Venture Building Series
Topic 1: Introduction to Venture Building
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is Venture Building</td>
<td>3</td>
</tr>
<tr>
<td>Defining a Venture Builder</td>
<td>4</td>
</tr>
<tr>
<td>Core Activities</td>
<td>6</td>
</tr>
<tr>
<td>Venture Building Approach</td>
<td>7</td>
</tr>
<tr>
<td>Difference with other model</td>
<td>9</td>
</tr>
<tr>
<td>Benefits of Venture Building</td>
<td>11</td>
</tr>
<tr>
<td>Types of Venture Builders</td>
<td>12</td>
</tr>
</tbody>
</table>
Introduction to Venture Building

What is Venture Building

Venture building is a business and product development approach that enables an organization to create new products, services and processes from scratch.

One of the key aspects of venture building is that it is able to do so, without interfering with the existing company infrastructure at an early stage of the development process.
Introduction to Venture Building

Defining a Venture Builder

A Venture builder, also called a startup studio, startup factory, or venture studio - an organization dedicated to systematically producing new companies using their own ideas and resources, which they help grow and succeed.

“A startup that builds startups”
A Venture Builder is similar to a fast-paced tech startup, where its product is the venture, the prototype is the business model, and deliverables mean perfect and timely deployment.

A VB Leverages extensive network and ecosystem reaching out seasoned entrepreneurs for shared resources (capital, skills, and market expertise).
Introduction to Venture Building

Defining a Venture Builder

Characteristics of Venture Builders

- Initiation of ventures is done in-house
- Independent and standalone decision making on investments
- Retain a majority stake in their ventures
- Focus on portfolio synergies and recycling of resources
- Provision of funding (pre-seed, seed, series A, etc.) to the participating ventures, coming partially from investors in the fund.
Introduction to Venture Building

Defining a Venture Builder
Introduction to Venture Building

Core Activities

Identifying Business Ideas
This can be done in different ways. Some clone existing models. Others choose an opportunity space where they develop research projects, explore different ideas and prototype concepts. Regardless of the specific approach used, the goal is to come up with a viable business idea.

Creating Teams
Venture builders create teams from the ground up. This is undertaken once the business idea is clearly identified.

Facilitating access to capital
Venture builders facilitate access to capital for the startups they develop. They do this either through a fund they own, or by connecting the different ventures to their network of investors.

Helping to lead ventures
Venture builders help lead the ventures. They can have a governance role, they can participate in the management of the companies, or both.

Providing shared services
Venture builders provide shared services to their ventures, such as legal, design or accounting. This is also a form of Technical Assistance and Business Development Support.
Introduction to Venture Building

Venture Building Approach

**Portfolio Funding**
- Who invests in the Venture Builder?
- Who invests in the participating ventures?

**Pipeline/Idea Sourcing**
- Where do the ideas come from?
- Who is owning the Pipeline?
- How to go from idea to product.

**Early-stage shaping**
- How is the actual venture shaped in the bootstrap phase?
- How is the management team put together?

**Supporting Growth**
- How do we support growth of the ventures?
- How do we interact with the venture's management?

**Exiting Ventures**
- Who are the ventures typically exiting to?
- What is the expected success rate and return?
Introduction to Venture Building

Venture Building Approach

**Portfolio Funding**
Funding is usually sought from different categories of investors that include; HNWIs, Corporate Institutions and DFIs. External partners on a deal-by-deal basis, other venture investors among others.

**Pipeline/Idea Sourcing**
VBs source for ideas in three (3) ways; i) innovation driven/externally – the IP is created from elsewhere, ii) team driven/internally and iii) problem driven – combines innovation and team driven.

**Early Stage Shaping**
VBs hire external talent (e.g. consultancies) and let them work with in-house experts on several projects at the same time. The alternative is to hire a management team specifically for a given venture.

**Supporting and Growing Portfolio Business**
Venture Builders tend to take a majority share in their ventures and are therefore more involved than a Venture Capitalist in the first 3-5 years of a venture. Apart from space and shared back-office resources, the venture builders offer industry-tailored services that can be leveraged across all portfolio companies.

**Exiting the Business.**
Venture Builders usually adopt a more industry-focused and risk-averse business model that will enable them have good traction with most of their ventures ultimately enabling them to raise new rounds of external capital.
Introduction to Venture Building

Difference with other models

VC Funds

Are not operational organizations. They invest in promising teams and business ideas that meet their criteria.

Venture Builders

Are very involved with daily management of the operation.

