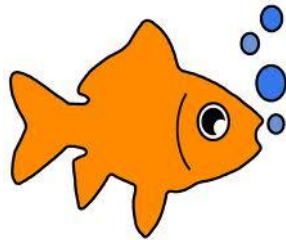


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# VCs and Large Corporations



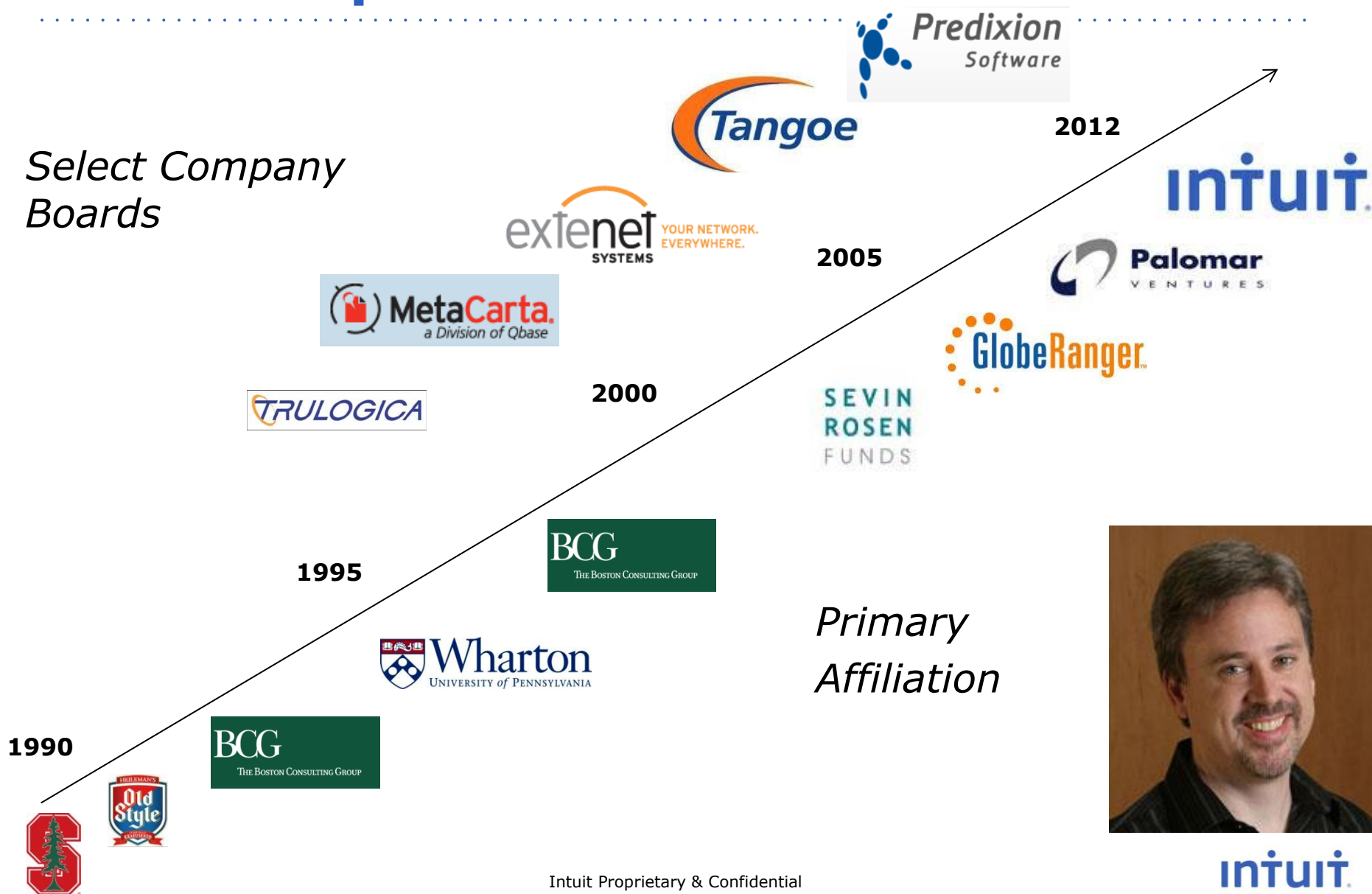
# Agenda

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- My Background
- VCs and Large Corporations - 7 Modes of Interaction
  1. Sell-to
  2. Sell-through / partnership
  3. Minority investment
  4. Joint Venture
  5. Acquisition
  6. Fund LP
  7. Career Option
- Q&A

