Georgia-Pacific

Mike Slawson

Crafting a Strategic Approach to External Innovation

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My Background

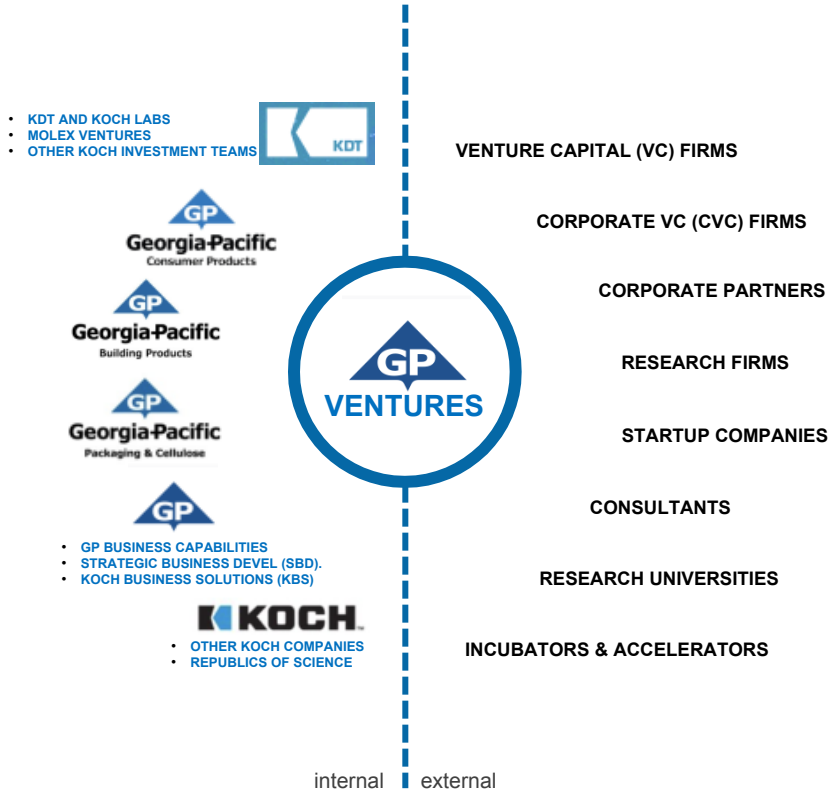
- Electrical Engineering and Optical Communications: Hewlett-Packard, Siemens, Alcatel
- Venture Capital: ARCH Venture Partners (Kaufman Fellow), Alliance Technology Ventures (Partner)
- Startup CEO and Co-founder: Qualtre, Lumense
- VP/GM of an Internal Startup: Georgia-Pacific Connected Solutions
- CVC: Director, GP Ventures

- Education: BEEE (Vanderbilt), MSEE (NC State), MBA (Univ. of North Carolina – Chapel Hill)

