How to choose the right approach to venture building

5 corporate venturing methods - compared

For the builders.

In corporate environments, the incubation of new business ideas is always a challenge. If the project is located outside the core business areas, another chunky layer of uncertainty is added to the game.

The right team of entrepreneurs and the willingness to pivot or kill the idea quickly is needed to deal with those challenges. And even if all goes well, the startup needs ongoing growth support beyond the MVP stage to achieve real payoffs and avoid a costly “Innovation Theatre”.

Corporate venture building is a new, but already very successful way to address those challenges. The separate innovation entities are unbound from corporate bureaucracy and your partner-in-crime for the exploration of new revenue streams.

In the following pages, you will find out which corporate venturing approach is suited to drive your business forward.

Enjoy reading!

About WhatAVenture

We are a corporate venture builder and a team of 40+ hands-on entrepreneurs, supporting corporates in Austria, Germany and Italy in building new ventures.

whataventure.com

Meet the authors

Manuel Jäger
Innovator

Philippe Thiltges
Co-Founder, Venture Partner

What to expect

- What is a corporate venture builder
- What are the benefits of the approach
- 5 corporate venturing methods explained and compared
- How to choose the right method for your corporate

What is a
corporate venture builder?

Definition

Venture builder

Venture builders (also: *company builder, venture studio*) are organizations that launch startups on a regular basis. The role of the venture builder is to quickly validate a business idea, take over an interim role to build the venture and recruit a team that will at a certain point in time take over the lead.

To achieve this, venture builders use their in-house resources of serial founders, marketers, developers and other experts. Those are people that know how to build a startup and staff a successful team. Additionally, the venture builder leverages its network of partner companies, mentors and potential investors. In some cases, the venture builder even invests in the newly founded startup, sharing risks and rewards with the other parties.

Corporate venture builder

A *corporate* venture builder performs the very same activities, but with a focus on collaborating with established corporates. The aim of the partnership is to combine the best of the two worlds: speed & agility from the venture builder with the power to scale of the corporate.

How to separate a corporate venture builder from other corporate innovation vehicles

Corporate venture builders are often confused with incubators or accelerators. However, it is neither an accelerator, where new companies receive close supervision for a certain time period, nor is it an incubator, which gives startups easier access to experts, capital and knowledge.

Active team involvement as major difference

A corporate venture builder is an active part of the startup, helping to develop the product, gain first customers and assemble the final team. If the client wishes, venture builders can take over the entire setup of the venture and hand over the new company "turnkey". Therefore, it is often named the all-inclusive approach to corporate venturing.

Corporate venture builder

"Let's validate, launch and grow this idea, together." The venture builder is an active part of the team and invests the sweat and blood required to make it happen.

Accelerator

Accelerators target startups that have already taken the first steps and have a more passive role, offering supportive programs to further grow and scale the business.

Incubator

Incubators explore promising ideas and support the founders to validate the concept and justify further investments of resources, time and money.

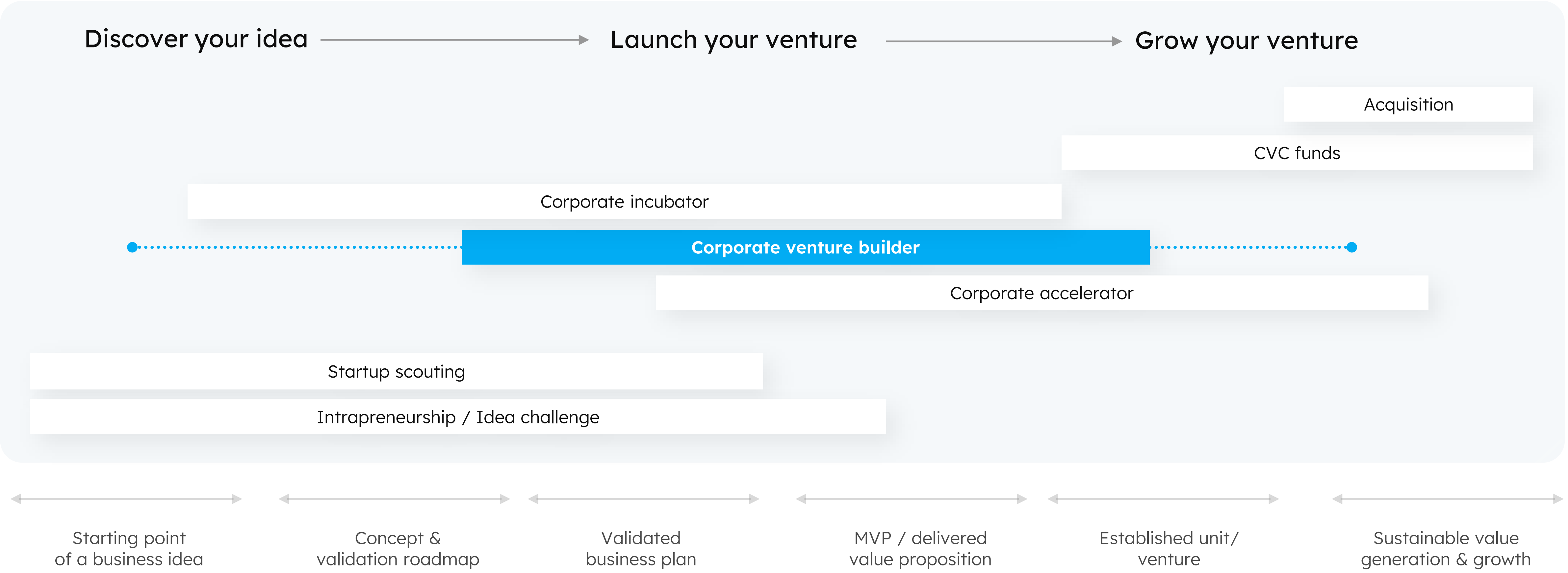
Corporate venture capital (CVC)

