RESEARCH

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Driving Growth Through New Ventures and Corporate VC

Research Sponsored By KPMG

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Corporate venturing has become a powerful tool for fostering innovation and driving growth, especially for companies seeking to stay ahead of the curve. Startups can prove valuable in helping to solve complex business challenges, transform the way organizations operate, and shape the future through targeted innovation.

Recognizing the value of fresh ideas, disruptive technologies, and new business models, we established KPMG Ventures to help identify, invest in, and support startups that align with our strategy. KPMG Ventures and KPMG Studio are part of the larger Enterprise Innovation ecosystem at KPMG.

As part of our ongoing commitment to innovation, KPMG teamed up with InnoLead to understand how other companies are also approaching corporate venturing. We wanted to identify different strategies for investing in startups, as well as approaches for sparking ideas in-house. To that end, we interviewed a range of technology and innovation leaders to explore these and other key questions:

- **What strategies and operating models are organizations using as they invest and build?**
- **How are organizations deploying resources to help nurture corporate venture capital programs and incubators building out new ideas?**
- **When does it make sense to reach new customers by building internally, versus making investments in outside startups?**

Cliff Justice, U.S. Leader, Enterprise Innovation, KPMG LLP

Through this research, which involved interviews with more than 25 global companies across multiple industries, we found that the majority in this sample set are pursuing both of these approaches. We found that programs for building new ideas internally tend to report into Chief Innovation Officers, while corporate venture capital (VC) programs more commonly report into CEOs. These senior leaders can help navigate uncertainty and complexity, and create value for customers and shareholders.

We hope this report will inspire you to take a bold and successful approach on your own path.

Taking on Greater Risks, Seeking Higher Rewards

For large organizations, incubating new ventures and participating in venture capital investing can sometimes be viewed as risky. It's safer, many colleagues will say, to just focus on nurturing today's core business.

Yet not engaging in these activities may mean missing big opportunities now developing in the marketplace, significant technological shifts, or changes in customer behavior.

For organizations seeking new drivers of growth, it's important to look carefully at new venture creation and corporate VC — and consider whether you should be doing either or both. Or, if you've got those activities in place today, whether they're properly structured and resourced.

For this research project, more than 25 corporations in the US and EU spoke to InnoLead or completed our survey to share their experiences — and the challenges they face — with new venture creation and corporate venture capital. Some requested anonymity to speak more openly about their activities.

Among our findings:

- Just over 60 percent of the companies in our data set say they have both new venture incubation groups and corporate VC groups.
- Average team size in new venture incubation groups (14) was slightly larger than in corporate VC groups (11). New venture incubation groups most commonly report to a Chief Innovation Officer; corporate VC groups most often report to the CEO.
- The majority of corporate VCs with whom we spoke say they're pursuing either a blend of strategic and financial outcomes; or predominantly looking to deliver strategic benefits to their parent company.
- More than 80 percent of our corporate VC interviewees said they had a formal process in their organizations for connecting startups with business units or functions that might benefit from their offerings.

As with all things connected to innovation and generating future growth opportunities, there is no one "right answer" that will work for every organization. But we hope that the data, interviews, and case studies in this report will help you engage in productive debates and discussions that will lead to the right answer for your specific circumstances.

Featured Interviewees

BMW

Kasper Sage

Managing Partner, BMW i Ventures

Nestlé

Doug Munk

Senior Director of New Business Ventures

Goodyear

Abhijit Ganguly

Managing Director, Goodyear Ventures

Johnson & Johnson

Sanjay Mistry

Vice President, Venture Investments & New Company Creation, JJDC

Prologis

Lisa Costello

Head of Platform, Prologis Ventures

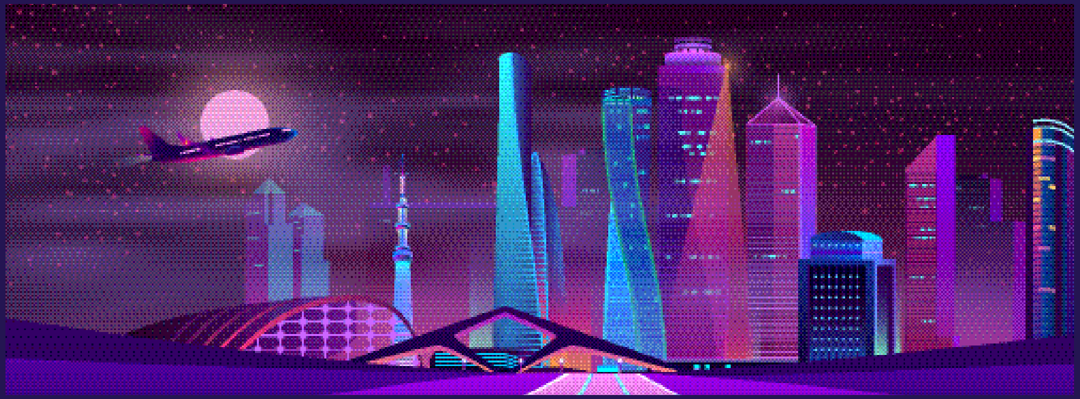
Boeing Co. (affiliate)

Brian Schettler

Partner and Head of AEI Horizon X

CHAPTER ONE

Why are corporations investing in new ventures and startups?



Increasingly, large corporations are acknowledging that wringing more growth from the core businesses can only get them so far.

As a result, they're seeing growth through either creating new ventures internally, investing in outside startups, or both.

This chapter provides an overview of:

- **Team sizes, and how long they've been in place**
- **Motivations and mandates for these activities**
- **The strengths and weaknesses of various approaches to venture incubation and external startup investing.**

We also spotlight the case study of one of the most venerable players in the corporate VC space, Johnson & Johnson, which recently marked its 50th anniversary. Its group, J&J Development Corp., is also assembling teams to launch new ventures from scratch around new science, and taking these startups out to the venture capital markets to raise money from a syndicate of VC firms.

What is Your Team Size?

Internal New Venture Incubation

Average Size

14 Full-time Employees

SMALLEST

Multiple interviewees (3 people)

LARGEST

Danfoss Innovation Accelerator (40 people)

Corporate Venture Capital

Average Size

11 Full-time Employees

SMALLEST

Consumer products/tools interviewee (2 people)

LARGEST

BMW i Ventures (16 people)

Key Motivations and Mandates

… for internal corporate venture creation

"For Nestlé, the objective of our team is first and foremost builing confidence and competence…around the front end of innovation. That helps support building the innovation pipeline for Nestlé's categories and brands. We cover everything from coffee to creamers to frozen food to baking… So, **it's about solidifying the core**. And then in addition to that, we take more of a Horizon 2 focus around opportunities that are outside the core. That might entail taking some of our capabilities and thinking [about] how you leverage those across other businesses or divisions…"

– Doug Munk, Nestlé

… for corporate venture capital

"BMW has decided to do what other VCs do, create a typical GP - LP (General Partner and Limited Partner) structure, but with just one LP, BMW. Clearly, we have financial goals, and we operate as a financial institution. But we invest only in things relevant for BMW or the broader automotive ecosystem. We need to create a financial return while also delivering strategic value to the company. **It's a way for BMW to get access to technology early**. For startups, we can provide value beyond just the investment by offering an exclusive relationship with BMW."