# Kevin Jacques- Professional Time Line

*Select Company  
Boards*



# Agenda

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# 1. Sell To Large Corporations

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- **Rule:** Very large corporations are reluctant to buy from startups ...  
... until they have ~\$50M of revenue



- **Exceptions:**

- Awesome pull: John Doerr
- Unique + 1. not mission critical or 2. run internally



# 1. Sell To Large Corporations

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## Breaking In – Other Models

- **Sell to department or subsidiary**
- **Work up the food chain**
- **Foot in the door with “hot button” product**
- **Find an internal evangelist**

## 2. Sell Through or Partner with a Large Corporation

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### *The Dream*

- Microsoft's 1981 OEM Deal for MS-DOS with IBM
  - Exclusive
  - Large scale
  - Leverageable (clone market)
  - Full IP ownership retained



Foundation of a durable enterprise



## 2. Sell Through or Partner with a Large Corporation

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*The Dream (cont.)*

- Other Successful Examples
  - Palm ~ Sprint
  - PayCycle ~ Bank of America
  - Cognos ~ IBM



Key role in building scale



## 2. Sell Through or Partner with a Large Corporation

### *The Nightmare #1*

- Google / DeCarta Relationship
  - Non-exclusive
  - Not scalable
  - One-off deal
  - Full IP ownership retained, but not protected



Create a competitor, get “kicked to the curb”



## 2. Sell Through or Partner with a Large Corporation

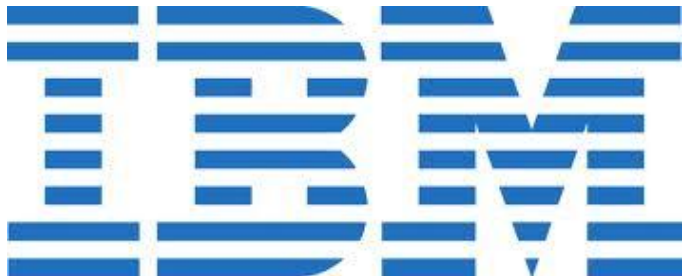
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### *The Nightmare #2*

- Big Blue Bear Hug of Death
  - LargeCo sucks up every cycle in SmallCo
  - LargeCo is working to differentiate large outsourcing deals with >1 year sales cycle
  - SmallCo seeks to grow revenue in < 1 year; earn step up on next round
  - LargeCo's "help" actually keeps SmallCo from achieving growth in required timeframe; complete impedance mismatch



"OK to say no thank you" or find a mechanism to manage scope



## 2. Sell Through or Partner with a Large Corporation

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### Partnership Characteristics

#### Favorable

- Startup has highly differentiated/innovative capability
- Startup and Corporation are in different industries
- Degree of importance to Large Corporation is “just right”:
  - Important enough for focus
  - Unimportant enough to outsource
- Scope of interaction manageable



#### Unfavorable

- Partnership viewed as “testing the waters” by Corporation
- Startup and Corporation are in the same industry
- Partnership viewed as time-to-market accelerator for key internal capability



## 2. Sell Through or Partner with a Large Corporation

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### The Built-in Conflict

Startup wants Launch Pad + Insurance

- If it fails, 'put option' to the corporation
- If it works, go public!



Corporation wants optionality

- If it fails, walk away
- If it works, own it

## 2. Sell Through or Partner with a Large Corporation

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### Another model: The unintended partnership

The PayPal logo, featuring the word "PayPal" in a bold, blue, sans-serif font.The eBay logo, featuring the word "eBay" in a colorful, stylized font where each letter is a different color (red, blue, yellow, green).