Through CVC funds, corporates acquire external startups out of strategical or financial interest.

Operationally involved, hands-on work

Facilitation & support

Venture builders offer end-to-end support, from exploring ideas to growing them



What are the benefits of the venture building approach?

The standalone units are especially suited for exploring revenue streams outside the core

Technology

New

Semi-radical
risk & technology uncertainty

Radical
many unknown unknowns
high uncertainty

Near to existing

Incremental known unknowns
risk, but no uncertainty

Semi-radical
risk & market uncertainty

Near to existing | New

Market / Business model

New business ideas where risk can't be predicted or measured

You don't know how long it will take and how many resources it will require to "make it work"

Success factors

- Quick decision-making (don't over-analyze)
- Team setup: entrepreneurial people that can cope with high uncertainty
- Focus on fast learning and iteration
- Timeboxing and budget gates

Venture builders feature high autonomy, which is success-critical for building new businesses

Safe space for experiments

- Launch or kill, whenever you want
- No risk to the brand of the mother company
- It’s easier to bring partners to an independent venture

+

Agile team of entrepreneurs

The venture is driven by experienced, independent people

Shared financial risk

Additional validation and growth support through external partners

Clear ownership and decisions

The venture builder is in the driver’s seat, allowing quick pivots

By combining the best out of two worlds, the approach can bring bold ideas to life

Corporate

- Financial resources
- Domain & market know-how
- Resources & assets
- Existing customer base

Venture

Corporate venture builder

- Entrepreneurial team
- Broad range of skills
- Experience in validating & building ventures
- Co-investor

Key takeaway

The framework of corporate venture building is designed to handle high-risk opportunities which are needed in today's world.

