GUEST COMMENTARY

Ensuring One's Competitive Future

By Donald L. Laurie

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As a result of the recent volatility—too much venture capital chasing too few deals, the dot-com bubble inflating and bursting, optical network start-ups failing, biotechnology rising and falling, and valuations in general sinking—a new debate is raging in large corporations: does venture investing create significant shareholder value?

This question arises as corporations are cutting back on their investing and almost everyone in the venture capital business is emphasizing portfolio companies rather than new investments. Over the course of this current cycle, many corporate executives have shifted their near-term focus to cost reduction: they are working to maintain earnings, and capital that had been earmarked for venture investing is now the subject of close scrutiny.

CEOs should plan three to to five years ahead.

Despite all that, smart corporate leaders have discovered they can supplement their product-and-business portfolio, as well as enter new business categories through the acquisition and integration of ventures. At the same time, entrepreneurs have discovered they can achieve enormous leverage through technology distribution agreements with large global corporations. Therein lies the strategic and under-exploited opportunity for corporations.

Every CEO is charged with two mission-critical responsibilities. In addition to reporting predictable annual and quarterly results, a CEO should plan three to five years into the future, developing and sustaining a steady flow of new technologies, products, and markets that will fuel continuous double-digit growth.

Specifically, five years from now, 40 percent to 50 percent of a corporation's revenue should come from platforms, products, and services that do not currently exist. A company trying to survive on a no-growth diet of strict efficiencies and increasing productivity cannot thrive. Such business models cannot produce industry leaders.

Today's portfolios must include both acorns and oak trees, and every company must be an attacker and an innovator. My research shows that companies grow in three ways.

Organic growth includes growth through product line extensions (incremental improvements in features and benefits of existing competencies) and global expansion. Because most market segments are already crowded and most large companies have already expanded globally, growth through such strategies is limited to 2 percent to 4 percent annually.

Some companies pay a premium to *acquire growth*, betting that they'll do better than the previous owners. Wall Street, however, showed its familiarity with the facts. Aware that 65 to 70 percent of such acquisitions fail to achieve their objectives, the investment community greeted Hewlett-Packard's acquisition of Compaq with undisguised disdain, pushing both stocks to 52-week lows.

Venture Investments: Over the last 10 years, Nasdaq ventures have created $3 trillion to $4 trillion of new wealth, and entrepreneurs and venture capitalists have been the primary beneficiaries. Precious few large global companies have played significant roles in this wealth creation, although many of them are well positioned to capitalize on their valuable intellectual property by creating internal ventures and investing in external ventures that provide access to new technologies and emerging markets.

Leading-edge companies fuel growth through internal and external venture investing; some do it themselves, some do it with partners, and some acquire and integrate ventures as an alternative to in-house R&D. Innovation, new business creation, and venture investing are durable corporate strategies for succeeding in our turbulent economy. CEOs, other executives, and managers should insure their competitive future by defining leadership agendas that include development of:

- External venture investments in new technologies and emerging markets
- New platform, product, and business creation from existing intellectual property in both core and non-core technologies
- Technology spin-outs, carve-outs, or de-mergers designed to provide independence and space for action, as well as enhanced market capitalization
- Acquisition and integration of ventures that both supplement the existing product-and-business portfolio and provide entry to emerging markets
- Information technology and such applications as supply chain management, customer relationship management, and asset management that enhance operating productivity and efficiency

In today's mercurial business climate, senior corporate executives and managers may not be content simply to deliver the annual anticipated results. They must be moving forward, discovering and nurturing the new initiatives that will stimulate their companies' *future* growth.

Strategic corporate-venture investment fuels that growth and creates shareholder value. The challenge for top management is to learn to venture, to build sustainable capabilities, and to leverage venture investing as a rich source of technology and talent.