A well-funded R&D program isn’t enough. Corporations must invest in business opportunities outside their four walls to accelerate innovation and growth.

Adventures in Corporate Venturing

New Ventures: A Special Report

by Jill Albrinck, Jennifer Hornery, David Kletter, and Gary Neilson
Although many of the earliest dot-com contenders have stumbled and even collapsed on the road to riches, well-established companies, no matter what their industry, cannot afford complacency. For if the digital economy holds one lesson, it is that slow and steady does not always win the race. Whether it’s Amazon.com’s one-click ordering technique or Pioneer Hi-Bred’s genetically modified seeds, disruptive technologies and business system innovations are upsetting the established order in most value chains.

Large companies, for decades content with incremental product growth or a steady expansion of existing businesses with an eye on long-term gain, are learning that such caution is an encumbrance. The wisest ones are significantly accelerating their pace of growth-oriented innovation, augmenting internal ingenuity by aggressively tapping into the broader marketplace of ideas and business opportunities — an emerging management practice known as corporate venturing. In 1999 the total value of funds dedicated to corporate venture capital leaped to $6.3 billion from just $1.7 billion in 1998, according to Asset Alternatives Inc., a tracker of nontraditional investments.

Corporate venturing involves leveraging the assets and capabilities of the existing company to help create new businesses. The digital economy is providing a wealth of new tools and best practices — drawn from sources that include venture-capital firms, incubators, dot-coms, and other bricks-and-mortar companies — which can help traditional companies develop the capability to create new business ventures through corporate incubators and corporate new-venture groups.

How is the new phenomenon of corporate venturing different from traditional business practices that facilitate growth through access to new technology, such as takeovers, corporate R&D, and venture-capital financing?

First, with corporate venturing, a company typically creates shareholder value by developing new businesses through incubation, rather than by acquiring and integrating them into the company. This contrasts with the more traditional practice of creating a portfolio of startups through acquisitions.

Corporate venturing is also managed differently than traditional in-house corporate research and development. Venture investments are typically riskier and less subject to rigid management of internal costs than conventional corporate R&D is. Indeed, protecting venture investments from such controls is one reason ideas are incubated and startups housed outside the corporation’s walls.

Finally, in corporate venturing, returns are part financial and part strategic, whereas with pure venture capital, investors’ expected financial returns are paramount. Clearly, corporate venturing investments should follow the best practices of venture-capital firms, but the twin objectives of financial and strategic returns must be balanced in ways that don’t concern the venture capitalists.

We have been closely following success stories and cautionary tales of corporate venturing, interviewing dozens of senior business executives across industries to understand the range of organizational issues that attend the launch and successful operation of e-businesses and new ventures. Our most recent research shows that large companies increase their odds of success if they focus on five areas: organization, portfolio strategy, the new-venture development process, people, and partnerships and alliances.

Here we examine each of these areas and present practical advice for traditional companies looking to
move beyond a launch-and-learn mode to a more disciplined and powerful approach to new business creation.

Organization
In our experience, bricks-and-mortar companies generally find it necessary to separate new-venture efforts from their core businesses. In a sampling of 23 businesses, mostly large multinational companies, we found that 74 percent established a separate subsidiary or division for their new-venture efforts; only 17 percent embedded this capability within an existing business unit or division. Nine percent created a hybrid, combining in-house capabilities with a separate subsidiary or division.

Companies prefer creating a separate subsidiary for new-venture activity for several reasons. It forces clear articulation of the new venture’s strategy and facilitates a coordinated and proactive approach to new-business development focused on entrepreneurial competencies. It solves difficulties in simultaneously operating the existing business and devoting sufficient energy to building new businesses, and it uncovers under-exploited opportunities within the core business. It also enables greater freedom and flexibility to tailor individual venture business models to specific competitive conditions. It facilitates separate valuation by existing and potential investors. And it makes it easier to attract and retain top talent.

