

Open Innovation

Increasing Your Corporate Venturing
Speed While Reducing the Cost



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* The list is just a small selection of the external experts who have taken part in the study. They shared their personal insights and not those of their corporations.



Executive Summary

Corporate venturing—the collaborative framework between established corporations and innovative start-ups—has been emerging at speed (with a 42% increase between 2010 and 2015 in some cases) through many mechanisms, such as venture clients, venture builders, scouting missions, challenges prizes, and corporate accelerators.

Firms' chief innovation officers look for data so they can make decisions in this field backed up by evidence. How much will it cost (in time and money) to integrate opportunities' value into the parent company using each corporate venturing mechanism? How can those costs be reduced, while increasing the speed? Do the costs differ according to mechanism? Which mechanisms are quicker? And which are the most cost-effective? How long should a chief innovation officer wait before killing an opportunity? These are data that these executives usually do not have because of the novelty of the concept and the lack of historical data.

Based on 121 interviews with firms' chief innovation officers and those in related roles in the United States, Europe and Asia, the study sheds light on these questions. For instance, there are

mechanisms whose opportunities cost around €250,000 (a venture builder) while others cost around €300,000 (a corporate incubator).

The conclusions will help leaders define their corporate venturing strategies more accurately and select a more appropriate combination of corporate venturing mechanisms. Additionally, the gathered data will help innovation managers to have a benchmark against which to compare themselves and check whether they are spending too much money or proceeding too slowly.

For corporate venturing initiatives such as AT&T Foundry, agility has become a competitive advantage to attract the best start-ups, with relationships usually established quickly because of the start-ups' scarce cash flow. The time span of the relationship between a corporation and start-ups starts with identification of the opportunity and collaboration, going on to the integration of value into the parent company and it is the integration stage that usually takes the longest. For example, the identification stage could require anywhere from one to five months on average, depending on the mechanism used, while the attraction and integration stages are much longer,

ranging from one to 11 months for the attraction stage and four to 18 months for the integration stage.

So, how can you improve your corporate venturing strategy, increase your speed and reduce your costs? The study provides several principles such as: using data (not intuition or media hype) when choosing the combination of corporate venturing mechanisms; identifying the stage in which your bottleneck is located (identification, collaboration or integration); adopting agile principles, especially in the longest stage (integration); fighting to become the player in your industry with which start-ups most want to work; using the "joint three pockets" rule to increase your innovation budget and other units' involvement by sharing innovation costs with corporate, business and innovation units; and ensuring good communications among different corporate venturing initiatives.

Lastly, the study provides preliminary instructions to start doing corporate venturing, and describes some of the most common misunderstandings about corporate venturing such as the idea that it involves only CVC and large corporations, requires a lot of investment to start and is financially unsustainable.



Corporate Venturing

Increasing Speed While Reducing the Cost

+120

Based on 120+ interviews with CIOs
(and related roles) in US, EU and Asia

EXAMPLES OF COMPANIES USING CORPORATE VENTURING



Corporate venturing is the collaborative framework between established firms and innovative start-ups

THE SEVEN LIES OF CORPORATE VENTURING



- | | | | | | |
|---|--|---|--|---|--|
| 1 | It is only corporate venture capital | 4 | It is financially unsustainable | 7 | My corporation is better than any start-up |
| 2 | It is only for very large corporations | 5 | It will give short-term results | | |
| 3 | It requires a lot of investment to start | 6 | It is useful only for early- or late-stage start-ups | | |

HOW MUCH WAIT BEFORE KILLING AN OPPORTUNITY

Months required per opportunity, stage and mechanism



Corporate accelerator
on average, an opportunity requires 11 months



Venture builder
on average, an opportunity requires 10 months



Venture client
on average, an opportunity requires 8 months



1. Identification
2. Collaboration
3. Integration

COST OF ONE OPPORTUNITY PER YEAR PER MECHANISM



€ 310,000

Corporate accelerator



€ 255,000

Venture builder



€ 47,000

Venture client

*Ongoing cost per opportunity per year = internal FTE cost + managerial cost (excluding investment)

INCREASING SPEED AND REDUCING COST



1. Use data (not intuition or media hype) for choosing corporate venturing mechanisms
2. Think twice critically about having a corporate incubator
3. Share innovation costs with corporate headquarters and business lines
4. Adopt agile principles, especially in the longest stage (integration)



Open Innovation: Increasing Your Corporate Venturing Speed
While Reducing the Cost

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1. What if my company is not yet doing corporate venturing?

1.1 AN EMERGING TREND

Corporate venturing—defined as the collaborative framework between established firms and innovative start-ups—has been emerging at speed.¹

According to our previous study, conducted in collaboration with chief innovation officers and those in related roles, 70% of firms were increasing investment in their innovation units, 60% of which had been created in the previous five years. Corporate venturing mechanisms have continued to rise, with a 42% increase between 2010 and 2015.¹

These tools—venture clients, hackathons, venture builders, scouting missions, corporate accelerators and more—are clear paths for attracting and adopting innovations by established firms, following the paradigm of open innovation, which assumes that firms can and should use external ideas.²

Figure 1. Schneider Electric's Innovation Center in Silicon Valley



Source: Schneider Electric.

As Schneider Electric's chief strategy officer Emmanuel Lagarrigue said: "Corporate venturing allows established companies to access forms of innovation that are difficult or impossible to produce internally."³

The first trigger for the increase of corporate venturing mechanisms in companies is the so-called VUCA environment

in which we are living. This acronym describes the high levels of volatility, uncertainty, complexity and ambiguity of the modern-day business environment. As General Motors president Dan Ammann said: "We see more change in the next five years than there's been in the last 50."⁴

The second trigger has been some successful stories such as the creation of Google Ventures in 2008, a move that was mocked by many. This venture has successfully grown into one of the largest corporate investors. This was (kind of) an endorsement by a successful innovative company.⁵

The third lever has been the high level of media attention received (the number of media articles referring to "corporate venturing"), which has grown by 3.1 times in the past four years.*

Figure 2. GV's (formerly Google Ventures) office in Mountain View



Source: GV.

Lastly, academics and publishers have also taken an increased interest in this practically unexplored arena, with many research questions waiting to be answered. In the past four years alone, the number of publications (in academic

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* Source: Analysis done by the authors using data from the Factiva database.

and nonacademic journals) has increased by 1.8 times, with a growth rate of 18%.*

However, this is not a new practice: large firms such as Intel, Siemens, Qualcomm, Xerox, GE, IBM, Lucent, Cisco, Samsung, Comcast and Merck have been developing such mechanisms since as far back as the 1960s.⁵

It is important to note that these venturing tools are not being used to supplant internal research and development (R&D) but to complement and encourage it. Existing examples illustrate this interaction in industries such as the media, technology and automotive sectors.⁶ For instance, in the case of the media, the R&D spending (as a percentage of sales) of companies that use a combination of corporate venturing mechanisms—such as corporate venture capital (CVC), corporate accelerators and corporate incubators—is 2.4 percentage points higher, on average, than the R&D spending of the top 30 companies by market capitalization in the same sector.⁶

As explained by the Henkel Ventures head of corporate venturing, Thomas Schuffenhauer: “In a world of constant change that defines new value chains, acquiring new skills

and collaborating with partners are indispensable for success.” He said that corporate venturing complemented other options such as R&D, innovation, and merges and acquisitions (M&As).³

Nevertheless, since the model is emerging, there are a few misconceptions (and unanswered questions) that are preventing some chief innovation officers from leveraging corporate venturing mechanisms, which means they lose the potential growth such mechanisms offer. This echoes one of our previous studies, which found that just 23% of companies said their innovation units were delivering significant innovative solutions.⁷

In conclusion, though there are many ways of innovating in companies, corporate venturing is an emerging practice that allows a company both to source new innovative opportunities and to speed up a solution that is already showing successful results.

Executives must take a mid- to long-term view for corporate venturing to bear fruit, and they must be diligent when designing a model that will align in the most appropriate way with the firm’s objectives and culture.

Figure 3. Samsung Electronics’ Global Innovation Center in Tel Aviv



Source: Samsung Electronics.

Figure 4. Henkel’s Innovation Center in Pune



Source: Henkel.

1.2 THE SEVEN LIES OF CORPORATE VENTURING

Bipin Sahni, senior vice president of innovation and R&D at Wells Fargo, said that the company had launched its start-up accelerator program in 2014 “to spur innovation for our customers’ benefits and expand our vision of the future of financial services beyond the boundaries of Wells Fargo and banking.” He added: “When we pitched the idea to senior management, there was just one question: ‘Why aren’t we doing this already?’”⁸

Nonetheless, beyond these positive considerations, there are still firms that are skeptical of the model. Such firms’ executives usually share one or more of the following ways of thinking that act as brakes:

* Source: Analysis done by the authors using data from the Scopus database.

Figure 5. Wells Fargo’s Digital Innovation Hub in San Francisco



Source: Wells Fargo.

1.2.1 Is corporate venturing only CVC?

Corporate venturing is “a collaboration framework that acts as a bridge between innovative and disruptive start-ups and established corporations.” It was defined as the “mean through which corporations participated in the success of external innovation to help them gain insights into non-core markets and access to capabilities.”⁹

The CVC model—having an internal venture fund to invest in start-ups—has existed since the 1960s. However, the first pioneer can be traced back to 1914, when DuPont invested in a six-year-old private automobile start-up called General Motors.⁵

The aspects that are more current and growing are other corporate venturing mechanisms (e.g., venture builders and corporate accelerators) that make this collaboration more sophisticated. For instance, between 2010 and 2015, the top 10 companies (by market capitalization) increased the number of corporate accelerators and incubators by 42%.⁶

Having said that, corporate venturing not only is getting more sophisticated but also is finding new goals for CVC. While many people thought that CVC was useful only for financial returns, nowadays strategic goals are gaining in importance in the decision-making process. Therefore, examples of CVC can be found that are described in the literature as having mainly financial goals (e.g., Dell Ventures¹⁰ and GV or formerly Google Ventures¹¹), strategic goals (e.g., Salesforce Ventures^{12,13} and Lucent Venture Partners¹⁰) and hybrids (e.g., Intel Capital¹⁴ and Qualcomm Ventures¹⁵).

