificate comes six years after Reinhard Ambros, executive director of Novartis Venture Funds, took over the Switzerland-based drugs company's corporate venturing unit.

He told Ernst & Young's 2010 Venture Capital Trends and Insights report: "If you really look at the venture landscape, both private and corporate, there has not been a new fund concept for about 30 years. So when I introduced our Option Fund, some people told me it would never work; others said this was an interesting experiment."

In the Option Fund, an initial equity investment is made along with an option (for a fee) to a specific therapeutic programme - which cannot be the lead, and there must be other programmes as well. The optioned programme or target is exclusive to Novartis until the last opt-in point, which is either phase one clinical trials or five years, whichever is earlier. The option fee is non-dilutive to the equity invested and the options generally last for five years.

In the past year, the Novartis Option fund has backed US-based drugs companies Viamet Pharmaceuticals (formerly known as Hephistics), Anchor Therapeutics and Avila Therapeutics.

Avila subsequently went on to sign its lung cancer treatment to Clovis Oncology for up to $209m in initial and milestone payments.

Meanwhile just as its option time limits start to come due, Novartis licensed Viamet's proprietary Metallophile Technology for an upfront fee and potential milestones totalling more than $200m as well as product royalties, the same size as options taken out with Anchor and Avila.

Silverman, managing director of Novartis Option Fund, at the time said: "Viamet's Metallophile Technology is a powerful platform that enables the rapid and cost-effective generation of best-in-class metalloenzyme inhibitors. Metalloenzymes are a large class of enzymes, many of which are closely related, and finding inhibitors that are potent yet selective for a specific metalloenzyme can be very challenging."

Novartis, therefore, has only just started to deliver on the Option fund's promise – the real validation will come when the patients are cured from the treatments.

Consistency of approach and follow-through on commitments

Best Practice Industrial Sector: GE Capital

US-listed industrial conglomerate General Electric (GE) has refined its successful corporate venturing process as part of a wider programme of innovation, called Imagination, over the past year with two fund launches.

Of the two, which cover alternative energy and clean-technology more broadly, the latter, the $200m GE ecomagination programme, has been nominated by the advisory board of Global Corporate Venturing as the Fundraising/Launch of the Year. (see box)

Each GE business unit has to generate four Ecomagination projects every year. Former GE adviser on innovation strategy Larry Keeley, co-founder and president of consultancy firm Doblin, part of the Monitor Group, said the waste found through Ecomagination paid for the programme and had become a template for others considering their innovation programmes.

The other fundraising in the past 12 months by GE was a $300m Energy Technology Fund. This launch was also praised by the judges for the sophistication and difficulty of coordinating three different limited partners (GE, oil major ConocoPhilips and energy utility NRG Energy) in a fund.

The Energy Technology joint venture is the first time NRG and ConocoPhillips have started a corporate venturing programme.

More broadly, GE manages more than $5bn in equity and indirect (fund) investments that can cover all its sectors, energy, oil and gas, healthcare, transportation and aviation, as well as specific $250m corporate venturing fund for the healthcare sector. Healthymagination, set up in October 2009.

While the alternative energy and clean-tech groups have backed more than a dozen companies in the past year, the Healthymagination has supported one, heart device company CardioDX.

However, the fund is part of a $6bn programme by GE to boost healthy living. This programme includes $700m for research and development and a medical device company, Intel-GE Care Innovations, formed last year as a joint venture with US-listed semiconductor maker Intel to invest $250m over the next five years for research and product development of home-based health technologies.

GE Capital, Equity, led by Sherwood Dodge, also managed a second, $200m fund, called Peacock, for the media sector. The Peacock fund was managed as a joint venture in conjunction with broadcaster NBC Universal but has been transferred to cable company Comcast after it acquired NBC in January.

Fundraising/Launch of the Year: GE ecomagination

New York-listed industrial conglomerate General Electric might have only launched its $200m clean-tech corporate venturing operation last summer but it has already invested $55m in a dozen companies identified through its open innovation competition.

Along with four venture capital firms, GE launched its $200m Ecomagination Challenge to find nascent businesses in the electric grid.

GE said it and the four VCs, RockPort Capital, Foundation Capital, Kleiner Perkins Caufield & Byers and Emerald Technology Ventures, had collaborated on sourcing deals, but each firm could decide whether to invest in the clean-tech entrepreneurs.