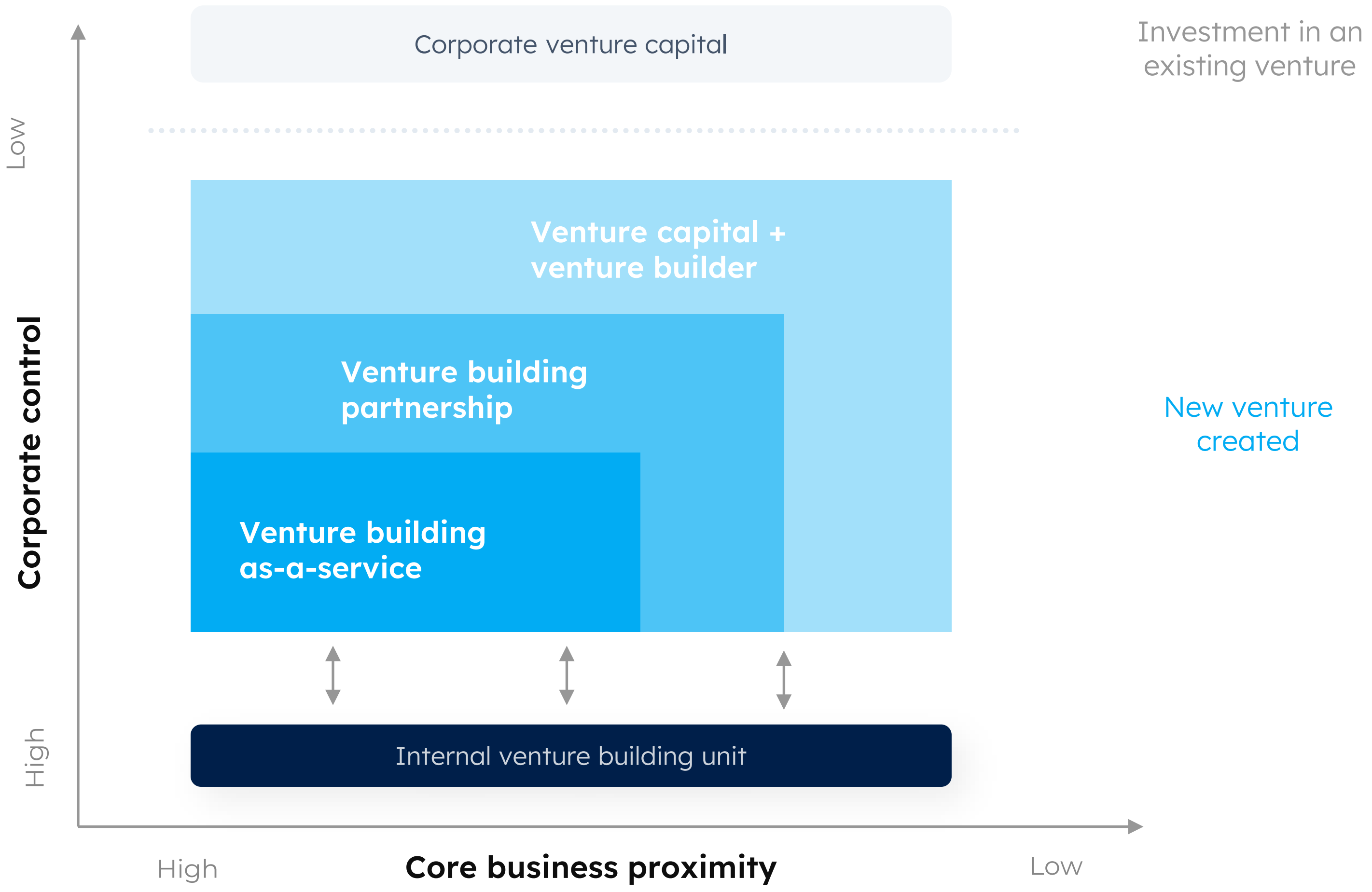
5 corporate venturing methods

Depending on the scope of the opportunity, different venturing methods are used

Venture building is a comprehensive addition to the open innovation ecosystem. The hybrid model offers options for every need, from the active provision of personnel and key resources to the financial participation in the venture.

Sometimes the venture builder takes company shares, sometimes they work purely for a service fee. What is the reason for this, and how can the approaches be separated?

The boundaries are blurred. A very common approach, however, is to pay attention to the proximity to the core business as well as the "level of control" that the corporate wants to perform on the new startup.



Internal venture building unit

The do-it-yourself approach for corporate venture building

The corporate invests in the setup of an entrepreneurial team combining all or most skills to build new ventures. This approach typically comes with the foundation of a new entity to provide the internal venture builder with more flexibility and freedom to operate outside of the established corporate processes.

Who decides what?

All strategic & operational decisions for new ventures are done by the corporate.

Who owns the new venture?

100 % corporate ownership.

Service fee

There is no other party involved. All cost and investment are covered by the corporate.

Team setup

The internal venture building core team would typically take over for a very short interim-period and try to hire the right team as soon as possible.

Pros

- A space with reduced bureaucracy
- Full decision-making power

Cons

- Projects might get stuck due to internal politics
- It takes time & money to build a team
- No risk sharing
- No external experts