– Kasper Sage, BMW i Ventures

More on Motivations and Mandates

… for internal corporate venture incubation

"**My team has a dual mandate.** One is to deploy radical changes within our existing products and services. For example, leveraging geospatial imagery in the process of underwriting homeowners' insurance. We have proprietary ideas that we can bring to new ventures, and we also look at areas where we might need support from outside partners."

– Brian Gaab, Managing Principal, CSAA Insurance

"We invest in new ventures to...incubate new growth engines for the company that diversify our revenue streams by solving additional needs for our customers."

– Managing Director, Consumer products industry

… for corporate venture capital

"I believe that as a CVC, we have one advantage over other VCs. **We are able to tap into the pool of experts of our company and find how to enable the next disruptive/radical innovation**. VCs often lack [insights about] pain points, and have to follow trend and market momentum."

– CFO, Transportation & logistics industry

"We invest to take advantage of opportunities in real estate, which is one of the largest asset classes in the world, but usually a laggard in terms of technology adoption. Digital transformation of real estate has continued since the pandemic, and there's a lot of cost savings opportunities. That's really about implementing new technology to facilitate the return to office, to augment employee experience, or to implement AI to streamline operations."

– Danny Klein, Vice President, Technology Innovation, JLL Spark

How Old is Your Initiative?

Internal New Venture Incubation

Median Age

6 years

Corporate Venture Capital

Median Age

8 years

YOUNGEST

Financial services interviewee (<1 year)

OLDEST

J&J Dev. Corp (JJDC) (50 years)

Comparing Different Approaches

This table compares different approaches for driving growth with internal new venture incubation activities and more externally-focused startup engagement and investment. These different paths all have their own advantages — and drawbacks.

Focus	Approach	Description	Strengths	Weaknesses
Internal Orientation	**Encouraging Intrapreneurship**	Encouraging the development of new business ideas within the organization, providing resources and support.	Leverages internal talent. Promotes a culture of innovation. Aligns with existing business goals. Can be more cost-effective.	Risk of failure. May divert focus from core business. Requires time and resources. Internal politics or resistance.
	Creating Corporate Incubators	Establishing an in-house incubator to nurture early-stage business concepts or new ventures.	Direct oversight of development. Alignment with corporate strategy. Access to industry expertise. Talent attraction and retention.	High resource commitment. Risk of not finding viable projects. Management complexity. Potential conflicts with core business.
External Orientation	**Sponsoring Accelerator Programs**	Providing funding and mentorship to outside accelerators, in exchange for equity and a first look at startups participating in the program.	Access to innovative startups. Market insights. Networking opportunities. Potential for high ROI follow-on investments or startup collaborations.	Limited alignment with corporate goals. High competition for investments in top startups. Startups may change their strategy —or go under.
	Investing via Corporate Venture Capital (CVC)	Investing in external startups through a dedicated corporate venture capital arm.	Access to cutting-edge technologies and startups. Potential financial returns. Collaboration / pilot opportunities.	Need to staff CVC team with the right talent. Risk of financial loss. Long time horizons for returns. Potential conflicts around which investments to "green light."

Comparing Different Approaches (Continued)

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This table compares different approaches for driving growth with internal new venture incubation activities and more externally-focused startup engagement and investment.

Focus	Approach	Description	Strengths	Weaknesses
Hybrid Internal / External Orientation	**Doing Mergers and Acquisitions (M&A)**	Acquiring or merging with other companies to expand capabilities, market reach, or product lines.	Rapid market entry. Access to new technologies and talent. Immediate increase in market share. Potential economies of scale.	High cost. Integration challenges. Questions about how much independence acquired company should have. Cultural mismatches. Potential regulatory hurdles.
	Partnering with Venture Studios	Collaborating with venture studio firms to co-create and develop new startups or business ideas. This sometimes leverages the skills of outside entrepreneurs working for the venture studio, or outside funding sources to join the corporate in backing a newly-created startup. New businesses may be spun out as independent entities, or introduced to an existing business unit.	Shared risk and expertise. Access to venture studio's resources and talent. Diverse portfolio of projects. May be more agile and fast-moving than fully internal projects.	Does venture studio have the right talent and experience for a particular project? Shared control and profits. Dependence on the venture studio firm. Potential misalignment of objectives. Complexities in partnership agreements.

Making Investments — and Forming New Ventures

"JJDC (Johnson & Johnson Development Corp.) is 50 years old, making us the longest-running corporate healthcare investors out there. Our major objective is to develop opportunities that could be on-boarded into J&J's pipeline...

Within JJDC, we have traditional equity investing and then, over the last couple of years, we founded the team which I lead, which focuses very specifically on trying to create new companies much like a VC does — to take them off the ground from the onset of founding. So, it's a hybrid approach...within new company creation, where we have to ensure a financial exit, otherwise investors will not come in.

We feel that there's a huge opportunity if we could put [a project] on the outside and build a team around it and really accelerate it with syndicated capital. And to do it 'de novo' [all new], where we're looking at leading edge innovation out of an academic institute. So that's been my focus and remit since 2021. [See the Rapport Therapeutics case study on p.40 for more detail on this approach.]

We're truly coming in in this scenario as founders. We're formalized with our VC partner at entry, including the shaping of the entity. We partner together on a business plan and on the hiring plan. And then from there, we are together in the position of presenting this deal to others into order to raise the next round of financing."

Since 2021, **Sanjay Mistry of JJDC** has been leading the creation of new ventures internally, then as founders/owners raising external VC funds for them.

CHAPTER TWO

How Do Top Corporate Venture Teams Function?

Corporate venture capital groups are sometimes viewed by startup founders and traditional VCs as “tourists” that get into investing when the weather is good — and flee when things get stormy.

Data from academic research supports that characterization: research from Yale University in 2019 found the average life span of a corporate venture capital initiative to be six years —far too short to make investments, help guide startups to product launch, and reap any financial returns from an initial public offering or acquisition. (Traditional venture capital firms raise a pool of capital that they invest over the course of eight to ten years, with many of those exit events — when they happen — taking place after the end of that timeframe.)

This chapter involves addressing topics such as:

- **What are the drivers of corporate VC activity?**
- **How to set these teams up for success, and get access to quality deal flow**
- **Using customer pain points to inform venture investing**
- **Making connections between startups and business units or functions at the company that may benefit from a partnership.**

