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Powering Up the NOW! Economy with Corporate Venturing

The NOW! Economy: The Future is Not the Past

One of the most powerful forces shaping industries in the coming years will be the production and provision of products and services closer and closer to the point and moment of demand. This force, which my business partner, Rob Wolcott of the Kellogg School of Management, has coined the NOW! Economy, is the common thread that connects a range of transformational innovations such as 3D printing, distributed power generation, the sharing economy, crowdfunding and others. In his earlier writings, Rob discussed the implications of this force on the nature of demand, customer expectations, and business models across a range of industries. We don't have to look very far to see the effects it is already having:

- Uber has become the world's largest transportation company, but doesn't own any cars. At the time of this writing, Uber's revenues in the city of San Francisco are greater than the entire taxicab industry in that city.
- Airbnb has become the largest accommodations provider (by valuation), but doesn't own any real estate. It is on track to outpace established hotel chains in terms of guest bookings in just a few years.

Firms like Uber and Airbnb are capitalizing on the NOW! Economy force, disrupting incumbents, and transforming entire industries. They are capturing the hearts of innovators, the mindshare of business writers, and the agendas of boardrooms. And they should be.

The future is not the past, and the changes we're seeing will only accelerate over time.

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Startups vs. Corporates: A Case of Both-And, NOT Either-Or

As innovators, we're tempted to think the gains of startups will always come at the expense of large, established incumbents, and that small and fast always beats big and slow. We're partially right.

Startups do indeed have a greater advantage than they did a decade or two ago. Capital costs have dropped dramatically. Computing power has risen exponentially. Mobile and social technologies have enabled us to reach more customers faster than ever before and at radically lower cost, enabling innovators to rapidly prototype new concepts, validate hypotheses, resolve uncertainties and pivot quickly. All of this has emboldened a new generation of entrepreneurs, and their investors.

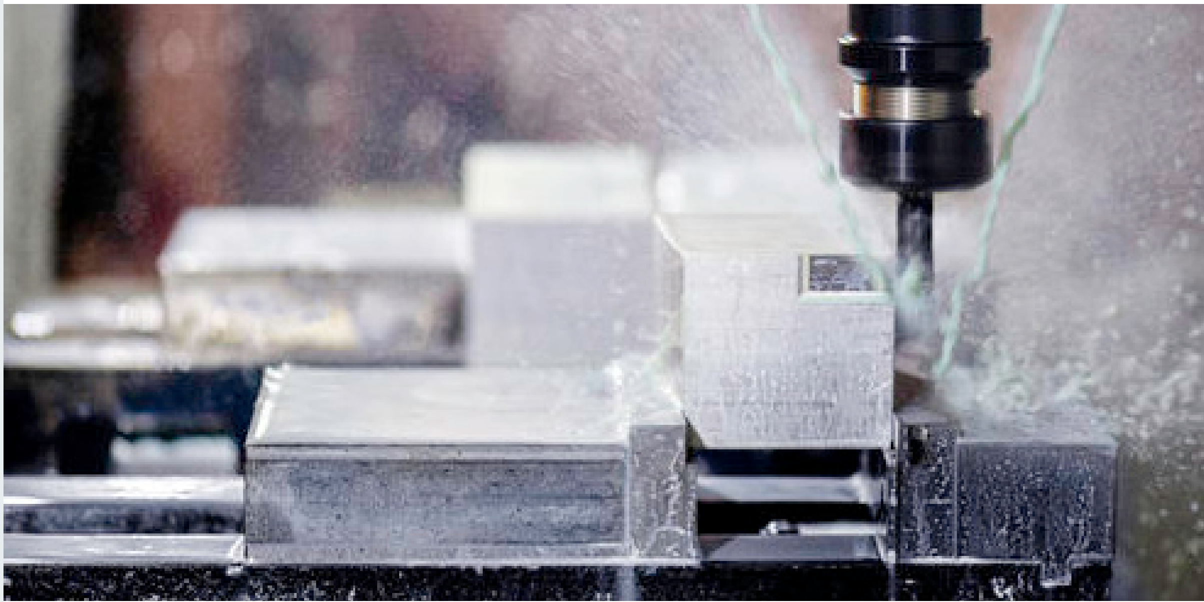
The mindset of entrepreneurs is also very different from that of corporate leaders. Corporations seek the predictable, while startups seek out what's possible. Corporations are focused on managing known risks, while entrepreneurs are focused on embracing & eliminating uncertainties. Corporations try to preserve the status quo in their industries—customers, channel relationships, products and demand—as their business models depend on it, while entrepreneurs spring up to challenge the status quo with new paradigms. All this gives them a leg up when starting new things.