GP Ventures | Menu of Services

GP VENTURES USES ITS NETWORK AND ITS OWN CAPABILITIES TO PROVIDE SERVICES THROUGHOUT THE INNOVATION PROCESS

OUR NETWORK



OUR MENU OF SERVICES

STRATEGIC PARTNERSHIPS	INVESTMENT MGMT. & ACQUISITION INTEGRATION	WE CAN PROVIDE YOU WITH INTEGRATION HELP, GOVERNANCE, AND PORTFOLIO MGMT. IF YOU WANT TO BUY OR INVEST IN STARTUPS
		LEVERAGES GP VENTURES TEAM CAPABILITIES, AND VC FIRMS
	PARTNERSHIP STRUCTURING & NEGOTIATION	WE CAN HELP YOU FIGURE OUT THE BEST WAY, ACROSS A WIDE SPECTRUM OF OPTIONS, TO PARTNER WITH A STARTUP OR UNIVERSITY
		LEVERAGES GP VENTURES TEAM CAPABILITIES, CONSULTANTS, CVC FIRMS, AND INTERNAL STRATEGY TEAMS
	PILOT & PROOF-OF-CONCEPT ASSISTANCE	WE CAN HELP YOU PROJECT MANAGE AN IN-HOUSE EVALUATION OF EXTERNAL INNOVATION
		LEVERAGES VC FIRMS, STARTUPS, CVC FIRMS, AND GP VENTURES TEAM CAPABILITIES
ORIGINATION	"FIT" EVALUATION & DUE DILIGENCE	WE CAN HELP YOU FIGURE OUT IF A STARTUP IS A GOOD FIT TO FILL YOUR INNOVATION GAP, BY ASSESSING FACTORS BEYOND TECHNOLOGY
		LEVERAGES GP VENTURES TEAM CAPABILITIES, INTERNAL RESEARCH AND STRATEGY TEAMS, AND VC/CVC FIRMS
	INNOVATION SOURCING	WE CAN IDENTIFY EXTERNAL SOURCES, PRIMARILY STARTUPS BUT ALSO UNIVERSITIES AND LARGE COMPANIES, FOR THE INNOVATION YOU WANT
		LEVERAGES VC/CVC FIRMS, RES. FIRMS, STARTUPS, INTERNAL INVESTMENT TEAMS AND KNOWLEDGE NETWORKS, CORP. PARTNERS, AND INCUBATORS
	BUILD, BUY, PARTNER, ACQ. ASSESSMENT	WE CAN HELP YOU IDENTIFY THE BEST WAY TO ADDRESS PRODUCT OR CAPABILITY GAPS, BE IT THROUGH INTERNAL OR EXTERNAL INNOVATION
		LEVERAGES GP VENTURES TEAM CAPABILITIES, AS WELL AS BUSINESS UNITS AND LEADERS, AND CONSULTANTS
POINT OF VIEW	ECOSYSTEM LANDSCAPING & INSIGHTS	WE CAN IDENTIFY INCUMBENTS AND STARTUPS, AND THEIR CAPABILITIES, IN THE ECOSYSTEM AROUND YOUR BUSINESS
		LEVERAGES KBS TEAM MEMBERS, RESEARCH FIRMS, ACCELERATORS (ESP. PLUG AND PLAY), VC/CVC FIRMS
	FORECASTING & TREND ANALYSIS	WE CAN HELP YOU UNDERSTAND THE LONG-TERM INDUSTRY AND TECHNOLOGICAL TRENDS AFFECTING YOUR BUSINESS
		LEVERAGES TEAM MEMBERS, RESEARCH FIRMS, INCUBATORS & ACCELERATORS, AND VC/CVC FIRMS

CONCEPTUALIZATION → IMPLEMENTATION

Approaches to Accessing Mid- and Long-term Innovation

Approach	Advantages	Disadvantages
Internal R&D or Venture Studio	• clear ownership of IP • easier communication of results • venture studio enables business model experimentation	• >99% of global innovation occurs outside of any given company's R&D team • Distracts from R&D focus on near-term • Basic research can be very expensive
Active Industry and Trend Monitoring	• Lower resource commitment	• Difficult or impossible to gain detailed "inside scoop." Generally limited to public info. • Loose relationship with innovators
Indirect Investment via Venture Capital Firms	• More thorough "inside scoop" than industry monitoring • Generally positive IRR, cash return multiple • May enable selected direct investment	• Difficult to find firm with "aligned" investment strategy • Still not a true insider. Learning incomplete. Dependent on VC firm for learnings • Upfront cash commitment is high (J-curve)
Participation in University Research Consortia	• Assess to basic research programs and IP • Can customize research toward commercial goals	• Difficult to gain "aligned" research interests • Competitors may be present • Tightly focused research scope • Research my not address commercialization
Direct Investment in Startups (Corporate Venture Capital)	• Full insider status is generally available. Nuanced, proprietary learnings can be gained. • Full control of investment strategy. Individual investment decisions aligned with corporate goals. • CVC investment programs are often IRR positive with return multiples. • Strategic partnerships are more easily developed	• Upfront cash commitment is high (J-curve) • Requires skilled investment professionals. Making investments and managing portfolio companies is a challenging endeavor. • Requires coordinated effort to communicate learnings back to the mothership.

