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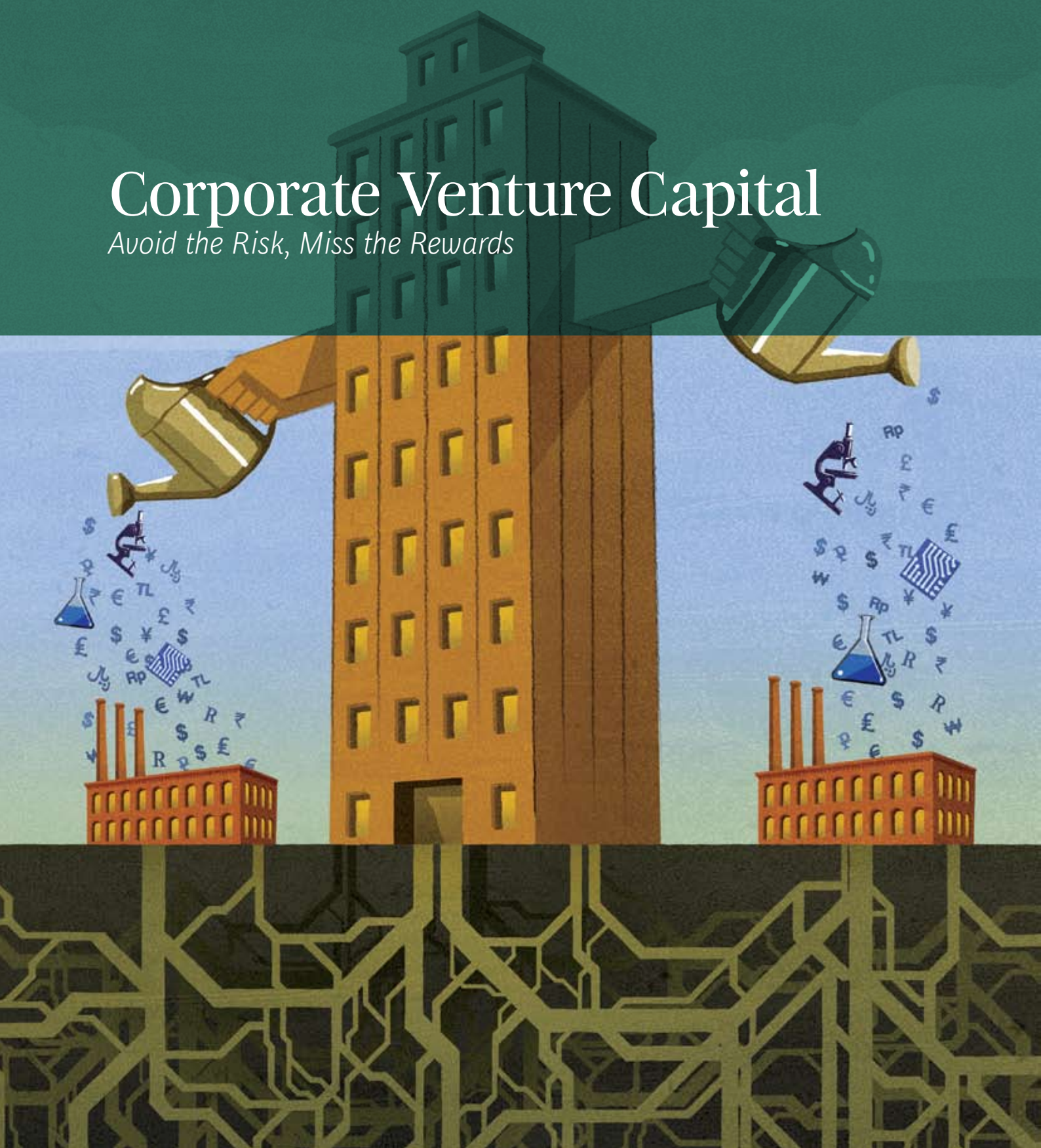
Corporate Venture Capital

Avoid the Risk, Miss the Rewards



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Avoid the Risk, Miss the Rewards

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AT A GLANCE

Corporate venture capital (CVC) has come of age. Historically prone to boom-and-bust cycles, CVC has taken root across a broad span of industries, and it looks as if it's here to stay. With the pressure for innovation more intense than ever and conventional R&D yielding stagnant or diminishing returns, growing numbers of corporations are turning to venture investing.

New Players Are Joining The Game

Industries such as technology and pharmaceutical have long dominated corporate venturing. Now, though, companies in industries that until recently had little or no presence in the venturing marketplace—including consumer and construction—are joining the game. Like the more seasoned CVC players, these newcomers are seeking potentially disruptive innovations and access to new regions and value chains. Old hands and new entrants alike are often investing alongside other CVC units.

