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# The Emerging Role of Venture Builders in Early-Stage Venture Funding



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# 1. Overview of the Venture Builder Model and Market Landscape

Investment structures reflect the industries they support. In 1990, venture-backed companies totaled less than US\$100m; today, it is common for venture capital (VC) funds to place US\$100m+ into single companies. This incredible growth was driven by a fundamental change in the prerequisites for starting and growing new businesses. Technology has made it possible for businesses to acquire millions of customers in a matter of days while requiring negligible amounts of physical asset investment. Thus, the ‘boutique’ VC model quickly found popularity as an investment solution that placed a broad set of bets backing young and unproven businesses with highly scalable and asset-light models, accepting a lower success rate for a high return on those that succeeded.

The last 20 years have seen increasing fragmentation in the VC market. Some investors, like Social Capital, have sought to automate their screening process to cut overhead and increase the number of placements they are able to make through their Capital-as-a-Service (CaaS) model<sup>1</sup>. Others, like the widely heralded Y-Combinator, attract an outstanding number of applications and offer intensive support to the selected cohort of companies<sup>2</sup>. New terms sprung up to describe the increasing diversity in the market: incubators, accelerators, bootcamps, launchpads, start-up campuses, with each model representing a different mix of capital and operational alignment.

Today, we see the growing popularity of another model within the early-stage ecosystem: the Venture Builder (VB). In the crowded and competitive space of early-stage venture, the VB model has seen impressive traction in the last years, gaining popularity across global markets and playing an increasingly important role in innovation and business support in a range of key industries.

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<sup>1</sup> <https://medium.com/social-capital/from-experiment-to-product-capital-as-a-service-one-year-later-6d8b4b9c038b>

<sup>2</sup> <http://www.ycombinator.com/about/>

This paper draws on insights from the VB industry's key innovators to present an assessment of the role VBs currently play in the venture market. We seek to disentangle the overlapping terminology of the venture industry, providing clarity to the VB operating model and its current global footprint. We then attempt to isolate the key attributes of successful (and unsuccessful) VBs. Finally, we look forward to predict the role that VBs might play in the future and aim to identify industries that are best suited to the VB model.

## **Defining a Venture Builder**

We see venture builders – known alternatively as ‘start-up studios’, ‘start-up factories’ and ‘start-up foundries’ – as a distinct model within the venture industry. VB business ideas are often thought of as ‘in-house’ by the VB team, in contrast to accelerators and incubators which bring in existing early-stage businesses. Complementing this design are various types of technical support, financing, and growth expectations. As we will describe in detail below, this leads to the various VB ‘flavors’ seen in today’s market.

‘Venture Builder’ is often a term loosely applied to a broad variety of concepts. In our definition, a venture builder is categorised by the following aspects:

- Initiation of ventures is done ‘in-house’. VBs build a team of in-house entrepreneurs and source ideas for the team to develop into commercial business opportunities. This does not mean that the innovation behind the venture should be developed in-house – for example, patents or new research from universities or corporations are often the source of the ‘idea’.
- Independent and standalone decision making on investments. The primary goal is to make money out of successful exits.
- Venture builders often retain a majority stake in their ventures.
- Focus on portfolio synergies and recycling of resources. In particular, we see venture builders using the same teams for multiple ventures until one succeeds. Other resources developed such

as code, intellectual property (IP), customers, etc., can also be recycled across multiple opportunities.

- Provision of funding (pre-seed, seed, series A, etc.) to the participating ventures, coming partially from investors in the VB fund. Additional funding can come from unrelated VCs or corporations. VBs are also known for assisting ventures in raising further rounds of capital and become less hands-on as the venture matures.

The strategic advantage of VBs is twofold: (1) there is clear synergy between the ventures by sharing operations, knowledge and/or resources (e.g. accounting or tech experts work across ventures) and (2) the barriers to entrepreneurial talents to start and grow a meaningful business are significantly lowered. This is particularly helpful in industries with a longer business cycles or that are capital intensive, like healthcare, biotech, agriculture, or consumer goods.