How to Fill an Innovation Gap

Factor	Develop Internally	Buy Commercial-Off-the-Shelf Product or Service	Partner to Co-Develop	Acquire/Exclusively License
Level of Competitive Entry	Indications that competitors may be developing solutions. Better solutions addressing market needs can be conceptualized.	Solutions readily available from non-competitors	Competitors may be partnering with startups. A number of startups are developing solutions.	Competitors are introducing products. Clear winner(s) emerging within startup ecosystem.
Market Opportunity or Threat	Insights suggest a potentially large adjacent or core market opportunity, or threat to core products. Cannibalize your products or others will do it for you.	No threat to existing products. Good options generally available on the market.	Some uncertainty, but good probability of a large, high-growth adjacent or core market opportunity, or threat to core products.	Large adjacent or core market opportunity, or threat to core products.
Required Capabilities	Development of a differentiated product builds on demonstrated capability. Design for optionality.	Few internal resources available because development capability is not a core competency.	Development resources not available or hard to obtain. Business resources available to leverage partnership.	Resources not available or hard to immediately obtain. Acquisition can be assimilated over time.
Speed to Market	No significant overt customer pressure and lots of market uncertainty. Some early adopters. High synergy with existing products.	Urgency governed by cost and value differentials compared to current solutions. High opportunity cost.	Customers beginning to seek alternatives to existing products, but market uncertainty remains. Nimbleness and flexibility is critical.	Customers demanding clear alternatives to existing products now. Urgent need for near-term solution.
Intellectual Property Landscape	Lots of “white space” in the IP landscape. Opportunity for platform IP. Internal capability to assess and broaden IP landscape.	No need to control IP to maintain competitive positions.	Tightening IP landscape with unique knowhow required. Important and verifiable IP held by startups open to partnerships. Severe learning curve.	Crowded IP landscape that will likely start consolidating.

Types of External Innovation Sources

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Innovation Source	Typical Partnership Structures	Source Advantages	Source Disadvantages	Questions to Consider
University Research	• Technology License - typically involves royalty payments/performance metrics • Technology Service Agreement (TSA) – analysis/testing for hire (5-10% mark-up) • Research Contract - funded R&D allowing for IP ownership (50% mark-up)	• TSAs allow for low-cost, guided testing • IP ownership generally available if through a funded research contract • Grad students may be viable future employees, helpful in tech transfer • Good source for basic research	• Technology is often in an early stage of development, leaving a long path to commercialization • Academic researchers may have a strong desire to publish research results, undermining IP protection	• Is the organization prepared to take on a lengthy commercialization process? • Is the university equipped to conduct the research in a timely fashion? • Is the IP protected and transferable? • Has related IP been secured?
Industry Consortia	• Tiered Membership Fee – typically able to access shared research at one fee level, and dedicated, proprietary research at a higher level	• Often tied to universities or Federal labs, and allow for collaboration with Federal labs without bureaucratic overhead • Can learn from a range of research addressing goals of member companies	• Shared research efforts do not allow for strong IP rights to invention • Potential that research goals are not aligned with other members	• Are the research goals of the consortium aligned with those of the business? • Can you gain rights to IP through confidential, targeted research projects?
Contract Research Organizations	• R&D (or manuf. process development) work-for-hire – funded development projects, e.g. PARC, NineSigma, etc.	• Model enables clear IP ownership rights • CRO likely offers multi-functional advisory services, including econ. viability	• Fees often higher than for other options • May be difficult to find CRO with needed skillsets	• Can payments be staged based on progress? • Do they have clear expertise in-house?
Startup Companies	• Many approaches are viable, from supply agreements to joint development to acquisition, depending on strategic importance to the core business, and maturity of the market • It's usually not feasible to buy IP from a failed startup due to lack of IP support	• Able to move quickly to apply R&D to a market need, and to launch products • Often own IP at the forefront of an industry's innovation frontier • Highly receptive to win-win partnerships with market leaders • Potential future acquisition targets	• The innovation is often not yet deliverable at the necessary scale, requiring additional joint development • Financial resources may be insufficient to meet co-development goals • More susceptible to market volatility; may change strategies quickly	• Is the partnership "win-win?" Does it continue to be as it evolves over time? • Is the startup funded and motivated to deliver the innovation at scale? • What are the implications of not having outright ownership of the IP?
Large, Established Companies	• Simple supplier relationship (insufficient for core innovation needs) • Business unit, product line, or IP acquisition, often with support contracts and earn-out payments • Patent licensing, often bi-directionally, to gain right to practice an innovation	• Innovation often productized beyond that of universities or Federal labs • IP assets for sale usually come with some level of technical support • IP ownership is more secure and clear in innovation acquisition	• Selling company is often trying to minimize ongoing support costs • Deal terms are less established in the market; negotiations often complex • Knowledge imbalance: selling company may withhold market knowledge	• What is the seller's motivation for divesting the innovation? • How much support is needed and expected from the selling company? • How does the transfer of the innovation affect any competitive dynamics between the companies?

