New Capitalism New Corporate Venturing

By **MAXIMILIAN MARTIN**
Impact Economy SA

R&D and corporate venture capital helped corporations to move from early insights to investments and resulting in products that power core business. But the pathways of sourcing business innovation now need updating in the light of emerging opportunities and challenges.

The bottom of the pyramid – the three billion people who live on less than US$2.50 per day – presents one of the great challenges of the modern age. And great potential.

Consumers at this level need affordable solutions for pretty much everything, including clothing. As part of its efforts to build out its status as a global brand, leading Japanese retailer Fast Retailing – perhaps better known for its main brand UNIQLO – set up a social business in Bangladesh in 2010. Teaming up with Grameen Healthcare Trust it launched Grameen UNIQLO to establish a community-level business ecosystem.

UNIQLO would leverage its capabilities in efficient mass production and the sale of high-quality clothing via a completely localized business. Approved factories began manufacturing clothing using locally procured materials, and this clothing was then supplied on a consignment basis to a dedicated community sales force. “Grameen Ladies” would earn commissions on products priced as low as US$1, operating from their homes or selling from door-to-door.

Grameen UNIQLO moreover made a commitment to reinvest all profits into additional social business initiatives. To increase economies of scale, urban markets were targeted as well, especially the capital Dhaka. A product showroom, new products such as polo and collared shirts using polyester and other synthetic fibres, and higher prices in the US$2–US$4 range, began to set the social business on a track toward greater scale.

As the business grew, the messaging associated with the social business started to emphasise supplying people with affordable quality clothing and creating job opportunities. Grameen UNIQLO currently operates seven stores in Dhaka, and is now engaging in corporate social responsibility initiatives as well.

Grameen UNIQLO demonstrates the possibilities of social business, an amalgam of business and corporate responsibility. It is not purely altruism, but also sustainable growth and corporate profits. Consider the numbers: the US$5 trillion Base of the Pyramid market; the US$546 billion LOHAS, or Lifestyles of Health and Sustainability, market and multi-trillion dollar green growth and a rising circular economy. For UNIQLO, aiming to raise turnover to US$60 billion by 2020, the bulk of future growth will be in emerging markets, and for high-end products possibly in the LOHAS – or “virtuous consumer” – segment.

Corporate Impact Venturing

Since the 1960s, corporate venture capital has been the route companies have taken to make strategic investments in products borne out of

THE MEGA-DRIVERS OF SUSTAINABLE VALUE CREATION

	RATIONALE	POTENTIAL
Massive Pent Up Demand at the BoP	The BoP refers to the **4 billion people** with annual incomes below US$3,000 in local purchasing power	This segment will take off as BoP consumers and producers, which already **represent a US$5 trillion economy,** join the market
Emerging LOHAS Segment at the Top	LOHAS consumers are willing to spend more on products designed to be environmentally conscious, sustainable, socially responsible, and better both for people and the planet.	LOHAS consumption is already **a US$300 billion+ market** in the US, and is growing fast globally
Diving Green Growth	The green economy results improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.	Investments in renewable energies are forecast to grow significantly, more than doubling **from US$115 billion in 2008 to US$325 billion in 2018**.
Recognition of the Welfare Sate	The welfare state needs to be reconfigured as expenditures by some governments are structurally higher than their revenues, with a large proportion of expenditure on healthcare, education and welfare.	Fundamental shift in the way we approach the provision of public goods can lead to opportunities for the private sector (i.e. **20% of the global population will be over 65 in 2020**)

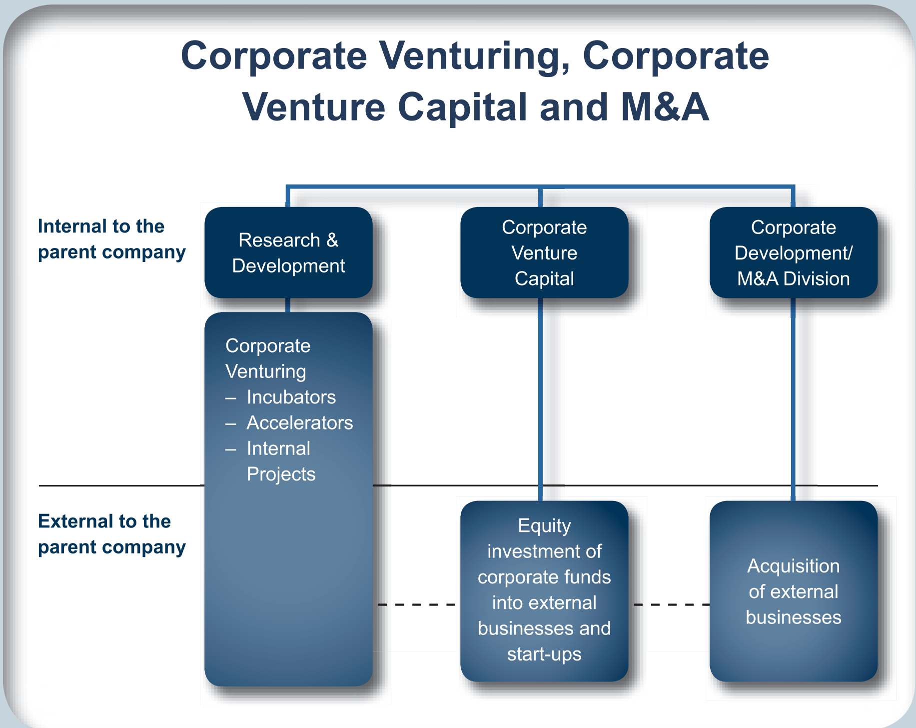
What is Corporate Venturing?