Accelerators or Incubators

Provide mentoring and some shared services. They do this for a limited period of time and they bring in outside teams with mature ideas.

Venture Builders

All ideas are developed in-house and teams are built from the ground up.

Vs

Vs
Introduction to Venture Building

Venture Builders Compared with other types of Organizations

<table>
<thead>
<tr>
<th></th>
<th>Identifying Business Ideas</th>
<th>Creating teams</th>
<th>Finding Capital</th>
<th>Leading Ventures</th>
<th>Providing shared services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venture Builders</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Accelerators or Incubators</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>VC Funds</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
Introduction to Venture Building

Benefits of a Venture Builder Model

High operational involvement
- Venture Builders are much more proactive and operationally involved in their ventures than a typical VC or angel investor.
- They typically invest in less risky ventures, of which the majority (e.g. 6 out of 10) end up as healthy and stable mid-sized companies.

Larger support and investment horizon
- Venture Builders can invest for a longer time and in multiple rounds (often alongside partner investors or non-related VCs).
- Moreover, accelerators and incubators are often set up to offer partnering ventures well-structured short-term programs (e.g. a 6 months program) instead of a long-term partnership of 5-10 years.

Shaping the founding team
- Venture Builders often have a long list of potential CEOs or executives that they work with in multiple companies, who either help the VBs put together management teams or join these teams themselves.

Creating cross venture synergies
- Sharing back office services is the norm, but some Venture Builders go much further depending on their level of specialization.

Investing heavily in early stage ideation
- For most VBs these resources are spent on screening patents, brainstorming with investors, shaping the business model and seeking partners within the industry.
Introduction to Venture Building

Types of Venture Builders and their Business Models

**In-house Venture Builders**
The corporation owns the venture builder and all the startups that result from its efforts.

- **Hold an equity Stake**

**Working for corporations**
the venture builder sells its services to corporations in exchange for some fees.

- **Charge fees**

**Working for investors**
the corporation holds equity in the different ventures and charges fees for the services it provides.

- **Hold equity and charge fees**
Introduction to Venture Building

Types of Venture Building Models

1. **Working for Investors: Industrialization Entrepreneurship**

- Business angels and VCs invest in the startups that spring from venture builders as they would in any other startup.
- Investors can either put money in a pool of ventures, or in the venture builder itself.
- In this scenario the business model for the venture builder is *based on the equity it retains* — along with investors and founders — from every venture it produces.
- Its efforts are rewarded when the startup is sold, so the goal is to bring the startup to an exit.
- Meanwhile, *the venture builder charges the ventures for the services it provides.*
Introduction to Venture Building

Types of Venture Building Models

2. Working for Corporations: Venture Building As a Service

- In this consulting model (venture-building-as-a-service) corporations are simultaneously the investor and the client.
- Because the corporation owns the business or businesses that emerge from the engagement, the venture builder and its talent can’t retain equity from the ventures. Corporations are charged fees per hour.
- Venture builders that work for corporations divide these projects in stages that are sold independently. The most common stages are:

  1. **Innovation**
     The venture builder goes through a 4-month process where multidisciplinary teams explore an industry or an area or opportunity. Human-centered design, lean startup and other tools are used to explore the defined space and produce business concepts, financial models, go-to-market strategies and prototypes.

  2. **Incubation**
     The founding team is built and the concepts defined in the previous phase are tested with high resolution MVPs. During this 6-month period, go-to-market strategy is executed and the product is evolved with the goal of validating product-market fit.

  3. **Commercialization**
     The venture is focused on scale-up efforts, building management systems and middle management layers, as well as growth strategies.
Introduction to Venture Building

Types of Venture Building Models

3. In-house Venture Building: Empowering Innovation

- In this third model the corporation owns the venture builder, which becomes a vehicle for investing in new businesses.

- Interestingly the venture builder is also the context that facilitates developing competencies in innovation.

- Creating a venture builder under the corporate umbrella is an emerging model chosen by the firms which are most committed to the future.
Introduction to Venture Building

Conclusion

❑ The Venture Builder model is growing and is debatably a better model. Whilst all have their merits, venture building is more enabling and beneficial for a promising early stage bootstrapping startup, especially one which yet to sustain with cash flow.

❑ It's undeniable that venture building is industrializing and demystifying. A process that used to be more art than science, and empowering organizations and individuals emphasizes the use of human capital to build new value from the ground up in a systematic way, increasing the chances of producing and building successful startups.

❑ No longer a solo charismatic that drives the startup but rather the use of proven methodologies based on success case studies, combined with the right team and deploy at the right timing that made stories told.