Proximity to the core business

high

Corporate team involvement

full control

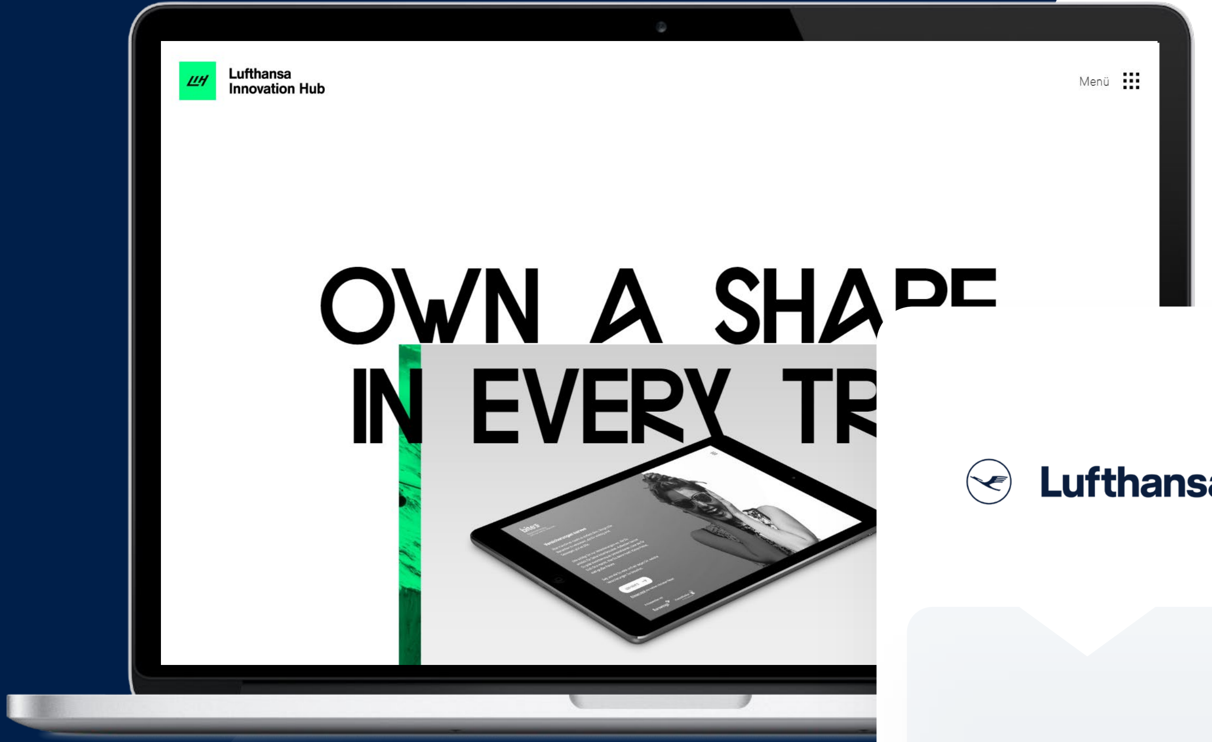
Typical use cases

- Partner-up with external startups and become an early adopter of their technologies.
- Internal product validation & development near core business areas.

Use case

Internal venture building units

The standalone entrepreneurial units are established by corporations as part of their innovation strategy, building and scaling companies from the inside.



Lufthansa | VIESSMANN | BEUMERGROUP | SCHMITZ CARGOBULL

Lufthansa Innovation Hub | wattx | BEAM | KUBIKx

Corporate venture building as-a-service

A team of external entrepreneurs supports the corporate in certain steps of the venture building process

No matter if it's in the validation, launch or growth phase – if a company seeks specific support for their project, they can hire an external corporate venture builder on a service-fee basis. The multi-disciplinary experts will quickly blend into the team, leverage their network and do their very best to make the project a success.

Who decides what?

The corporate is in full control of all strategic decisions. The venture builder launches the operational activities and acts as sparring partner.

Who owns the new venture?

100 % corporate ownership without risk sharing.

Service fee

The corporate venture builder charges market conform daily rates. In some cases, this approach is combined with success fees.

Team setup

Mixed team setup. The individual split depends on the expertise and the time capacity of the internal team.

Pros

- On-demand support for the corporate team
- Empowerment of own employees
- Full decision power

Cons

- Typically, no equity for founders or CEOs
- Non-entrepreneurial decision-making
- No risk sharing