The Game Has Changed, But The Rules Have Not

The winners of the CVC game share a few traits: well-defined investment theses and risk tolerances, detailed strategies for internalizing innovations, and balanced skills that allow them to tap the resources of a large corporation even as they operate with the nimbleness characteristic of the start-ups they invest in.

Corporate venture capital (CVC) investing is back in style. Some of the most prominent names in the corporate landscape, including BMW Group, General Electric (GE), and Google, have established formal venture-capital units and made well-publicized investments in start-ups. Many other firms are following suit—indeed, more than 750 corporations worldwide currently have venture units in operation or hold venture investments, according to the industry publication *Global Corporate Venturing (GCV)*. Moreover, corporate venturing has expanded from its traditional strongholds in technology and pharmaceuticals into fields as diverse as machinery, power and gas production, consumer, and construction.

Is the current surge of CVC activity just another spin of the cycle? Is today's CVC wave doomed to recede, just as the wave of the 1960s ebbed when equity prices collapsed in the early 1970s? Will corporate venturing again fall out of fashion, as it did following the crash of the stock market in 1987 and the bursting of the dot-com bubble in 2000? Or is it possible that this time it's different?

We strongly believe that this time it is different. Venture investing appears well on its way to establishing a firm foothold in the corporate world as companies look to nascent companies not just to generate financial returns but also to complement their R&D efforts, penetrate fast-growing emerging markets, and gain early access to potentially disruptive technologies and business models. In short, CVC is moving inexorably from fad to fixture.

While much has changed in CVC in the past several years, the ground rules remain the same.

Yet while much has changed in CVC in the past several years, the ground rules remain the same. The companies that win the CVC game are still those with clear and well-reasoned investment theses and well-defined strategies for internalizing and commercializing the knowledge and innovations of their portfolio companies. Their VC units have the skills to tap the resources of a large corporation even as they operate with the speed and nimbleness characteristic of the start-ups they invest in. And their executive management recognizes that although venture investing is inherently risky, the greatest risk is not to invest at all.

A survey of the history of CVC investing since the 1960s reveals three distinct boom-and-bust cycles. The differences between them and the current cycle help explain why this time CVC appears to be here to stay.

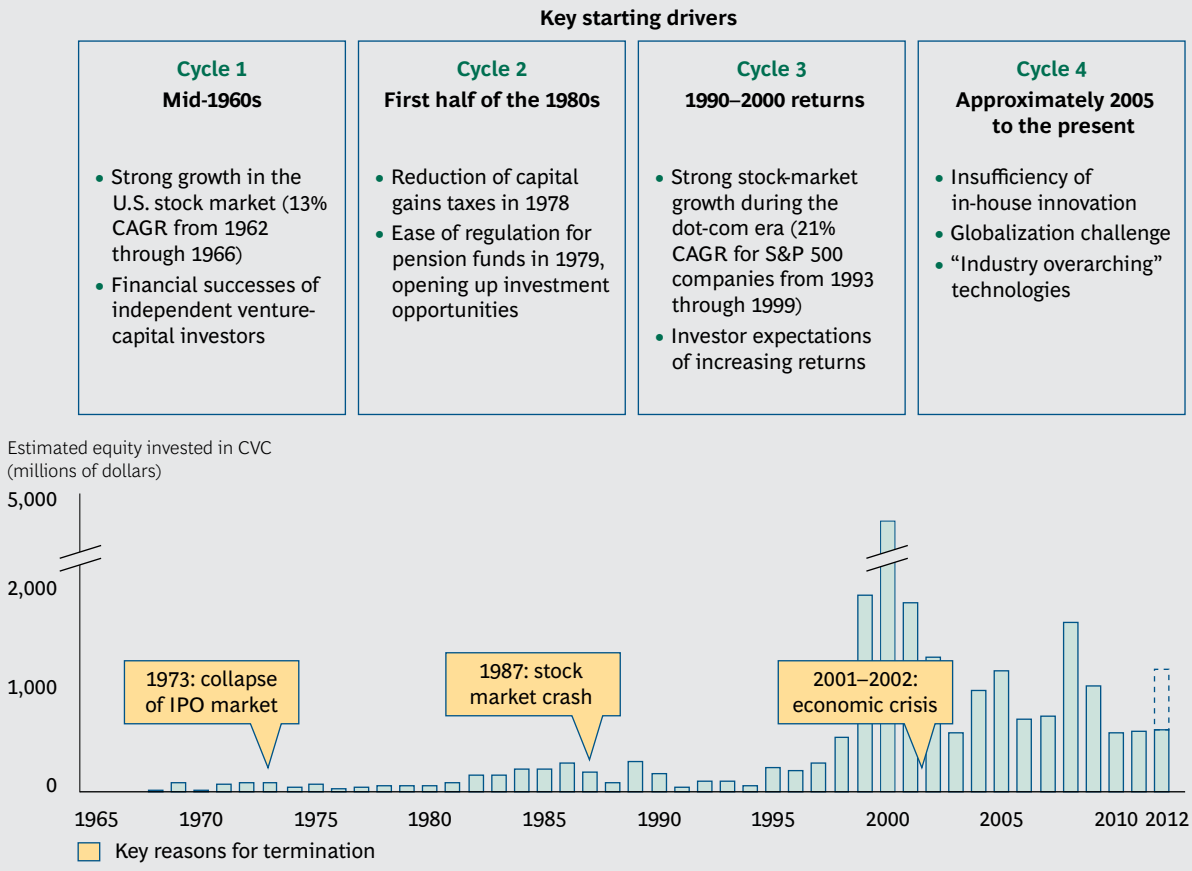
Corporate Venturing's Present Looks Different from Its Past

