

> Welcome

Welcome to the May 2007 issue of Global Insight, a regular newsletter from TransTech USA designed to keep you informed of the latest news, issues and trends effecting innovation, strategy and commercialization.

This edition will focus on the resurgence of Corporate Venture Capital and the role it plays in Open Innovation.

> Corporate Venture Capital - is it a tool of open innovation?

By Peter Bryant, President, TransTech USA LLC

In the last issue of Global Insight we discussed Innovation and its importance to the growth of company value and how companies need to embrace external innovation or as it is more often called, open innovation.

So what role do external partners play in driving open innovation?

Everyone recognizes that external collaboration is a key element in successful innovation – however the ambition is proving to be hard to execute in reality – many companies from GE to Safeway's are finding that it is a serious challenge to bring in the skills and the culture to deliver effective collaboration. By embracing collaboration and pushing its limits, we exponentially increase the amount of resource and brain power that is focused on finding that innovative idea. For ideas to be fully accepted a company must develop a culture that accepts ideas from any source and moves away from the *'not invented here syndrome'*

Extensive collaboration also allows you to sense and source capabilities/ideas from a wide range of sources within and external to your industry's ecosystem. This may involve collaboration with a wide variety of organizations; such as:

- University Research Centers
- Venture Capital firms
- Companies in adjacent industries
- Organization networks

Two emerging trends in this area, are the creation of internal Innovation Groups, that are specifically responsible for external collaboration (e.g. P&G has created the role of Technology Entrepreneurs) and Corporate Venture Capital Funds.

Wharton School paper in Oct 2006 called this the possible Fourth Wave of Corporate Venture Capital.

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- Peter Bryant to moderate panel discussing Impact of Global Innovation at Software 2007 Powered by Innovation– the leading event for the enterprise software industry in Santa Clara California on May 7-9 2007
- Founder Peter Bryant on Expert Panel discussing Injecting Innovation into Global Companies at Group System's Expediting Innovation 2007 in Denver on April 24th and 25th 2007
- Two leaders in Innovation and Commercialization announce a Global Alliance

Watch for more news

What is Corporate Venture Capital?

Corporate Venture Capital (CVC) is where a company sets aside risk capital to invest in emerging companies and ideas that have the future potential to add value to the business.

CVC has different goals depending on corporate circumstances; these include:

1. Source of new products (i.e. outsourced R&D) – this is most commonly found in the pharmaceutical industry and Procter & Gamble
2. Identify emerging technologies and capabilities that directly impact the strategic focus areas of the business
3. Invest as a Limited Partner in an established VC Fund focused on a narrow area of company interest
4. Monetize internal innovations – an emerging model initially seen in the healthcare field where the fund invests in spin outs of internally developed products.

In the first three cases financial return is secondary to the stated goal of adding value to the business by sensing and sourcing capabilities in the external eco system and by leveraging the most effective model in attracting and filtering a large volume of opportunities. i.e. the Venture Capital model.

The fund goal described in point 2 is the type that is most commonly emerging amongst companies in a wide range of industries from technology, media, transportation and oil and gas. Even Gazprom, the Russian oil giant just announced a Corporate Venture Fund of \$100m to invest in companies that have solutions that would improve Gazprom's operational performance.

The rest of this newsletter will focus on this type of Fund.

How do you create deal flow?

These funds rely predominantly on the VC community for deal flow – by promoting a fund and its clear investment objectives to a broad set of VCs then almost any deal that fits the criteria will be passed on by the VC. Why would a VC do this?

It is simple, if the Corporate Venture Fund invests then this acts as a further validation to the VC that the solution has value to the target industry. The corporate gains as it gets early insight and exposure to an emerging solution that can positively impact a key area, which otherwise it may not see for years.

How do you determine the Investment criteria & how much to invest?

The investment criteria are focused around key areas of concern, emerging opportunities and trends that have been identified within a company's strategic plan. This alignment is fundamental to ensure the Fund is effectively integrated into the business.

The level of investment is less important as control of the company is not the goal. The goal is exposure and influence which can be gained by a relatively small strategic investment alongside the VC money and securing board observer rights.

How do you ensure success?

Success is gained by the strategic alignment and ultimately the ability of the Fund to expose its portfolio companies to the company's business units to address real business issues. This collaboration between the Fund and the business is the secret sauce and will facilitate adoption of the portfolio company's solutions.

If the alignment is not there and collaboration is weak then investments will be not add value and the Fund will rapidly be seen as a distraction.

In summary, Corporate Venture Capital will emerge as a vital tool of the leaders in open innovation, enabling companies to see a range of solutions and capabilities that would not have been exposed to the company for years. Then with effective internal collaboration these will be leveraged into the business to create value and competitive advantage.

For more information about Corporate Venture Capital, please email info@transtechusa.com

> 2007 Supply Chain Executive Conference

Globalization - Balancing Risk and Opportunity

May 30 to June 1st 2007
Westin Copley Place
Scottsdale, AZ

This conference will focus on how business and supply chain leaders are tackling the challenges of globalization all the way from raw material extraction upstream in the mines, forests, and farms of the world to new consumer and industrial markets in emerging economies. For more information visit

www.amrresearch.com/Events/Conferences/SupplyChainExec2007/

Fact Byte - Venture capital firms invest \$130m in India in first quarter of 2007
Venture capital firms invested about \$130m across 20 deals in India during the first quarter of 2007, according to a study by Venture Intelligence in partnership with the US-India Venture Capital Association.

Arun Natarajan, founder and CEO of Venture Intelligence, said, 'The amount invested during the period was slightly higher when compared to the corresponding period during 2006 which had witnessed about \$125m being invested and significantly higher than the \$37m invested in Q1 2005.'

With 14 deals worth about \$73m, the IT and IT-enabled services industry retained its status as the favourite among VC investors.

VC investors also supported companies in the enterprise software and microfinance sectors.

Source: 16 April /2007. Source: AltAssets

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A TransTech USA LLC Publication
www.transtechusa.com

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