Why Raising Corporate Venture Capital Benefits Startups

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Fundraising is a critical phase of any startup's life, but it's also a challenging task and hard to do successfully. The truth is, the amount of money that a startup raises — and how the startup does it — plays a major role in the company's future trajectory. There are many sources of capital from angels to traditional venture funds, but I'd like to focus on highlighting corporate capital in particular.

Fundraising sources

Fundraising is both a science and an art. The method that a startup uses to raise money helps determine its financial situation and how much help and advice the startup receives along the way. Startups may initially use personal or family funds to start the business, but crowdfunding has also grown in popularity. Still, venture capital funding is the dominant source and is at an all-time high in recent years; CB insights reports that U.S.-based venture capital investments totaled $130 billion in 2020.

In my experience, many startups raise capital from just one party. However, I believe that working with a variety of investors, ideally from an early stage, is typically more effective for the startup. This approach allows the startup to get hands-on help from a diverse mix of investors who can

provide different perspectives. Diversification of capital sources is a well-known technique to help a startup take control over its future growth, combining financial investment with advice and expertise from experienced investors. We call this “smart money” in Silicon Valley because it combines financial capital with day-to-day help from qualified investors.

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Why corporate venture capital is popular

A popular way that startups may choose to achieve their growth projections is by raising corporate venture capital (CVC). It’s becoming more popular with startups and several CVC organizations – including Intel Capital, Microsoft (M12), and IBM Ventures – who have done well in finding financially positive investments. According to CB Insights, corporate venture capital around the globe reached a record high of $73 billion in 2020.

CVCs typically invest with a strategic goal in mind. They want to tap into innovation across industries related to their current business and roadmap in addition to achieving a positive financial return. Furthermore, CVCs aim to build new revenue streams through strategic collaborations with portfolio companies. Looking at it from the startup’s perspective, the company gets not only funding, but they benefit from the advice and infrastructure of a corporation. This may help the startup learn how to expand their business, enter international markets, qualify for new products and manufacture at scale.

In this case, both parties benefit from the CVC model. Startups benefit by learning from the best and corporations

benefit from learning about cutting-edge technologies and business models. A best practice is for corporations to provide startups with a proof-of-concept (POC) around a collaboration concept that takes a few months to complete. Based on the outcome of this POC, corporations can invest in startups and explore the potential commercialization of a business model with them.

The CVC approach often gives the startup the type of revenue track record to help with future capital raises and attract new customers. In some cases, collaboration evolves into an M&A deal. Building a CVC relationship at an early stage initially benefits the startup through sound advice, business-building ideas, and in the case of an acquisition, it helps with post-merger integrations. While *Harvard Business Review* reports that 70-90% of acquisitions fail, a strong CVC-startup relationship built through investment may help overcome this failure rate.

Lately, I've seen several variations in CVC models, expanding opportunities for startups even more. A small number of venture capital firms, including Pegasus Tech Ventures, invest using the Venture Capital-as-a-Service (VCaaS) model to benefit both corporations and startups. With this model, startups are invited to collaborate with several corporations, yet they benefit from the simplicity of working with only one VC partner. In addition, startups can receive more funding over time as well as a growing support network.

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