Corporate VC – Looking for innovation

Originating from the US, corporate venture capital is on the rise in Europe and the momentum has also spilled over into Switzerland. Corporate activities in the financial and media sectors and in industry have risen. And at the long-term level, big pharma players are also increasing their activities – access to inventions and innovations is their future.

In the global corporate venture capital (VC) area, Intel Capital and Google Ventures have long dominated, and today the corporate venture capital activities in China of Tencent and Alibaba are even more extensive. But corporate VC is also on the rise in Europe. In the past year, one in four of all financing rounds was made by an active venture capital investor, a corporate venture capitalist. And the statistics from Dealroom.co make this clear: capital invested in start-ups by corporate VC funds increased six-fold from 2012 to 2016.

Strengthening the bond

Corporate VC has established itself as an approach to open innovation within the term 'corporate venturing'. The spectrum ranges from simple internal initiatives, to partnerships with start-ups, to investment activities (with or without own funds) and to acquisitions.

This is where corporate VC is gaining in importance with the central intention of strengthening the bond with the best start-ups and start-up teams through an investment, as Lukas André, venture partner of Redstone, explains below. Redstone manages the corporate venture funds of several international groups and connects established companies with ambitious founders.

The motivation of corporate VC funds varies widely, even in Switzerland. For some companies, it is important to conduct a strategic in-use monitoring in addition to their own R&D units. Through examination of investment opportunities, the VC fund manager gains an exciting view of where start-ups in their field of observation are developing technologically. With investment, there is the option of retaining marketable innovations at an early stage, and the potential for commercial partnerships and/or a later acquisition may emerge.

However, as André says: "Investing in a start-up is not the same as an M&A transaction with which companies are more familiar. An investment must be designed so that the start-up retains its independence and does not lose momentum, and it lays the foundation for a mutually rewarding partnership. Due to the risk profile of start-ups, it is always worth thinking about a portfolio."

Therefore, the question arises for the company of whether an independent team should be set up or whether, given the available resources and skills, a partnership with investment specialists – even with traditional VC fund managers – would be more useful. In addition, co-investment under the lead of a conventional VC fund, which is responsible mainly for due diligence, can be debated too.

Strategy matters

Some corporate VC fund managers are located in the vicinity of the CEO. The rate of return is not in the foreground per se. Rather, they are tasked with finding new technologies and business models for the company.

The investment strategy of a corporate VC fund focuses on strategically relevant topics that are in line with the current market orientation, but which are also increasingly aware of areas and business models that are of lesser relevance or even alien to the sector today, but which may fundamentally change in the future. For Swiss Post, it is not only topics in the area of logistics and digitisation that are of interest, as would be generally assumed, but also aspects of mobility, online trade and the concept of the smart city.

In Switzerland, large corporations, including Novartis, Roche, Nestlé, Syngenta and the technology and communications companies ABB and Swisscom, have long been pursuing the innovation and investment model of corporate venture capital. Zühlke Engineering is very active in the field of private companies. Meanwhile, Tamedia and Ringier play an important role in the media sector.

And in the finance and logistics sector in particular, venture activities have already started or been announced by PostFinance, SIX and Swiss Post (as mentioned above). Just a few weeks ago, SIX reported its intention to launch a CHF 50m corporate VC fund with a fintech orientation. The intention is to keep SIX at the forefront in innovation and ensure it does not lose its technological leadership.

The insurance sector includes several active companies, such as the Baloise Group, Helvetia Versicherungen and Swiss Life, and the banking sector is also moving to catch up with trends in digitisation.

Some corporate venture funds and vehicles in the financial, insurance and logistics sectors

Corporate	Dedicated name	Geographic focus	Sector focus	Size
Baloise Group	Anthemis Baloise Strategic Ventures	Europe and US	Fintech startups	CHF 50m
Helvetia Versicherungen	Helvetia Venture Fund	Europe; in particular Switzerland as well as Germany, France, Italy, Austria and Spain	InsurTech startups and startups whose business model links to Helvetia's business or supports Helvetia's own business model	CHF 55m
SIX	n/a	Switzerland	Financial sector	CHF 50m
Swiss Post	n/a	Switzerland	E-commerce, mobility, digital financial services, digital trust (e-post), cross-channel communication, business process outsourcing, and sales and solutions for major business customers	n/a

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