The first wave of CVC investing took shape in the mid-1960s, when corporations

entered the venturing game with the primary aim of generating above-average financial returns. (See Exhibit 1.) It was a period of rapid technological advancement, robust corporate profits, a soaring stock market, and widespread management faith in the strategic value of diversification. Mindful of the successes of pioneering venture capitalists and eager to put some of their ample free cash to work, U.S. corporations in technology- and innovation-intensive industries such as technology and pharmaceutical invested in promising new ventures. Many met with at least modest success, but corporations lost their taste for the game in 1973, when the market for initial public offerings, then the primary exit mechanism, collapsed. In the face of wilting share prices and waning profits, most corporations shuttered their VC units, regarding them as a luxury they could no longer afford.

CVC as a broad theme lay dormant until the early 1980s, when a new generation of independent venture capitalists emerged, their coffers bulging with cash from U.S. investors taking advantage of a cut in the capital gains tax and the relaxation

Exhibit 1 | The Latest Wave of Corporate-Venture-Capital Investing Focuses on Innovation and Emerging Markets



Sources: ThomsonONE; "Riding the Next Wave of Corporate Venture Capital," *Business Strategy Review*, Issue 3, 2011; *Global Corporate Venturing*; The Federal Reserve Bank of St. Louis *Review*, March/April 2007; BCG analysis.
Note: The 2012 investment total was extrapolated from half-year numbers. CAGR = compound annual growth rate.

of restrictions on pension fund investments. Seeking to match the financial returns achieved by the independent investors, corporations returned to the field. Once again, the most active players were companies in the technology and pharmaceutical industries. For several years, these corporations were buoyed by stock market enthusiasm for anything technology related, but that enthusiasm faded after the stock market crash of 1987. And just as in the early 1970s, CVC went into retreat.

The advent of the Internet in the mid-1990s heralded the beginning of the third CVC cycle. Amid a strong market for stocks, especially dot-com issues, and hungry for above-market returns, corporations returned in force to the game, with more than 400 of them worldwide launching VC programs. In addition to seeking financial returns, many were pursuing disruptive technologies. For the first time, corporations based in Europe and emerging nations entered the market in force. CVC activity reached a high point in 2000, when corporate equity investments in new ventures soared to more than $4.5 billion, according to *GCV*. The dot-com implosion in 2000 and 2001 and the recession of 2001 and 2002 spelled the end of that cycle, however. In a newly risk-averse business environment and amid high uncertainty over new accounting and governance regulations, corporations wound down their VC operations.

Now that innovation-hungry corporations are flocking to venture investing again, it may appear at first sight that another boom-and-bust cycle is forming. But the extensive evidence we have analyzed indicates that, in fact, history is not repeating itself. (See the sidebar "The Numbers Behind the Numbers.") Rather, CVC, once an experiment, has entered a new, more mature phase. Companies across the business landscape have embraced venturing. They are reallocating resources from internal R&D toward external innovation and committing those resources for the long term.

THE NUMBERS BEHIND THE NUMBERS

The foundation for our analysis was *Global Corporate Venturing*'s database, which lists 756 corporations that have CVC units or are engaged in venture-related activities. We segmented the data by industry and focused on the 30 largest corporations in each of 17 industries. Using this information, we analyzed CVC concentration within each industry. Then we analyzed two subgroups of representative industries, comparing their CVC investment levels with their R&D spending, measuring the life spans of CVC units in each industry, and tracking the stages of their CVC investments.