*Occurs when an outstanding business model fit  
overwhelms other factors*

### 3. Large Corporation as Minority Investor

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- Traditional Challenges
  - 20% ownership limit, no board seats
  - Follow-on investments subject to changing strategy
  - Corporations leery of adverse selection (“dumb money”)
- Intuit Experience (1990’s)
  - Big wins and total write-offs – randomly
  - Minority investment didn’t seem to help with alignment
  - Never used as on-ramp to acquisition
- Intuit Experience (2000’s)
  - Never makes minority investments
- Intuit Experience (2010’s)
  - Very selectively making minority investments

Possible success scenario: Building an ecosystem to jump-start a platform

# Intuit's Minority Investment Philosophy

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## Must meet MEI Guiding Principles

- Not seeking to create financial returns
- Expect to use less frequently than acquisitions
- Only invest when goals cannot be achieved via partnership
- Seeking to strategically and judiciously leverage minority investments in instances where:
  - Learn about key new markets
  - Obtain preferred commercial terms
  - Try before we buy
  - Target better off standalone
- Must have exit strategy for each investment

 NetPayment

**TRADESHIFT**<sup>®</sup>

  
andera

 CLINKLE

## 3. Large Corporation as Minority Investor

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### Success Scenarios

- Bank of America ~ PayCycle
  - \$10M investment + warrants as part of commercial deal
  - Funding needed for infrastructure to support BofA
  - BofA made 1.5x in 4 years
- Mercedes ~ Tesla
  - \$50M investment in 2009
  - Accompanied a power-train sourcing agreement
- Knight Ridder ~ Zip2
  - 1996 Investment
  - Sold to Compaq for \$300M in 1999
  - Made money ....  
... but couldn't save the newspaper business



## 4. Joint Venture

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- Do these ever work?



- Usually they don't ...



*Can't identify a single example of a successful joint venture between a startup and a large corporation.*