As Varun Jain, head of the Qualcomm Ventures global early-stage fund, put it: “We’ve always believed that companies that aren’t financially successful on their own will lead to limited strategic dividend. So, we restrict our investment mandate to technologies/markets that are (or could be) strategically relevant to Qualcomm and then evaluate deals with same lens and emphasis on financial prospects as traditional venture investors.”¹⁵

CVC examples with more sophisticated strategies can also be found. For instance, the semiconductor company Intel was looking for ways to increase its revenue in the early 1990s and later found a way to increase its sales channels in an innovative way. Intel then decided to follow an investing strategy to enable indirect revenues.

The company invested in hundreds of start-ups, whose solutions included the use of the company’s powerful Intel Pentium chips. The CVC indirectly increased the demand for the company’s products and therefore received high financial returns.¹⁵

Figure 6. Salesforce Tower in Chicago (inside view)



Source: Salesforce.

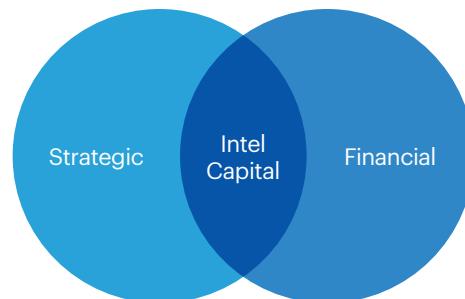
Figure 7. Goals of Intel Capital (strategic and financial)

Strategic, Long Term Investor

Intel’s Global Investment and M&A Organization

Our Mission

Enhance Intel’s strategic objectives by making and managing financially attractive investments.



Source: Investing in Global Innovation. Intel Capital (2014).

1.2.2 Is corporate venturing only for very large corporations?

Although the growing literature is providing more and more examples and data pertaining to large corporations, there are less-known cases of small and medium enterprises (SMEs) that are implementing this collaborative framework successfully, such as the renewable energy company Fersa¹⁶ and other European SMEs such as Lékué, Pro Earth, Dearman, BA Systèmes and Jenetric.¹⁷

Moreover, public entities are increasingly enhancing such collaboration between SMEs and start-ups through policies and funding—for instance, in projects of the European Commission’s current Horizon 2020 program and its forthcoming successor Horizon Europe (formerly FP9).¹⁸

Additionally, the mechanisms that are usually mentioned in the literature—such as hackathons, corporate incubators, venture builders and corporate accelerators—can be implemented perfectly by SMEs. Although such firms might

Figure 8. Dearman founder Toby Peters receiving two awards at the annual UK SME Innovation Awards



Source: Open Innovation for SMEs. Inspire (2016).

have to focus in mechanisms that are faster and require less capital because of time and budget constraints, they are able to implement those. The number of times per year that such SMEs use the mechanisms may also vary. Lastly, to be effective, such companies should design an attractive value proposition carefully.

1.2.3 Does corporate venturing require a lot of investment to start?

As seen in one of our previous studies, building from scratch a corporate venturing mechanism ranges from investments of €10,000 for a hackathon to €30,000 for a venture client and for sharing resources.¹

Additionally, some mechanisms require lower maintenance costs, as detailed later in this study. (See section 2.5.4)

1.2.4 Is corporate venturing financially unsustainable?

As in many business practices across sectors and geographies, some actors perform better than others. There are already many cases of companies that have not only successfully implemented the model but also achieved financial sustainability within their corporate units.¹⁹ (See section 1.1.)

Contrary to public belief, the traditional CVC model (according to Harvard Business School professors Gompers and Lerner) appears to be at least as successful

as those backed by independent venture organizations, especially for investments in which there is a strategic overlap between the corporate parent and the portfolio firm.¹⁹ They also argue that corporations are more likely to benefit from indirect gains such as strategic alliances and a greater understanding of industry trends, as well as direct financial returns.

An interesting example is that of Xerox Technology Ventures. Between 1988 and 1996, it achieved excellent financial returns from investing in more than a dozen companies and by aggressively exploiting the technology and knowledge of its corporate parent. It achieved a profitable financial model.¹⁹

Yet, in addition to the traditional CVC model, which we already know has produced similar financial returns to the VC industry over the past five years,²⁰ the number of success stories with other corporate venturing mechanisms has been increasing.

This is the case of the German conglomerate Siemens, whose innovation unit Technology To Business (in Berkeley) has run 70+ projects since 1999 and has launched 10+ new products (or entire product lines).²¹

It is also the case of the software corporation SAP, which brought more than 1,500 early adopters to a new product's platform by creating a corporate accelerator immersed in agile principles.²

Thirdly, there is the case of the US conglomerate AT&T, which worked with the start-up Intucell through its Foundry program to improve the reliability and speed of the AT&T wireless network. The speed and reliability of the service increased by 10%, while tower overloading was reduced by 30% within a few months. (See Section 2.1.)

Furthermore, as seen in a previous report¹, more and more CIOs are understanding the importance of designing venturing strategies that encompass a long-term vision rather than short-term deliveries, which in many cases has the potential to destroy long-term growth opportunities.

Last but not least, it is also particularly important to maintain financial sustainability in order to manage innovation with a portfolio mindset, as many companies do (e.g., IBM, Google, Intuit, 3M, Procter & Gamble, Apple).²² Having three baskets usually help business units to combine the strategic and financial goals. These baskets are disruptive, incremental and cash-out.

One basket is for disruptive-innovation projects—those that may change your business model (high risk). One is for incremental-innovation projects—those that are going to lead to some improvement in the organization (medium risk). One is for cash-out projects—those that are going to ensure medium-term financial sustainability so the company can continue to innovate (low risk). The weight to balance the three baskets will come from the venturing-strategy goals.

Figure 9. Siemens' Technology To Business in Berkeley



Source: Siemens.

1.2.5 My corporation is better than any start-up. Why do I need them?

Firms that are successful in corporate venturing are those that regard the differences between corporations and start-ups as a source of opportunities. One organization may find a solution to its limitations in another organization. For instance, a start-up's endemic lack of resources may be compensated by it being able to share the resources of a corporation.

The focused talent pool of a start-up may offset a corporation's lack of knowledge in that area. As IBM Ventures managing director Wendy Lung said: "There has to be an awareness and acceptance within senior leadership that this is an absolutely vital ecosystem that we have to have a close relationship with."⁸

1.2.6 Will corporate venturing give me short-term results?

To understand the answer to this question, it is important to first define both "short-term" and "results." Depending on whom you ask, you might be told that "short-term" means days, weeks, months or years (e.g., whether you ask a start-up or a financial corporation or a pharma company). The same happens with what is meant by "results," which executives can understand as referring to many things such as revenues, knowledge or products (e.g., whether you ask a banking institution or a media company).

Firstly, some management frameworks have developed a time horizon to manage growth opportunities²¹ such as the McKinsey horizons of growth. Horizon 1 has a common time span of one to three years and refers to extending and defending your core business. Horizon 2 has a common time span of three to five years and refers to building emerging businesses. Horizon 3 has a common time span of five to 12 years and refers to creating viable options.

Yet, as with many principles and frameworks in management, you have to adapt and tailor the learning to your specific scenario, avoiding a simplistic copy and paste. For instance, while a bank may think in terms of a time frame of three to

Figure 10. 3M's Innovation Center in Delft



Source: 3M.

five years for building new ventures, a start-up may already die in that time (bearing in mind that three out of four start-ups disappear after three years).²⁴

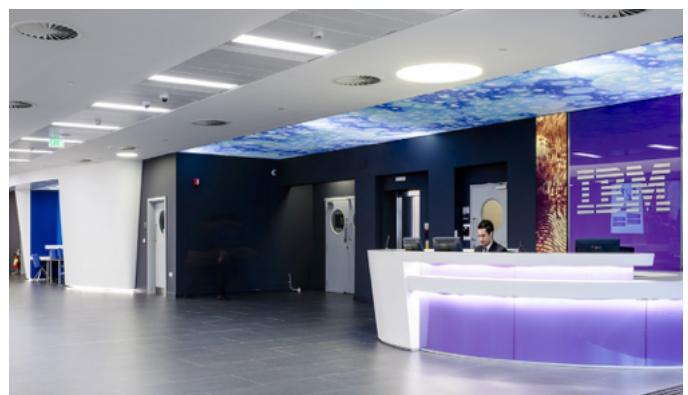
Also, the time required to launch a new product or service in the pharmaceutical industry is quite different from the time required in the tech industry. While a pharmaceutical company needs around 13.5 years from discovery of a new molecular entity to launch (preclinical, phase 1, phase 2, etc.),²⁵ a tech company can launch a new product perfectly well in less than a year.

Additionally, some organizations are quicker than others and therefore are more agile when it comes to building and adopting new innovations, as explained in a previous study.²⁶

Secondly, as will be seen later in this study (section 3.2.2), results can be many things—not only revenues but also knowledge, products and services, mind-sets, processes and business models.

Once we have a common understanding, we can segment the time span into two pieces of data: the time needed to build the corporate venturing mechanism (e.g., a venture client), and the time needed to go through the whole venturing process from identification to integration of the value.

Figure 11. IBM's Digital Innovation Center in Dublin



Source: IBM.

In our previous report, we shared the time spans per mechanism, which ranges from two to three months in the case of building a corporate venturing unit that will execute strategic partnerships and venture clients, and from 12 to 13 months in the case of building a unit that will execute a CVC or acquire start-ups.¹

This study will shed light on the time spans required to go through the whole innovation process.

In conclusion, corporate venturing mechanisms are designed for mid- to long-term horizons, bearing in mind the singularities of your industry and size. Having a short-term view may destroy long-term growth opportunities for corporations.¹

1.2.7 Is corporate venturing useful only for start-ups at either an early stage or late stage?

The short answer is no, it is not.

It is a misconception that corporate venturing works only when collaborating with start-ups that are in their early days or with very developed start-ups. Our previous research found that there are mechanisms for each development stage (i.e., for discoveries, start-ups and scale-ups) (see Appendix 1) and there are success stories relating to each mechanism. For instance, CVC is usually applied to start-ups and scale-ups, while scouting missions and hackathons are usually for discoveries (very early stage).¹

1.3 HOW DOES MY COMPANY START TO DO CORPORATE VENTURING?

1.3.1 Preparing the organization to integrate value

If a successful corporate venturing unit* is understood as being one that can efficiently add new value to a company (e.g., knowledge, a product or service, a mind-set, process, business model or revenue), the most successful approach the authors have seen is to launch it under the paradigm of organizational change. The logic behind this approach is that it will challenge the status quo of any particular organization. This would signal imminent organizational change rather than the unit just being yet another toy for the CEO.