United Airlines Inc., which announced the formation of its new-venture group in October 2000, did so to direct management’s attention to higher-growth businesses and to attract talented personnel. The Enron Corporation separated its new-venture group from the core, giving the group the flexibility it needed to craft appropriate business models and employee value propositions. United Parcel Service Inc. created a stand-alone internal incubator called E-Ventures, which fosters a culture that is more entrepreneurial and risk-tolerant than its parent.

Naturally, conflicts will arise between an exogenous new-venture development group and the preexisting core businesses, as both struggle to assert their position in the company and in the marketplace. There are many sources of contention, as shown in Exhibit 1, but all arise from the tension between what the core wants and what the new venture needs. For example, while the core wants to protect its brand, channels, alliances, networks, and other assets, the new venture needs to leverage these assets for its own development. Likewise, the core doesn’t want to lose any of its top talent, but the new venture needs the valuable knowledge, skills, and relationships those people can supply.

Exhibit 1: **Tensions Between Core Business and New Ventures**

<table>
<thead>
<tr>
<th>Core business wants to . . .</th>
<th>Tension</th>
<th>New ventures need to . . .</th>
</tr>
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<tbody>
<tr>
<td>protect core assets (brand,</td>
<td>Core Assets</td>
<td>leverage core assets</td>
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<tr>
<td>channels, alliances, networks,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>keep top talent</td>
<td>Human Resources</td>
<td>attract experienced personnel</td>
</tr>
<tr>
<td></td>
<td></td>
<td>from core to bring knowledge</td>
</tr>
<tr>
<td>maintain fairness in reward</td>
<td>Rewards</td>
<td>encourage entrepreneurship and</td>
</tr>
<tr>
<td>systems</td>
<td></td>
<td>to recognize and reward</td>
</tr>
<tr>
<td>sustain focus on core business</td>
<td>Leadership</td>
<td>risk-taking</td>
</tr>
<tr>
<td>grow traditional revenue streams</td>
<td>Revenues/Growth</td>
<td>create new revenue streams,</td>
</tr>
<tr>
<td>continue investment in core</td>
<td>Financial Resources</td>
<td>which may compete with</td>
</tr>
<tr>
<td>business</td>
<td></td>
<td>core business</td>
</tr>
<tr>
<td>adhere to established policies</td>
<td>Speed &amp; Flexibility</td>
<td>redirect core’s financial</td>
</tr>
<tr>
<td>and procedures to manage</td>
<td></td>
<td>resources into new venture</td>
</tr>
<tr>
<td>control new ideas</td>
<td>Idea Sharing</td>
<td>encourage rapid decision-making</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and high risk tolerance</td>
</tr>
</tbody>
</table>

Naturally, conflicts will arise between an exogenous new-venture development group and the preexisting core businesses, as both struggle to assert their position in the company and in the marketplace. There are many sources of contention, as shown in Exhibit 1, but all arise from the tension between what the core wants and what the new venture needs. For example, while the core wants to protect its brand, channels, alliances, networks, and other assets, the new venture needs to leverage these assets for its own development. Likewise, the core doesn’t want to lose any of its top talent, but the new venture needs the valuable knowledge, skills, and relationships those people can supply.
Leading companies have learned different ways to manage these tensions. Lucent Technologies Inc. and its new ventures investment effort, Lucent New Venture Group (NVG), for example, share in the value captured from Bell Labs’ ideas through joint marketing agreements, acquisitions, and product development collaboration.

New corporate governance structures also ease friction. Several companies we surveyed and interviewed have named special board-level committees to ensure a strategic focus on the e-business/new business development process. They’re also forming dedicated new-ventures steering committees to set policy for new-venture groups and ensure that they maintain consistent and mutually beneficial linkages with core businesses.