Why Partner with a Startup?

Startups often lead the development and commercialization of new or disruptive technologies, service offerings and business models. By becoming a preferred partner with the startup community, we gain knowledge of these emerging trends and can leverage strategic partnerships to grow and transform our businesses. Successful business partnerships with startups are based on leveraging both your and the startup's demonstrated capabilities to deliver mutual benefit.

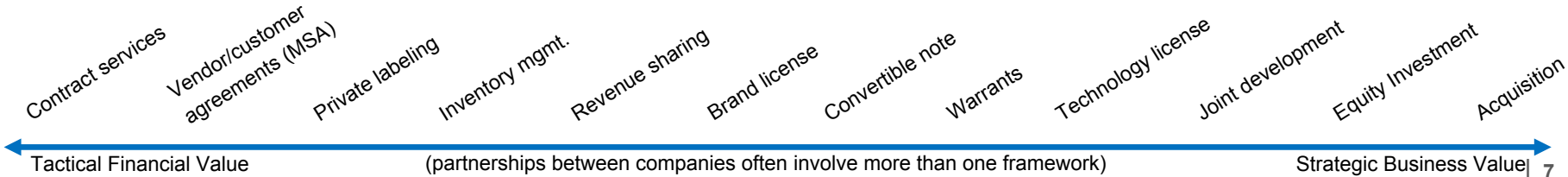
How do you benefit from partnering with a startup?

- Advantaged access to new technology, intellectual property, or innovation to address market or operational pain points not being internally addressed
- Insights into emerging trends that could be disruptive to our core business
- De-risking development and commercialization of new technologies, products or markets
- Compensation for services or go-to-market support provided to the startup
- Reduced costs, or better capability, thru outsourcing
- Return on equity investment
- Future options to acquire assets or technology quickly and at a discount

How does the startup benefit from partnering with you?

- Access to your demonstrated capabilities to reduce costs, validate product-market fit, and speed market penetration
- Industry-specific knowledge, guidance and mentorship
- Use of your name to build confidence with customers and investors
- Demand generation and referrals to your large customer base
- Access to a large customer
- Strategic $ investment
- Strategic guidance and heightened access to later-stage investors
- Potential pathway to acquisition

Framework Map



Why Invest in Venture Funds?

Access to startups that provide insights into step-change or disruptive solutions overlapping with strategic focus areas

Far greater **scalability in sourcing** opportunities, specifically early-to-growth stage startups with revenue

Ability to regularly leverage firm's deal **curation and market knowledge** through 1x1's and trends/insights reports

Preferred position/first mover advantage to partner with startups, including through equity positions or acquisitions

Good seat (but not front-row) as the story of the startup and its market develops

Potential for **financial return** through LP investment, and expanded innovation capability without a dramatic increase in cost