Launching a unit that will provide value (in terms of opportunities) to the core or adjacent business implies doing things differently. This process is basically organized into three phases: unfreezing, moving and institutionalizing.¹

The first step (unfreezing) consists of creating a sense of urgency for change within the institution, creating a group willing to lead change and communicating the new vision to internal and external stakeholders. This can also start in a small department of the organization, as a seed that will scale (step by step) across the institution.

The second step concerns the implementation of change (moving), which often amounts to a process of experimentation. During this phase, according to the new vision, new procedures are established in order to identify a solution. This may consist of rethinking objectives and systems of budgeting, planning and rewarding.

The final step is consolidating (institutionalizing) the improvements achieved in the previous phase. This is a pattern that was echoed in the interviews conducted in this study.

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* A corporate venturing unit is the organizational structure a company has to implement the interaction (i.e., identification, collaboration and integration) with innovative start-ups. This structure refers to the resources (e.g., team, budget, knowledge) and processes in place for that interaction.

1.3.2 Building your pipeline of growth opportunities

In parallel, in addition to being an organization that can integrate value and change, a company should be able to attract value through growth opportunities. Otherwise, it will be hungry for growth but have no food.

In this process of generating new growth opportunities, experts have recognized three fundamental challenges: encouraging outsiders to supply external innovation (identification), incorporating external innovation into internal development (collaboration), and designing ways to exploit internal innovation (integration).^{2,27} This framework of challenges was echoed by the interviewees in this study.

Copy and paste strategies are not a good practice in corporate venturing, as we spotted in our previous studies.¹ Each corporate venturing mechanism requires a different set of resources, cost and time, and also provides opportunities during different development stages, so an opportunity may be more or less risky.

BUILDING THE PIPELINE OF GROWTH OPPORTUNITIES

1. Definition of your goal and objectives
2. Self-assessment of the company's situation
3. Identifying the areas of your business more exposed to innovation
4. Checking the areas in your industry that are creating sustained growth opportunities
5. Setting up your preferred search fields, in line with the previous steps
6. Choosing the when and how (tools), to complement internal and external innovation

Therefore, it is necessary to design a tailored strategy for each organization for how to build this pipeline of growth opportunities. Below are the first steps to take into account. (See our previous studies¹⁹ for more details on the steps, costs, timings, challenges and best practices.)

Within the parameters of this study, several factors have surfaced as being critical for designing the right strategy and environment of a successful corporate venturing unit. Two previously unsolved challenges in particular are among the most salient.

First of all, it is necessary to understand the pros and cons of the corporate venturing unit's autonomy (with respect to the parent company) to maximize the value integrated into the parent company. The authors will cover this in a forthcoming study.

Secondly, there must be historical data or benchmarks on the speed and ongoing cost per opportunity for each of the 11 corporate venturing mechanisms. This is not only to select the combination of the most appropriate mechanisms to maximize the value generated by the corporate venturing unit but also to tackle the trade-off between time and cost that usually appears in management.

The concept of the Iron Triangle defines three criteria for success in project management: cost, time and quality.²⁸ These criteria can also be applied to project management in corporate venturing activities. The ideal project is managed in the most cost-effective way, in the minimum time and with the best quality.

The time-cost trade-off sometimes creates operational problems relating to milestones, scheduling and cost optimization because those are calculated in advance, leading to problems of misalignment during the actual project implementation.²⁸

In the literature, there is an assumption that the time-cost trade-off refers to the solution of this challenge: a project's duration can be shortened by accelerating some of its activities at additional expense²⁹ or, if necessary, the project can still be completed with fewer resources but over a longer time. However, is there a more effective solution? The next section will shed light on this question.

2. Benchmarking speed and cost by mechanism

2.1 INTRODUCTION: THE CASE OF AT&T FOUNDRY

Jessica has been preparing her elevator pitch all night long. Today, she will present her idea to AT&T, a multinational giant with an annual revenue of \$190 billion. She spotted an open call from AT&T Foundry for new solutions for a specific internal challenge the company wants to solve.

The program is a mixture of a challenge prize, a corporate incubator and a venture client, and it is hosted at the company's innovation centers. Jessica knows the program has a track record of more than 500 projects and has deployed dozens of new products and services. The program can be the right catalyst to bring her idea to the market quickly.

Figure 12. AT&T Foundry's office in Plano



Source: Martin, J., First Look: AT&T Opens New Facility at Texas Medical Center. Houston Business Journal (June 7, 2016).

When she started her preparation, she was a bit skeptical about the agility of the company because of its history (tracing its origins back more than 130 years), the high number of employees (more than 250,000), and the low percentage of start-up pitches that resulted in a joint project with the corporation (roughly 10%). For all these reasons, she assumed that the innovation unit would

be affected by its parent company's "traditional" and nonagile mind-set, with complicated decision-making processes and high levels of bureaucracy. However, when one of her entrepreneurial colleagues told her about how the program was designed, she changed her mind.

Apparently, the AT&T Foundry's "way of doing" is supposed to resemble that of start-ups as closely as possible. Each AT&T Foundry innovation center hosts an attorney with experience of working in fast-paced environments to take care of paperwork at start-ups' speed. Then, each team has 12 weeks to present a proof-of-concept (POC) prototype to a business unit, without having to share equity or intellectual property (IP) with the established company.

After this initial validation is passed successfully, the start-up's role changes to that of a regular technological supplier of the receiving business unit. Moreover, Jessica heard that a four-person start-up called Intucell had entered the program, claiming it knew how to improve reliability and speed in the AT&T wireless network. Within a few months, it had increased the speed and reliability of the service by 10%, while reducing tower overloading by 30%.

In one of our previous studies, the authors found the overhead costs for building different corporate venturing mechanisms (e.g., €10,000 for a hackathon, €125,000 for a corporate accelerator, and €350,000 for a venture builder).^{1,30}

However, this study has looked ahead and explored all phases of a corporate venturing project opportunity: identification, collaboration and integration (section 2.2.2) to explore the managerial costs and speed of integrating value from an opportunity (section 2.5). This would help enterprises understand: the average time required to validate whether an opportunity is interesting and worth investing in; the time that must be put into attracting the selected start-ups; the time needed to incorporate any solution into the company; and more.

2.2 DEFINITIONS AND CLARIFICATIONS: SPEED, COST AND INNOVATION STAGE

2.2.1 Speed and cost

Innovation speed refers to the rate at which innovation occurs in the different stages of a corporate venturing opportunity (see section 2.2.2), which differs between mechanisms.

Managerial cost refers to the amount required to identify, collaborate and integrate value from one opportunity in each mechanism once it has been launched. It includes costs such as legal services, marketing, trips, databases and facilities. It does not include full-time equivalent (FTE) costs or the actual investment (e.g., capital principal or investment fees). In the case of mechanisms that have several “editions” during a year (such as some incubation programs), interviewees provided the cost of the whole year, unless there were more than three months between each edition.

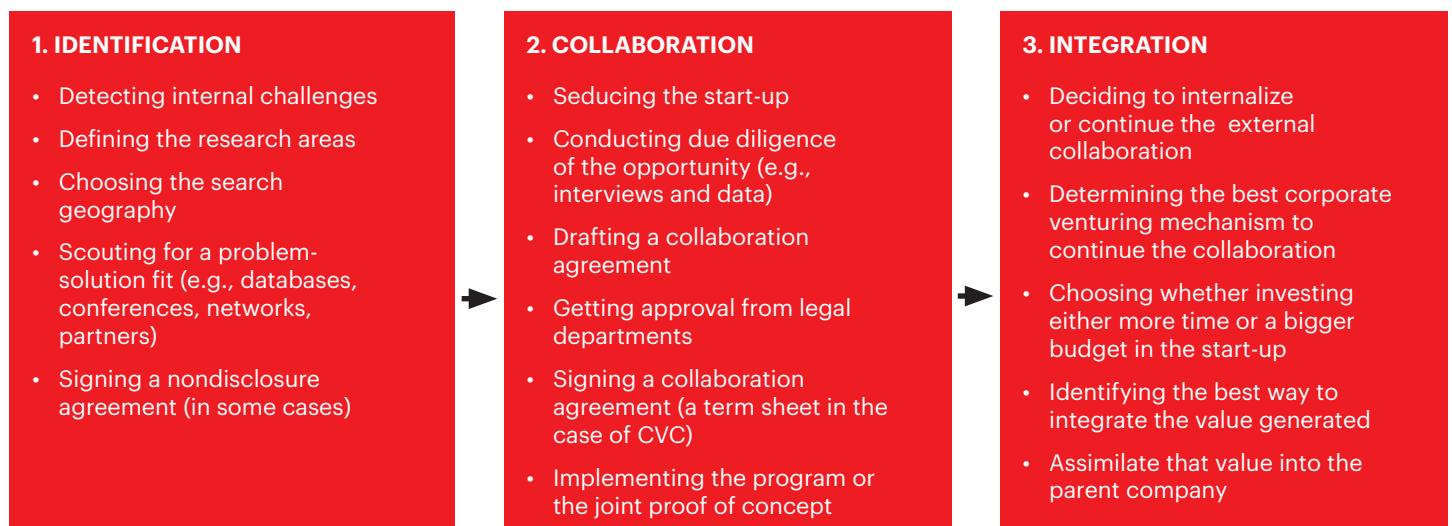
Full-time equivalent cost refers to the corresponding amount of money required to sustain the mechanism once it has been launched, in terms of how many full-time equivalent employees are required per year to maintain the mechanism. External employees have not been included.

2.2.2 Stages of a corporate venturing project

The three **stages of every corporate venturing project** are identification, collaboration and integration.¹³¹ The authors have assumed this is a sequential process, as demonstrated by the majority of the cases analyzed. Taking a closer look at the three phases:

Identification is the first stage and refers to the time span between the creation of the corporate venturing mechanism

Figure 13. Stages of a corporate venturing project



Source: Prepared by the authors. The list of tasks is not exhaustive. Yet, it encompasses the most relevant aspects.

and the identification and prioritization of an opportunity. Here, the term “opportunity” refers to a discovery, start-up or scale-up that may create value for the company.