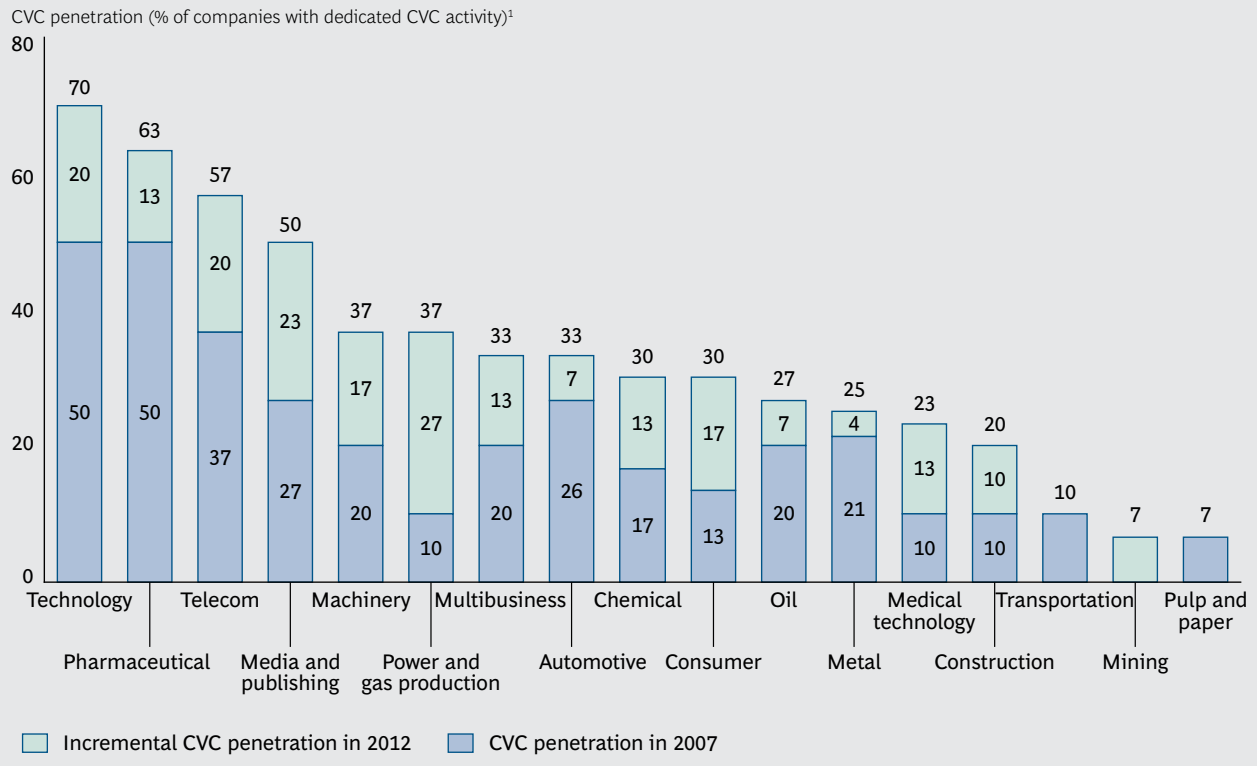
In addition, we consulted *GCV*'s listing of approximately 1,300 deals that involved at least one CVC unit and were announced from July 2010 through June 2012, including data on the target company's industry and headquarters location, as well as the date and value of the deal and the identities of venture participants. We used these data to analyze the geographical and industry focus of CVC investors and to form a picture of the investment networks emerging across the CVC landscape.

In many cases, they are looking past the boundaries of their own industries toward adjacent and downstream industries, and they are banding together with companies from other industries to fund promising new ideas. However its growth is measured, corporate venturing is becoming more strategically sophisticated as it spreads to new industries.

Corporate Venturing Is Expanding and Evolving

A distinguishing feature of the current wave of corporate venturing is that industries such as consumer and construction that for the most part did not engage in CVC activity in earlier decades are entering the arena. Industries with a tradition of venture investing—led by technology, pharmaceutical, telecommunications, and media and publishing—remain the most heavily committed. (See Exhibit 2.) In three of those four industries, most of the top 30 companies (as measured by market capitalization) have venture units in place. Industries that sat out the three previous waves are also positioning themselves in the market, although the absolute numbers of participants are fewer, having started from a lower base. For a deeper analysis, we created two distinct industry groups, on the basis of their historical involvement in CVC, and selected representative industries to examine

Exhibit 2 | CVC Concentration Levels Vary Considerably Across Industries



Sources: *Global Corporate Venturing*'s CVC-unit database; ThomsonONE; BCG analysis.
[1]Penetration is measured as the percentage of companies in each industry sample that had dedicated CVC activity in 2007 and 2012. Each industry sample consists of the 30 largest global corporations as determined by market capitalization.

closely. The first group—comprising technology, pharmaceutical, telecommunications, and media and publishing—represents industries with a long history of corporate venturing. They can be called "CVC first movers." For comparison, we selected a second group of industries whose CVC activity historically has been much lower but whose involvement has increased significantly over the past ten years. This "CVC follower" group is made up of machinery, power and gas production, consumer, and construction.