## **1a. Brief History of Venture Builders**

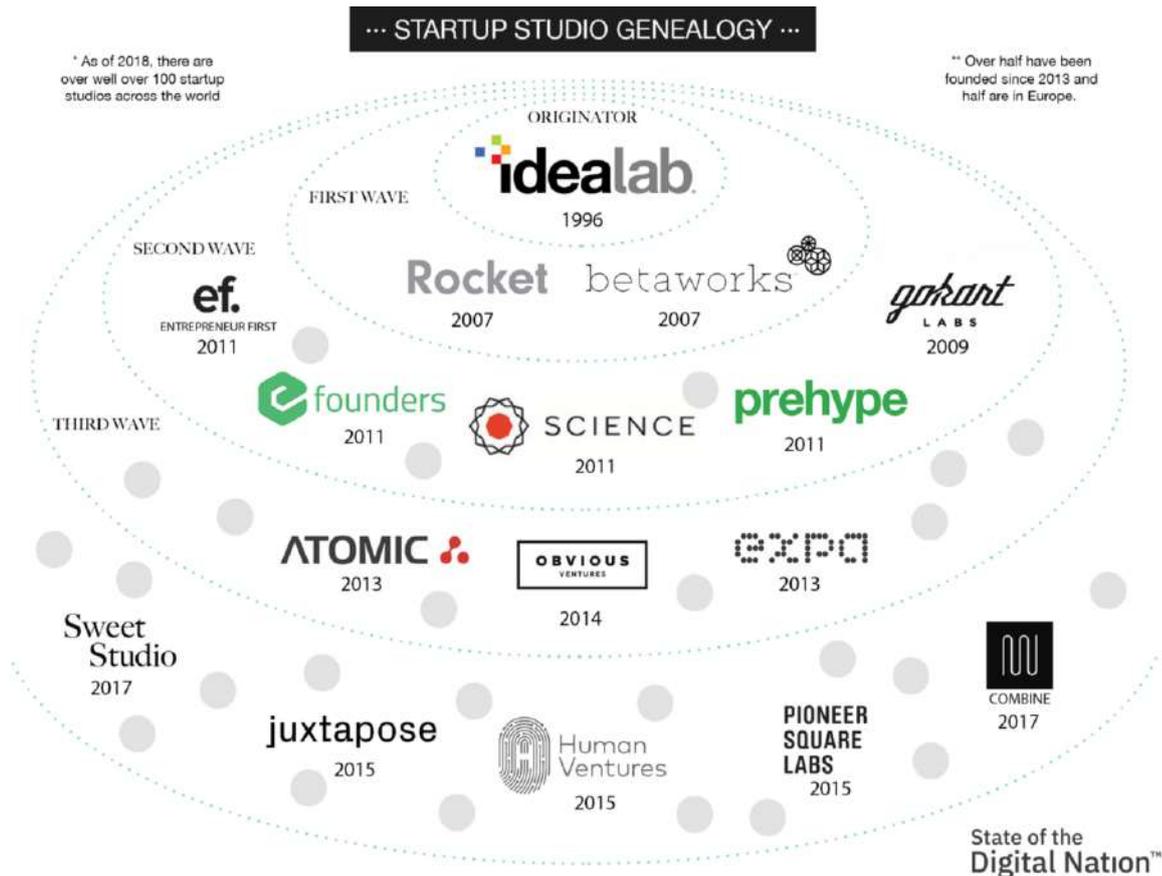
Although some would argue that the VB model predates this time, idealab, founded in 1996 by Bill Gross in Silicon Valley, is considered by many to be the first true venture builder<sup>3</sup>. idealab originated and invested in numerous internet companies and is still doing so today, after successfully navigating the collapse of the dotcom bubble.

Rocket Internet and betaworks are also famous early examples from the technology world. Founded in 2007, in Germany and the US respectively, both have launched multiple successful internet companies. Thinking back five to ten years to a time before cloud services were readily available and when network infrastructure was very expensive, a venture builder could attract promising founders and their ideas by deploying and sharing their infrastructure as a foundation for business growth.

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<sup>3</sup> <https://www.crunchbase.com/organization/idealab>

**Figure 1: Selected milestones in start-up studio development**



Source: <https://medium.com/global-startup-studio-network/the-origin-and-evolution-of-the-startup-studio-3e442c35d21>

Guillaume Catella (INSEAD MBA '15D), founder of Singapore-based venture builder Creatella, interestingly cited early Japanese internet companies as sources of inspiration. Cyber Agent, for example, is a pioneer of internet businesses in Japan which spawned countless successful ventures in internet advertisement, ecommerce and gaming since the 1990s and is responsible for a majority of the successful internet platforms in Japan. Even older was Recruit Holding which was founded in the 1960s, originally around job matchmaking. It implemented a 'new business competition' among its employees that allowed the company to launch multiple Japanese ventures in short succession.