Proximity to the core business

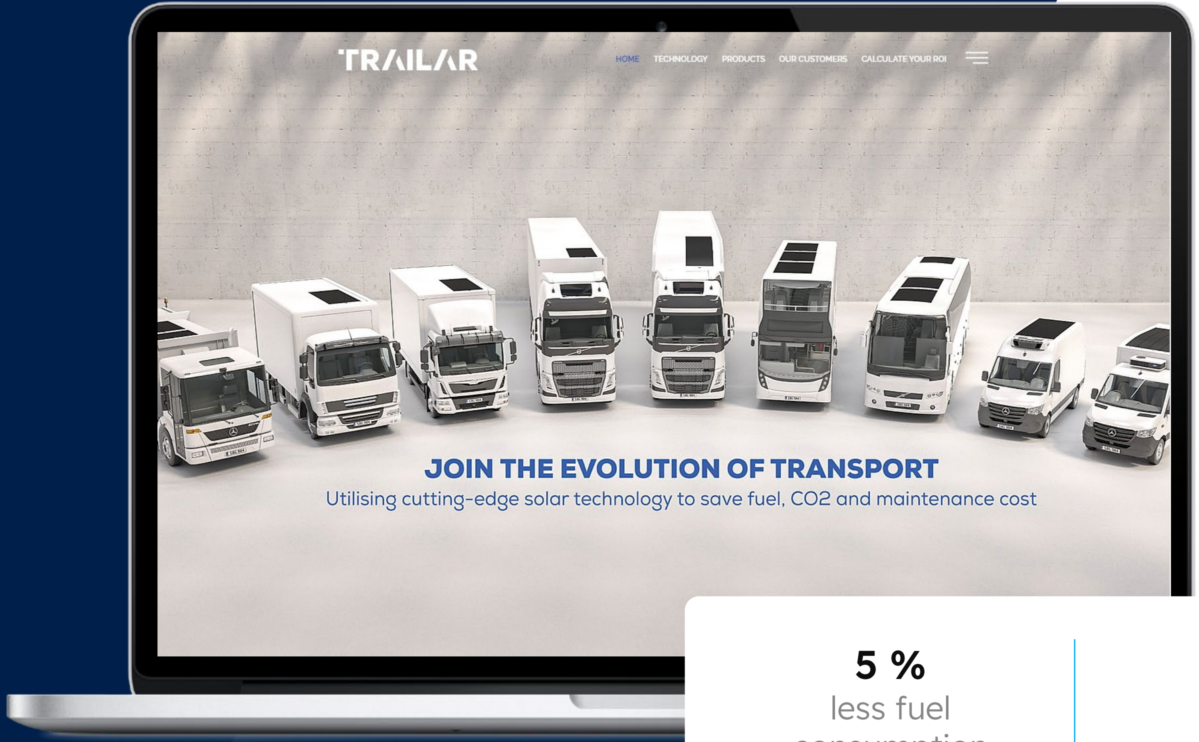
close to adjacent

Corporate team involvement

mixed

Typical use cases

- There is a brilliant idea, but no internal team can validate or build it.
- The corporate already works on a project and needs support for very specific tasks.



Use case

Venture building support for a spin-off that saves fuel with PV foil

In this project, a corporate venture builder supported the initial business model development and the go2market phase for a spin-off of Deutsche Post DHL Group. The corporate venture builder helped to establish the hybrid team, set up marketing and sales structures and navigated through market entry challenges together with the internal team of entrepreneurs.

5 % less fuel consumption	**+3 Mio.** funding by internal VC	**+35 employees** after the first year

Deutsche Post DHL Group

TRAILAR

Venture building partnership

Joint venture between a company and a corporate venture builder, with shared risks and rewards.

In a venture building partnership, the corporate venture builder partners with a corporate to create successful ventures. It is attractive for the corporate, because the corporate venture builder is actively invested and thus has an incentive to make the venture a sustainable success.

Who decides what?

Strategic decisions are made by both the corporate venture builder and the corporate. Initial operations are mainly driven by the corporate venture builder.

Who owns the new venture?

Shared ownership between the corporate, the corporate venture builder and the long-term founders/CEOs.

Service fee

The corporate venture builder typically needs cash flow but would charge lower fees in exchange for equity or success-fees.

Team setup

A mostly external team with senior experts that you possibly could not attract as a corporate. (Further incentivation e.g., through ESOPs.)

Pros

- Shared risk & intrinsically incentivized team
- Reduced cost in comparison to service-model
- Access to a hands-on entrepreneurial team

Cons

- More complicated setup process
- Shared ownership

Proximity to the core business

new business models

Corporate team involvement

less

Typical use cases

- The idea is too big or too far off the core business to do it alone.
- The corporate management wants to see external validation.

Use Case

Scaling a business for modular wooden houses with Rubner

The idea for this business model emerged after an innovation project between the corporate and the external venture builder. After successful validation of the idea, a joint venture was established by both parties. Today, the company is steadily growing and striving to build sustainable, durable wooden houses with the very best components.

7-figure turnover in 2020	**best in class** durable, solid wooden construction	**>15** projects in the pipeline for 2022

RUBNER WOOD_SPACE

Venture capital & venture building partnership

A powerful trio, where a venture capital fund brings additional cash & expertise to the table

Even though it is not that common yet, there are venture capital funds that specialize in corporate startups. All the risks, rewards and challenges are shared between the corporate venture builder, VC fund and the corporate. This structure holds potential for big, growth-oriented ideas.