In some companies, senior corporate advisory boards are providing strategic guidance to individual businesses that are being incubated. (See Exhibit 2.) For instance, BP’s Incubation Programme has established separate governance mechanisms and processes for its e-business creation and development activities. The company draws on a new-ventures board to make fast-track decisions about whether to move forward or abandon an early-stage venture before going to a corporate board subcommittee for approval of a major investment. Other companies that
have taken the lead in developing e-business ventures often follow an approach similar to that of BP’s.

**Portfolio Strategy**

Companies that are successful in developing new ventures have a clearly articulated portfolio management strategy covering five areas: type of business opportunity (e.g., the company’s industry, its relationship to core businesses); capital investment parameters (e.g., risk/return trade-off, stage of investment); degree of operational involvement (e.g., operational control versus strategic guidance); links with core businesses (e.g., leverage in existing assets); and pipeline objectives (e.g., the number of opportunities at each stage of development).

In screening business opportunities, corporate venture groups and independent incubators weigh the criteria in each of these areas quite differently, according to our research. Corporate incubators emphasize synergy with core assets, while independent incubators emphasize intra-portfolio synergies, market dominance, and the management team. The more advanced corporate venture groups, however, understand the importance of a strong management team and seek experienced business builders. (See “Incubators in Europe — A Tough Egg to Hatch,” page 145.)

Of course, this initial screening of opportunities is only the first in a series of evaluations a new-ventures portfolio should pass. Establishing relevant and regular performance metrics for new business ideas is critical. These measures allow senior management to monitor progress, gauge performance versus objectives, provide early warning signals, facilitate rewards and incentives, and, most importantly, keep venture management focused on key success factors.

Although many of the measures used to track a new-business portfolio’s results seem similar to traditional performance markers, there are important distinctions. Core business success tends to be judged by incremental gains in revenue and profit. Measures of new-venture success, on the other hand, should emphasize value accretion and long-term return, such as capitalized ROI at the time of exit. In the early stages, measures tend to focus on reaching certain milestones. Funding is provided based on these well-defined achievements, sometimes through outside investors to give the new venture objective, external validation. In contrast, mature businesses are measured on a quarterly basis by the capital markets and respond to market pressures. However, new ventures need the flexibility to grow, which is why their performance expectations must focus on long-term results.

Metrics for new ventures also change during their lifetime. During the incubation stage, milestone measures might include the number and quality of customer contracts and supplier contracts, the number and nature of alliance partners, the establishment of key processes, and the success at hiring a team. Financial measures might focus only on revenues. During the first one to two years after a new business is launched, appropriate milestones to set and monitor might include customer/audience size or depth achieved and rounds of financing received; financial measures could include revenue growth and emerging profitability. After two years, return on investment, operating and profitability margins, and valuations (net present value and applied multiples) come into play. Milestones at this stage might include securing additional rounds of financing, initiating a public offering, or reintegrating the venture into the core business.

**New-Venture Development Process**

According to our research, successful corporate venturing operations at established companies tend to follow a disciplined path. Each individual venture passes through five stages: idea generation; concept development; business plan development; incubation and commercialization; and value capture. (See Exhibit 3.)

This developmental process evaluates each new venture at predetermined milestones to decide whether to proceed, refine, accelerate, or discontinue the individual venture. Using this time-phased approach, companies gradually increase their bets in line with the availability of more information. As the venture moves through critical “decision gates,” its performance is measured against established targets and expectations, and resource decisions are
made. This is also a learning process as more information is gleaned and assessed about the economic and competitive environment and the venture’s operating history.

The process resembles a sophisticated options model: A given decision increases in value as the probability of a known outcome increases. The screening criteria, too, evolve as the venture matures, ensuring the continued soundness of the concept at each stage, and optimizing the speed and risk/return profile of the entire process.

The most robust new-venture development processes make use of multiple sources to generate new ideas. One approach is to use structured ideation processes, frameworks, and tools in brainstorming sessions. New-venture groups also turn to board members, executive and management teams, and line employees for inspiration and guidance. They can seek guidance outside the firm from consultants, venture-capital firms, customers, suppliers, and incubators.