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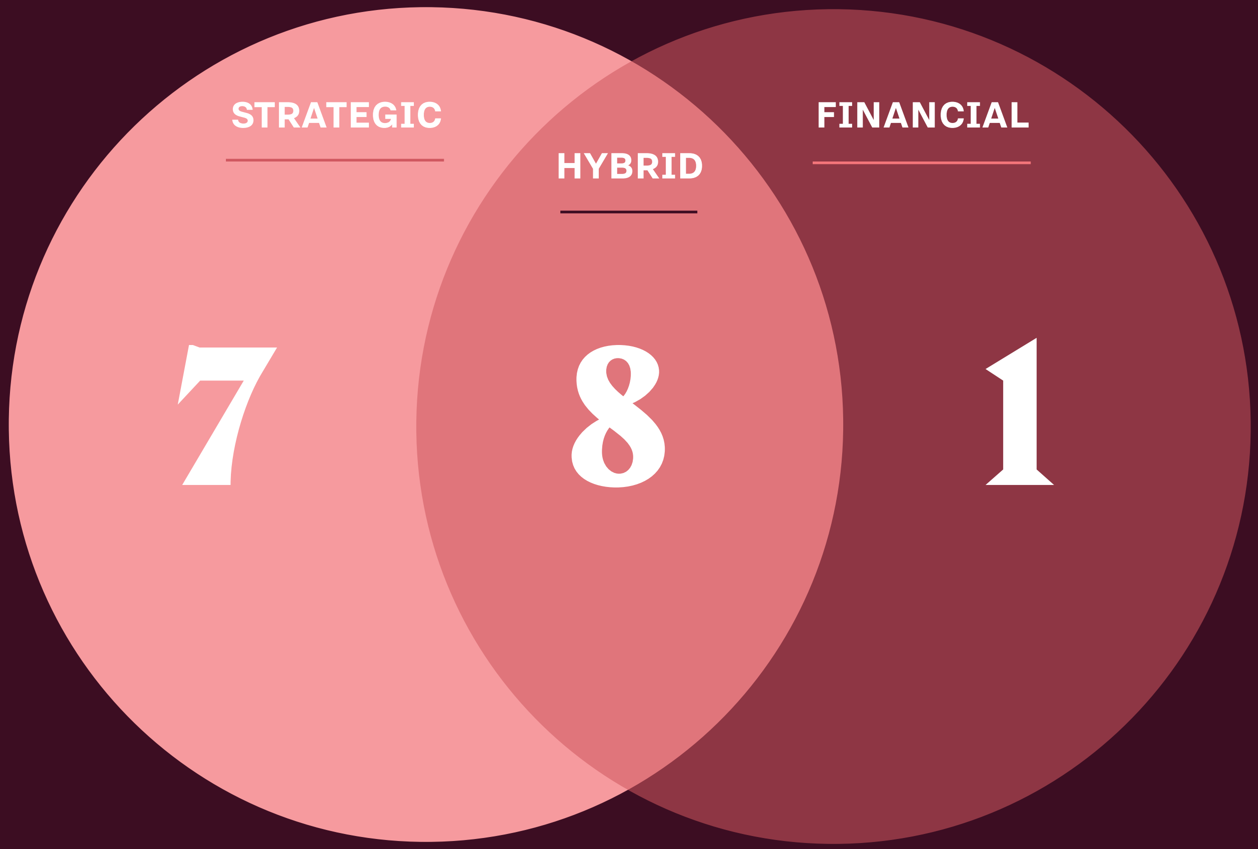
Do you invest in startups primarily for strategic reasons, for financial returns, or both (hybrid approach)?



* Our interview set included 16 corporate VC leaders; their answers to the question are represented in this illustration. The one respondent investing purely for financial returns came from the technology sector.

Setting Corporate VC Teams Up for Success

"As Director of Platform, my role is about taking advantage of the platform that we have as a venture group to help our portfolio companies grow and get connected to resources. We bridge the gap between our internal business units, Prologis customers, and our startups. We help the startups grow, get access to resources, and help our customers—from Amazon to Walmart to Tesla as well as smaller firms—get access to emerging technologies that can help them do business better."

– Lisa Costello, Prologis Ventures (real estate for logistics)

"We have a strategic relationship with Boeing, with whom we facilitate a value exchange. They bring resources to us in terms of technical capability, diligence, all the things that we had when we were inside Boeing. But then they also can present themselves as a market channel for adoption, either as direct consumers of the technology, or to facilitate doors being open to government customers, airline customers, or wherever the natural outlet for the technology is."

– Brian Schettler, AEI Horizon X (Boeing Co. affiliated fund)

More on Setting Corporate VC Teams Up for Success

"We form an investment thesis based on input from our business units and early-stage entrepreneurs. We come up with an independent approach that is informed by both internal and market influences."

– Managing Director, energy industry

"If major decisions for team formation, strategy, or investments are exclusively done by the existing C-suite, don't bother...the initiative won't last three years."

– Managing Director, aerospace & defense industry

"Stay tightly aligned with the enterprise strategy of the company until/unless you have the credibility and historical impact to generate a stand-alone fund."

– Investing Partner, public sector

"Clarity on mission, how you will be measured, and decision-making is key. It's also critical to have the understanding and commitment that time-to-value in venture is long-term oriented."

– Investing Partner, technology industry

Deal Flow and Focus for Corporate VC Groups

"We're eight years old, and we've made 48 investments. We don't do pre-seed and we rarely do seed investments. By the time we invest, the startup has already shown some results and proof points. We're getting most of our deal flow and pipeline from relationships with other VCs. We've built a brand of being a great strategic partner to these startups, and because of that, other VCs want us at the table when doing those deals, because we bring a lot of strategic value."

– Lisa Costello, Prologis Ventures

"Sustainability has become such a key centerpiece of BMW's overall value proposition. It's not just a marketing thing. It's really an internal north star that now guides every operation, both in terms of costs and CO2 footprint. So every single component, every single process gets reinvented to produce less CO2, and obviously, a lot of these need new technology. That's why the focus of our second BMW i Ventures Fund is around sustainability and electrification."

– Kasper Sage, BMW i Ventures

Team Reporting Protocols

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To which leader does your corporate VC team report?

1. Chief Executive Officer
2. Head of R&D/CTO
3. Chief Innovation Officer
4. Head of Business Development/Corporate Development

* Other titles mentioned to which corporate VC teams report less commonly: Chief Investment Officer, Chief Strategy Officer, New Growth division leader, Steering committee made up of several executives.

"BMW set up i Ventures in-house in 2011, but it became independent in 2016 and we launched the i Ventures Fund in 2017.

We're a separate organization on purpose. All the decision-making happens within the partnership to be able to act quickly and decisively. Twice a year we officially report back to the organization on our performance.

Our secret sauce is that we can tap into tens of thousands of engineers and experts in their respective fields.

We have five BMW leaders on our Steering Committee, three of them are board members of BMW. We highlight wherever our invested companies are working with BMW or have added value to the organization.

And then we have a second group of upper BMW management that we meet with once a quarter, which consists of all major SVPs and VPs for whom our work is relevant."

Kasper Sage runs BMW i Ventures out of Silicon Valley and collaborates closely with the founding managing partner, its parent company, in Munich.

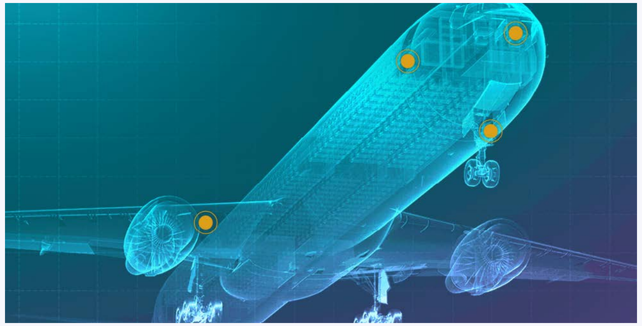
Shaping the Future of Aerospace

In 2015, Boeing launched HorizonX, an internal venture capital investment team. In 2017, Boeing partnered with AeroEquity Inc., a private equity firm, and in 2021 the team spun out as an independent VC fund with an exclusive relationship with Boeing.

. . .

"We tailor our activities to market segments within aerospace and defense. We try to pull all the pieces together to ultimately provide the right startups with exposure to customers and market channels that ultimately could affect the industry for the good.

