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# Corporate VC Is Booming, but Is It What Your Start-Up Needs?

**A guide to choosing the right corporate investment for entrepreneurs.**

After a decade of easy money, start-ups are suddenly facing a strange new reality: funding is drying up. Global venture funding **fell by 23 percent** to US$108.5 billion in the second quarter of the year – the second-largest drop in a decade. Although the figure is still higher than levels seen before the pandemic, entrepreneurs could be forgiven for feeling more anxious about their venture being starved of financial backing.

The landscape has its bright spot though, and that is the rise of corporate venture capital (CVC). Between 2010 and 2020, the number of corporate investors grew more than six times to **over 4,000**. Collectively, they invested a **record US$169.3 billion** in 2021, up 142 percent compared to 2020. Even as investment appetite cooled in Q1 this year, there were a record 1,317 CVC-backed deals. However, funding fell 19 percent to US$37 billion.

CVCs offer funding, access to resources such as experienced business unit leaders, marketing and development support, and the halo-effect of an established brand. But interested start-ups should be aware of the potential drawbacks. We conducted an **in-depth survey** of the CVC landscape in collaboration with market intelligence company Global Corporate Venturing. Our findings show that more than half of the 4,062 CVCs that invested between January 2020 and June 2021 were doing so for the very first time, and only 48 percent had been in operation for at least two years at the time of investment.

These relative CVC newcomers may struggle with even a basic understanding of venture capital norms. In a separate **survey of global CVC executives**, 61 percent reported that they didn't feel like the senior executives of their corporate parent understood industry norms. **Many CVCs** may also be more impatient than traditional VCs for quick returns.

Finally, the existing investors of a start-up may baulk at having a CVC on board. One founder we interviewed explained, "We had to turn down a CVC because our existing investors believed that taking them on would dilute exit returns and result in a negative perception on the eventual exit."

How can entrepreneurs decide whether corporate funding is a good fit for their startup? If so, which CVC? The first step is to determine whether the core objective of the CVC you're considering aligns with your needs.

**Types of CVCs and their objectives**

CVCs can be sorted into four categories of distinct objectives: strategic, financial, hybrid, or in transition. A **strategic** CVC prioritises investments that directly support the growth of the parent. An example is Henkel Ventures of the eponymous German chemical and consumer goods multinational.

"We don't see how we can add value as a financial CVC," **explains** Paolo Bavaj, Henkel's Head of Corporate Venturing for Germany. "The motivation for our investments is purely strategic, we are here for the long run."

This approach works well for start-ups that require a longer-term perspective. Taymur Ahmad, CEO of nanotechnology start-up actnano, told us that he opted for CVC rather than VC investors because he felt he needed "patient and strategic capital" to guide his business through an industry fraught with supply chain, regulatory and technical challenges.

**Financial** CVCs, on the other hand, aim to maximise the returns on their investments. These funds typically operate much more independently from their parent companies, and their investment decisions prioritise financial returns rather than strategic alignment. Strategic collaboration and resource sharing with the parent company are limited. As Jim Adler, Founding Managing Director of Toyota Ventures, put it, "financial return must precede strategic return."

A financial CVC is generally a good fit for start-ups that have less in common with the mission of the parent company, and/or less to gain from the resources it has to offer. In general, these start-ups are solely looking for financial support, and tend to be more comfortable with being assessed on their financial performance above all else.

The third type of CVC takes a **hybrid** approach, prioritising financial returns while still adding substantial strategic value to their portfolio companies. These CVCs have looser connections with their parent companies to enable faster, financially-driven decision-making, but they still provide resources and support from the parent as needed.

Hybrid CVCs generally have the broadest market appeal. For example, Qualcomm Ventures offers its portfolio start-ups substantial opportunities for collaboration with other business divisions, as well as access to a wide array of technological solutions. It isn't constrained by demands for short-term financial returns from its parent company, allowing the CVC to take a longer-term, more strategic perspective in supporting its investments.

Since its founding in 2000, Qualcomm Ventures has achieved **122 successful exits**, including two dozen unicorns (start-ups valued at over US$1 billion). As VP Carlos Kokron explained, "We are in this to make money, but also look for start-ups that are part of the ecosystem…start-ups we can help with product or go-to-market operations."

Finally, some CVCs are **in transition** between a strategic, financial, and/or a hybrid approach. Entrepreneurs considering such CVCs should be aware of how the potential investor they're talking to today may change tomorrow. For example, in 2021 Boeing **announced** that in a bid to attract more external investors it would spin off its strategic CVC arm into a more independent, financially-focused fund.

**Due diligence: A step-by-step guide**

After you have decided on the right type of CVC for your start-up, here's how to determine whether a specific CVC matches your needs.

1. Explore the relationship between the CVC and its parent company

Speak with employees at the parent company to learn more about the CVC's internal reputation, its connectedness within the organisation, and the KPIs or expectations that the parent has for its venture arm. An outfit with KPIs that demand frequent knowledge transfer between the CVC and parent company might not be the best match for a founder looking for no-strings-attached capital, but it could be perfect for a start-up in search of a hands-on corporate sponsor.

To get a sense of the relationship between the CVC and parent firm, ask questions that explore how the CVC has managed to convey its vision internally, the breadth and depth of its links to the various divisions of the parent, and whether the CVC will be able to deliver on the internal network you need. You'll also want to ask how the parent company measures the success of the CVC, and what sorts of communication and reporting are expected.

Tian Yu, CEO of aviation start-up Autoflight, explained the importance of conversations with employees across the business. "We met the investment team, the key employees from business groups that we cared about, and gathered a sense of how a collaboration would work," he said. "This series of pre-investment meetings only raised our confidence levels that the CVC cared about our project and would help us accelerate our journey."

2. Determine the CVC's structure and expectations

Having determined the CVC's place within its home organisation, you should also look into the unique structure and expectations of the CVC itself. Is it independent in its decision-making, or tightly linked to the corporate parent, perhaps operating under the umbrella of a Corporate Strategy or

Development department? If it is the latter, what are the strategic objectives that the CVC is meant to support? What are its decision-making processes, not just for selecting investments, but for giving portfolio companies access to internal networks and resources? How long does the CVC typically hold onto its portfolio companies, and what are its expectations regarding exit timelines and outcomes?

Bart Geerts, founder and CEO of Healthplus.ai, said his company turned down a CVC because "we felt that it limited our exit options in the future".

3. Talk to everyone you can

Make sure you have a chance to speak with key executives from both the CVC and the parent company in order to understand their vision and culture. More importantly, reach out to the CEOs of one or two of the CVC's existing portfolio companies. These conversations can make the difference between fruitful collaboration and all-round frustration.

One entrepreneur we interviewed explained that their team "loved the pitch from a potential CVC investor…but meeting the board was an eye-opening experience as their questions highlighted the risk-averse nature of the company. We did not proceed with the deal."

To conclude, CVCs can bring substantial resources and support to the table, but start-ups would be wise to screen potential partners thoroughly – even in a tepid investment climate.

*This is an adaptation of an* ***article*** *published in* Harvard Business Review.

*Authors' Note: If you have experience engaging with CVCs, please consider contributing to the authors' ongoing research by completing this* **survey***.*

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