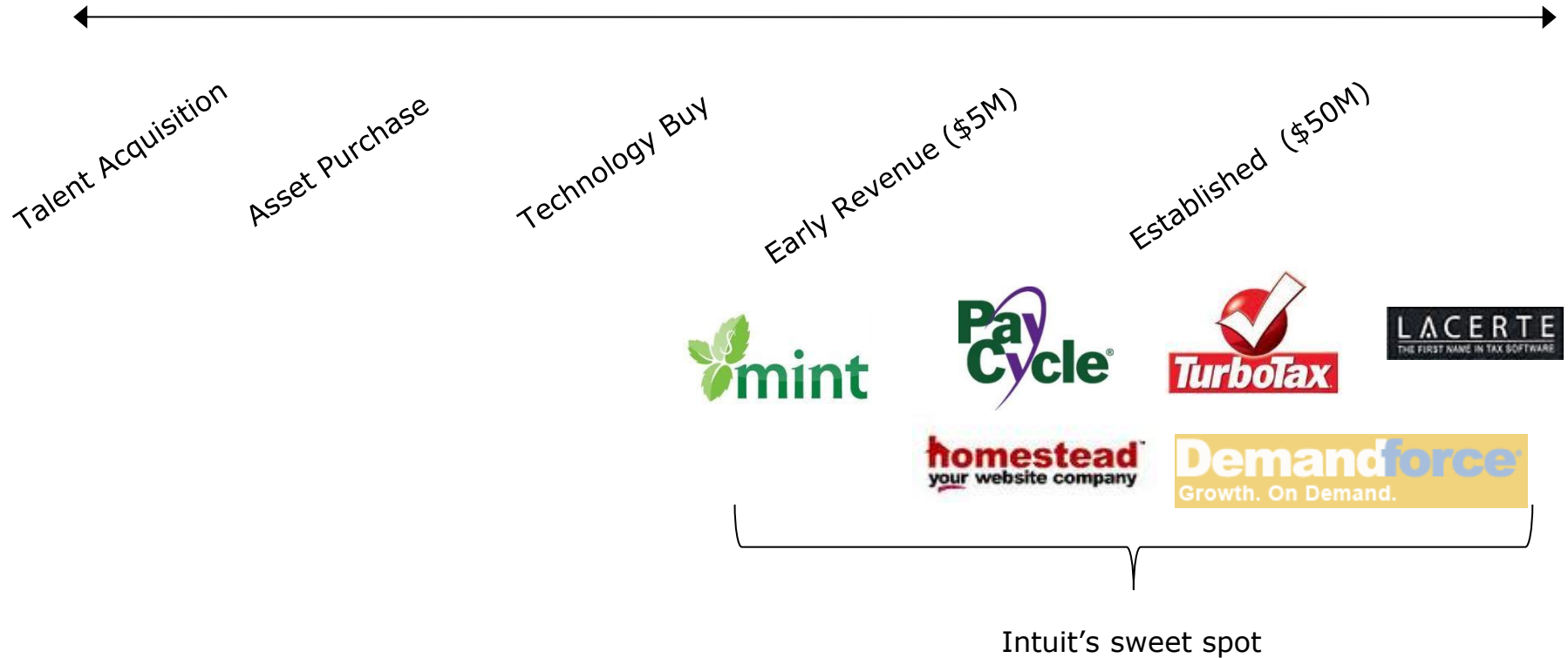
# Recent Intuit JV Scenario

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- Intuit and Large Public Company Partner
- Proposal to put complementary assets in a JV
- Approaching cautiously

# 5. Acquisition

## Acquisition Spectrum



## 5. Acquisition

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### Google's Perspective on Buying Startups



"We think the math works on buying startups. Here's why: When you buy a company you get to look at five of them and pick the best one. Even if you can afford to fund five teams internally, you can't fire four teams when the results are in. So buying a startup is the better deal."

- Eric Schmidt, 3/9/2011



# 5. Acquisition

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## The M&A Process at Intuit

1. Business unit identifies a need -or- Responds to inbound inquiry
2. CS&D team prepares initial assessment
3. Executive Deal Review committee discusses and gives directional assessment
4. More work by CS&D and business sponsor
5. EDR review
6. Due Diligence
7. Board M&A Committee (if over \$50M)
8. Negotiation
9. Close

# 6. Large Corporation as Venture Fund LP

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	Advantages	Disadvantages
<ul style="list-style-type: none"><li>• <b>LP in a Venture Fund</b><ul style="list-style-type: none"><li>• TTV</li></ul></li></ul>	<ul style="list-style-type: none"><li>-Source of capital</li><li>-Deal flow</li></ul>	<ul style="list-style-type: none"><li>- Unreliable investor</li></ul>
<ul style="list-style-type: none"><li>• <b>LP in a Corporate-Backed Venture Fund</b><ul style="list-style-type: none"><li>• FT Ventures (initially)</li><li>• Allegis Capital</li></ul></li></ul>	<ul style="list-style-type: none"><li>- Source of capital</li><li>- Industry expertise</li><li>- Deal flow</li></ul>	<ul style="list-style-type: none"><li>- Unreliable investors</li></ul>
<ul style="list-style-type: none"><li>• <b>LP in a Single-LP Venture Fund</b><ul style="list-style-type: none"><li>• Intel Capital</li><li>• Adobe Ventures</li><li>• RBC Capital</li><li>• Google Ventures</li><li>• BA Ventures (Scale)</li><li>• St. Paul Capital</li><li>• Steamboat Ventures</li></ul></li></ul>	<ul style="list-style-type: none"><li>- One-stop fundraising</li><li>- Deal flow</li><li>- Expertise</li><li>- Partnership Opportunities</li></ul>	<ul style="list-style-type: none"><li>- Stop/Start</li><li>- Strategy questions</li><li>- Compensation/governance</li><li>- Time Overhead</li></ul>

# 7. Large Corporations as a Career Option

## Considerations

### Limited Number of Corporate Positions Leveraging VC Background

- Corporate Strategy and Development
- Business Development
- Treasury /Minority Investments
- General Management
- Chairman