However, large firms have distinct advantages. They have established brands, customer relationships and partnerships they can leverage. They possess capabilities, knowledge & expertise. They have market access, credibility and brand permission that startup firms often lack. These and others are assets to be leveraged.

Progressive innovators realize there is power in combining the capabilities and assets of the corporation with the speed, provocative new thinking and resilience of the startup community. Corporate innovators are increasingly embracing this trend, building up corporate venturing units to partner with and invest in startups, generating innovation from the outside in. Corporate venturing is a structured approach to partner with and/or invest in the entrepreneurial ecosystem to accelerate innovation and create optionality. While corporate venturing involves multiple models and approaches, corporate venture capital is the most widely understood and used.

As of Q1 2016, corporate venturing units have made more than 7,000 investments in the past ten years, and have deployed over $5 billion in capital in just the last year. Currently, 20% of all U.S. venture investments include corporate investors. They're also evolving their models to include incubators, accelerators, ecosystem innovation and other approaches.

Today, forward-thinking leaders see corporate venturing as an invaluable tool to fast-track innovation—a resource-efficient approach for accessing new ideas & thinking and creating greater optionality.



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Powering the NOW! Economy with Corporate Venturing: Case Examples

Corporate venturing is also a vehicle that can power up an organization's ability to respond to the opportunities and threats posed by the NOW! Economy. We can see this best by exploring two case examples of corporate venturing units: Caterpillar Ventures and UPS Strategic Enterprise Fund.

Caterpillar Ventures

Caterpillar (CAT), the global industrial powerhouse with over $55 billion in sales globally, sells heavy equipment and machinery largely through dealers to customers in industries with historically slow cycle times (e.g., energy, mining, construction, and others). Why would a company like this get into venturing in the first place? The answer to that question lies in better understanding CAT's current business and the way it looks at opportunities and threats going forward.

CAT currently has over three million connected machines – more than any other competitor in the industries it serves. It's been capturing data from sensors on its machines long before the term Internet of Things (IoT) was fashionable. As a result, it sees opportunities to leverage data and analytics to create new sources of value for it's customers and shareholders. It also sells into industries that are themselves undergoing technology-driven transformation. CAT sees many of the trends and forces related to the NOW! Economy, and uses its venture fund to identify and drive innovation. Its large $100 million fund is focused on distributed power, analytics, robotics, additive manufacturing and new business models.

CAT Ventures has made significant investments in 3D printing technologies to capitalize on the emerging opportunities and threats posed by distributed digital manufacturing. CAT envisions a world that, in the words of Michael Young, managing director of CAT Ventures, is massively distributed. To get ahead of this trend, CAT has set a massive goal of achieving $1B in 3D-printed parts by 2020, and has partnered with additive manufacturing startups to build a digital printing facility in Peoria, IL. CAT is using 3D printing to improve time-to-market and profitability of "low selling parts" that have traditionally had high inventory, shipping and tooling costs. It is also exploring ways of distributing 3D printing across their network to bring on-demand replacement costs closer and closer to the point and moment of demand.

CAT Ventures also recently invested in a business called YardClub, which helps customers maximize the use and productivity of their owned equipment through an online peer-to-peer equipment rental program. This solution aptly could be called "Uber for construction equipment," as it is doing the same supply-demand matching with validated products, just as Uber has done with private black cars. CAT's investment in YardClub was a win-win-win. The customer wins, as they're able to simply and easily rent spare machine capacity (e.g., a road grader), thereby increasing profitability. The CAT dealers win, as they help set up YardClubs, assess and certify machines, and also receive incentives when customers' machines are utilized. And CAT also wins, because increased usage of machines translates into wear-and-tear, driving growth in its replacement parts business, which fuels CAT's operating profit.