Throughout the analysis, the authors considered an average opportunity rather than the first opportunity created by the corporate venturing mechanism because, in the majority of the cases, it takes more time to generate the first opportunity, once the mechanism has been created. For example, in some cases in the sample, the company spent twice as long on generating the first opportunity as it did on generating an opportunity once (a) the company already knew how the venturing mechanism worked and (b) had generated enough opportunities to reduce the initial costs of learning.

During this first stage of opportunity identification, companies’ tasks generally include the following actions: defining the research areas and the internal challenges to be solved, defining the geography in which the company is willing to identify an opportunity, scouting for a problem-solution fit by analyzing databases, attending conferences, utilizing personal networks and those of their partners and finally, in some cases, signing a nondisclosure agreement.

In the identification part, the authors found two patterns among the analyzed companies, echoing previous research: those that were actively seeking opportunities, called “push-innovation companies,” and those that were more passive, called “pull-innovation companies.”²³

Collaboration is the second stage and refers to the time span between the identification and prioritization of an opportunity and its attraction for a first collaboration test. A first collaboration test refers to a POC: a joint effort completed by both stakeholders, the corporation and the start-up, to achieve a certain objective.

This stage is characterized by some of the following steps: “seducing” the start-up with which the company wishes to work with, conducting due diligence of the opportunity through interviews and gathering further data, drafting a collaboration agreement and getting approval from legal departments. Other actions include signing a collaboration agreement (a term sheet in the case of CVC) and implementing the program or the joint POC.

Integration is the third stage and refers to the time span between the beginning of a first collaboration test and the integration of the opportunity’s value into the company. With “value,” the authors refer to anything from which the corporation can benefit from: knowledge, products or services, a mind-set toward innovation, processes, business models and revenue sources.

This stage usually requires checking the results of the previous stage: determining whether to internalize the collaboration or continue with an external collaboration; deciding whether to continue collaborating through the current corporate venturing mechanism or to use another one; investing either more time or a bigger budget in the company; and identifying the best way to integrate the value generated and to assimilate that value into the parent company.

2.2.3 Development stages of an external opportunity

Although there are several accepted definitions of “entrepreneurial opportunity,” the authors have used these commonly cited definitions: “an idea that has developed into a business form” or “the possibility of introducing a new product to the market at a profit.”³²

As described in some of the authors’ previous studies, opportunities can be engaged through a corporate venturing process at their different development stages (discovery, start-up and scale-up),⁹¹ depending on the maturity of the opportunity. Each venturing mechanism is suitable in specific ways for opportunities during the different stages of its development.

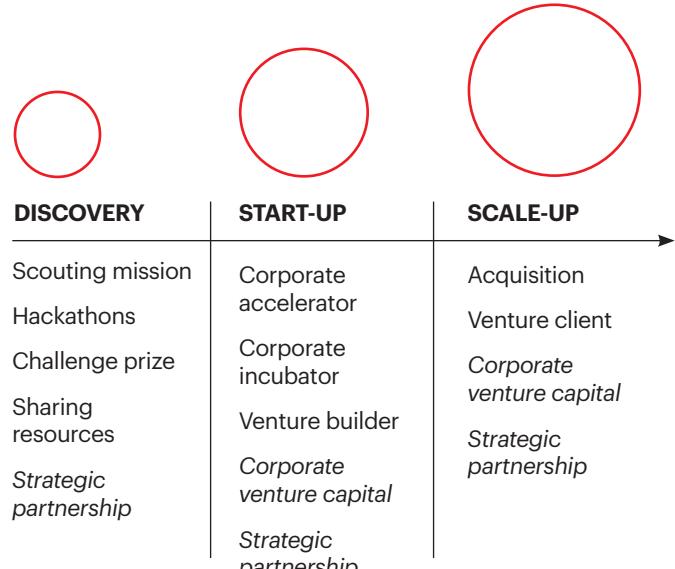
A corporation with mechanisms at the discovery phase—such as scouting missions, hackathons, challenge prizes and sharing resources—is looking to catch opportunities at a very early stage, such as ideas or new technologies.

Mechanisms such as corporate accelerators, corporate incubators, strategic partnerships, venture builders and CVC are used instead to engage opportunities that are established, or ideas or technologies that need to be crafted. Crafting consists of developing and aligning a business model and designing the corresponding organization that could exploit the value of that innovation.⁹ Four of the mechanisms previously mentioned (excluding CVC) may also be useful in the ideation phase but are more relevant for their contribution to this phase.

In the crafting phase, the company would work with organizations that already have a business model, a prototype or even a well-developed working business.⁹

CVC, acquisitions and venture clients instead deal with well-developed opportunities that are in the phase of being scaled up and deployed.

Figure 14. Development stages of an opportunity



Source: Prepared by the authors. For more details, see Appendix 1.

2.3 WHAT HAS BEEN SAID, MAINLY ABOUT CVC

This study is mainly answering two questions. On average, how much time and ongoing cost per opportunity in each corporate venturing mechanism are required to integrate value in the parent company? Can they be improved?

In short, since CVC is the oldest corporate venturing mechanism, the main answers in the literature relate to this mechanism. For instance, how long does it take for CVC to return capital to its investors per opportunity, once the CVC has been created?^{19,33} This can depend on other external factors, such as the type of goals and the time frame that has been established by the corporation. A particular example of CVC might have objectives that are strategic, financial or hybrid. Additionally, it can take a long- or mid-term view.

There are studies that answer similar questions for the venture capital (VC) industry. For instance, there is a study citing data from 80 major US companies with strategically oriented venture capital program. It found that their reported return on investment, for programs that had been in operation for five years or more, averaged 14% to 15%.³⁴ With the VC industry as a benchmark, the estimation is that VC exits happen in five to seven years after investment in start-ups. VCs sell their equity position in the ventures after

eight to 10 years of investment. VCs wait for returns seven to 10 years after investment.³⁵

Also, in previous studies by some of the authors, we analyzed the cost in terms of time and money needed to build each corporate venturing mechanism. However, the authors either carried out only a qualitative categorization⁹ or did not consider the ongoing cost and speed of the opportunity, once the mechanism had been created.¹

In the case of corporate accelerators, the annual budget required to operate them can range anywhere from \$2 million to \$5 million, including expenses for office space, marketing and internal teams. If there are no third-party vendors running the program, the number may be lower.³⁰

It is also important to consider that independent and virtual accelerators are more cost-efficient than those that are more tightly bound to the parent company, whether positioned inside or outside of it a company.³⁶

Lastly, there are categorizations made by other institutions. However, in some cases those did not give empirical data or detailed numbers to support their conclusions.³⁷

2.4 WHAT WE DO NOT KNOW AND WHY THE ANSWER MATTERS

Not only speed but also cost is still a main worry of firms' CIOs. In particular, cost is a special concern of innovation units, where quick wins are sometimes demanded with no long-term commitment.

Tweeting about the shutdown of Ogilvy Labs in 2016 (Figure 15), the former director of innovative solutions at Ogilvy Group UK wrote: "It's with regret that Labs has been shut down." In a subsequent interview, she said: "If you're not attached to revenue you're always in a precarious position."^{7,38}

Figure 15. Tweet of Nicole Yershon

Nicole Yershon
@nicoleyershon

Its with regret that Labs has been shut down - if u need to speak abt anything non Ogilvy related, please connect via social media channels

7 11:38 PM - Aug 8, 2016

75 people are talking about this

Source: Quoted in Omar Oakes and Brittanney Kiefer, "Ogilvy Labs Shuts Down," Campaign (August 9, 2016).

According to a 2017 article published in Harvard Business Review, "When a CEO announces a major initiative to foster innovation, mark your calendar. Three years later, many of these ambitious ventures will have quietly expired without an obituary."³⁹

Considering the above, it is important to know the numbers in terms of time and cost to manage the risk of corporate venturing units properly.

When a CIO is defining a corporate venturing strategy and deciding which mechanisms to combine and which to prioritize, there are two important questions that she will highlight: How long is the process and how much does it cost to generate value from an opportunity in each mechanism? To find out the answer, the CIO would need to know: (a) the time and cost needed to build each mechanism, and (b) the time and cost needed to generate value from one opportunity.

Our previous study, has reported the time and cost of building each mechanism.¹ However, no study has provided the time and cost needed to complete the corporate venturing cycle for an opportunity through each mechanism. So, in the academic literature, this is an unanswered question that is very relevant to firms' CIOs and is attracting increasing attention.

2.5 THE RESULTS

How much will it cost (in time and money) to integrate opportunities' value into the parent company using each corporate venturing mechanism? How can those costs be reduced, while increasing the speed? Do the costs differ according to mechanism? Which mechanisms are quicker? And which are the most cost-effective? How long should a chief innovation officer wait before killing an opportunity?

Executives usually do not have this kind of data because of the novelty of the opportunities and the lack of historical data. Based on 121 interviews with firms' chief innovation officers and those in related roles in the United States, Europe and Asia (see Appendix 2), this section covers these questions.

2.5.1 Speed per opportunity by mechanism

Speed is an important factor to consider when deciding which corporate venturing mechanisms are more apt for the institution's goals. While a challenge prize may take only around six months to complete one opportunity, a venture client program can last more than two years. Figure 16 shows the average number of months required for one opportunity to go through the whole cycle of one corporate venturing mechanism, once it has been built. The time spans are divided into the three stages of a corporate venturing project (i.e., identification, collaboration, and integration).