The incubator Idealab, for example, conducts monthly brainstorming sessions and pursues those ideas that generate the most passion among staff members. Siemens holds “idea competitions,” in which employees are asked to show their ideas to a cross-functional screening committee. DuPont draws on the expertise of professors from the University of Pennsylvania’s Wharton School and on outside strategy consultants through DuPont’s own Knowledge Intensity University. Royal Dutch/Shell’s employees participate in what they call the GameChanger process, during which they develop and vote on potential new business ideas; participants use a set of criteria focused on merit, ingenuity, and potential value to narrow a list of nearly 200 ideas down to about 10. (For more on Shell’s GameChanger, see pages 135–136.)

In most of the new-venture development programs we studied, idea generation sessions typically last a few hours to a day, although some are weekend retreats or specific creativity workshops. The sessions’ output typically is a list of one-sentence descriptions of ideas that participants believe are worth pursuing.

In the concept development phase, a promising one-sentence idea is transformed into a two-page outline, covering such topics as concept description, target market, value proposition, competition, potential business models, and potential revenue. Two to three individuals with the relevant knowledge and skills (e.g., industry or technical expertise and institutional knowledge) flesh out the concept to determine if it is worth continued support.

If so, appropriate leaders take charge and develop a full-scale business plan (because those best able to generate ideas are not necessarily so skilled at translating their ideas into a workable business plan). At this time, corporate venturing groups often draw on external resources, such as venture-capital firms and incubators.

Effective business plans reflect both a strong grasp of technology (most relevant for e-business) and a firm understanding of business economics and the market. Moreover, plans are tested with key constituencies, such as customers and investors. The final plan details such items as market opportunity, competitive evaluation, business model, entry strategy, financial projections, and management team (proposed or described).

Once a new business is launched, its plan moves from theory to practice. The management of the corporate venturing group, which is the “surrogate parent” for the new business, must acquire or borrow resources to establish
the validity of the business model and test its value proposition. During the incubation phase, management applies seed funding and assigns dedicated advisors, mentors, or sponsors. Partnerships are established both with the core and with external experts (e.g., legal, technology) to assist the new venture. Strong business building skills are needed to do the following:

- Select alliance partners and define negotiation tactics
- Seek, recruit, and train staff
- Implement support processes (through vendors or the corporate core)
- Secure funding
- Develop value-capture scenarios
- Complete valuation of the business concept
- Establish the legal entity
- Create contracts with suppliers, the parent company, and potential customers
- Develop a detailed marketing and sales strategy
- Implement the communications plan

As the concept is fully commercialized, it is rapidly tested and scaled up. While the venture team needs to recognize that the business model will evolve, implementation speed is critical. The team must rapidly absorb and apply experience.

External incubators have valuable insights to offer bricks-and-mortar companies looking to swiftly launch and commercialize new businesses. Many incubators augment their speed to market by keeping key functional

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### Exhibit 3: New Venture Development Process