While the term venture builder is relatively new, the practice of corporate spin-offs and commercialisation of industry IP has been around for decades. Moreover, reducing the origins of VBs to the technology and internet businesses would similarly be incorrect. In Silicon Valley, healthtech

players have been partnering with universities to bring intellectual property to market for decades. Corporations would identify a multi-million dollar medical problem, hire a team, raise a fund and then acquire relevant patents to build ventures focused on solving the identified problem and its adjacencies. According to Weil Li, from deep-tech venture builder JCS Venture Lab, this type of niche early player is hard to track or even identify, because of their low-profile approach (e.g. no demo-days or major public pitches) and high degree of specialisation.

## **1b. Venture Builders Within the Early-Stage Investment Landscape**

Another way the VB model distinguishes itself compared to other venture models is the risk preferences of the entrepreneurs and investors involved (Figure 2). While classic venture capital has traditionally relied on ‘2 out of 10’ outstanding investments to drive returns for the entire fund, VBs can be perceived as requiring lower risk and lower commitment. One driver for that is the ability and willingness of VBs to pivot and redistribute resources (including teams) between ideas. This, in turn can attract entrepreneurs that may not be fully willing or able to commit to developing a single idea (as would be the case in classic VC), but are rather looking for broad exposure to entrepreneurship. Nonetheless, we see VBs as less risk-averse when compared to corporate accelerators and incubators. The latter would often provide incentives for corporate employees to develop and pursue entrepreneurial ideas, while providing failure sufficient safety nets (e.g. putting the founder’s corporate contract on hold with possibility to return to the position should the venture fail). However, it would also only provide venture funding against strictly defined milestones.

See **Figure 2** below for our assessment of risk tolerance across the VB spectrum.

**Figure 2: Risk positioning and comparison of selected venture models**

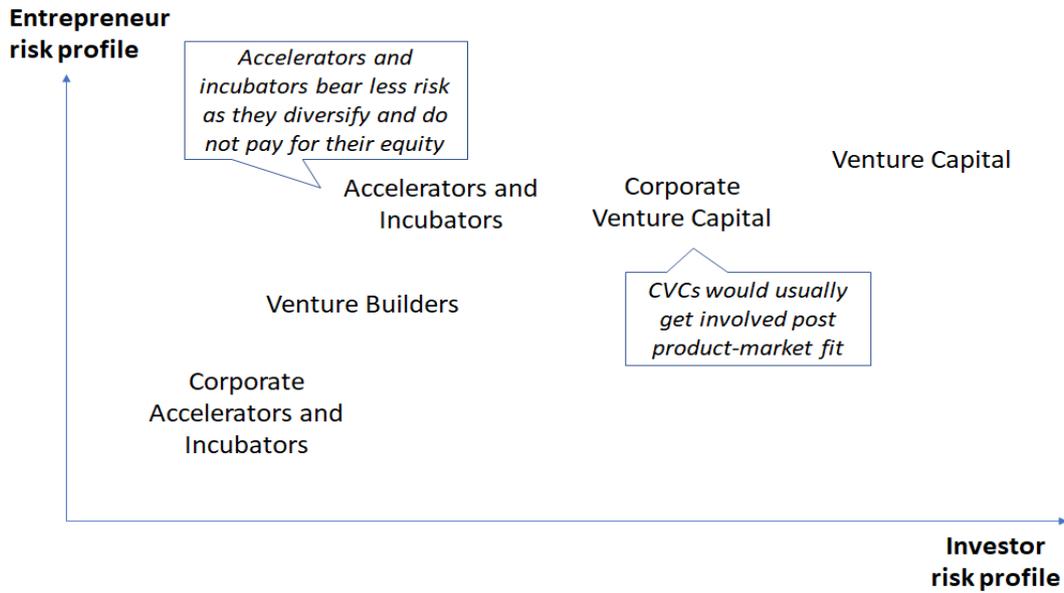
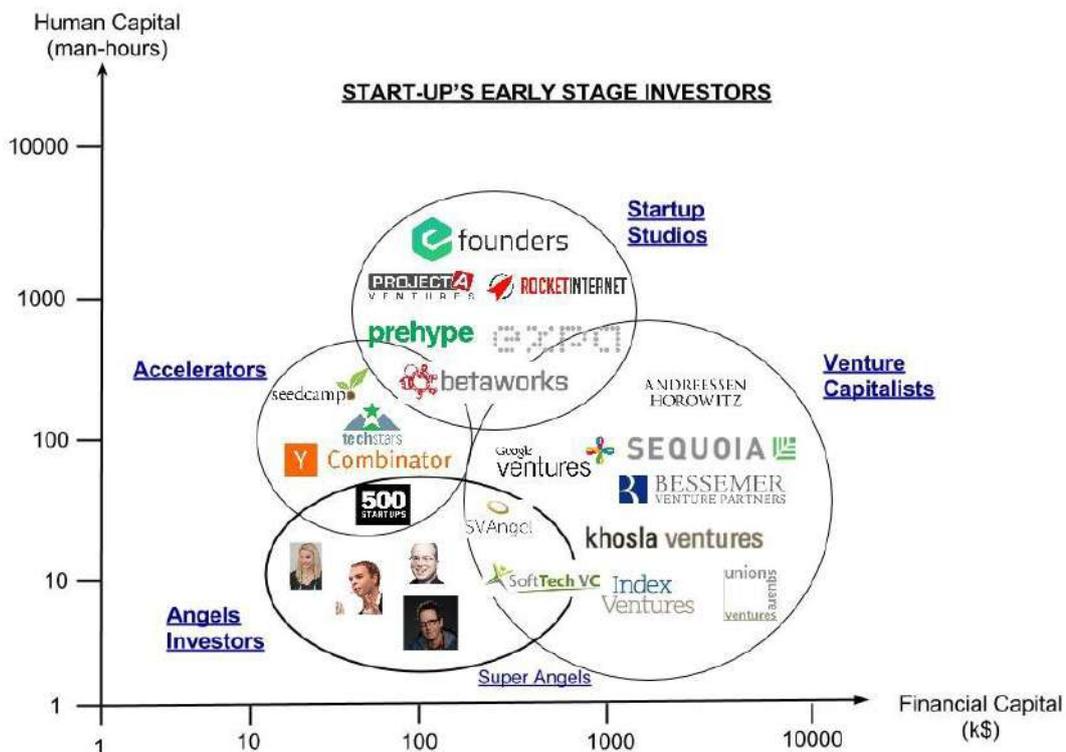