Who decides what?

The corporate and the external VC fund are responsible for strategic decisions, while the corporate venture builder is responsible for launching the operational business.

Who owns the new venture?

- ~ 50 % corporate.
- ~ 50 % VC funds / external investor.

The corporate venture builder acts as a minority shareholder.

Service fee

The corporate venture builder charges market conform daily rates and would ideally be part of the cap table to be intrinsically incentivized.

Team setup

A mostly external team with senior experts that corporates possibly could not attract. Further incentivation is possible, e.g., through ESOPs for the first employees.

Pros

- Risk sharing & access to a diverse network
- Broad expertise in the board of the venture
- Access to a team of serial entrepreneurs

Cons

- Highly competitively funded venture
- Untypical captable

Proximity to the core business

radical innovation

Corporate team involvement

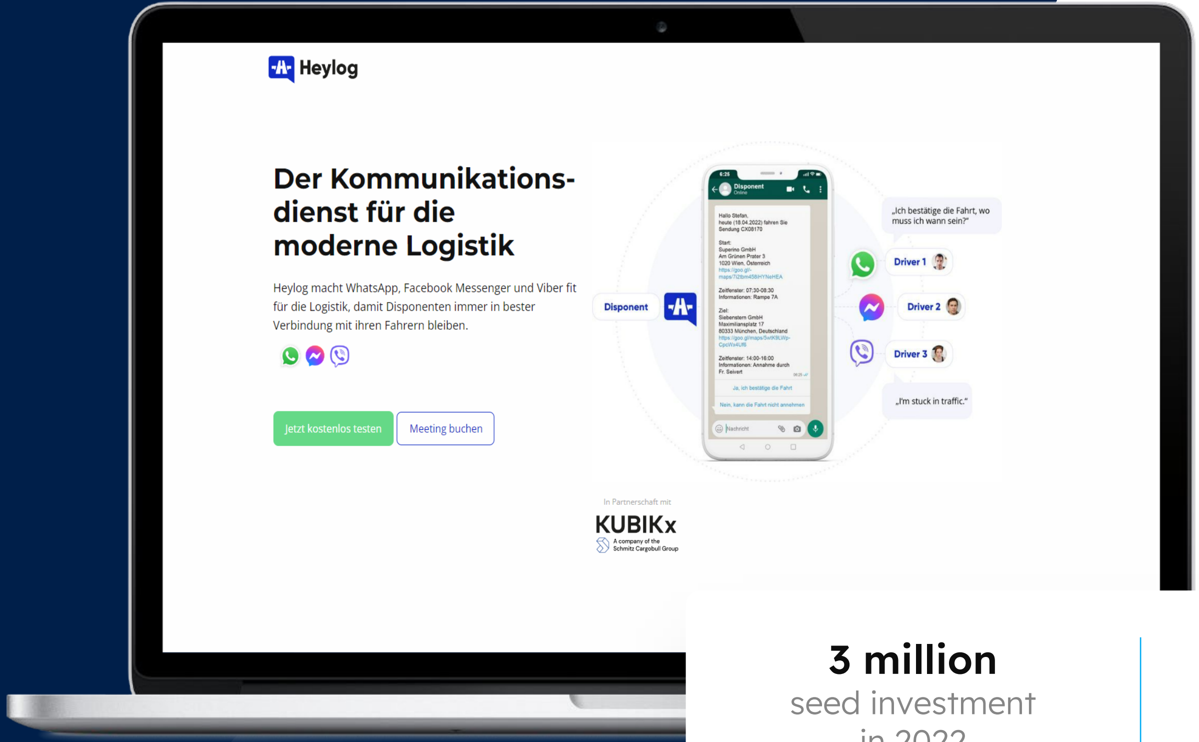
least involvement

Typical use cases

- Radical, new business models with high scaling potential.
- Ideas that are tough to implement and require a lot of mentoring & experience.

Use case

Launching a corporate startup in logistics together with a VC fund



Kubikx, the think tank of Schmitz Cargobull, and the VC investor Ninepointfive launched the communication service Heylog to enable seamless, GDPR-compliant communication for truck drivers and dispatchers. The initial setup and due diligence was supported by a corporate venture builder, which also stayed onboard as a minority shareholder and partner.

3 million
seed investment in 2022

Strong partnership
between corporate, VC fund and corporate venture builder

Heylog | KUBIKx A company of the Schmitz Cargobull Group | 95 VENTURES

Corporate venture capital

A corporate invests money in a portfolio of risky ventures, either with a strategic or financial focus

Corporate venture capital defines the practice of large businesses to invest in innovative startups in all stages. The goal is to gain competitive advantages and access new ideas, markets, and technologies – often at a high cost.