CAT Ventures is investing in technology for autonomous vehicles in the mining sector, as well as new solutions for distributed power generation in the developing world.

Each of these represents ways CAT Ventures is utilizing external venturing to partner with the startup world to respond to the future realities of a NOW! Economy world.

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UPS Strategic Enterprise Fund

UPS is the world's largest package delivery company and a provider of supply chain management solutions. The company delivers more than 15 million packages a day to more than six million customers in more than 220 countries and territories around the world.

The UPS Strategic Enterprise Fund (SEF), the company's venture unit, is a gold standard among corporate venture units, and operates with a very strategic mission. The SEF is focused on a mandate beyond shipping. Its mission is to invest in products, services and technologies that can reshape industries and expand [UPS'] ability to provide customers with business solutions that synchronize the flow of goods, information and funds. The SEF invests in technologies and business models that could impact UPS two- to five years out. They do so in part to learn, conducting early product testing, co-development, and building use cases – all the while building sponsorships with business units that may have the potential to benefit from these technologies.

One such business is CloudDDM, with whom UPS is now partnering to build a full-scale manufacturing facility within its worldwide hub in Louisville, KY, and also install 3D print capabilities into over 100 UPS stores nationwide. UPS believes its core logistics & transportation business solves for the "distance" part of the equation; its partnership with CloudDDM is helping UPS solve for the moment and point of demand. Customers are able to browse, create new print jobs, then upload files to be 3D printed at UPS' hub, thereby reducing ordering & delivery time. The company is also exploring end-of-runway based 3D printed solutions leveraging this technology.

It also invested early in Kabbage, an online peer-to-peer lending platform for small business loans and lines of credit. Kabbage provides working capital for small businesses like eBay sellers, so investing in the company has helped UPS gain valuable insights into a niche market they weren't serving effectively and ways they could help grow their customers' businesses.

CAT and UPS are Not Alone

Many other examples exist of corporate venturing units investing and/or partnering to help accelerate new innovation related to the NOW! Economy, including:

Castrol innoVentures—the venturing unit set up to help extend Castrol's business beyond its core lubricants business—has used its venture unit to co-create and launch Nexcel, an on-demand, 90-second, self-contained oil change unit that can reduce tailpipe CO2 emissions, improve vehicle servicing, and increase the recycling of used oil. This new innovation may radically impact automobile servicing in the future, serving customers more easily at the point and moment of demand.

BMW iVentures has utilized its venture unit to invest in new solutions for personal mobility—combining BMW's brand and other corporate assets with the speed & resilience of startup companies. Through the use if iVentures, BMW is accelerating its development of solutions for ride-sharing & usage models, location-based services, and e-mobility solutions.

Where to Next: Insights for Corporate Innovators

Reflecting on these case examples, and our perspectives on the role of corporate venturing, a few critical insights emerge for corporate innovators:

1. Corporate venturing has the power to create optionality for the future. Often it can be difficult to assess which technologies will be adopted by the market and the pace at which they will be adopted. Traditional corporate innovation approaches are complex, costly and time-consuming. Teams are formed around new ideas, budgets are created, capital allocated, and before long, organizations are neck-deep into one idea that may not even be viable. By contrast, corporate venturing enables a resource-efficient way to see and access emerging technology innovations, and a quicker path to piloting new things. Clareo's belief is that innovation is about creating a portfolio of options on future outcomes. Corporate venturing provides a vehicle to accomplish this.

2. Corporate venturing has the ability to enable what my partner, Rob Wolcott, calls transitional business platforms. In the early days of Netflix, the company built its original business model on the mail-order DVD rental, in part because the underlying technology was not yet ready. To Netflix, mail-order DVD rental was merely a precursor to online solutions. For progressive CEOs, corporate venturing can be a tool to enable the development of transitional business platforms. For instance, venturing can enable Caterpillar to migrate progressively from heavy machine manufacturing to data-driven solutions. Likewise, venturing may enable UPS to leverage its shipping & logistics platform in totally new ways to serve customers product & service needs at the point and moment of demand.