Figure 3 demonstrates how the VB (or Startup Studio) model differs in terms of typical deal size (monetary) and invested non-financial resources (human capital).

**Figure 3: Venture models segmented by commitment of Financial and Human Capital**



Source: <https://medium.com/swlh/the-origin-and-evolution-of-the-startup-studio-3e442c35d21>

In this landscape, the VBs (referred to as “Start-up Studios”) differentiate themselves primarily by the amount of human capital invested in the ventures. There are a couple of reasons why VBs invest significantly more time and resources in their ventures than the other players:

- **Investing heavily in early-stage ideation** – for most VBs these resources are spent on screening patents, brainstorming with inventors, shaping the business model, and seeking partners within the industry.
- **Shaping the founding team** – VBs 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. Some VBs go further and do most of the incubation work fully in-house, before handing over to a new management team sourced from the VBs’ network.
- **Creating cross-venture synergies** – sharing of back-office services is the norm, but some VBs go much further depending on their level of specialisation; for instance, NLC, a Healthtech VB in the Netherlands has several healthcare experts and academics within their staff to develop and/or source IP for their ventures and find the right partners within the market.

**Figure 4: Summary comparison of various early-stage venture models**

	Angel investors	Incubators	Accelerators	Venture Builders
<b>Operational support period</b>	N/A	1 to 5 years	3 to 6 months	0 to 3+ years, ongoing
<b>Idea sourcing</b>	Through pitches	Through pitches	Through pitches	In-house or external
<b>Talent sourcing</b>	No	No	No	Yes
<b>Cohorts</b>	No	No	Yes	No
<b>Investment model</b>	Minority investment	Rent; Equity Charge	Rent; Equity Charge	Majority investment
<b>Venture stage</b>	Seed	Varies	Early	Inception
<b>Mentorship</b>	Varies	Minimal	Intense	Intense
<b>Systems &amp; knowledge</b>	No	Minimal	Minimal	High
<b>Venture location</b>	Off-site	On-site	On-site	On-site

## **Higher Operational Involvement of Venture Builders**

VBs are much more proactive and operationally involved in their ventures than a typical VC or angel investor. Where a VC is practically placing bets, their model is focused on creating a few big winners within their portfolio that make up the vast majority of their returns (“80% of the wins come from 20% of the deals”). In contrast, a VB typically invests in less risky ventures, of which the majority (e.g. 6 out of 10) end up as healthy and stable mid-sized companies. In Section 4 we analyse how this impacts the key ecosystem needs for VB models to flourish.