Traditional Players Use Venturing to Complement R&D

Within traditional industries, the percentage of the 30 largest companies with dedicated CVC units has been climbing steadily since at least 2007. In three of four industries (technology, pharmaceutical, and telecommunications) more than half of the 30 largest companies have CVC units in place—a sign of the growing recognition of CVC's value as a tool for innovation, corporate development, and competitive advantage.

Within traditional industries, the percentage of the 30 largest companies with dedicated CVC units has been climbing steadily since at least 2007.

Several CVC managers in these industries have reported to us that they regard venturing as an indispensable tool for innovation and development, and, indeed, R&D spending trends in technology and pharmaceuticals reflect that view. Among the 30 largest companies in both industries, internal R&D spending (as a percentage of sales) fell slightly from 2007 through 2011. In technology, R&D spending dropped from about 11.5 percent of sales to roughly 11 percent, and in the pharmaceutical industry, R&D spending fell from about 16.5 percent of sales to approximately 15 percent. Over the same period, CVC penetration in both industries rose, reflecting a growing recognition that venturing is a necessary complement to internal R&D—so necessary, in fact, that companies are beginning to transfer a share of their innovation investment from R&D to their venture units.

Meet the Newcomers

The machinery, power-and-gas-production, consumer, and construction industries have been among those that traditionally have not relied on pure innovation to drive growth. In recent years, however, they, like many other industries, have come under growing pressure to innovate in response to demands for cleaner technology, more sustainable operations, and an improved user experience. As a result, they are looking past internal R&D toward other innovation channels; for a growing number, CVC investing is an important additional source of innovation.

Starting from a very low level, CVC concentration in all four industries increased markedly from 2007 to 2012, although for these industries it remains far below the levels of concentration found in industries with an established history of venture activity. Plainly, facing the unfamiliar pressure to innovate, companies in these industries are taking a familiar route: venture capital.

Investment Money Is Flowing to New Targets

As CVC expands beyond its traditional participant strongholds, the investment focus is widening as well. With the notable exceptions of health care and clean technology, which are focusing investment within their own sectors, corporate investors are looking beyond their core businesses toward other sectors. Many are concentrating on clean technology, an "industry overarching" technology that has

the potential to disrupt industries ranging from power generation to building materials to transportation. To identify investment patterns, we compared each CVC unit's industry with the industry of the investment target and totaled the number of transactions per investor and target industry. (See Exhibit 3.)

Although the focus varies widely by industry, players in many industries are making significant investments in adjacent sectors. Industrial companies, for example, spread their investments widely but maintained a focus on related sectors; they made their investments mostly in clean technology (the target of more than half of industrial CVC investment), IT, health care, and transportation. CVC investors from service industries, for their part, focused much of their investment on targets in the consumer, media, and IT sectors. CVC units in the chemical industry, meanwhile, diversified away from the core toward targets in the clean technology, health care, and industrial sectors, where they are, for example, seeking to exploit the potential

Exhibit 3 | Outside of Health Care and Clean Technology, Investors Are Diversifying

Sources: *Global Corporate Venturing*'s deal database; Venture Expert; ThomsonONE; BCG analysis.
Note: Data reflect activity from July 2010 through June 2012.

for biochemical processes to supplant petrochemical ones. Overall, the most popular investment targets, measured by total number of transactions, were in IT, health care, media and publishing, and clean technology.

As noted, however, there were a few exceptions from the general trend toward diversification into adjacent industries. Health care companies, for example, poured fully 96 percent of their investments into health care ventures, a focus explained by the rapid pace of change in the industry, spurred by new legislation and strong pressure from payers and national governments to control costs, capture efficiencies, and improve patient outcomes.

In addition to seeking opportunities outside their industry, corporate investors are deploying their capital outside the U.S. The data reveal that although the geographical target of investment focus varies widely by industry, corporate investors in most industries are, in one fashion or another, directing much of their capital toward emerging markets such as China and India. At the same time, they are de-emphasizing the U.S. and Europe, which historically have attracted the largest share of CVC investment.

CVC investors are increasingly willing to co-invest with other companies in sectors, such as clean technology, that promise to bring disruptive change to a broad span of industries.

The consumer and IT industries exemplify the shift of investment toward emerging markets, in terms of both the number of deals done and the amounts invested. In the first half of 2012, the dollar value of consumer industry investments in China, for example, was up 18 percentage points, to 63 percent, from the second half of 2010, while U.S.-focused investments shrank by 14 percentage points, to 20 percent. At the same time, the consumer industry's number of outbound deals to China jumped sharply, while the number of U.S.-focused CVC deals fell by nearly one-third. IT companies are now steering their emerging-market investments primarily toward Israel.