<table>
<thead>
<tr>
<th>Stage</th>
<th>Idea Generation</th>
<th>Concept Development</th>
<th>Business Plan Development</th>
<th>Incubation and Commercialization</th>
<th>Value Capture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Unleash Creativity</td>
<td>Refine</td>
<td>Define</td>
<td>Establish a Freestanding Organization</td>
<td>Unleash Value</td>
</tr>
<tr>
<td>Timing</td>
<td>3 hours–1 day</td>
<td>1 week</td>
<td>3 weeks–4 months</td>
<td>3 months–3 years</td>
<td>1–4 years</td>
</tr>
<tr>
<td>Elements</td>
<td>Internal development</td>
<td>Concept refinement</td>
<td>Business model development</td>
<td>Prototyping, trials</td>
<td>Determination of exit strategy</td>
</tr>
<tr>
<td></td>
<td>External sourcing</td>
<td></td>
<td>Potential partner identification</td>
<td>Launch planning</td>
<td>Preparation for liquidity event</td>
</tr>
<tr>
<td></td>
<td>Idea capture</td>
<td></td>
<td>Evaluation framework</td>
<td>Resource acquisition</td>
<td>Public relations and marketing</td>
</tr>
<tr>
<td></td>
<td>Idea screening</td>
<td></td>
<td>Target market and customer value proposition validated</td>
<td>Business plan refinement</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Technology product development</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Management team</td>
<td></td>
</tr>
<tr>
<td>Output</td>
<td>High potential ideas</td>
<td>Two-page elaboration of each idea with recommendation</td>
<td>Business plan</td>
<td>Independently operating company</td>
<td>Value/liquidity event</td>
</tr>
<tr>
<td>Decision</td>
<td>Good ideas</td>
<td>Feasible idea</td>
<td>Business economics feasible</td>
<td>Readiness to launch</td>
<td>Timing of liquidity event</td>
</tr>
<tr>
<td></td>
<td>Worth investment in further development</td>
<td>Worth investment to launch</td>
<td>Readiness to wean from core</td>
<td>Nature of liquidity event</td>
<td></td>
</tr>
</tbody>
</table>
resources close at hand. For example, Idealab has developed in-house legal and staffing resources to accelerate the process of incorporating new companies and installing new management teams. CMGI Inc. offers centralized accounting, human resources, legal services, and financing support, and encourages cross-selling of products and services between portfolio companies. Booz-Allen & Hamilton’s Australasian incubator has formed an alliance with a leading law firm and investment bank to create a nucleus of key capabilities to offer portfolio companies.

Finally, best-practice companies have clear, and often multiple, mechanisms for capturing value from their new businesses once they have been commercialized. These include establishing joint ventures, initiating IPOs, creating separate divisions, and integrating new ventures back into the parent company. The strategy a company chooses depends on a number of factors. For example, if the parent wants to turn its new venture into cash, it probably will choose an IPO or find a private buyer.

Alternatively, if the venture can drive growth in the core business, management would be inclined to form a new division or even integrate the new venture into an existing division. For example, 3M has historically embedded its new business development efforts, incorporating its new ventures into its existing management, marketing, and distribution structures. Shell incubates in a separate “lab” those ideas it thinks might have a long-term payoff for one of its businesses. Ultimately, these ideas are either absorbed into the relevant business unit, carried forward as R&D projects, or written off as interesting but unsuccessful experiments. Lucent uses a number of different venture paths. However, in addition to spinning off the venture to an outsider, Lucent will sometimes “sell” a venture back to an existing Lucent business, rather than simply embedding it there. Lucent NVG is well ahead of the pack in addressing the challenges associated with creating value-capture situations that motivate shareholders. Since its inception in 1997, the group has refined its model for value creation, valuation, and exit. The new model creates incentives to attract and retain the entrepreneurs required to make these businesses work.

While individual companies approach value capture differently, some general lessons can be broadly applied. One is, when possible, to make your general intent — to spin out or reabsorb the new venture — clear from the outset. An oil company we studied delayed determining exit strategies and did not clearly articulate the end game for its various incubation projects, resulting in high employee attrition among struggling ventures.

Another lesson is this: The race to capture value from the public financial markets should not be the primary rationale for determining the appropriate value-capture mechanism. Ziff-Davis Media Inc., like Donaldson, Lufkin & Jenrette (DLJ) (now Credit Suisse First Boston USA Inc.), established tracking stocks in an effort to create an external valuation mechanism for its Internet subsidiaries, yet its investors have not recognized significant value in their respective crowded markets (portal, online trading). In fact, Ziff-Davis plans to fold its tracking stock structure by merging the tracking stock with its publishing-focused common shares.

People
In our experience, traditional bricks-and-mortar companies have consistently underestimated the war for talent in the Internet economy, as well as the creativity and investment needed to win. Moreover, they have sometimes overlooked one of the more fertile breeding grounds for
new-venture leadership: their existing employee base.