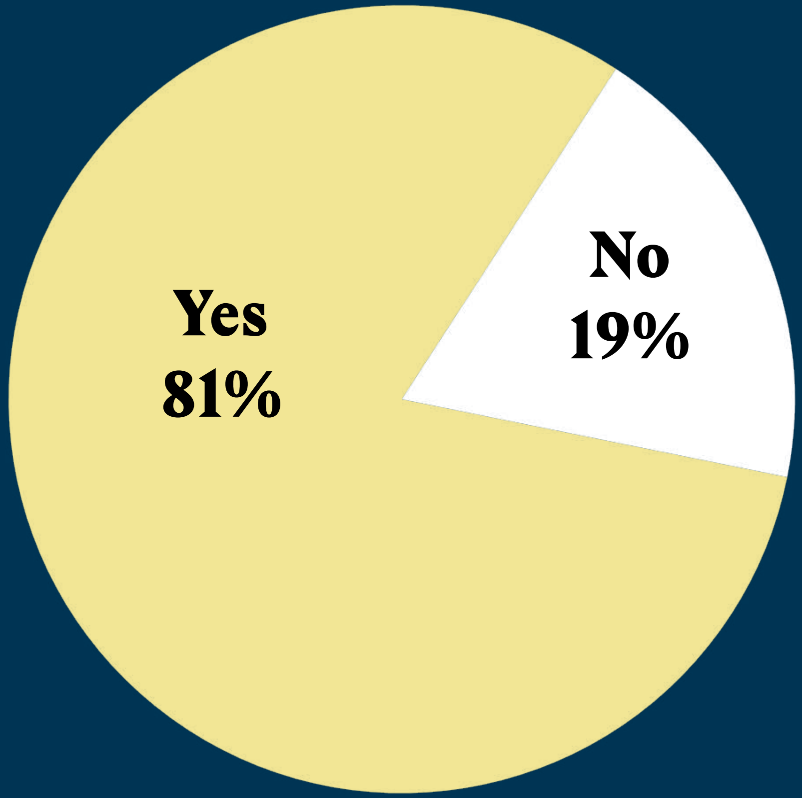
When HorizonX launched, it was much more about strategic alignment and building value, but it was seen as a subsidy to build goodwill inside the business, to showcase the culture change that needs to happen. The quickest way to a dead strategy is by being reckless with Boeing's capital. And so we settled on a hybrid model that put the strategic value first, but also with the financial benefit. As the culture evolved, we got the buy-in to flip it a little bit. The new structure acts as an independent fund that brings in third-party capital, and so we have to be much more sensitive to financial returns. The result is that we now have integrated early venture activities, which I lead, all the way to late-stage buy-outs.



Brian Schettler has led AEI HorizonX to invest in 28 platform companies strategic to Boeing and take equity stakes in about 80 other startups shaping the future of aerospace.

There's so many ways for [corporate venture capital] to get disrupted inside the company if folks aren't on board. You really want to ensure good alignment and understanding of what the intentions of the program are, what the expectations are of certain individuals to support and/or enable success, and not have it be like something that's forced down somebody's throat."

Is there a formal process for connecting startups to key groups?



More than 80 percent of the corporate venture capital investors with whom we spoke said they'd created a formal process for making introductions between startups and key business or functional groups at their company that might benefit from the startup's offering.

Aligning Corporate VC with the Business and Customers

"We need to always understand what our assets are, and what Goodyear's unique superpowers are. Once those are well-understood, then it's about understanding how a startup can actually benefit from some of those superpowers. And once these things come together, we think there's this tremendous outcome to be generated — not just for Goodyear, but also for the startups.

For instance, the Tire Intelligence team inside our R&D organization is involved in leading [some of our startup collaborations]... This enables conversations where we, or they, can bring in an exciting startup that they run a proof-of-concept with, and we will learn more about the company from them. So they can sometimes act as a deal-sourcing mechanism for us. Or we could do the reverse. We would say, 'We saw this really good startup, do you want to do a quick proof -of-concept with them?' Organizationally, we report up to the same leader, so essentially, we are peers in the organization. That keeps the alignment very close."

– Abhijit Ganguly, Goodyear Ventures

"We're looking for good financial returns, but we're definitely a strategic investor. We spend a lot of time understanding the customer pain points first. [As a real estate company,] we do not just invest in property tech, but also in things like automation that our customers would use in our warehouses. We invest on behalf of them and their pain points. And for our internal business units, we're not investing in hammers in search of a nail; we don't want to make an investment in something the business units won't use."

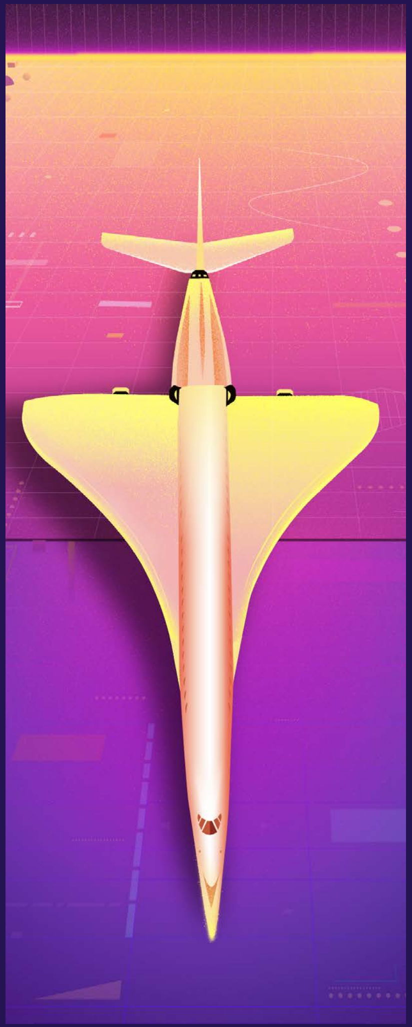
— Lisa Costello, Prologis Ventures

CHAPTER THREE

How do companies incubate new ventures internally?

Our definition of new venture incubation includes all activities inside a large organization that involve designing and launching new businesses (not adding a new product to an existing product line, or enhancing an existing service.) These projects are sometimes the province of a dedicated New Ventures team; sometimes they are under the corporate VC group's purview; or they may sit elsewhere in the organization.

But wherever they sit, new venture teams need to work to forge tight relationships within the larger organization. And, as they work with new technologies and new partners to explore new opportunities, they need to "get comfortable with being uncomfortable," in the



words of one VP of New Ventures in the restaurant industry. "These are not easy projects," says Sanjay Mistry of Johnson & Johnson. "It is moving mountains."

And in many companies, the goals for new venture activity are ambitious: at one privately-held manufacturer, it is to "double the size of the company in five years through expansion into adjacent industries where our brand value still translates," according to the GM of New Business Ventures.

Team Reporting Protocols

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To which corporate leader does your new ventures team report?

1. Chief Innovation Officer
2. Chief Marketing Officer
3. Chief Executive Officer
4. Chief Technology Officer

* Other titles mentioned to which new ventures groups report less commonly:
President, Incubation Division; Chief Strategy & Innovation Officer.

An Innovation Engine That Can Drive Growth

Launched in 2017, Nestlé's New Business Ventures team is part of the transformation of the organization, moving from one that was very much focused on driving efficiencies and scale to creating an innovation engine that can drive growth. That engine has three components, explains Senior Director Doug Munk.

...

