What is Corporate Venture Capital?

CVC firms are corporately-owned investment firms that provide startups with capital in exchange for equity. Where VC firms typically focus solely on delivering the highest financial returns to investors, CVCs tend to have a more strategic interest in investing in companies. These investments can help brands better understand a new business line, technology, or model while providing access to talent and technology otherwise unavailable. CVC investments allow brands to participate in more disruptive research and development than typically occurs “on the balance sheet.”
Why Should Marketers Care?

When brands make capital investments, they position themselves to benefit in several ways. CVC investments are generally smaller and therefore less risky than mergers and acquisitions. The investments provide a great way to experiment in a new category or business model, and investors have the first opportunity or right of refusal when a startup is ready to go commercial.

Investing firms gain “hands-on” experience in new technology, media, or whatever is the focus of their investment. CVC investments often include resources, such as marketing expertise, that accelerate startup success. There are also built-in mentoring relationships between the investing firm and the startup that facilitates a healthy exposure; investors can learn from the startup cultures and vice versa.

How Can It Help Your Business?

A CVC initiative can provide several strategic advantages to a firm. It is an affordable way to “future proof” a business by investing in new platforms or lines of business. It provides a method for testing different ways of moving forward without having to go “all in” on an acquisition.

A CVC investment has the potential to imbue a brand’s customer insights into a product as it’s being built while also creating the potential for a new stream of revenue.
“Our CVC investment thesis is fueled by the emerging opportunities and clear pain points that are facing the Modern CMO. We believe in testing and learning from our network of early stage startups, investing enables us to access entrepreneurs and experiment with trends we otherwise wouldn’t have seen for another 12-24 months when the company is ready to commercialize and scale. This differentiator enables MDC to better service our clients, as we’re consistently ahead of the curve delivering forward thinking technology solutions that matter to marketers”

Jessica Peltz
Partner
MDC Ventures
Patrick Flesner, Michael Wade, and Nikolaus Obwegeser, in a recent MIT Sloan Management Review, share some of the “rules” for CVC success from their study of hundreds of CVC operations and deals.

**Start with a traditional VC approach, then adapt.**

Establish a CVC unit built on venture capital industry best practices. **Hire VC professionals who understand how to find, structure, and successfully navigate promising VC deals.** Follow VC community compensation practices when hiring. Complicating this hiring is the track record CVC units have for failing to identify, incubate, and successfully monetize startups. It’s important to insulate the CVC unit from the corporate host and allow it to operate independently.

**When funding new ventures, Flesner, Wade, and Obwegeser also recommend not requesting strategic rights.** Doing so may keep startups from reaching fair market value when they are sold, and it may deflect the most promising startups away from CVC deals.
Create Processes and Incentives for Employees.
CVC investments typically come with a commitment to provide access to corporate knowledge, resources, and exposure to potential customers. These nonfinancial benefits are often overstated, as corporate employees have few incentives to help or collaborate. Fostering cooperation and collaboration begins at the corporate culture level, and extends to top management modeling the way and adopting incentives to motivate employees with relevant skills and knowledge to work with startups. GV (formerly Google Ventures) dedicates teams to ensure its portfolio companies interface with Google technology and talent.

Build Communication and Structures to Gain Insights from Startups.
CVC investors have different objectives than traditional VC firms. While above-average financial returns are a shared objective, CVC units also pursue strategic objectives. For this reason, CVC units should strive for clarity around their objectives and create processes and incentives for achieving them.

An important process is ensuring the transfer of insights from startups to relevant corporate stakeholders. Establish a culture of mutual sharing to expose insights and ideas between company and startup.

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