CVC Investors Are Getting In on the Ground Floor

CVC units are entering deals at ever-earlier stages of the funding cycle. The number of transactions executed during the earliest funding rounds (seed and Series A) increased sharply, with Series A deals nearly doubling, from July 2010 through June 2012.

Two trends appear to be driving the move toward earlier-stage deals. The first is the growing sophistication of corporate investors. As they hone their skills at investment screening, due diligence, and risk assessment, they are growing comfortable with funding younger start-ups, whose prospects are uncertain. The second is that companies in industries that live or die by innovation, such as telecommunications and pharmaceutical, are increasingly eager to capture new ideas and thus are willing to shoulder the risk of investing in the dwindling number of start-ups in their sectors.

Dense Investment Networks Are Taking Shape

CVC investors are increasingly willing to co-invest with other companies in sectors, such as clean technology, that promise to bring disruptive change to a broad span of industries. (See Exhibit 4.) Companies from many of those industries are banding together to fund promising start-ups, bringing different skills and areas of expertise

Exhibit 4 | CVC Units Are Forging Cross-Industry Networks

GE Is at the Center of One Such Network That Focuses on Clean-Technology Investments

Sources: *Global Corporate Venturing;* Venture Expert; ThomsonONE; BCG analysis.
Note: Some small CVC units were excluded from the chart to improve readability.

to bear on targets of common interest. Such cooperation, however, rarely occurs among companies within the same sector. Rather, CVC investors form networks across industry boundaries, partnering with other companies whose plans for development and commercialization of their targets' innovations complement their own. The proliferation of such networks suggests that CVC units are consciously and intentionally investing alongside companies from other industries that they believe can contribute specialized knowledge or industry-specific expertise to their common ventures. Their preferred investment targets, moreover, are those developing technologies with the potential to transform not just a single industry but a wider business landscape.

Clean technology has attracted a large share of CVC investment—a total of $1.9 billion—from ten sectors ranging from industrial to service. Not surprisingly, CVC units in the industrial and energy sectors committed the largest share of funds to the largest number of clean-technology-focused deals. But they were hardly the only industries represented in clean-technology investing: IT, financial, telecom, and chemical companies also participated in a significant number of deals, as did other clean-technology companies.

Clean technology has attracted a large share of CVC investment—a total of $1.9 billion—from ten sectors ranging from industrial to service.

By far the most active CVC player in clean technology was GE, a status that reflects both the company's long experience in corporate venturing and its strategic commitment to clean technology in all its operations. GE was also the most active participant in cross-industry networks, partnering with 14 corporate investors, 8 of them representing five other industries. For example, on the basis of our data sample, GE was connected with Google through the two companies' investments in CoolPlanetBioFuels, and with Chevron through common investments in Ember. At the same time, it crossed paths with Intel, its co-investor in Viridity Energy. Meanwhile, Siemens linked with ArcelorMittal through investments in Powerit Solutions, and with Applied Materials through investments in Semprius, an Applied Materials venture investment since 2007.

CVC Investors Are Making Long-Term Commitments

The lengthening life spans of CVC units may be the most compelling evidence that venture investing is finding a permanent place in the corporate-development arsenal and has become a must-have innovation tool in many industries. Average lifetimes of corporate venture units are increasing across the board, in industries with a long history of venture activity as well as industries that are relative newcomers to the game. For example, the length of time that CVC units in the pharmaceutical industry have been in continuous existence increased by 50 percent since 2002. The life span of venture units in technology, meanwhile, lengthened by nearly six years from 2002 to 2012.

Venture units in newcomer industries are also staying in business longer. The average lifetime of CVC units in the machinery industry, for example, has stretched from 3.3 years in 2002 to 10.5 years in 2012. The life spans of consumer industry CVC units, meanwhile, have lengthened to 4.9 years in 2012 from 1.5 in 2002 on average. The same pattern was evident in the power-and-gas-production industry and the construction industry, although average unit lifetimes are still shorter than those in traditional industries.

The lengthening lifetimes of CVC units are just one indication that corporations have committed more fully and firmly to corporate venturing than ever before. No longer an exotic sideline indulged in by a handful of well-heeled giants in clearly circumscribed industries, it is, we believe, well on its way to becoming a mainstream innovation and corporate-development activity, alongside R&D, M&A, and joint venturing.