"One is around emerging growth territories that support our strategy within consumer packaged goods. We call that our incubation arm. That team works on incubating new products. It requires you build loyalty and awareness over a period of time. You can't just go into Walmart or a Target on day one and scale. And that's what our divisions are really good at. So we take emerging trend opportunities or new technology, and incubate that in-market over two to three years, with the goal of hitting a specific volume threshold. We then would hand it over to the divisions.

The second is new business models. That's looking at the capabilities we have, plus other partner capabilities, to bring those together to get into new areas of growth outside of consumer packaged goods. For example, we've launched a virtual café, under the Toll House brand, and we are scaling that. We also have pilots in the smart vending space, as well as in personalized nutrition.

Underpinning all of that is our crowdsourcing platform that we call Open Channel. That is essentially a new venture [focused on] how we innovate differently than we have in the past, around Horizon 1, Horizon 2, and Horizon 3, leveraging the wisdom of the crowd, starting with our people, but broadening outside of that to consumers as well as companies to make sure that we're not ideating within our own little silos."

Doug Munk has helped lead nearly 40 new venture launches for Nestlé.

Pursuing Big Opportunities in Mobility

The corporate venture capital team at Prologis also is resposible for incubating one new business concept a year. Ideas come from the company's customer advisory board and senior leaders. Head of Platform Lisa Costello explains how it works.

...

"At Prologis, we manage warehouses and provide logistics... We try to invest in our customer pain points, around labor and automation, and around sustainability and net zero goals. We kept hearing from customers that they wanted to make the transition to electric vehicle fleets. But that [charging] infrastructure becomes a huge challenge.

Lisa Costello says that many of the 48 investments Prologis Ventures has made center around solving customer problems.

We realized that if we're the real estate provider, and we have that infrastructure, we can be part of their transition to clean energy. That's why we founded Prologis Mobility, to help our customers put in EV chargers at their facilities, and we're extending beyond that to building hubs of chargers in between buildings. We incubated another venture and have spun it out as Terminal Industries, which addresses the manual process of checking in trucks at the gate of our warehouses. The trucks sit idling and wasting energy outside. Terminal is using computer vision and AI to recognize the vehicles coming into the facilities to automate the reporting and the check-in process.

We believe the mobility opportunity could become as big as our core business, which would be a huge deal."

Q&A: The Connections Between Corporate Venturing and Internal Incubation Activity

As part of this research initiative, we put five key questions to Andrew Matuszak, KPMG Managing Director and one of the founders of KPMG Ventures.

Q. What should companies consider before launching a corporate venture capital initiative?

Perhaps the most important question is "why." There needs to be a clear understanding of why the company would want to establish a CVC and what it seeks to gain. What are the benefits the parent company is seeking, and how would the program complement existing build/buy/ally initiatives? Second, I think the question of program sponsorship is vital. Where the group reports into is critical to its long-term viability — as well as securing the resources necessary to drive post-investment activity and realize strategic objectives. I also think it warrants a careful review of whether the program should be run in-house, or in collaboration with an outside agency. It comes down to skills and scale — as well as organizational nuances and preferences.

Andrew Matuszak
Managing Director, KPMG

But it all revolves around the strategic benefit you hope to get. An important adjacent question is, do you have the mentality and fortitude to establish a durable program that's going to be deploying capital and making investments in both up cycles and down cycles? Realistically, you should be thinking about a

10-year time horizon for your investments. You're going to be making initial deployments of capital, follow-on investments, as well as committing internal resources over the course of the next 10 years. It's going to be during good times and bad times. Will you have the executive visibility, as well as the support and advocacy, to invest in those downtimes? That's when it is most needed, and when you can develop the strongest relationships with the startups.

Q. How do you see corporate venture capital being connected to new venture creation internally? What do you expect from CVC, and what do you expect from incubation or internal venture creation?

I think they're highly complementary. But I do think there's an important distinction — oftentimes, they require different skill sets, as well as different risk profiles, and probably a different answer to the question "why?"

Internally, whether you're calling it a venture studio or business accelerator or incubator, it's an important opportunity for an organization to identify, test, and experiment with new ideas and approaches. I see it as somewhat of an extension to the research and development group. I think there can be a strong collaborative effort across that kind of venture studio, and more traditional corporate venturing, but I do think there's a slightly different skill set. I think there's a slightly different reason for why you would want to have them.

As those internal ideas are incubated, and begin to mature, and maybe there's some good commercial traction, there's an opportunity for the venturing program to help prepare those internal ideas for launch externally. Traditionally, you might say that a CVC team is more aligned with startups than the legacy, parent company culture. But in this instance, the venturing team brings a certain degree of process-driven maturity that maybe the incubation team purposely avoids. One of the things that the corporate venturing team could bring to the table is, "Here are ways to prepare yourself for a launch." Or they can help apply some outside perspective, a bit of process, more maturity of organizational structure, fundraising capabilities, realistic expectations — all those kinds of things.

Q. Can we talk about the Cranium case study? That is an AI security startup that came out of the KPMG Studio, and was supported by KPMG Ventures. In October 2023, it raised $25 million.

I think that's a great prototype, where our Studio took an internal idea — one of many they worked on. There was good commercial traction. There was a clear line-of-sight to how this could be useful to the kinds of enterprises that large firms like us are interested in serving. It went through the Studio program to button up internal processes, and take something that's an internal idea and create a company out of it. Both corporate development and KPMG Ventures began to think through and help the company get prepared for an external capital raise.

A lot of it is setting realistic expectations. They had a founder who had been through the process before, so they were prepared for this. But I think we often see entrepreneurs being overly optimistic about everything from early pilots converting to paid customers, the amounts that will be raised, the terms they will be raised on. That's where the corporate venturing program can be helpful. In the case of Cranium, we participated in the seed round, which was the spin-out from KPMG. Then an outside investor came in and helped shore up their finances. And then we participated in their Series A funding as well in October 2023, which is going to be used to accelerate their go-to-market activities.

Q. How else can these two activities — corporate venture capital and internal incubation — support each other?

The CVC may already be engaged with startups that can help create a more comprehensive offering that spans more than just an interesting technology — adding to what the incubation team is focused on. I think it's important to avoid the trap of not exploring alternatives to things that are being internally developed. The idea would be that the venturing program as well as the incubator should be making multiple bets, and not becoming biased towards one potential solution — especially when there's an internal slant to it. The venture program shouldn't be discouraged from making investments that may be seen as being potentially competitive to something that's being incubated. That's part of why CVC exists in the first place — to overcome the internal bias of thinking that you can either create everything yourself, or can just simply partner with one single partner.

The venture program often works with startups that provide services that can help with our projects. These startups might offer special technology or vendor services. This means our incubated projects don't have to build everything from scratch. They can use technology from these startups. This allows our incubator to focus more on developing the unique aspect of our project, the part that makes it stand out.

These are not quick solutions we're talking about, where you can expect instant results this calendar year. Could you talk a little bit about the patience and persistence required for both of these strategies?

Absolutely, persistence is key. A big part of that is getting strong support from top-level management. This is crucial for the program to withstand tough economic times and any setbacks. One strategy to gain this support is to score some early wins, like creating successful partnerships even before investing, during the early stages of the CVC program. It's all about building a reputation for meeting strategic goals while managing funds wisely.

"Why did you start this program? Stick to that vision, execute well, keep reporting and adapting, and learn from every step."

It's also important to have a solid reporting system, one that's regular and transparent. Share both the successes and the lessons learned. Honesty is vital here. You want to be known for spotting and addressing issues early on, which are common in new CVC programs.