Launching a CVC Program

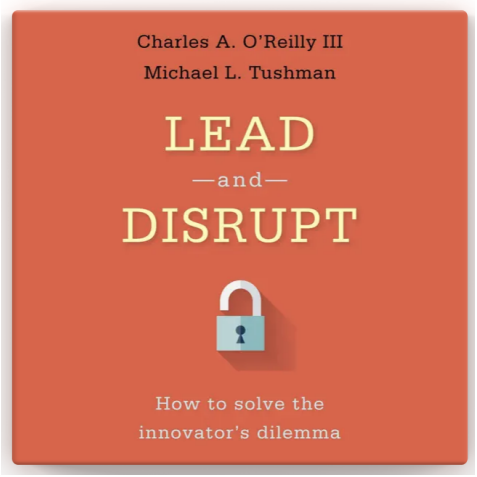
1. **Define Objectives and Strategy:** Clearly articulate the objectives of the program. Align sourcing categories and investment goals with overall GP strategy. Identify disruptive trends, emerging technologies, and adjacent opportunities for investment interest.
2. **Establish Governance and Leadership:** Identify a team with expertise in venture capital, innovation, and industry knowledge. Define reporting lines and responsibilities within the team. Create an investment committee (IC) to oversee the program.
3. **Allocate Resources:** Allocate funding for the program, considering both initial investments and ongoing operational expenses. Determine the size of the investment program and the maximum amount for individual investments.
4. **Craft Investment Criteria:** Develop clear investment criteria that align with strategic goals. Determine the stages of startups (seed, early-stage, growth-stage, etc.) that best fit your objectives. Define the types of technologies or innovations you are interested in.
5. **Develop a Pipeline:** Building on existing relationships, create a systematic approach for deal sourcing and evaluating potential investments. Build additional relationships with venture capital funds, corporate partners, startups and entrepreneurs. Further leverage industry events, pitch sessions, and networking.
6. **Due Diligence Process:** Establish a thorough due diligence process to assess the viability and potential of investment opportunities. Evaluate the financials, technology, market potential, and management team of potential portfolio companies.
7. **Legal and Compliance Framework:** Develop legal frameworks and compliance procedures for the program. Ensure alignment with regulatory requirements and corporate governance standards.
8. **Cultural Integration:** Use the program to further promote a culture of innovation within your company. Facilitate communication and collaboration between the investment team and the BUs. Address potential cultural differences between startups and your company.
9. **Portfolio Management and Support:** Provide ongoing support and mentorship to portfolio companies. Leverage your expertise to help startups succeed and scale.
10. **Track and Measure Performance:** Establish KPIs to measure program success. Regularly review and assess portfolio performance.
11. **Iterate and Adapt:** Continuously iterate the strategy based on market trends, technological advancements, and the evolving needs of your company. Be flexible and adaptive to changing business landscapes.
12. **Communication and Transparency:** Communicate progress and successes internally and externally. Foster transparency to gain support.

CVC Investment Program Challenges

Challenge	Description	Mitigation
Strategic Alignment	Ensuring alignment between the program and the overall corporate strategy. There may be a disconnect between the goals of the program and the strategic objectives of GP.	Clearly define the strategic objectives of the program and regularly reassess alignment with GP strategy. Maintain open communication channels with senior leadership.
Cultural Differences	Startups often have a different culture and work environment compared to established corporations. Bridging the cultural gap can be a significant challenge, impacting collaboration and integration.	Encourage cross-team collaboration, knowledge exchange, and shared learning experiences. Make sure main points-of-contact to startup have empathy for and, ideally, experience in that environment.
Decision-making Speed	Corporate decision-making can be slow and bureaucratic, contrasting with that of startups. Delays in investment decisions can lead to missed opportunities.	Establish clear decision-making frameworks for the program. Develop a process in advance with the team to enable timely investment decisions.
Integration and Execution	Integrating innovations from portfolio companies into the existing operations of GP can be complex. Execution challenges may arise in scaling.	Plan for integration from the initial investment. Foster collaboration between CVC teams and BUs. Resource and support the use of acquired technologies.
Risk Management	Startup investments inherently carry risk, like market volatility, technology viability, and management changes. Managing risks is crucial for program success.	Conduct thorough due diligence on potential investments. Diversify the portfolio to spread risk. Implement risk management strategies and contingency plans.
Lack of Flexibility	Established corporations may struggle with a lack of flexibility, hindering the ability to adapt quickly to changing market conditions or emerging opportunities.	Foster a culture of adaptability within the organization. Regularly reassess the program's strategy and be open to adjusting focus based on market trends.
Measurement and Reporting	Defining and measuring success in investment programs can be subjective and may vary across stakeholders. Inconsistent reporting frameworks can make it challenging to evaluate performance.	Establish clear key performance indicators (KPIs) and reporting mechanisms. Regularly communicate progress and results to internal and external stakeholders. Seek feedback for continuous improvement.
Talent Retention	Attracting and retaining top talent within the investment team can be challenging due to competition with traditional venture capital firms and startups.	Offer competitive compensation, provide opportunities for professional development, and create a dynamic and stimulating work environment. Emphasize the unique advantages of working within a corporate venture context.
Exit Strategies	Determining appropriate exit strategies for portfolio companies, such as mergers, acquisitions, or IPOs, can be complex and may require careful planning.	Consider the exit strategy at the time of investment. Regularly reassess the portfolio as to attractive exit opportunities. Adapt to changing market conditions.
Limited Patience	Investment programs may face pressure to deliver quick results, especially in times when short-term performance is required.	Set realistic timeline expectations for investment program outcomes. Educate stakeholders on the longer-term nature of investments and the innovation cycle.

Q&A and Conclusion

Book Recommendation



QUESTIONS?