CORPORATE VENTURING FOR EMERGING GROWTH COMPANIES

By Steven Mednick, President and Founder, Plenum Revenue Group, LLC.

The boom of the dot-com era in 1999 brought the emergence of corporate venture capital as a major source of funding to the private equity markets. Corporate venture investments peaked in the third quarter of 2000 with 608 deals totaling a combined $4.9 billion. A few of the top corporate venture capital investors of 2000 included Nokia Corporate ($500 million), Oracle Corporation ($400 million), Intel Corporation ($300 million), Sun Microsystems, Inc. ($300 million) and Daimler Chrysler ($100 million).

But as we all know, the dot-com balloon burst in the second half of 2000. By the second quarter of 2001, corporate venture capital activity dropped to just 172 deals worth approximately a combined $845 million. Not surprising because corporations historically jump into venture investments when times are good and exit quickly when times get rough. However, when compared to past decades, corporate venturing investment activities are still significant. Why? Though companies can readily pull back when necessary, they understand the value in pursuing new opportunities with strategic partners. Consequently, industry pundits expect corporate venture investment activities that show a financial return in addition to a strategic fit to rebound over time as economic conditions improve.

But what about corporate venturing for emerging growth companies -- companies that are not awash in cash or the beneficiary of an inflated stock value to use a currency for equity investments? Is corporate venturing available to them and is cash the only currency used for investment?

Definition

Corporate venturing provides an alternative to traditional methods of growing a company and is an alliance formed between two [or more] independent companies. Typically, a larger, more established company invests resources directly into a smaller company and through the venture, the two companies share the commercial risks and resultant rewards for mutual benefit.

Many companies due to their size, cash availability or even their structure can find difficulty in allocating appropriate funds, time or internal resources to developing products or services in-house.

A smaller company entering into a strategic alliance with a larger company can often times achieve a faster and higher growth rate than a company electing to move ahead independently. While larger companies frequently find the strategic alliance a more effective means of nurturing business growth outside of organic development and the more risky, expensive route of mergers and acquisitions.

Benefits

Is your emerging growth company interested in accessing funding and resources from another company to help revenue growth? If so, your company could benefit from a strategic alliance that brings:

- Short or long term financing
- Access to sales, marketing and distribution channels
- Management and technical skills
- Manufacturing facilities

All of which a larger already established company may be able to offer your company in exchange for a negotiated agreement to share in the planned development of current or future products. Therefore, your company must be willing to:

- Enter into a detailed strategic alliance with the corporate partner
- Agree to work productively and openly with the company

Is your emerging growth company successful but looking for innovation, additional channels of distribution or technical know-how to expand and grow your business even further at an accelerated rate? If so, perhaps your company can benefit from:

- Access to external talent
- Participation in emerging markets
- Entrance into new markets or industries
- Priority exposure to the development of disruptive technologies that could substantially change the industry

All of which a smaller, highly entrepreneurial company may be able to offer in exchange for your investment in this company, such as: access to your management and technical resources; cash; intellectual property; sales; marketing and distribution channels; or, operational facilities. As a larger company agreeing to enter into a strategic alliance with a smaller company, you must be committed to:

- The long term relationship
- Allocating the necessary resources to assist in the smaller company's operational and product development needs.

Methodology

- Evaluate corporate venturing based upon your company's strategic long term needs.
- Secure the absolute support from key top executives for the corporate venturing initiative.
- Get the buy-in and commitment of all members of your leadership team to pursue corporate venturing opportunities on a regular basis.
- Establish a clear and concise company corporate ventures' mission statement, such as we will "invest and partner with innovative companies that will successfully bring to market new solutions strategic to our core business."
- Appoint a team with cross-functional capabilities and resources to pursue and evaluate corporate venturing opportunities.
- Decide on an investment focus. Acquisitions require the most amount of capital. Participation in venture funds may also require significant cash. Direct investments may require less initial capital but allow the company to establish a relationship with a company of its choosing.
- Take inventory of your company's available investment tools and needs. For example, cash isn't everything. Do you have IP, products, people or services to invest in the strategic alliance? You may find that there is considerable investment value in non-cash items. Or, you will be seeking access to new

technology, distribution channels or product funding?
- Establish and detail in writing an initial due diligence process that mirrors the company's strategic corporate venturing initiative. For example, if the opportunity is engineering oriented, have your engineering industry experts evaluate the investment's potential strategic benefits. Will it result in an expansion to the technology base? Will it give you access to external talent? Will it allow you to participate in an emerging market?
- Establish your due diligence team and provide them with the necessary resources to do the job.
- Establish a review process for all corporate venturing activities and evaluate quarterly with your leadership team.

Conclusion

Whether you are an emerging growth company seeking the alliance of a larger company or a larger company searching for priority access to new technologies under development by smaller companies, corporate venturing may offer your company new ways to realize long term growth. Through corporate venturing your technical team, sales and distribution channels, management expertise, technology base and access to capital may be expanded significantly thereby positioning your company for the future.

Good luck and good venturing!

Steven Mednick is President and Founder of Plenum Revenue Group, LLC. Based in Newport Beach, Calif., Plenum is a revenue development company for emerging and medium sized businesses. Working shoulder-to-shoulder with its clients, Plenum actively seeks out and delivers tangible business opportunities for its clients that drive incremental top-line growth and bottom-line results. For more information about Plenum, please visit www.plenumrevenuegroup.com, or contact Steven at smednick@plenumrevenuegroup.com or 1.949.218.8657.

Site Hosted by