Out of the 12 partnerships formed with Ecomagination contestants, two US-based companies have had VC co-investments. Rockport has invested alongside GE in SustainX through the challenge while Foundation Capital and GE backed Sentient Energy.

The other deals are: Sweden-based ClimateWell, Ireland's FMC-Tech and US-based companies Consert, JouleX, OPower, Scientific Conservation, SecureRF, Soladigm and SynapSense. The final contestant backed in the first four months was a collaboration with the Fu Foundation School for Engineering and Applied Science at Columbia University in New York.

The 12 were chosen out of 70,000 entries. Per Olofsson, chief executive of ClimateWell, said: "Collaboration with GE and its VC partners gives us the jump-start we need to help bring ClimateWell's technology to scale faster and reach new markets."

Sold Playdom to parent after recognising the power of the sector

Best Practice Media Sector: Disney's Steamboat Ventures

There are few faster-moving and more heavily-backed areas of investment than the consumer internet, especially the online gaming sector.

One of the ironies of venture investing currently is independent firms profess to like the consumer internet sector because it is relatively cash-efficient and easy to disrupt other markets but some deals, such as Groupon and Facebook, require more money than other areas, such as clean-technology, in order to preserve their position.

Through this maelstrom media group Disney's Steamboat Ventures has sailed with deft handling. A core part of many corporate venturing units is to be the eyes and ears of the parent but be able to move rapidly both in investing and in pointing out the opportunities to its sponsor.

Steamboat's exemplary handling of the initial investment in online games developer Playdom and subsequent ability to inform its parent about the size and growth of the opportunity led to the first acquisition by Disney of one of its corporate venturing unit's portfolio companies.

John Ball, founder and managing director of Steamboat Ventures, said: "Steamboat invests at the intersection of emerging technology and media opportunities where Disney can engage and potentially develop important strategic and commercial relationships earlier than it otherwise would. However, just because a start-up receives Steamboat funding does not mean the company will automatically secure a Disney commercial relationship, although our entrepreneurs do benefit from access to different parts of Disney so a relationship can evolve if it makes sense for both parties.

"Our job at Steamboat is not to be Disney's business development arm but rather to look three to five years out and spot emerging trends and companies that may become strategically and commercially important to Disney.

"We are highly selective and only do deals that meet both strategic (to Disney) and financial objectives. Steamboat facilitates interaction between its portfolio companies and the different business units at Disney. Two-thirds of our investments have gone on to develop a commercial relationship with one or more of Disney's businesses, which exceeds our initial expectations."

Disney's agreement in July last year to buy Playdom for $563.2m, plus a potential $200m earn-out, was made just weeks after Steamboat had joined its $76m series A round consortium. This extended A round valued Playdom at about $345m, according to analysts at NextUp Research.

Steve Wadsworth, president of Disney Interactive Media Group, the business unit which has acquired Playdom, in an interview with news provider PaidContent.org, said: "This category [social games] is growing at a rate that is in a lot of ways unprecedented."

The premium to acquire Playdom above the venture round valuation reflected Disney's strategic interest in Playdom. Robert Iger, executive president of Disney, said: "This acquisition furthers our strategy of allocating capital to high-growth businesses that can benefit from our many characters, stories and brands, delivering them in a creatively compelling way to a new generation of fans on the platforms they prefer."

Ball said: "Historically, the major media companies have developed premium content, delivering it to consumers in relatively narrow windows.

"The power is increasingly moving to the consumer, allowing time-shifting and a huge selection of platforms, applications and devices on which to view the content when and where it is wanted. Accordingly, media companies must understand consumer tastes in greater depth and deliver the content in the right format at a fair price."

To do so, however, will require Steamboat to keep sailing into the right deals.

14TH ANNUAL

CORPORATE VENTURING AND INNOVATION PARTNERING

FEBRUARY 7-9, 2012 • THE ISLAND HOTEL, NEWPORT BEACH, CA

Capturing Technology Innovation, Market Share, and Revenue Streams Through Corporate Venturing & Innovation Partnerships

Presented By: IBF INTERNATIONAL BUSINESS FORUM

CONFERENCE OVERVIEW:

This annual event provides corporate investors with strategies to gain a competitive advantage through corporate venturing and innovation initiatives. Capturing innovation is at the top of the corporate agenda for global growth and an important lever to increase profitability and market share. Corporate venturing is a vehicle used by corporations to capture innovation, provide a window for acquisitions and an opportunity for strategic partnerships.