The deviations of these metrics are quite different for the reasons described in section 2.5.3 such as the level or organizational agility of the parent company, brand awareness for attracting opportunities, the objectives of the mechanism, the executive committee's urgency to close a deal, any differences in the legal

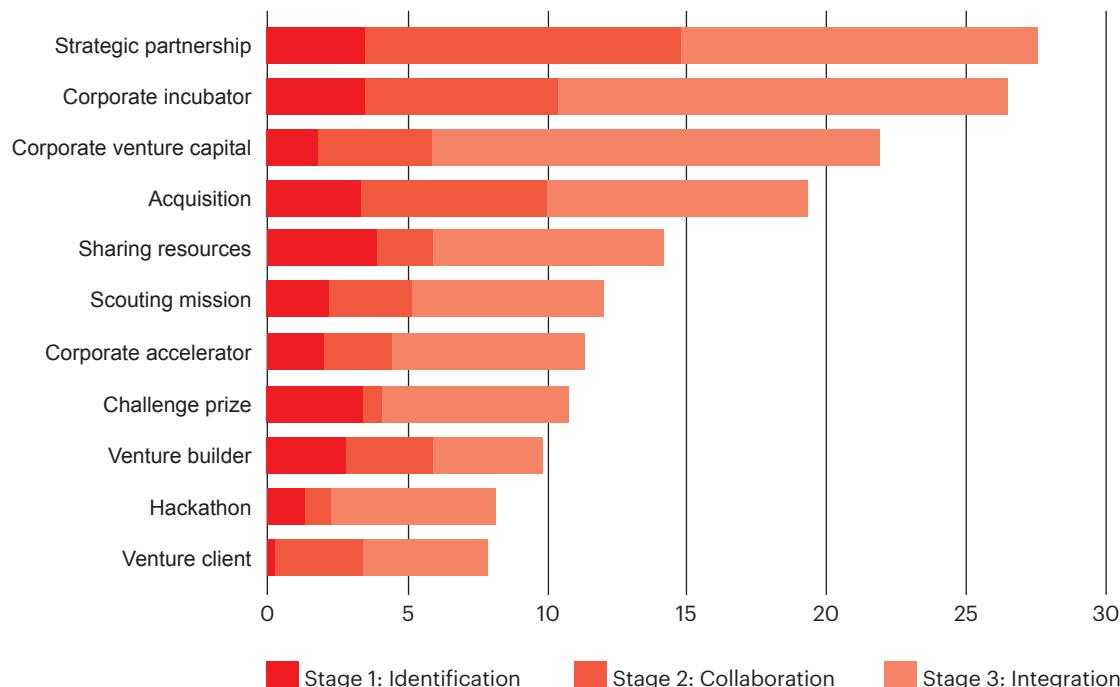
frameworks governing the start-ups and the parent company, and how regulated the sector is. Figure 17 shows the average and the coefficient of variation (i.e., low, medium or high) of the number of months required.

Not only does the total duration of the corporate venturing cycle vary between mechanisms but so too does the duration of the identification, collaboration and integration phases. For example, the durations of the identification and integration phases are almost inverted in hackathons and challenge prizes. (See Figure 18.)

2.5.2 Tackling integration, usually the longest stage

A common feature shared by mechanisms is that the integration phase is usually the longest. This phase generally takes up at least 50% of the whole innovation cycle (except in venture builders) and can take up to 72% in the case of hackathons and CVC. (See Figure 18.)

Figure 16. Months required per stage and mechanism (mean)



Source: Prepared by the authors.

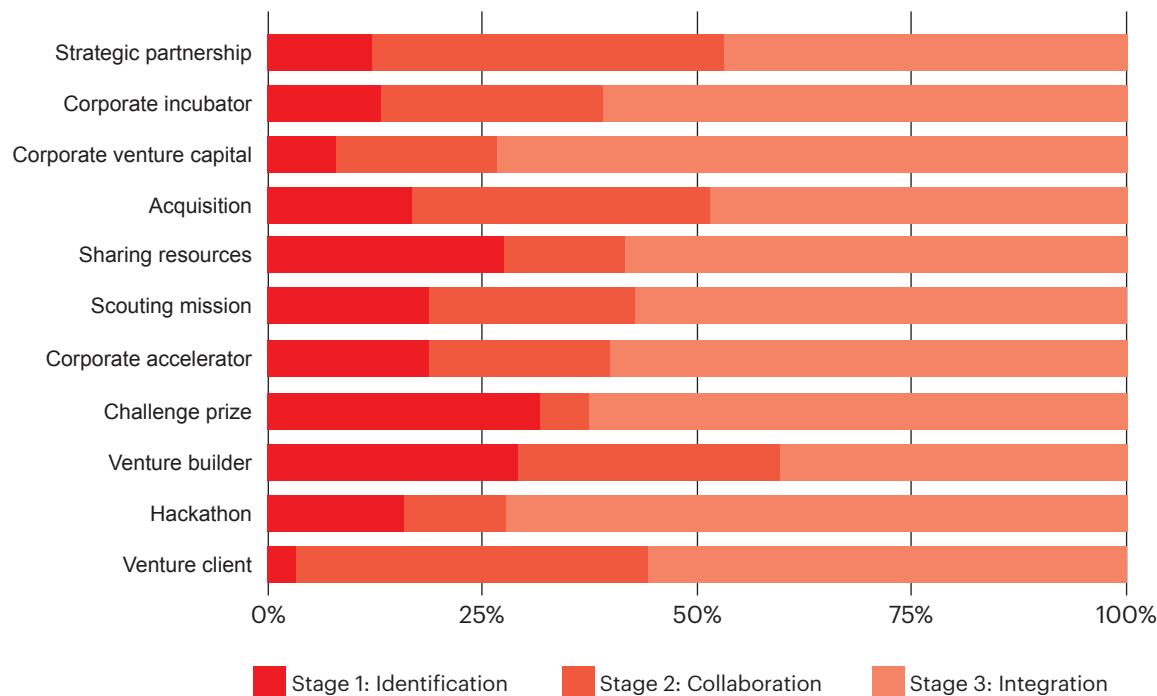
Figure 17. Months required per stage and mechanism (mean and variation)

	Stage 1: Identification (months)	Stage 2: Collaboration (months)	Stage 3: Integration (months)
Strategic partnership	3.5	11.3	12.8
Corporate incubator	3.5	7.0	16.0
Corporate venture capital	1.9	4.1	16.0
Acquisition	3.3	6.8	9.4
Sharing resources	4.0	2.0	8.3
Scouting mission	2.4	2.9	6.8
Corporate accelerator	2.2	2.3	6.8
Challenge prize	3.5	0.6	6.8
Venture builder	3.0	3.0	4.0
Hackathon	1.3	1.0	5.9
Venture client	0.3	3.2	4.4

Low variation
Medium variation
High variation

Source: Prepared by the authors. The deviation has been measured with the coefficient of variation (defined as the ratio of the standard deviation to the mean): low (<35%), medium ($\leq 60\%$) and high ($>60\%$). The lower the deviation, the more accurate the mean.

Figure 18. Months required per stage and mechanism (mean as a percentage)



Source: Analysis conducted by the authors. The complete data are shown in Appendix 1.

2.5.3 Organizational agility: A competitive advantage

While conducting interviews, the authors realized that some companies implementing the same mechanism as others required significantly less time to complete the innovation cycle. Some companies spent less time on each mechanism but still achieved similar results as their slower counterparts. The authors found that what gave the quicker-acting companies an advantage was the implementation of agile principles, among other best practices.

In our previous studies, we found that the application of agile principles throughout an organization helps to increase the speed of implementation while maintaining the impact, if those agile principles are implemented appropriately. These principles involved characteristics of the company such as the delegation of authority; a bias for action; the freedom to test new ideas; modular processes; aversion to bureaucracy; an ownership mentality; and flatter, faster, simpler structures.⁷

In particular, it was found that those principles can also speed up the integration of opportunities from corporate venturing units into the parent company.

Some insightful cases of innovation speed are analyzed below:

Hackathon: There are two types of hackathon. The first and most common one lasts about a day or two, is easy to implement and has a high impact in terms of the media. It

is often used for indirect marketing. The second type lasts between four and six months and is carried out in collaboration with universities. It is launched during the academic year to target students, and usually the participants are required to make a final pitch to the company. In the second case, companies aim to attract young talent who would not otherwise be interested in entering so-called traditional sectors. Overall, in both cases, the opportunities generated are usually at too early stage to be integrated.

Another aspect was that some interviewees, while bearing in mind the definition of “value” given in this study (see section 2.2.2), sometimes reported spending less than one month on integrating the created value into the parent company.

For instance, one European company in the energy sector launched a hackathon and reported having integrated value before the end of the competition. The reason was it was able to increase brand awareness in its area (innovation ecosystems), making it more attractive to start-ups.

In other words, the company was able to increase its desirability, to make it more appealing to start-ups to collaborate with the company in a short period of time. Moreover, the corporation reported increased awareness and a cultural change among its employees, while becoming one of the top-of-mind players for start-ups compared to the competitors in its industry.

Seventh, there is the size of the deal. The bigger the deal,

the longer the time required for an opportunity to go through the whole corporate venturing cycle.

Sharing resources: This process is usually shorter when the start-up is in the same continent as the company's headquarters. The process is longer when this is not the case, such as when a European company is working with a US start-up. This is because two obstacles that hinder agility come into the picture: the internal bureaucracy of getting approval, and the differences in the countries' legal frameworks.

So, what should be done? After defining the geographical scope of its search for start-ups, the corporation should analyze the differences between the headquarters and the target geography and prepare internal mechanisms to speed up the process.

For instance, a European pharmaceutical company decided to build a corporate venturing unit that would focus on scouting missions and sharing resources. After deciding on the search fields, the scouting team found that most of the start-ups that would solve its internal challenge were located on the west coast of the United States. However, these start-ups' speeds and legal frameworks differed significantly from those of the European company. Therefore, the company allocated a legal expert specializing in the US market who had a long track record of working with start-ups to integrate them at a fast pace into the corporate venturing unit. This improved the time span required to work with US start-ups.

CVC: After talking to interviewees, the authors found two key factors that allow CVC units to increase its speed during the corporate venturing process.

The first factor concerns the identification and collaboration stages, enabling the speed and ease of such tasks to be improved: international recognition of the company's brand increases the deal flow of opportunities and, at the same time, gives the company greater powers of persuasion when it comes to signing an agreement.

The second factor concerns all three stages (identification, collaboration and integration) and refers to the urgency of closing a deal, as required by the company's executive committee.

Two examples should be taken into account. First, imagine a bank that is challenged by a new development in blockchain technology, which was acknowledged as one of the top priorities in the previous executive committee meeting. The CEO may ask the CVC unit to identify a possible start-up focused on the problem so the company could invest in it and eventually acquire it. On the other hand, another CVC unit spots the same opportunity in the market but does not consider it to be a high priority of the executive committee. In cases like the second example, the whole process of identification, collaboration and integration usually takes longer than if the problem is given priority.

Venture builder: It was also found that quicker units of

venture building usually minimize the interaction with their parent firm's technology department. They look to avoid internal conflict over integration processes by developing low-risk testing environments.