Five Priorities Guide Corporate Venturing's Winners

As valuable as quantitative analysis can be, it cannot tell companies how to do venture investing well. That knowledge is the product of experience, which The Boston Consulting Group has gained from extensive participation in designing and establishing CVC units in a variety of industries. On the basis of that experience, we have identified a set of best practices intended to help companies realize the full potential of venture investing while sidestepping the possible pitfalls. These practices can benefit companies preparing to enter the venture capital arena for the first time as well as those seeking to improve their existing operations.

We find that the most successful CVC units follow a set of distinct and well-defined ground rules. (See Exhibit 5.) Those ground rules dictate how those units define both their operating principles and their strategy, how knowledge is captured and transferred, how corporate assets are leveraged, and how venturing teams are staffed.

Operating Principles

The most successful CVC units adhere strictly to the basic ground rules of corporate venturing.

They have the full backing of corporate leadership, which plays an active role in designing the units, formulating their strategies, and implementing processes to monetize the innovations they fund. Leaders of business units play a role on investment committees and have input into investment decisions.

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Leading CVC units also have clearly defined investing parameters. They have designated the industries they will search for targets, specified the geographical regions where they wish to invest, and quantified their risk tolerance, establishing ceilings on the amount committed to any single venture and the duration of investments. Corporate leadership has committed to venturing for the long term, with the understanding that venture investors, by definition, take risks, and that the occasional failure is the cost of doing business. In fact, as a general rule, experienced CVC players expect that roughly three of ten investments may fail, approximately five should perform acceptably, and the rest may exceed expectations.

These business realities raise questions for corporate leaders considering a move into venture investing or seeking improvements in their existing venture operation. Does your organization have a detailed charter for its venturing operation? Has it clearly spelled out its investment strategy, and is that strategy aligned with overall corporate objectives? How is success defined, and what performance metrics are in place? Do the metrics encompass both financial returns and strategic gains such as

Exhibit 5 | Corporate Venturing Requires a Set of Distinct Ground Rules

Objective	Required Behavior	Implications
Accept the venturing basics	Commit for the long term	Invested capital tied up for five to ten years
	Commit a $40 million to $200 million investment	Substantial overall investment; deals often require multiple financing rounds
	Accept a higher risk profile	Roughly three of ten investments may fail, approximately five should perform acceptably, and the rest may exceed expectations
	Accept limited management control	Minority stakes with an observer role and risks shared with co-investors
	Be ready to pay the exit price	Acquisition of 100 percent of a target requires paying market price to co-investors
Develop a venturing mindset	Make entrepreneurial decisions	Identify and evaluate emerging business opportunities under uncertainty
	Look beyond industry borders	Use CVC to increase strategic options, not to fill short-term gaps in the product line
	Accept occasional failures	Awareness of inherent risk of failure
Establish a venturing process	Build a strong deal network	Link to venture capital community for strong deal flow and market trends
	Link to the parent organization	Close cooperation and information sharing with business units and corporate functions
	Fast-track investment decisions	Efficient investment process (due diligence and deal closing)
	Manage deals end-to-end	Evaluate postdeal management and exit strategy before investing

Source: BCG analysis.

technological insights and improved deal flow? Perhaps most important, does executive management know the odds that a given investment will succeed, and is it prepared to accept the consequences of the occasional failure?

Strategies

Befitting their key role in the innovation management effort, successful CVC units are tightly aligned with their corporate parents' overall business and innovation strategies. The knowledge the units gather from their target investments feeds directly, by predetermined routes, into the larger corporation-wide innovation pipeline. The top corporate players also position their investments with the competition in mind. They keep a close eye on emerging innovation trends in their own and adjacent industries and monitor where the competition is focusing its attention and capital.

When launching a CVC unit, therefore, corporate leaders should ask themselves a few key questions: How can our venture portfolio complement and support internal R&D, and should our parent company cooperate strategically with companies in other sectors that face similar R&D challenges? What can be learned from studying our competitors' venturing activities? Is promising work going on below the radar that could offer us an opportunity to get ahead of industry innovation trends? Can venturing give us access to a technological advantage that industry rivals have overlooked?

Before a CVC unit is up and running, corporate leaders need to ensure that the organization is set up to embrace innovation and collaborate across functional boundaries to extract the full value of new technologies and knowledge.

Knowledge Transfer

To keep the innovation information flowing, successful corporations often designate specific business units to serve as "guardians" of individual investment targets, responsible for transferring knowledge from the target to the corporation. That requires gaining buy-in from the unit's R&D and innovation managers—not always an easy task, given the tendency of managers to protect their turf. It may take time to convince them that the CVC unit is not a threat to their own efforts but a valuable complement. By drawing lines of accountability for knowledge transfer, corporations ensure that innovations developed by investment targets find their way into the corporate information stream without delay or slippage.