Corporate Venturing can refer to:

1. An internal business development activity within the parent company that identifies, incubates and accelerates ideas, technology and innovation for key business lines; or
2. An ecosystem-building activity that directly or indirectly affects core business, but does not involve an equity stake.

Corporate Venture Capital is a discrete investment activity in an independent company or a portfolio of companies with the goal of driving both financial and strategic returns for the parent company.

Where the investment is for a significant mature business, this tends to fall under the domain of the **Corporate Development / M&A** division of the company.



Source: Investing in Breakthrough: Corporate Venture Capital, Volans (2014)

deep industry expertise. This has hit new highs. In the United States in 2013, venture capitalists invested US$29.4 billion in 3,995 deals, an increase of 7% from 2012.

But new market segments such as poor or virtuous consumers and the blurring boundaries between corporate responsibility and opportunity are now leading to an adjustment of the corporate venturing model: rather than a primary focus on technological innovation, these new segments require a combination of technical and business model innovation. And the new metric for measuring success includes a combination of profitability and social and environmental impact.

What has emerged is a new approach called Corporate Impact Venturing, or CIV. The mechanics are similar, but the success metric is typically a combination of financial return and a "strategic" contribution to the parent's business innovation goals, which can be hard to quantify. To this, CIV adds the metric of social impact, marrying the logic of investments and impact.

For manufacturing concerns the benefits are obvious: looking for joint impact and profit opportunities, manufacturers can cut energy and water consumption, reduce worker turnover and labour unrest, and enter new market segments such as the Base of the Pyramid.

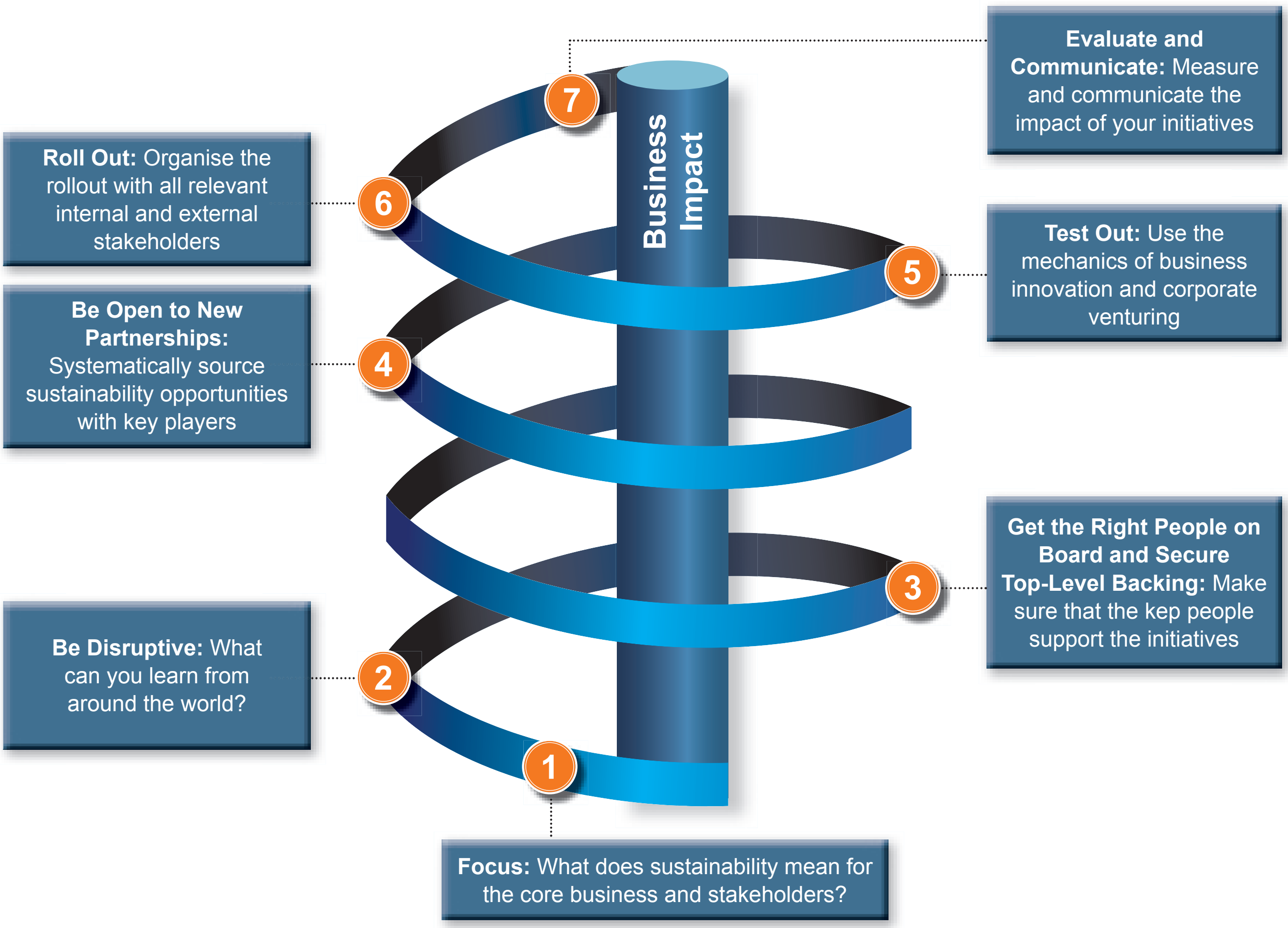
But CIV is also relevant to companies in fast moving consumer goods that source along a supply chain. This is important because NGOs and regulators nevertheless increasingly hold firms accountable for poor labour practices and environmental damage.