Ultimately, the patience and persistence from executives come from developing a program that stays true to its original purpose. Why did you start this program? Stick to that vision, execute well, keep reporting and adapting, and learn from every step. Doing this can greatly increase the chances of your program being long-lasting and successful.

CHAPTER FOUR

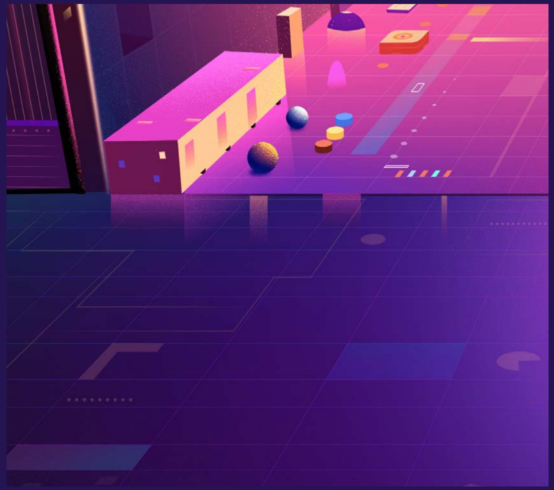
Advice from Peers

In our interviews and surveys, we sourced advice about how to effectively set up and manage corporate venture capital and new venture incubation initiatives. Highlights appear in this chapter.

The top challenges we heard about include:

Long timeframes: Whether it is a startup searching for product-market fit, or a team inside a large company crafting something new, innovation is rarely a speedy process. Patience is a pre-requisite for supporting it and eventually reaping the rewards.

Moving the needle: For billion-dollar corporations, small (but newly-discovered) revenue streams may be viewed skeptically.



Risk: The willingness to accept high failure rates is essential in both VC investing and cultivating a portfolio of internal new ventures.

Multiple stakeholders: Balancing the needs of corporate colleagues is a big enough task — before you bring in startup leaders, customers, and investors.

Protecting boundaries: It's vital to keep certain intellectual property of startups and corporate innovation teams separate, and keep business unit or functional leaders from getting overly-involved in the minutiae of the investment or venture-building process.

Internal New Venture Incubation Leaders

"Overcommunicate. Make sure that the other business units are incentivized by the success of the group — otherwise, there's a feeling that it's draining resources or excitement away from their projects and resentment can build. Everyone needs to understand that the success of a new ventures group helps everyone." — **Manufacturing GM**

"There is a 'Goldilocks zone' for proximity to and distance from the core business. It's easiest to know when you're outside of the zone, and more difficult to know when you're within it. It requires leaders of the team to be in continuous relationship-building with the core business to reground in the why, the process, and the value." — **Consumer products director**

"When selecting concepts to build out, remember that the strategic rationale has to be solid. There should be some reason why your company has a right to play in that space. ...There are tons of possible reasons — but define them up front." — **Financial services VP**

Corporate Venture Capital Leaders

"Achieve alignment with the C-Suite about what goals the company wants to achieve through the CVC program." — **Consumer packaged goods managing director**

"Keep a lean investment committee process." — **Pharmaceuticals & life sciences investing partner**

"Avoid strategic deals that are bad financial deals." — **Energy & utilities managing director**

Connecting to Business Units & Functions

Internal New Venture Incubation Leaders

"We leverage business units for customer insight, and apply their sales channels to deliver our solutions." — **Public sector director**

"We have matrixed some key internal resources, so there is crossover through that. In addition, the team reports weekly with updates to the executive team so there is understanding of the resources needed and stages of projects." — **Manufacturing GM**

"Regular reach-out and 1:1s with key business leaders, and regular coordination meetings with strategy and corporate development colleagues to share business leader pain points." — **Financial services VP**

Corporate Venture Capital Leaders

"With each investment, we look for a pilot or proof-of-concept that might be run with a relevant BU or R&D team." — **Automotive, transport & logistics investing partner**

"We include key leaders in our diligence process." — **Pharmaceuticals & life sciences investing partner**

"We have daily/weekly touchpoints with the key product and technology leaders within the business units." — **Consumer packaged goods managing director**

"Half of the team sits on-site in the strategy office to facilitate these connections." — **Aerospace & defense managing director**

Example Metrics

Internal New Venture Incubation Leaders

"We look at quarterly financials for each startup, any other key growth metrics that are shared by each company, and qualitative assessments from internal meetings and board meetings." — **Financial services industry VP**

"Product/solution revenue and profit, Product/ solution affiliated revenue, and customer references on differentiation in bids..."
— **Public sector director**

"We are pre-launch, so the metrics are project-based and cost-based." — **Manufacturing GM**

"We track the kill rate of ideas, along with evidence generation strength per idea for key metrics of success (opportunity size, strategic fit, desirability, viability, feasibility)." — **Consumer products director**

Corporate Venture Capital Leaders

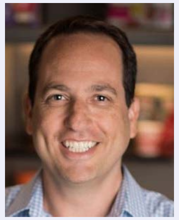
"Mostly standard VC portfolio metrics. We plan to add more to the strategic metrics as these engagements materialize. We're still a new group..." — **Aerospace & defense managing director**

"Internal rate of return, multiple on invested capital, ESG (impact, diversity, carbon, etc.), and also on any revenue generated or savings gained from collaboration with our portfolio companies. The latter buckets are a mix of art and science." — **Energy & utilities managing director**

"Our most important [metric] is conversion of investments to partnerships." — **Pharmaceuticals & life sciences investing partner**

"Cash-on-cash returns. We include engagements that drive strategic leverage as an appendix." — **Technology investing partner**

Challenges of New Ventures and Corporate VC



Is it big enough to move the needle? "While a new product idea may seem small now, there has to be a fundamental belief that this can [grow] to be at least $100 million within the next four or five years. And then, rapid growth as well on top of that."

Accepting high failure rates: "We've killed a lot of projects. There's been a bunch of failures along the way. We've also generated north of $100 million of incremental, top-line revenue, so it more than offsets that by what we've been able to deliver. But we have to keep these definitive measures. There was the case of a probiotic bar that we launched called GoodBe. And after a year and a half making pivots and adjustments, optimizing the product, we did not hit the threshold that we needed. And so we killed it before our retailers did."

– Doug Munk, Nestlé

Don't demand exclusivity: "Some [corporate] investment firms and funds can view their activities as very competitive. [That can] bring out the worst in exclusivity tie-ups, and restrictions to the startups that prevent them from reaching their full potential..."

– Brian Schettler, AEI Horizon X (Boeing)

Protecting boundaries: "There are some necessary boundaries we have to respect. As an investment team, we have to create certain boundaries around us to protect information that is specific to the deal, and to the startup's financial future. ...But that apart, we do share some information, which allows the mutual work to flow and allows startup discovery to flow across the two groups."

– Abhijit Ganguly, Goodyear Ventures

Turning Challenges into Opportunities

CVC PERSPECTIVE

“At 1848 Ventures, we [are backed by the commercial insurance company Westfield.] We work directly with business owners and their employees to uncover their biggest challenges. The area that we’re focusing on right now is optimizing rates for small business hotel owners. No one actually mentioned this as the problem. It wasn’t even brought up. It was only through observations when we visited them on site, [that] we realized that this is such a big issue and such a big, complex problem that no one really nailed it. That’s when we started jumping in. So that’s the initial discovery process, and it led to the founding of TakeUp, a data science startup that now has 12 people.”