3. Corporate venturing can help catalyze an ecosystem around totally new problems to be solved. Caterpillar has always maintained a close relationship with its dealer channel. CAT is now able to leverage this channel in totally new ways, as a source for insights, innovation opportunities, and early commercialization efforts. Today, nearly 20% of all CAT Ventures' investment concepts come from this dealer channel. And when it comes to new innovations like YardClub, CAT Ventures pilots concepts with a few key dealers to prove out the case and build advocates before it expands. CAT's venturing unit is helping to rally its ecosystem—customers, dealers, the startup community, and investors—around high value problems to be solved.

4. Corporate venturing will demand new thinking, mindsets and approaches. Corporate leaders seeking to embrace venturing and partner with the startup world to accelerate NOW! Economy innovations will have to structure for rapid prototyping, testing, and validated learning. Many corporate innovation groups are not set up for this kind of lean approach; they're optimized for very traditional (and long) stage-gate innovation processes. Additionally, corporate leaders will need to embrace the new and often provocative thinking of the startup community—new ways of characterizing the customer need and new approaches to what innovation means (hint: often it is not about product development). Solutions like YardClub, Kabbage, Nexcel and others are radical departures from the ways corporate executives have thought about innovation in the past, but they are remarkably innovative concepts.

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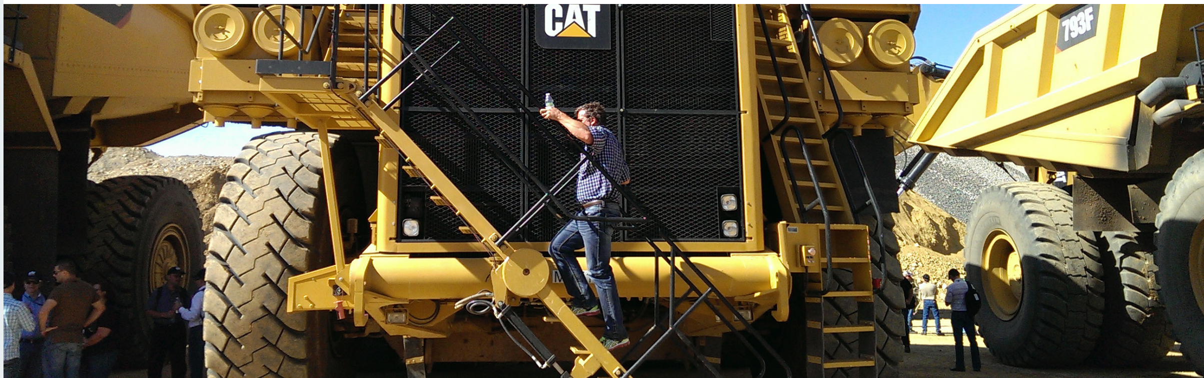

Illustration above by Stanislav Levin

Corporate venturing has the potential to be a powerful driver of new innovation, and will become an imperative for firms that don't want to be left behind in the next wave of innovation.

The Time is Now

The NOW! Economy is upon us, and the pace of change will only accelerate over time. The future will look very little like the past.

It can be argued that there has never been a greater threat to established industries than there is today because of the NOW! Economy. However, there has also never been a greater opportunity for the big companies to move fast and create a new trajectory of success. Corporate venturing has the potential to be a powerful driver of new innovation, and will become an imperative for firms that don't want to be left behind in the next wave of innovation.

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About Clareo

At Clareo our mission is to help businesses adapt and grow.

We help leaders adapt their businesses and create new ways to grow in rapidly changing markets. Together, we build the plans and capabilities that deliver results. We assist clients in improving strategy execution, finding radical efficiency gains, developing entrepreneurial capabilities, taking new ideas to market, exploring plausible futures, and investing in business ecosystems.

Our clients choose Clareo when they want bold new ideas fueled by a network of leading experts. Working alongside our clients, we create compelling strategies that lead to action.

To find out more about Clareo, visit www.clareo.com.

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