Who decides what?

The responsibility lies primarily with the venture itself. The investors usually have no decision power regarding organizational and strategic matters.

Who owns the new venture?

Mixed cap table, often with a lot of shareholders involved through multiple rounds of investment.

Service fee

If a venture builder is involved at all, it will most commonly charge market-conform daily rates for supportive activities.

Team setup

The venture runs the team 100% itself. If the venture matches the strategic direction or features a potential use case for the corporate, a collaboration can be triggered.

Pros

- Use cases might be relevant for own business
- Radical innovation opportunities
- Less active involvement needed

Cons

- Low decision power & shares for the single investor
- Very high risk

Proximity to the core business

mixed

Corporate team involvement

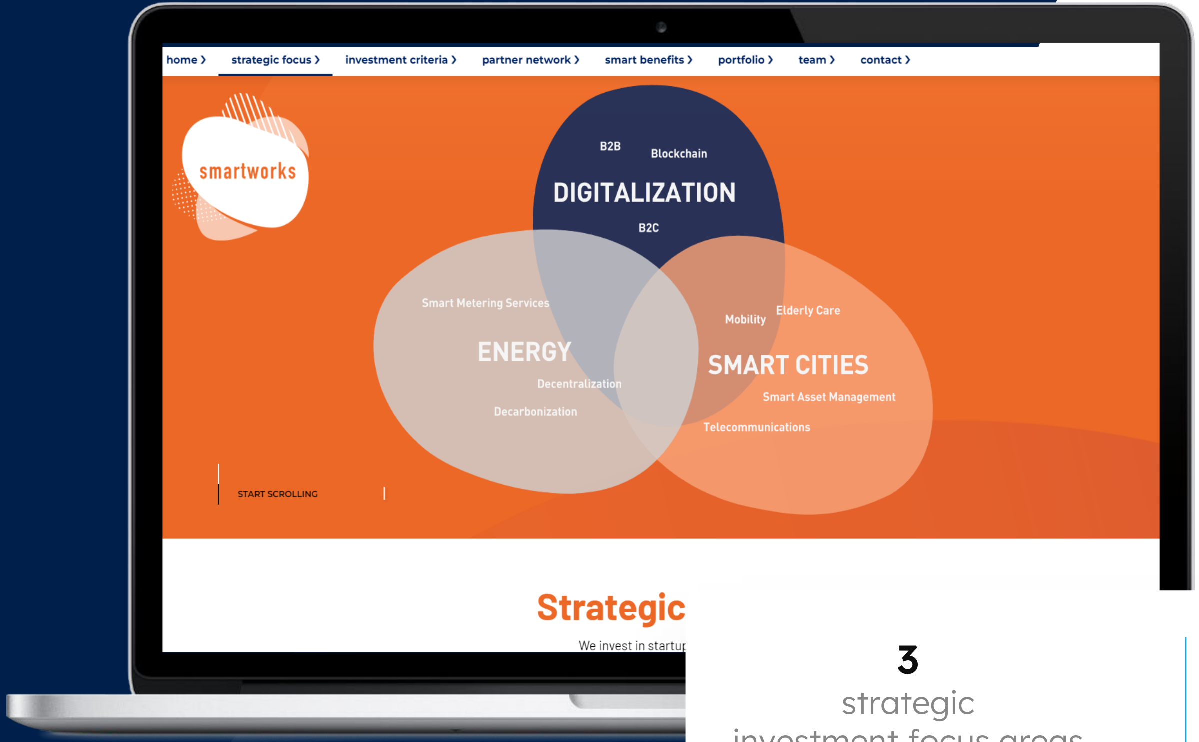
none

Typical use cases

- Investing in an emerging startup, whose solution could be of strategic relevance.
- Complementing the existing product portfolio with less active involvement.

Use case

A leading energy corporate invests in the smart city of tomorrow



Smartworks ventures emerged as the strategic investment arm of the Wiener Stadtwerke Group. The sustainably-thinking CVC fund leverages the advantages and the market access of a leading infrastructure provider to maximize the success of its startup partnerships.