Before a CVC unit is up and running, corporate leaders need to ensure that the organization is set up to embrace innovation and collaborate across functional boundaries to extract the full value of new technologies and knowledge. Is there accountability for integrating information into the corporate knowledge base? Do the parent company's internal structures—including governance structures and knowledge networks—facilitate innovation and idea creation? Are there processes in place for operationalizing and monetizing innovations developed by portfolio companies?

Leverage of Existing Assets

Successful CVC units are adept at leveraging corporate assets. Some corporations, for example, give researchers from target companies access to their laboratories. Others contribute manufacturing expertise, offer broader distribution of the target company's products, or provide administrative support for such functions as patent applications.

Google, for one, takes the process an additional step. Hands-on teams from Google Ventures work with portfolio companies full-time on design, recruiting, marketing, and engineering. Google has also set up a dedicated Startup Lab where, according to the company, people from fledgling initiatives can meet representatives of other start-ups to learn, collaborate, and share information.

The ability to leverage corporate assets is, in fact, part of the value proposition that successful corporate investors make to potential targets, and it can prove a crucial differentiator during deal negotiations.

It is important, therefore, for corporate leaders to ask what their organization can provide to its portfolio companies to maximize their chances of success. Does it have core strengths it can leverage to add value to innovations emerging from its

investments? Can it partner with investors from other industries that bring complementary strengths to the table? Can it provide access to markets or customers that are beyond the reach of its portfolio companies?

Staffing

Proven corporate-venturing performers pay close attention to staffing issues.

They carefully choose team leaders who combine broad familiarity with the VC landscape with specific understanding of the corporation's strategy and processes. Rather than recruit from independent VC firms, they populate their teams with CVC veterans. These professionals are familiar with venture investing's fast-paced business style and are comfortable making quick decisions on the basis of incomplete information, while remaining mindful of their role within the larger enterprise. Their informal networks and knowledge of the marketplace keep them abreast of new developments and give them access to a robust deal flow.

Joining these professionals is a smaller group of people skilled at working with internal networks and enlisting the resources of the corporation. They provide a vital link to the parent corporation and help keep the lines of communication open.

What is your organization's staffing strategy? Is the unit capable of creating strong links to target companies as well as to the parent corporation?

CVC Delivers Multiple Business Benefits

In periods of low growth and high strategic uncertainty, CVC can serve four distinct and valuable business objectives.

First, it can be a rich source of technological advantage and information about potential transformations in companies' core businesses. By investing in broadly disruptive technologies such as biotechnology, for example, pharmaceutical giants such as GlaxoSmithKline, Novartis, and Pfizer have spotted emerging trends that are reshaping their industry. In financial services, for example, Visa has invested in Square, a mobile-payment start-up whose technology transforms smartphones and tablets into credit card readers.

Venturing also enables corporations to keep a close eye on new developments and potential new markets in adjacent industries. Intel Capital's investments in downstream start-ups in video and telecommunications, for example, have allowed it to get the jump on the competition in designing application-specific chip sets for those markets. Since 1991, Intel has invested in more than 1,100 companies, 189 of which have gone public. An additional 258 were acquired or participated in a merger. Deutsche Telekom's T-Venture unit, meanwhile, has concentrated much of its firepower on Internet investments, with a three-year goal of doubling the parent company's online revenue.

In addition, venturing gives corporations a means to learn more about emerging trends in more-distant industries. Through their investments, they can gain valuable insights into novel technologies and the markets for them and identify new and

Venturing enables corporations to keep a close eye on new developments and potential new markets in adjacent industries.

often unanticipated areas of future growth. For example, Dow Venture Capital, the venture arm of the global chemical company, is focusing on agriculture, consumer and lifestyle, energy, and infrastructure and transportation, where Dow believes it can generate significant revenue growth in the future.

Finally, venturing can yield important information that companies can use to prepare for or facilitate their entry into new businesses. This added capability can be especially valuable to companies that seek to create novel applications for new industries arising from the convergence of two or more established industries. Samsung Venture Investment is following this path to gain early insight into trends that could reshape value chains in its various business lines, for example. Its investments in clean-technology and medical-technology start-ups help it identify novel technologies that it believes will drive its corporate parent's growth in coming years.

Considering the benefits that venture investing offers when best practices are employed, the real question is whether corporations can afford *not* to join the game. In an economy where innovation spells the difference between success and failure, corporate venturing can spur tomorrow's innovations while it helps build an organization in which innovation is business as usual. Some of the world's most respected and successful corporations are already reaping the benefits of their venture investments, generating profits and growth, and opening up new markets with innovations originally developed by their portfolio companies. They recognize that as competition intensifies and uncertainty increases, CVC opens new strategic avenues. There is no denying that corporate venturing, like any other form of innovation, is a risky activity. But considering its game-changing potential, we believe the greater risk is not to engage in it at all.

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