– Patty Sung, Venture Builder, 1848 Ventures; Founder & CEO, TakeUp

INTERNAL NEW VENTURES PERSPECTIVE

“There’s very few profitable companies in the autonomous vehicles space, let alone scalable models that really act like a first-tier supplier, the way Danfoss is. There wasn’t necessarily a giant investable group at the time, so we decided to launch a new venture [around autonomous commercial vehicles] and incubate and grow it in a ring-fenced environment. So if a market downturn happens, normally new things like autonomy will get shut down. But because it’s ring-fenced, we’re able to continue to invest in the businesses in the incubation division, which is now set up to support more new businesses.”

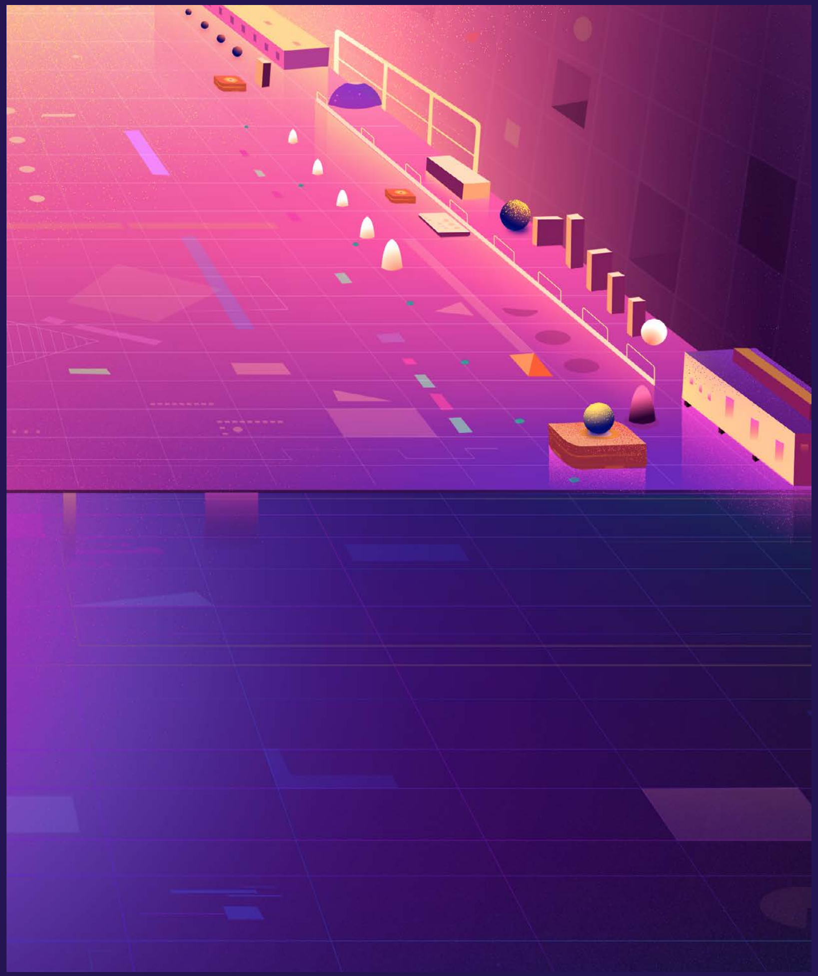
– Peter Bleday, Senior Director, Head of Autonomy Business Unit, Danfoss

CHAPTER FIVE

Case Studies

In interviewing corporate venture capital and new ventures leaders, we collected examples of how their work has made the journey from concept — or initial investment — into the market.

These projects range from augmented reality helmets for pilot training to more effective drugs for seizure sufferers to robots that can follow humans around.



Where the Self-Driving Rubber Meets the Road

The Goodyear Tire & Rubber Company just celebrated its 125th anniversary, but the Goodyear Ventures team has only been making investments since 2020, when it launched with a $100 million fund. Their focus is on the future of "e-mobility," which encompasses electrification, autonomous vehicles, and data informatics, says Managing Director Abhijit Ganguly.

. . .

"We are a strategic corporate venture capital group, which partners with startups that are pushing the boundaries of learnings in e-mobility. We aim to accelerate the trend of autonomous vehicles, for instance. We have driver shortages, and autonomous vehicle companies are coming in to make sure that goods move at the velocity and pace at which we need them to move.

We often co-invest with other financial venture capitalists and corporate venture capitalists. We would like to see a good syndicate of investors joining us in the rounds that we participate in.

We have made 17 investments in the last three-and-a-half years. Out of our San Francisco innovation lab, we launched AndGo, a seamless vehicle servicing platform that combines predictive software and a trusted, national service network for consumer fleets. This took a lot of insight work, a lot of interviews. That was done in collaboration with a variety of startups in e-mobility.

We are also collaborating with and investing in Gatik, an autonomous vehicle company [with an objective] to boost safety and efficiency by measuring and reporting the tire friction of self-driving trucks. We are using the data to create cutting-edge algorithms that are informing Gatik about what our intelligent tires sense from the road and the surrounding areas."

A Series B investor in autonomous truck company Gatik, **Goodyear** also supplies the startup with intelligent tires to measure friction and grip in ice and other adverse driving conditions.

Incubating a Startup Around New Science

Precision medicine is one of the holy grails of the healthcare sector. The domain involves advanced therapies tailored to the individual patient, sometimes based on their DNA or targeting specific cell types or specific areas of the brain or body. A new venture that represents Johnson & Johnson's big bet in this space is Rapport Therapeutics, a biotechnology company dedicated to the discovery and development of precision medicines for neurological disorders. Incubated with science and technology developed in-house, the venture capital arm JJDC founded the company, and then took it to outside venture capital firms to join their investment.

Says JJDC's Sanjay Mistry: "I was asked to partner with our neuroscience therapeutic area, to look for an opportunity to accelerate to value some [of our] earliest stage assets... We began our own business assessment to make sure it was venture-investable, then went out to the marketplace to find the right VC to partner with, and we chose Third Rock Ventures."

"When I'm asked to try and externalize assets from within the company...there are many, many stakeholders who [have] touched it," Mistry says. "You have to really partner across the organization to really ensure that you've got a very clear way to externalize these. That could involve not just R&D, but it can involve your supply chain, it could involve many other groups. So we have to talk as a cohesive unit when we've got an opportunity to create a company, to actually make it happen."

In 2023, Rapport completed successful Series A and Series B rounds of venture investing, for a total of $250 million. "It's pretty amazing that we've attracted that kind of capital for this opportunity," says Mistry. Rapport is a big bet not only because of the capital it raised, but what it represents for the future of medicine. The aim is to target "RAPs," or receptor associated proteins, in the brain and central nervous system to more effectively treat neurological disorders. The company's first therapy is now in early clinical studies for the treatment of drug-resistant seizure disorders.

innolead

Investing in Augmented Reality for Pilots

Training pilots can be an expensive — and dangerous — business. It's why the aerospace industry has been exploring the promise of VR (virtual reality) and AR (augmented reality) to better simulate stressful real-world situations, like dogfights that don't require enemy planes.

"One of the best [companies] in our portfolio is a company called Red 6," says Brian Schettler of AEI HorizonX. "They've developed a helmet with augmented reality that is used for training purposes, to create a synthetic environment for pilots to experience their surroundings, putting pilots into a synthetic dogfight. That's tremendous from a cost savings perspective for the Air Force, where you don't have to fly [additional] jets in a training exercise. This has become so popular with Boeing now that they've integrated it as a key capability on their future defense aircraft platforms."