3
strategic investment focus areas

Cultural change
to a more open and agile direction and better employee perception of the company

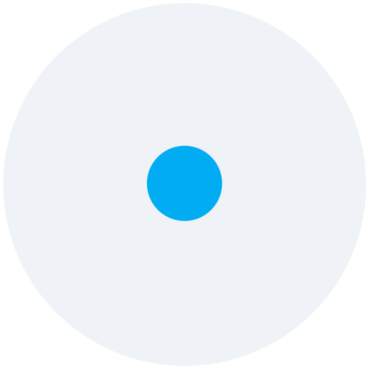
WIENER STADTWERKE

smartworks

Summing up the differences between the venture building approaches

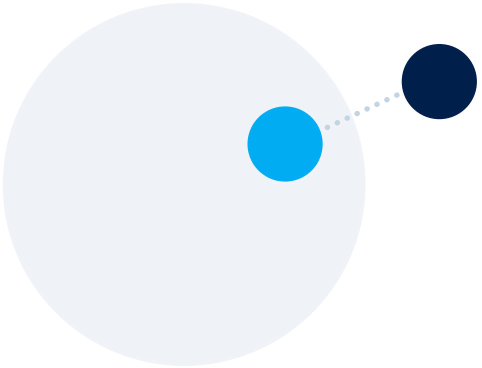
	Internal venture building unit	Corporate venture building as-a-service	Venture building partnership
Risk sharing	✗	✗	✓
Pace-maker	Corporate	Venture builder	Venture builder
Corporate control level	100 %	High	Medium
Core business proximity	Close to core	Close to core	Adjacent

The ownership (financial and decision-making) differs between the approaches



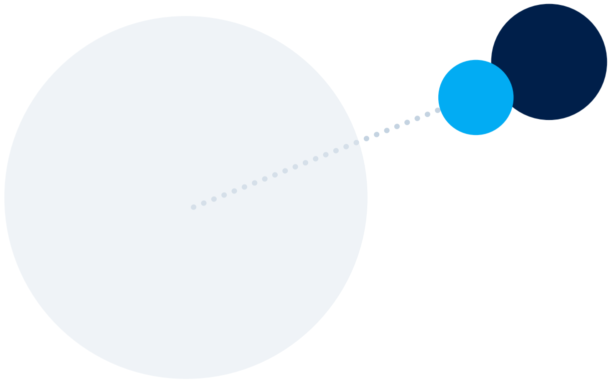
Internal venture building unit

Ventures are built within the company or existing business units



Corporate venture building as-a-service

An external venture builder is supporting a corporate venture in certain workstreams



Venture building partnership

A new, independent venture is established, risks and rewards are shared

Corporate

New venture

Corporate venture builder

But... how should I choose the right approach for my business?

Dive in deeper, and start with defining your corporate's objectives and goals

Maybe your corporate has already gained experience with venturing approaches, maybe you are new to the field. Regardless of where you stand, be aware of the objectives and the environment in which you operate. Answer the important questions and consider how the company culture works. Do you have the support of the various stakeholders? Are there already ideas or do you need to create a vehicle for idea generation?

General approaches meet individual companies

In the last chapter, you learned about general approaches to running corporate venturing in your company. And yet, each setup is individual, each challenge different. The examples and success stories mentioned earlier are a first inspiration for what is possible.

- Should ventures be integrated in the business?
- Are internal experts available for staffing?
- Does venturing fit our company culture?
- Do I want to tackle new or existing markets?
- Can we ensure financial & stakeholder support?

We at WhatAVenture are entrepreneurs by heart, offering 360° venture building services

Prototyping & validation

Be it through customer interviews, rapid prototyping or collecting LOIs from potential clients: we validate ideas thoroughly before more money is invested.

Sales & business development

Doing cold calls is never easy, but mostly very insightful. We make use of knowledge from past projects and can quickly scale the business development team.

Legal frameworks

No experience with establishing a new legal entity? We will back you with experience and support spin-off or spin-in discussions.

Marketing & growth hacking

We build your brand and get out the news. Then, learn from the results and do iterations. Data & analytics are our best friends when it comes to growth hacking.

Operations & team setup

We don't only bring our own entrepreneurs. We will also hire external talents for you to hand over the activities as soon as the time has come.

Market research & business modelling

1000 trends and no idea where to start? Our senior experts will try to filter out the valuable information, identify market gaps and then build a proper business model.

Any questions?
Let’s talk opportunities.

Our team is empowering leading corporates to dive into new business areas and drive growth. With our activities, we strive to combine the best of both the corporate and the startup world.

Being one of the first corporate venture builders in the DACH region, our track record shows that establishing the right structures together with the right people enables your innovation activities to flourish. Let’s challenge your status quo and find out how your company can succeed in the long run with venture building.

Ready to start your corporate venturing journey?

Get in touch