AUDIENCE PROFILE:

This conference unites CEOs, CTOs, CIOs, R&D executives, and corporate investors from major technology and tech-enabled companies, as well as, venture capitalists and CEOs of venture-backed startups.

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Encompass the organisation and deliver it to help the portfolio

Best Practice Services Sector: WPP

When you are the world's largest advertising and marketing services provider you already have relationships with the companies spending the most to build their brands and communicate with stakeholders.

UK-listed WPP, however, has invested in Buddy Media, a US-based social media marketing company that helps seven of the largest advertisers use social media company Facebook, to keep an eye on the fast-developing communications network.

In November, WPP, the world's largest marketing agency, invested $5m in Buddy Media as an add-on to the $23m series C round that closed in the summer from venture capital firms Greycroft Partners, Bay Partners, Institutional Venture Partners and Softbank Capital.

Softbank Capital had led Buddy's $6.5m series B round in April 2008, which also included European Founders Fund and a number of other angel investors, while its series A had closed at $1.7m.

WPP's Digital subsidiary said it was making the corporate venturing investment to improve the process by which its clients access Facebook.

Mark Read, chief executive of WPP Digital and head of strategy for the company, said: "As Facebook has surpassed the half-billion-users milestone, and is effectively the third largest country in the world, it is no longer a matter of if brands should have a presence on Facebook, but how they can be successful.

"In the same way that brands have software for managing websites and search campaigns globally, it is also now appropriate that we have software that will help manage the fastest-growing communication medium of all time: Facebook."

And after the investment, the partnership allows WPP to integrate the Buddy Media Platform with its technology products and services and exclusive co-development of products and social applications for its clients.

WPP also brings dealmaking savvy to its portfolio company. Earlier this month, Buddy Media used part of the money to buy peer Spinback, which helps retailers track the return on investment for their social media efforts, and fill its product suite.

WPP itself has grown after its chief executive, Sir Martin Sorrell, began the reincarnation of Wire and Plastic Products 25 years ago through a number of transformative acquisitions.

Buddy Media, therefore, fits the focus on digital media. WPP Digital made up 27%, or $3.6bn, of its parent group's revenues in its last annual accounts for 2009, compared with 20% from digital assets in 2006.

These digital revenues were with margins at or higher than traditional channels, WPP said, as specialist digital agencies deliver services in new areas, such as mobile or applications.

WPP in its digital strategy presentation for analysts in April said the company's focus was on technology for marketing insights and media optimisation. It said digital was the area of greatest innovation and, hence, potential for business opportunities, such as improving the return on investment for clients, but also for disintermediation by new competitors.

WPP said by being able to simplify a complex set of technologies for clients in the long-term it had an opportunity to integrate data and insights from across its subsidiaries covering public relations, advertising and market research in a unique way.

Mark Read, who is now WPP's strategy director, effectively Sir Martin's right-hand man, and chief executive of WPP Digital, said corporate venturing provided an important strand to its strategy for growth. He said: "Our goal is to bring innovation to our agencies and clients and to get access to ideas and technology that it may not be practical or possible for WPP to control 100%."

The approach is borne out by WPP's new friend, Buddy Media.

Step up with move to earlier-stage and leading rounds

Best Practice Utilities Sector: Deutsche Telekom's T-Venture

Germany-based phone operator Deutsche Telekom's T-Venture unit has successfully been tackling one of the hardest challenges in corporate venturing: how to deal with entrepreneurs at an earlier stage in an environment with relatively few venture capital (VC) firms. It has, therefore, picked up the certificate for Best Practice in the Utilities Sector.

Last year, Georg Schwegler, managing director at T-Venture, which had been started in 1997 and has its headquarters in Bonn supplemented by T-Venture of America in California and Washington, said its strategy had adjusted as VCs in the sector shrank.

He said: "In the past we looked to co-invest with VCs in series B and C rounds but recently that has changed and now we are also looking into earlier stage deals and taking the lead if we get positive feedback from a business unit, especially in Germany where there are not many VCs."