In 2023, as a precursor to integrating the the Red 6 augmented reality training system into Boeing's T-7A Red Hawk, the companies completed their first test flights on Boeing's TA-4J tactical aircraft. From pitch to test flight was about eight months — an unprecedented pace.

An AEI HorizonX venture, the Red 6 AR training system, is being integrated into Boeing's T-7A Red Hawk fighter jet program.

Alongside AEI HorizonX, about 10 other investors are behind Red 6. Says Schettler of the system's advantages in the market: "It's actually providing an edge when it comes to customer contracts, customer retention, and customer awards, because they see the value proposition of [getting] pilots up to speed much more quickly."

New Products that ‘Augment People with Technology’

The Italian vehicle maker Piaggo Group, best known for the Vespa scooter, launched a mobility research lab in Boston, Piaggio Fast Forward, in 2015. It has launched a new product line of robots that can carry cargo or personal items and follow behind a person. CEO Greg Lynn shared the origin story.

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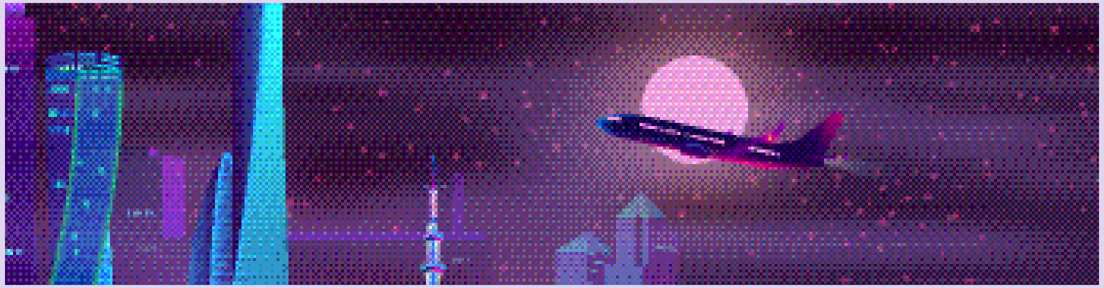
“The people that operate Piaggio Group just said, ‘Sharing scooters is interesting, but isn’t that already happening? And delivering pizza with an autonomous Vespa sounds hellish to us — we don’t want to live in a world where some kid orders a pizza on a couch and some Vespa drives up and figures out how to throw it through the window.’ They said, ‘We’re in the business of improving the quality of people’s lives, making them love our products, having them associate our products with freedom and adventure and all these things.’ When you say ‘Vespa,’ everybody has those connotations.

So they said, ‘We’re not interested in solving pain points,’ to use the lingo of the time. They were more interested in being a lifestyle brand. They looked at LVMH more than they looked at Uber. And they said, ‘How come Uber doesn’t ever make a profit? LVMH certainly seems to make a big profit, and LVMH seems to make people happy and it makes them feel proud.’ They took that consumer lifestyle improving approach.

Fundamentally, what that means is that we were always looking to augment people with technology, rather than replace them entirely, or do a job for them. We always want to do a job *with* a person rather than *for* a person, even if it’s just a little job. We would rather not focus on the jobs people don’t want to do, like surveying nuclear reactors...We actually want to be with people when they’re doing the things they like to do at their job, or the things they’d like to do as a person. One hundred percent of that came from the Piaggio Group.”

Piaggio Fast Forward unveiled its Gita cargo robot in 2017, and a smaller, less expensive version in 2022. They’re designed for both consumer and business use.



Best practices for new venture incubation and CVC

#1: MAXIMIZE FREEDOM
While it's often difficult for the leaders of a large corporation to accept, our corporate VC leaders stress that they require maximum freedom to manage their portfolio and be able to act quickly in dynamic markets, without corporate second-guessing slowing them down.

#2: GET EVERYONE SPEAKING THE SAME LANGUAGE
In the world of new venture incubation and corporate venture capital, the lingo can get confusing. Are colleagues using terms like "startup," "venture," "venture studio," "venture investing," and "venture creation" in ways that muddy the waters? Try creating a glossary that gets everybody using common terms consistently. And ensure that everyone understand's the initiative's goals.

#3: SYNC UP WITH CORPORATE STRATEGY AND CULTURE
Whether crafting new businesses internally, or investing in startups, it's crucial to understand what will fit the strategic priorities and culture of the overall company. That typically entails meeting with corporate leaders reguarly to assess their needs, areas of interest, and strategic goals. But always ask: are there ways that a new venture or investment can counter-balance an existing corporate bet, or build around an important opportunity that is not yet on most people's radar screen. In some cases, you may need to cut against biases and go against the cultural grain.

Conclusions and Takeaways

#3: CULTIVATE CHAMPIONS

Any new venture requires champions within a business unit or function who are bought in to help with pilot tests, and ready to help shepherd it to the marketplace. (The same is true of startup investments that lead to internal collaborations.) It's a process that can takes years, so maintaining a sense of momentum and celebrating even small achievements is important.

For corporate VC groups, another important group of champions are partners at other CVCs or traditional venture capital firms who can send interesting deals your way — and may make helpful introductions for your startups, or participate in future funding rounds.

#5: AVOID DEAL-KILLING RESTRICTIONS AND 'FUNKY TERMS'

When a corporate VC team invests in a startup, veterans say it's unwise to try to build in "funky terms." That means restrictions, rights-of-first-refusal, or other non-standard deal terms that may diminish the startup's chances of success — as well as drive off other investors who may participate in future funding rounds.

#6: ENSURE YOU'VE GOT THE RIGHT TALENT

One hundred percent of the corporate venture capital teams in our data set said they have at least some team members who have prior venture capital experience. Specialized industry knowledge or tech skills may also be important to new venture incubation activity. Don't try to build a team entirely of newbies, expect them to learn on the fly — and somehow chalk up wins.

#7 METRICS AND COMMUNICATION ALWAYS MATTER

Create a set of metrics that can highlight the strategic and financial impact your work is having — even if the financial upside may take longer to become concrete. And it's impossible to overcommunicate up and down the org chart about the outcomes of successful startup collaborations, or the positive impact that new ventures are having on customers or market share. This communication should be both internal (for the consumption of colleagues) and external (so customers, business partners, and potentially other venture capital players are aware of what you're doing.)

About the Respondents

We interviewed or surveyed 27 leaders at Fortune 500 companies headquartered in the US and Europe during Q3 and Q4 of 2023. Some interviewees or respondents requested anonymity, and they are not quoted by name or by company, but rather by the industry that they represent.

Sample titles of our interviewees included:

- CEO [of a New Venture]
- VP of New Ventures
- SVP and Head of Ventures
- Senior Director of New Business Ventures
- VP, Venture Investments
- VP, Technology Innovation
- Managing Director, Ventures
- Managing Principal, Strategy & Innovation
- GM, New Business Ventures
- Senior Investment Director
- Partner, Digital/AI Investments.

Some interviewees were involved only in corporate venture capital investing; some were involved only in internal new venture incubation; some were responsible for elements of both activities.

Industries best represented in our sample set were financial services; consumer packaged goods; automotive, transport and logistics; aerospace and defense; pharmaceuticals and life sciences; technology; energy and utilities; and manufacturing.

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