For instance, one of the analyzed companies was struggling to prototype new technologies because it was in a sector that must ensure high levels of security. It created a parallel low-risk internal environment to allow quick prototyping (i.e., a testing server). In fintech is usually called sandbox or application program interface (API), which enables banks testing new technologies.

This company was able to reduce the time required for a POC from 12 to 3 months, increasing the speed and the agility of the corporate venturing process.

Partnerships: Although the average time span for the whole process of identification, collaboration and integration is almost 30 months, the range is quite wide: from four to 48 months. (See Appendix 1.) Seven main factors affect this variation.

First of all, there is the stage of development of the selected opportunity. For instance, building a partnership to jointly create a minimal viable product (MVP) from scratch is not the same as building a partnership with an already established business model that just needs either a boost in visibility or an improved distribution channel. The earlier in the process a partnership is formed, the longer it will take.

Second, it is important to know how mature the relationship with the start-up is. If the company and start-up have worked together previously, the more they know each other's organization, decision makers and KPIs, so the faster the process will be.

Third, the more regulated the sector (e.g., the chemical and pharmaceutical sectors are tightly regulated), the longer it will take to build the partnership and execute the whole process. The authors found in their sample that, when a start-up partnered with a business-to-business (B2B) company working in two business areas (such as chemicals and technology), the partnership in the first business area tackled took up more time than the partnership in the second. Usually the main obstacles are legal compliance and the related bureaucracy, which may include preliminary chemical studies (adding three to five months), further due diligence, etc.

A fourth factor is whether the partnership is going to be an equity model or codevelopment in the collaboration stage, an aspect that echoes some of the previous literature.⁴⁰

Fifth, there is the flexibility of the company's business model in the integration stage. Depending on whether the result of the previous stage is a regulated product or not, the product may have to be validated and pass legal procedures, which could slow down the process.

A sixth factor is whether the partnership is negotiated in a

country whose legal framework is different from that of the headquarters: for example, a Chinese company forming a partnership with a US start-up.

2.5.4 Ongoing cost per opportunity per mechanism per year

With this report, the authors wanted to equip readers with the knowledge needed to identify the best corporate venturing mechanism for their goals. However, there is a challenge: it is difficult to find a cost metric to compare opportunities by mechanism, ensuring that apples are being compared with apples and not with pears.

The two main challenges are: the FTE cost (work outsourced or in the parent company), and the number of opportunities with which the corporation wants to collaborate (higher or lower).

In the first case, if you outsource 90% of your process, your ongoing cost of management will be higher, while your internal FTE cost will be lower. If you outsource 5% of your process, your ongoing cost of management will be lower, while your internal FTE cost will be higher.

In the second case, the cost of collaborating with two start-ups is usually lower than with 50 start-ups.

Since our previous studies¹ already disclosed the average cost of launching each mechanism, this study has focused on the cost of an opportunity once the mechanism has been created. In short, the authors analyzed the annual cost for one opportunity (at any development stage: discovery, start-up or scale-up) to move through the whole cycle (i.e., identification, collaboration and integration) of a corporate venturing mechanism. This annual ongoing cost includes management and FTE costs.

$$\text{Ongoing cost per opportunity per mechanism per year} = \text{managerial cost} + \text{internal FTE cost}$$

Firstly, the managerial cost refers to the annual amount (in euros) required to identify value, collaborate and integrate value from one opportunity into each mechanism, once the mechanism has been launched. It includes costs such as legal services, marketing, travel, databases and facilities (e.g., coworking space, testing servers). It does not include the actual investment (e.g., the capital principal or investment fee). In the cases of mechanisms that have several “editions” during a year (e.g., some incubation programs), interviewees provided the cost for the whole year, unless there were more than three months between each edition.

Secondly, the FTE cost refers to the annual amount (in euros) to sustain the mechanism once it has been launched in terms of how many full-time equivalent employees are required per year to keep the mechanism

running.

Figure 19 shows the ongoing costs of an opportunity going through the whole corporate venturing process. One interesting result was the deviation of the results in some mechanisms (e.g., strategic partnership, acquisition, CVC, corporate accelerator and sharing resources). The interviews showed that there were companies integrating value from a similar number of opportunities but some were more cost-effective than others.

Strategic partnerships were not included in the chart because of the high standard deviation. This variation exists because of the amount of different forms such partnerships can take, bearing in mind that a strategic partnership can work to collaborate on opportunities at different stages (e.g., opportunity, start-up and scale-up).

What factors increase the chances of reducing the internal cost of a corporate venturing mechanism?

2.5.5 Connecting venturing mechanisms and business units to reduce structural costs

One trigger is the level of the corporate venturing unit's integration into its parent company. When it is highly integrated, it can leverage many of the parent company's structural resources, by spotting synergies and eliminating redundancies. For example, a corporate venturing unit that wanted to launch a marketing campaign for a new hackathon might try to engage the company's marketing department. Since the hackathon would also make the company's brand more visible, the company's marketing department would agree to help in the endeavor with its own employees, reducing the internal costs of the corporate venturing unit's FTE employees.

Another fact affecting FTE costs is that corporate venturing units, in order to get business units to support a future opportunity integration, often start to share not only costs but also employees in joint projects. For instance, the authors found that the team of a company's venture builder was composed of members from different units who worked together on the production of an initial proof of concept. Usually, the departments involved are innovation, technology and marketing.

Another helpful way to save on FTE costs is to connect several mechanisms. A common example is a combination of the scouting mission, the corporate accelerator and the CVC. The authors found that, in many cases, the scouting mission team provided the corporate accelerator and the CVC with opportunities. Finally, accelerated start-ups are investment opportunities for the CVC. In this case, the FTE cost required for the CVC decreases because the CVC leverages the FTE employees of the scouting unit.

Companies are increasingly connecting and integrating their corporate venturing mechanisms, developing a more holistic and unified perspective of new opportunities and redundancies. These can be seen as internal innovation ecosystems within the corporations.

Another pattern found in the data was the correlation with mechanisms that produce more developed opportunities (e.g., start-ups or scale-ups) and the ongoing cost per opportunity. The only exceptions were corporate incubators, which have more ongoing costs compared to a corporate accelerator or CVC but usually provide opportunities during earlier stages. Additionally, as explained in previous research, the cost of building a corporate incubator from scratch is quite significative.¹

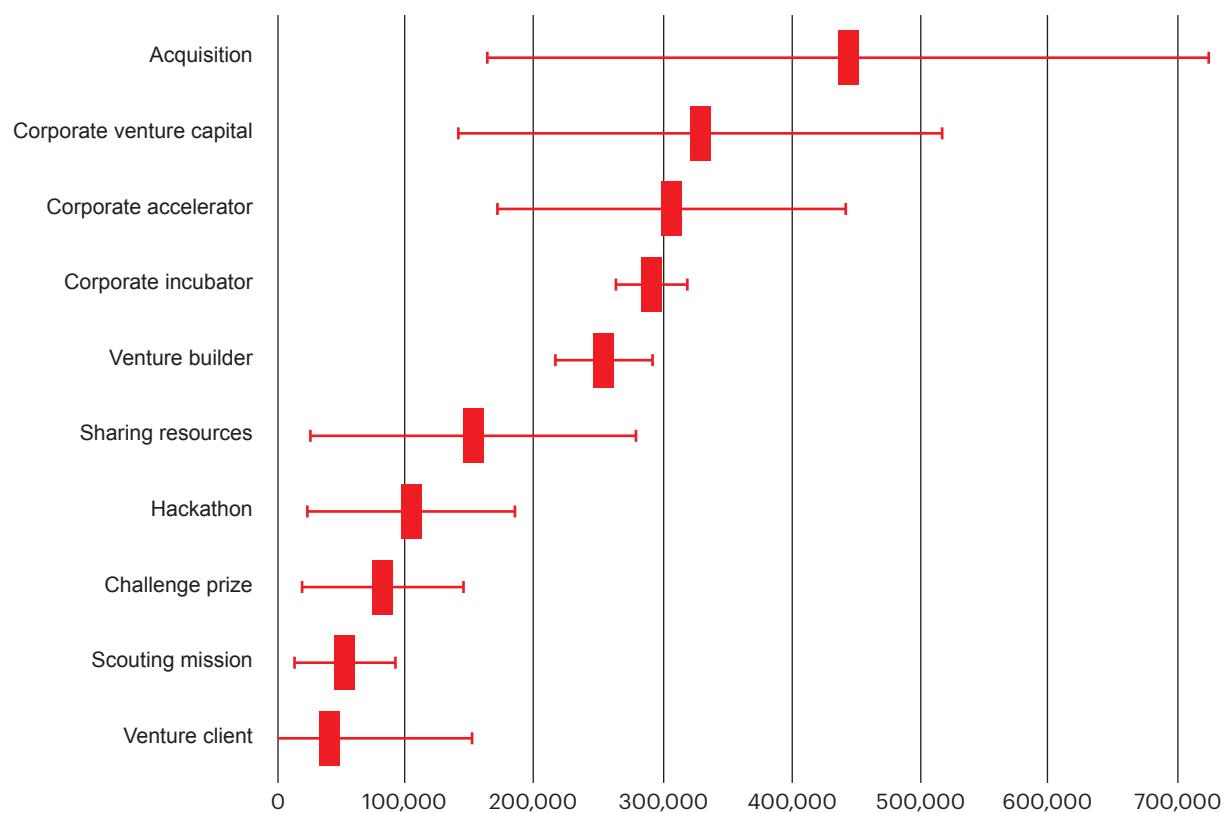
2.5.6 Relationship among speed, cost and the opportunity stage

To understand in greater depth the trade-off between cost and speed, it is important to bear in mind the

development stage of the opportunity being worked with (i.e., discovery, start-up and scale-up). (See section 2.2.1.) For instance, the development stage of a discovery found in a scouting mission is different from a scale-up to be acquired.

In Figure 20, the three factors are put together: speed, cost and maturity of the opportunity. It shows the months required for a corporate venturing opportunity to go through the whole corporate venturing cycle of identification, collaboration and integration (x-axis), along with the ongoing cost of that process including managerial and FTE costs (y-axis), and the development stage of an opportunity (diameter of the circles).