Strong leadership is critical to successfully creating and capturing the value of new ventures — both at the new-venture group and at individual ventures. Important qualities to look for in a leader of a new-venture group include the ability to build bridges between the new-venture group and the core group, to build teams, to attract talented people, and to tolerate ambiguity. CEOs of individual ventures should have experience building businesses, the strong industry or technology knowledge that is key to the business’s strategy, and the ability to anticipate and address the changing needs of the business as it matures.

Many companies agonize over whether they should hire internal or external candidates for these positions. Our answer: It depends. Given a new venture’s need to tap into the core’s resources, it makes some intuitive sense to find new-venture group leaders internally. However, where an infusion of fresh thinking is required, companies often look outside the core. Whereas the Chevron Corporation and United Airlines selected their new-venture leaders from internal ranks, for example, the Ford Motor Company named a former GE executive to head its ConsumerConnect initiative.

Companies confront the same insider versus outsider dilemma at the individual venture level. The venture-capital firm Kleiner, Perkins, Caufield & Byers hires experienced external entrepreneurs as “CEOs in waiting,” and then places them when the right opportunity arises. Xerox, on the other hand, has historically preferred to appoint insiders to maintain strong technology ties with the core. Still other companies, such as Enron, look inside when it makes sense (allowing executives to retain their titles) and recruit from outside the company when the right person cannot be found internally.

While there are no hard-and-fast rules in this challenging and churning labor environment, two best practices are emerging. One is crafting a tailored employee value proposition, giving each employee the right mix of incentives and rewards (e.g., monetary bonuses, equity, development opportunities, clear mission, and lifestyle perks). Partners and other employees in Lucent NVG are compensated much as venture-capital fund partners are, sharing in the performance gains of the whole portfolio. Employees are enticed to each new individual venture with compensation similar to that of an external startup company (i.e., equity ownership in the individual portfolio company).

Another best practice in the war for talent is a differentiated approach to sourcing. Here, companies abandon the conventional one-size-fits-all human resources processes, and target specific talent segments with different value propositions, incentive structures, and work environments. For instance, Intuit Inc. tailors its recruiting to its two main talent segments, technical and marketing. Technical staffs are enticed with Foosball and fun, while marketers are sold on Intuit’s fast track, great brand, and industry-leading products.

Differentiated approaches to finding talented employees distinguish the needs of new ventures from those of the corporate core. Where the core business tends to value preservation of internal equity, the new venture may need to reward performance. The core is familiar with results of departments or business units, whereas the new venture has to be concerned with cross-team and cross-new-venture or portfolio unit performance. And whereas people in the core tend to want a stable, well-defined career path, people who join a new venture will follow a less predictable, more individually defined path.

Successful companies clearly communicate how they will treat people and how they will differentiate individual performance and risk-bearing in new ventures. This declaration may be prompted by the company’s core cul-
ture (e.g., performance-driven and entrepreneurial), a visionary leader’s initiative, or the need to survive. Whatever the case, the declaration forces a self-selection process in which employees willing to bear risks in return for the potential upside of a new venture will elect to join.

Leading companies generally create a separate human resources system for the new-venture group and each of its individual ventures, which creates one or more career paths within the core that allow employees to elect the career route they want. They reinforce this strategy in their recruiting and promotion policies, communications, performance metrics, and leadership.

**Partnerships and Alliances**

The clear benefit to establishing an in-house corporate venture group or incubator is that this structure allows traditional companies to retain ownership and control of new ideas. However, building a corporate venture group from scratch may not be feasible for several reasons, chief among them the need to evolve capabilities more quickly than existing corporate culture or management systems will allow.

As a result, many traditional companies form partnerships and alliances with other firms to secure the talent and resources required to build a new-ventures capability and to support individual new ventures.