In the past 12 months, Global Corporate Venturing has recorded 10 deals and follow-on rounds for T-Venture, including Cuculus, a Germany-based developer of metering and home control products.

And T-Venture has played an increasingly active role in its portfolio companies. In November, Sebastian Blum, a managing director at T-Venture, joined US-based internet browser software portfolio company Cooliris as a vice president of business development and later invested in its $9.6m series C round.

Schwegler said T-Venture remained focused on supporting its core business units with investments into start-up companies that bring strategic value to these business units.

The corporate venturing unit uses thematically oriented funds for the financings, which closely correspond to the three strategic business segments broadband/fixed network, mobile communications and corporate customers of Deutsche Telekom as well as address cross-divisional topics.

Schwegler added: "The third generation of funds has 80% of portfolio companies having a business relationship with Deutsche Telekom. This is the engine of our success."

Of its recent deals, T-Venture, backed local clean-tech company FutureE Fuel Cell Solutions' series B round.

Deutsche Telekom's Power & Air Condition Solution Management subsidiary had bought one of FutureE's fuel cells in January to prevent power disturbances in the phone network.

Bruno Jacobfeuerborn, managing director of technology at Deutsche Telekom, said: "Fuel cells are a [carbon dioxide] CO_2-neutral alternative, both to ensuring availability with conventional lead batteries and other means of providing energy. We feel that this gives us the opportunity to free ourselves from the impact of fluctuations in oil and electricity prices."

And though even a two-times return on its T-Venture investments is "small money to Deutsche Telekom," the unit still has a great track record.

Its exits in the past year have included Pelago, known as Whrrl and a US-based provider of software that combines smartphone mapping technology with social networking, which was sold to consumer coupon provider Groupon; Germany-based media group Axel Springer buying 74.9% of Kaufda, a local service to help companies with their online sales promotions that T-Venture had backed with angel investors from seed stage; and Broadcom paying up to $98m for Percello, an Israel-based developer of microchips for boosting mobile signals indoors, including $12m in performance fees.

Intellectual ambition meets innovative transnational venture operation

Best Practice Transport and Logistics Sector: Honda

Honda Strategic Venturing (HSV) is the strategic corporate venturing unit of the global Honda research and development (R&D) organisation at the Japan-based car maker.

HSV makes investments in technology venture companies which would create synergy with Honda's long-term R&D strategy and it picked up the certificate for Best Practice in the Transport and Logistics Sector.

HSV, which is based out of the Honda Research Institute in the US, invests in four main areas: alternative energy, advanced materials, robotics and communication and its success has been a closely monitored by other transport companies setting up their corporate venturing programmes, such as General Motors and BMW.

In alternative energy, HSV invests in technology to improve the energy ecosystems from energy generation to consumption such as photovoltaic energy, bio fuel and fuel cell, while advanced materials, robotics and communication covers new ways to build products and how they would be able to recognise, think and act to increase safety, convenience and comfort and talk to other vehicles, road-side systems, on-board systems, internet servers and customers.

Two of Honda's highest-profile deals have been the backing of Virent Energy Systems to convert sugar into transport fuel and Tesla Motors, a US-based maker of electric vehicles.

Honda, along with peers Daimler and Toyota and independent venture capital firms invested more than $220m in Tesla ahead of its flotation, while Honda has also been a long-term investor in Virent for the past five years.

The versatility of its investments showed up when software company Microsoft acquired Canesta, a maker of three-dimension image recognition systems, after using the technology for its Kinect controller for the Xbox games console. Honda had previously backed Canesta and HSV's founder and head, Tosh Arita, was on the portfolio company's advisory board.

Jim Spare, executive president of Canesta, said: "There is little question that within the next decade, we will see natural user interfaces become common for input across all devices.

Underpinning HSV's investments has been Honda's ambition to be aligned with cutting-edge research.

The Honda Research Institutes in the US, Europe and Japan were set up in 2003 to tackle material, computer, intelligence and genome/biological science. The latter two are particularly focusing on associative interacting intelligence and plant-genomic and human brain research, in order to create new values with reality.

However, one of Honda's biggest returns from a minority investment in the past year has come from selling its 26% stake in India-based motorcycle maker Hero after 26 years of a joint venture between the two firms. Honda realised $851m from its stake, and potentially royalty payments.