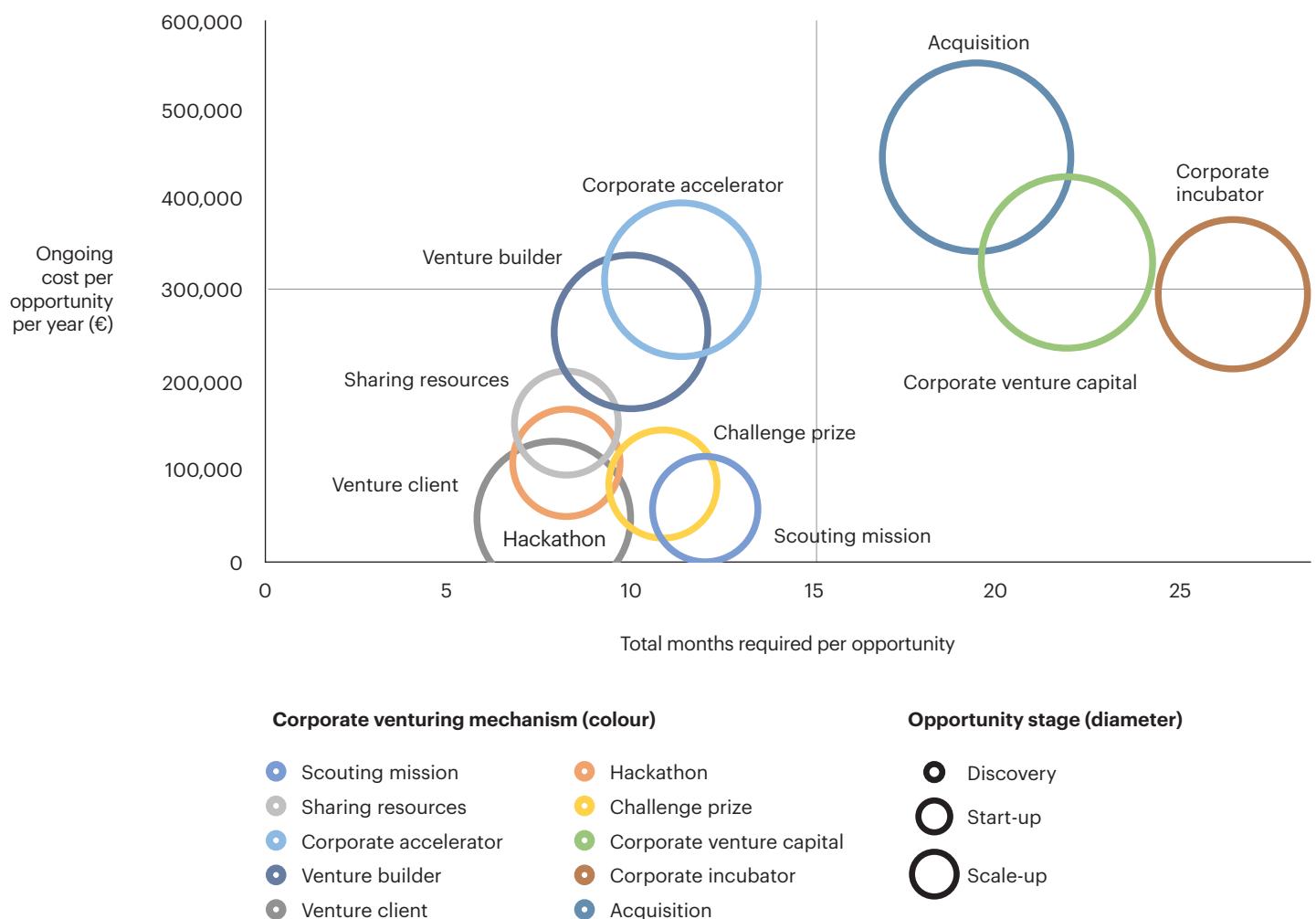
Figure 19. Ongoing cost (€) per opportunity per mechanism per year (mean and standard deviation)



Source: Prepared by the authors. The complete data are shown in Appendix 1. Strategic partnerships have not been included because of the high standard deviation. The euro exchange rate used was from January 2019.

-- Notes. The calculation assumed that no external employees were included. However, the more work is outsourced, the higher the managerial cost (i.e., of outsourcing) and the lower the number of internal FTE employees. For the FTE cost, the authors used several sources (e.g., Glassdoor) to estimate the salaries of innovation positions in Europe. (In the case of the United States and China, the FTE costs are proportionally higher.) The salaries ranged from €50,000 for some roles managing a scouting mission or working for a corporate incubator up to €130,000 for those working in CVC units.

Figure 20. Relationship between months and ongoing cost per opportunity vs. development stage of the opportunity



Source: Prepared by the authors. The complete data are shown in Appendix 1.

The interesting insights in Figure 20 are connected with the relationship between months and ongoing cost per opportunity vs. development stage of the opportunity. These are the patterns and the outliers.

Starting with the patterns, the more mature the opportunity (either a scale-up or start-up) with which to collaborate, the longer the time required to go through the whole corporate venturing process and the higher the ongoing costs per opportunity, as can be seen in the top-right quadrant (e.g., acquisition and CVC) and in the bottom-left quadrant (e.g., hackathon, sharing resources, challenge prize and scouting mission).

However, there are a few exceptions:

Firstly, the corporate incubator is the mechanism with the longest time span but the development stage of the

opportunity is only that of a start-up (not a scale-up). Therefore, the opportunity is at an earlier stage compared to an opportunity from an acquisition or CVC. In other words, it provides a less developed opportunity to the parent company at a slower speed.

Secondly, the opportunity stage of the corporate accelerator and the venture builder is a bit more developed compared to that of the corporate incubator and the ongoing costs are similar, but these two mechanisms require less time for the corporate venturing cycle, meaning the process is around two to three times as quick.

Lastly, the speed and cost of the venture client is similar to the hackathon, sharing resources or challenge prize. However, the opportunity stage of the venture client is more developed.

2.6 CONSEQUENCES: WHAT NOW?

How can these results help companies' chief innovation officers do their jobs?

Improving your strategy:

1. Tailor your corporate venturing strategy with numbers:

Choose the right combination of corporate venturing mechanisms, based on data rather than intuition or media hype. Since the speed and costs per opportunity per mechanism are different, understand first what your company's objectives and expectations are (in terms of goals, capital and time horizon) and then analyze the numbers relating to each mechanism that fits those expectations. Do not copy and paste but tailor your corporate venturing strategy. Now you have a benchmark.

2. Plan realistically, ask for the time and budget you need, and keep track of the results:

Now that you have the available data, estimate more accurately (with a benchmark) the time and budget you will need for the opportunities you want to integrate. This will help you secure the minimum budget and time horizon needed to see results. In particular, if you are taking your first steps in corporate venturing and you do not have yet historical data, this will really help you. Bear in mind that, depending on the mechanism, you will need between eight and 28 months to integrate value from one opportunity.

3. Identify where your bottleneck is: Identification, collaboration or integration: Breaking down the corporate venturing process into various components will give you some clues to identify where your bottlenecks are in terms of speed and cost and therefore help you design your scorecard of performance indicators. Additionally, with this benchmark, you will know whether you are spending too much time or money or whether you have to ask your company's executive committee for a bigger budget or a longer time horizon.

4. Think twice critically about having a corporate incubator:

While the maturity of a corporate incubator as an opportunity is at an earlier stage compared to a corporate accelerator, the speed of taking that opportunity through the whole corporate venturing cycle is more than twice that of corporate incubators, while the costs are very similar. Consider other mechanisms that may give you "more with less" such as the venture client, which provides more developed opportunities at a lower cost and higher speed.

Increasing the speed:

5. Adopt agile principles, especially in the longest stage—integration:

Since integration has the longest time span of the corporate venturing process, think about how you can improve your organizational agility in that process to adopt the value you have successfully generated: flatter, faster, simpler structures; modular processes; delegated authorities; and more. This may give you a competitive advantage.

6. Prevent delays in your corporate venturing mechanism:

The average time span required by an opportunity to go through the whole innovation process may vary for several reasons. For instance, if the opportunity with which you want to collaborate (i.e., discovery, start-up or scale-up) is outside your regulatory framework (e.g., in another continent), involve

someone with the relevant legal expertise who can speed up the process. Secondly, the urgency required by the company's executive committee will speed up your venturing process.

7. Be the player in your industry with which start-ups most want to work:

Your brand awareness in the innovation ecosystem and the relationship you have forged there in the past will help you not only seduce the best start-ups (by putting yourself top of mind) but also will speed up your processes of identification (i.e., they will come to you) and collaboration (i.e., you will close an agreement faster).

Reducing your cost:

8. Use the "joint three pockets" rule to increase your budget and other units' involvement: Since innovation units have tight budgets (especially at the beginning) and have to maximize their ability to integrate value, try to secure the involvement (with some budget and a decision maker) of business units and of corporate headquarters*. So, get one of each pocket. For instance, finance one POC with a start-up with a third of the budget from the innovation unit, a third from corporate headquarters and a third from a business unit. To go further, get a member from each of those three units involved in the decision-making process. This will reduce your cost for POCs.

9. Leverage the resources of the parent company: If it does not slow you down too much, use all the available resources of the corporation, such as marketing services, space, and expertise. This will not increase your absolute budget but will give you the chance to reinvest those costs in something that may create more value for the corporation.

10. Connect your internal corporate venturing ecosystem: If your company has been in the corporate venturing arena for five to seven years, you may start experiencing having a fragmented message about the job of your different corporate venturing units. In other words, not showing one unique "story" explaining, to internal and external stakeholders, what these are doing.

For this purpose, it is important to design a connected strategy of corporate venturing among units (with a holistic perspective) and to understand how the deal flow of opportunities works (e.g., the scout identifies an opportunity that connects with the corporate accelerator, which may lead to the CVC, followed by an acquisition proposal, and so on).

The other principle for this organizational connectivity is use of the MECE** principle, so there should be a person in charge of each initiative but no more than one. Therefore, every project can run at speed, while accountability is maintained for every project. All these principles will help you reduce redundancies, enhance synergies and increase corporate agility.