### Loose Coupling of Equity Rewards to Results

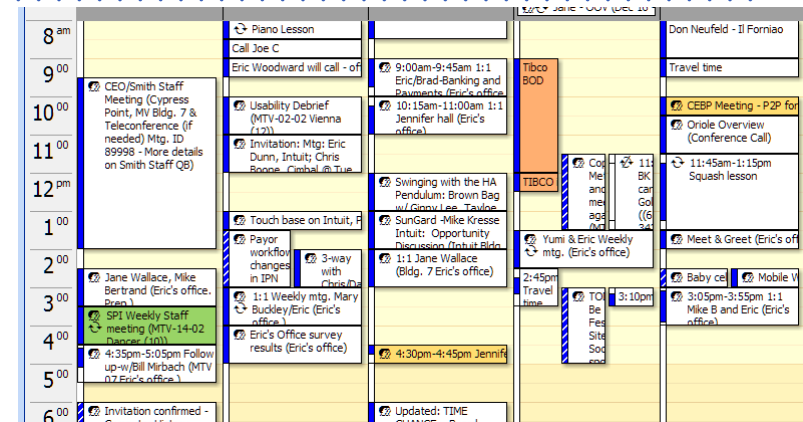
- Intuit Example:



# 7. Large Corporations as Career Option

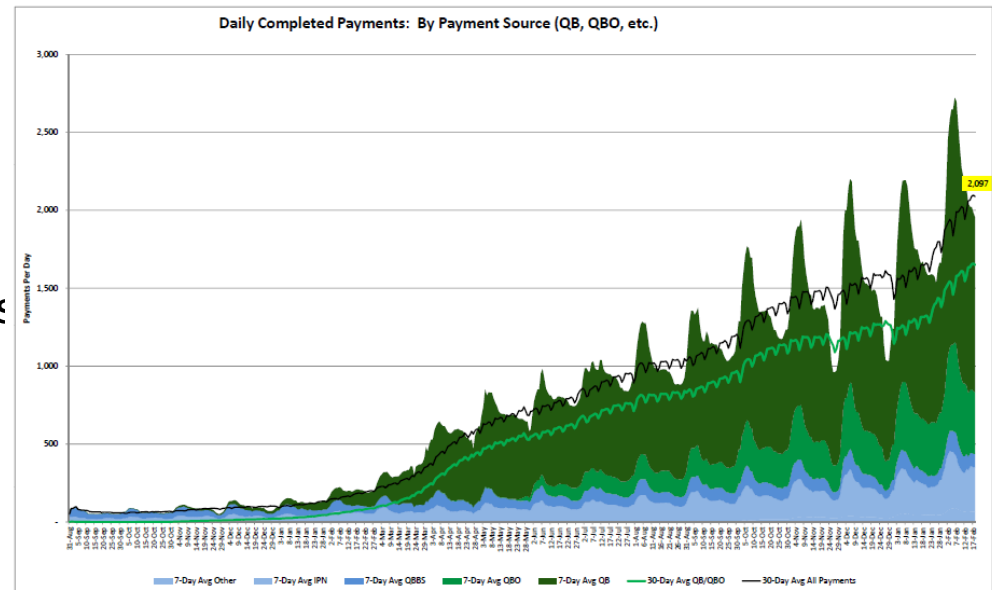
## • The Bad

- Complexity / Overlap
- Overhead: PO Approvals, Training and Compliance etc.
- Meetings!



## • The Good

- Smoothly-running internal systems
- Resources – people, \$ (\$10M Series A, \$17M Series B)
- Access to customers
- Leverage to scale a product





# Last Thoughts

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You probably have more access than you think ...

- Easy things for your corporate contacts to do:
  - Have breakfast with you
  - Talk to you about their industry
  - Give an opinion about a startup they've met
  - Talk about the product direction at their company
  - Help you find the right person at their company
- Harder things to do:
  - Make an introduction or recommendation

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