Even knowledge-focused firms are now engaging in CIV. Take the case of Pearson which aims to be the leading learning company worldwide. In 2012, Pearson launched the Pearson Affordable Learning Fund that focuses on providing K-12 education in order to scale its exposure to the Base of the Pyramid. The Fund pursues both financial and impact goals: it aims to contribute to "Education for All" via for-profit investments. The Fund can now help Pearson, which achieved US$1 billion revenue in developing markets for the first time in 2011, access the next key innovations in education at the Base of the Pyramid.

Steps to CIV

1. **Focus.** Explore new approaches in areas aligned with the core business. The issue and the industry need to be researched to understand the full context of the opportunity.
2. **Be disruptive.** The key to success is to test and scale new business models, often with new partners. While naturally looking for financial viability, new net double-digit internal rate of return (IRR) models could be the exception, not the norm.

BUILDING A CORPORATE IMPACT VENTURING CAPABILITY



3. **Get the right people and top-level backing.** Being disruptive is necessary, but not sufficient for success. Three other factors are key: getting the right people on-board with an entrepreneurial mind-set, patient capital, and risk tolerance.
4. **Be open to new partnerships.** Successful models that are genuinely new are typically developed when different skill sets come together, for example, via corporate partnerships with NGOs or social businesses. For example, in Singapore, the BoP Hub – a non-profit venture that aims to provide a global platform to forge strategic partnerships between the private sector, social enterprises, and subject matter experts – provides a docking station to access new business ideas and relevant players.
5. **Test and roll out.** All relevant external stakeholders at this early stage should be brought in to develop a realistic implementation plan with cost controls.
6. **Evaluate and communicate.** The impact of new initiatives or programmes has to be measured so that the efficiency and effectiveness of the activities can be maximized, and the ability to communicate progress with key stakeholders optimised.

The sustainability imperative is transforming the world of business. To build and defend a franchise where sustainable products are part of the unique selling proposition, all companies ultimately need access to new business ideas that have strategic value.

Corporations need to develop strategies to prosper in the coming years. As the global middle class expands from 1.7 billion people today to 3.6 billion in 2030, many more consumers will be reaching for sustainable products.

Since 2008, 86% of consumers report that they believe companies should focus as much on social impact as they do on their core business responsibilities. Between 2008 and 2012, consumers saying that it is acceptable for companies to support good causes and make money at the same time increased by a third. Nearly three-quarters of consumers will recommend a brand that supports a good cause over one that does not, up almost 40% since 2008.

About three-quarters also said they would switch products if another with similar quality supported a good cause. Most fascinatingly, many consumers are interested in businesses engaging in corporate impact product strategies: instead of simply donating to a charity to create impact, almost 50% want businesses to create new products that solve societal problems.

Pricing also plays a major influencing factor here. While many people express interest in buying sustainably, Deloitte found that only about 20% actually end up purchasing a sustainable product. Many consumers are willing to consume more sustainably but not at a higher price.

Marrying the logic of investments and impact, Corporate Impact Venturing is a powerful pathway to systematically engage in corporate opportunity without neglecting corporate responsibility. Competitiveness and sustainability can go hand in hand. Given the growing demand of the poor, an aging population in most OECD countries, a growing youth population in many emerging countries, greater total resource productivity, and a bifurcating consumer market driven only partially by price, the opportunity has never been greater to do good and well. ■

The writer is Founder & Global Managing Director of Impact Economy SA, a global impact investment and strategy firm.