** In the vernacular, "corporate headquarters" may be referred as "corporate" or the "head office."

** Mutually exclusive and collectively exhaustive.

Appendices

1. Detailed data

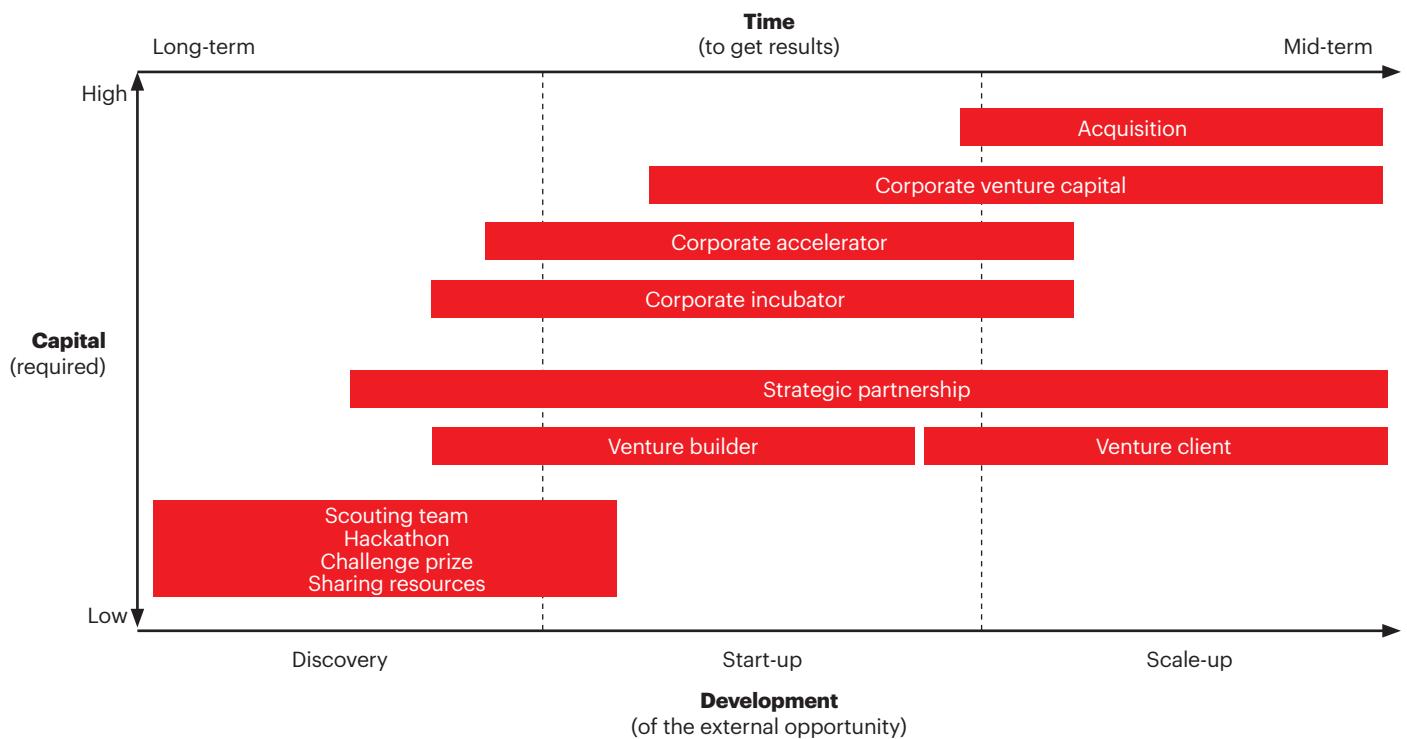
Figure 21. Months required per stage and mechanism and the ongoing cost per opportunity (mean and variation)

	Stage 1: Identification (months)	Stage 2: Collaboration (months)	Stage 3: Integration (months)	Ongoing cost per opportunity per year (€)
Strategic partnership	3.5	11.3	12.8	NA
Corporate incubator	3.5	7.0	16.0	294,500
Corporate venture capital	1.9	4.1	16.0	331,148
Acquisition	3.3	6.8	9.4	447,363
Sharing resources	4.0	2.0	8.3	152,450
Scouting mission	2.4	2.9	6.8	55,175
Corporate accelerator	2.2	2.3	6.8	310,333
Challenge prize	3.5	0.6	6.8	85,000
Venture builder	3.0	3.0	4.0	255,000
Hackathon	1.3	1.0	5.9	105,762
Venture client	0.3	3.2	4.4	47,000

■ Low variation
■ Medium variation
■ High variation

Source: Prepared by the authors. The deviation has been measured with the coefficient of variation (defined as the ratio of the standard deviation to the mean): low (<35%), medium ($\leq 60\%$) and high ($>60\%$). The lower the deviation, the more accurate the mean.

Figure 22. Corporate venturing mechanisms categorized by development, capital and time



Source: Prats, J., Siota, J., Canonici, J., and Contijoch, X., *Open Innovation: Building, Scaling and Consolidating Your Firm's Corporate Venturing Unit*. IESE, Opinno (2018).

2. Research methodology

This study was carried out to answer the question of how much will it cost (in time and money) to integrate opportunities' value into the parent company using each corporate venturing mechanism in established firms. To achieve this objective, the authors used several sources. Initially, they reviewed the literature on the topic. Then, they conducted fieldwork consisting of interviews with 121 chief innovation officers and executives involved in corporate venturing activities (experts located in the United States, Europe and Asia): 63 with a formal protocol (167 questions) and 58 with an informal protocol. Then, the authors led an exhaustive analysis of corporate venturing activities of 26 companies.

An interview protocol was developed, and the interviews were recorded. Each interview had an introductory phase in which the interviewer explained the definitions of possible ambiguous words of the questionnaire to ensure a common understanding. The interviews consisted of both open and closed questions. Afterward, the answers were classified and

analyzed twice. Later, the authors twice carried out a codification of the interviews and the quantitative analysis of the answers, using correlation and regression analysis. Then two independent experts reviewed the rigor of the process and the quality of the results obtained.

The authors acknowledge that, given the complexity of the phenomena, a larger sample may increase the understanding of this important practice. However, the sample group was selected using the practice of looking for representation to increase that understanding.

Further research in forthcoming white papers will be welcome to provide guidance on additional questions such as what regions are more developed in terms of corporate venturing; how to align the corporate venturing KPIs of the executive committee, the entrepreneur and the CV units' head; the performance of venture capital compared to corporate venture capital; and how to measure the strategic impact of corporate venturing.

3. Mechanisms available for corporate venturing

Scouting mission

A scouting mission is a mission undertaken by professionals from an industry in which a company is interested. The professionals are tasked with holding meetings with start-ups, inventors or university researchers. They look for interesting innovations that are aligned with the company's strategy. Companies gain insights and valuable information from leading innovation hubs around the world. Start-ups are exposed to potential financing opportunities and business deals.

Company objective: Gaining insight into leading innovations.

Hackathon

A hackathon is a focused, intense workshop in which software developers collaborate, either individually or in teams, to find technological solutions to a corporate innovation challenge within a restricted time. Start-ups solve specific technical problems for companies or produce a particular piece of code in a short period of time and, in return, they get access to new segments, markets and financing opportunities.

Company objective: Finding technological solutions to a corporate challenge.

Sharing resources

Sharing resources is the simplest form of collaboration between corporations and start-ups. It allows companies to improve corporate branding, attract and keep talent, and gain visibility. Meanwhile, start-ups get access to cost-effective or free corporate resources, increase their visibility and are able to network with other similar ventures.

Company objective: Getting closer to the ecosystem to understand its composition and needs.

Challenge prize

A challenge prize is an open competition that focuses on a specific issue. It gives innovators an incentive to provide new solutions based on new opportunities and technological trends to foster internal learning. Companies get to adopt external opportunities, improve corporate branding and gain visibility, while start-ups get access to new segments, markets and financing opportunities.

Company objective: Obtaining new solutions based on new technological trends.

Corporate accelerator

A corporate accelerator is a program that provides intensive short or medium-term support to cohorts of rapid-growth start-ups via mentoring, training, physical working space and company-specific resources. These resources can include money invested in a start-up, normally in exchange for a variable share of equity. Through corporate accelerators, firms and start-ups get benefits similar to those of a corporate incubator.

Company objective: Supporting start-ups with a structured program.

Corporate venture capital

In the case of corporate venture capital, corporations target equity investment at start-ups that are of strategic interest beyond a purely financial return. Companies become more diversified and get access to products, services and technology, while start-ups get access to financial resources, know-how and advice from experienced corporations.

Company objective: Fast-tracking access to innovations, strengthening internal research, or accessing new distribution channels.

Venture builder (or excubator, if outsourced)

Corporations aim to fast-track the growth of start-ups through a combination of several tools (e.g., corporate incubators, corporate accelerators). In practice, an excubator functions as such for a company. While start-ups develop tailor-made prototypes to solve a problem for a corporation, entrepreneurs gain access to facilities, expertise and technical support, including skilled mentorship, which increases their chances of getting access to funding.

Company objective: Getting an MVP outside the regular structure.

Corporate incubator

A corporate incubator is a program in which entrepreneurs are provided with a set of value-added mentoring services (centralized legal or marketing support) and working spaces to build viable opportunities and business models ready to go to market, in exchange for a share of equity. Corporations get a cost-effective and outsourced R&D function, while start-ups get access to facilities, expertise and technical support.

Company objective: Providing viability to promising innovation and its commercialization.

Strategic partnership

A strategic partnership is an alliance between corporations and start-ups to enable them to define, develop and pilot innovative solutions together. It allows both sides to build a relationship and synergies.

Company objective: Defining, developing and piloting innovative solutions with an existing company.

Venture client (or client accelerator)

A venture client involves a specific type of strategic partnership and a highly integrated tool that companies can use to purchase the first unit of a start-up's product, service or technology when the start-up is not yet mature enough to become a client. While corporations get access to start-ups with a ready MVP, start-ups get revenue and a consolidated company as their client.

Company objective: Offering a client relationship to insource external innovation.

Acquisition

Acquisitions involve the purchase of start-ups by companies to access the start-ups' commercially ready products, complementary technology or capabilities that solve specific business problems or to enter new markets. The buyer benefits from the acquisition of talent, skills and knowledge, while the start-up receives monetary rewards and a reputational advantage.*

Company objective: Accessing commercially ready products, complementary technology or capabilities.

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* Note that this mechanism does not include the acquisition of large corporations. In those cases, these units usually move the opportunity to another department, such as that in charge of mergers and acquisitions.

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