Venture-focused partnerships and alliances have helped companies develop an early and leading edge. Enron drew upon the expertise of IBM and DLJ to help create the New Power Company. The partnerships UPS is forming revolve around technology innovation. Ford is an example of a company developing partnerships focused on product innovation. Meanwhile, traditional companies are using long-term strategic alliances to jump-start and maintain momentum in their venture development efforts. BP, for example, has leveraged Booz-Allen to supplement its capabilities in everything from ideation to business-model refinement to partner negotiations.

Choosing the right set of partners can be a complex and daunting task. The choice depends on the venture’s business needs. For example, many corporate venture groups don’t have easy access to entrepreneurial talent to staff their individual new venture, so they might turn to a professional recruiting firm for help. This can involve a typical fee-for-service arrangement, or it could be a much deeper partnership in which the recruiter takes an equity stake in the new venture.

Individual ventures always require some combination of legal, financial, and human resources expertise to get started. In the event a new venture doesn’t use the functional resources of the parent company, it has to use an external service provider. This arrangement could be a short-term relationship or an extended partnership.

When assessing possible partners, a new venture might also consider the following questions: Does it need a range of seed, mezzanine, and later-stage (second- or third-round) funding? Is there a need for additional management expertise and advice (e.g., CEO-level entrepreneurial talent or general management experience)? Is access to an industry network or potential customer base important?

An alliance partner’s networks are important, particularly for traditional companies looking to extend their reach into new markets. Internal personnel may lack the specific knowledge and/or contacts to navigate a new environment successfully, much less create an entrepreneurial culture, correctly value a startup, or establish the appropriate organizational structure. So they draw on the Rolodexes and experience of venture-capital firms, incubators, and consulting groups to share knowledge, build on lessons learned, even fill board seats.

The choice of partner also depends on the venture group’s (or individual venture’s) stage of development. Companies typically look to incubators, for example, to help with early-stage ventures when they are drafting business plans and need to establish basic support services. When the venture matures, they’ll partner with other
specialist service providers, such as recruiting or law firms. A potential partner’s reputation and track record are important considerations, especially since many have not been around long enough to see any new ventures through commercialization and value capture, although they may have taken concepts through several rounds of funding.

The costs associated with forming alliances can vary dramatically and are hard to determine up front. Some potential partners will extract an equity stake in the venture in return for their services or capabilities. Some simply charge fees for services, and others use a mix of equity and fees. Incubators, as an example, can demand equity stakes ranging from 5 percent to 75 percent (with 30 percent a reasonable average), depending on such factors as the source of the idea and the stage of investment. Typically, incubators charge higher percentages for internally generated ideas and early-stage investment.

Many general management consulting firms use a mix of equity and fees tailored to suit the situation and needs of a client. Technology providers have generally had to transition from equity stakes to fees for service, except in those cases where they offer unique value to the partnership (content, proprietary technology, brand). Then they can still command an equity fee.

Finally, some service providers are truly undifferentiated and will sell their services to a corporate venture group for next to nothing to gain the leverage of that association in their other negotiations. These alliances are becoming more common.

The Next Generation

Traditional companies are now at a stage in their e-business/new business development in which they are pursuing a wide range of opportunities destined to transform their business.

The leaders are learning to overcome the organizational barriers that plague so many traditional companies. They also recognize that different organizational models — service provider networks, enterprise-wide customer management groups, corporate new-venture groups (like internal incubators), or corporate venture-capital arms — are required to effectively create new value and capture financial rewards. These new models promise not only to deliver bottom-line benefits, but also to shed light on future organizational models.

Corporate venture groups are particularly fertile ground for observing next-generation organizational models. More importantly, these groups are pioneering new business concepts for corporate growth. Indeed, their plans with respect to structure, process, people, and partnerships will serve as the prototype for the corporation of the future.

Resources


For more discussion on corporate venturing, visit the strategy+business Idea Exchange at www.strategy-business.com/idealexchange/