## **Longer Support and Investment Horizon Than Accelerators and Some VCs**

The biggest difference between the traditional incubator/accelerator model is threefold: i) the capital investment ii) the length of the program and iii) the role in the ideation stage. In terms of investments, accelerators and incubators are often only investing pre-seed, where VBs 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. Regarding the role in ideation, accelerators and incubators facilitate ideation, but they are typically not in the driving seat, which is usually the case for VBs. Some of our interviewees stated that “*VBs are another form of incubators, incubating the ideas instead of the ventures*”. Thus, we see VBs as a separate group.

### **1c. VB Typology: An Ever-Evolving VB Model With Many Different Flavors**

A way to go about this is making distinction between ‘*pure-play VBs*’ and several differentiated models that we consider to be in the grey area. With pure-play VBs we mean companies that are solely focusing on venture building, creating ventures from scratch and investing in them until exiting (often only 5-10 years later). These players are typically heavily involved within the ventures’ operations and are often managed by (former) entrepreneurs rather than people with an investor background. Some of the people we interviewed saw VBs “*as an opportunity to start multiple ideas in parallel, instead of*

*being locked up in one for multiple years. In this way we can maximize our entrepreneurial potential.”*

Examples of pure-play VBs are NLC, Blazar Capital, 25fifteen and Betaworks.

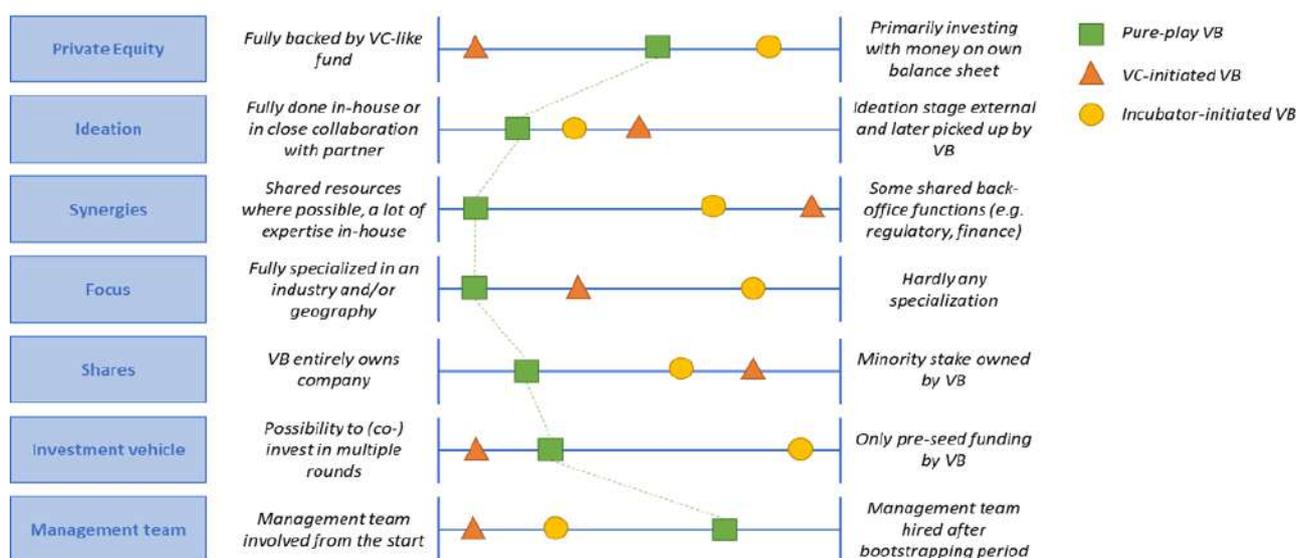
It must be said that even within the pure-play category there are still nuances. Degrees of freedom are for instance around how the VB sources ideas (internal or external), how the ventures are funded (founder’s wealth, fund or directly by partners), in what stage the management team is involved (all from the start or when the venture is already established). Hence, there are many more design choices.

In the grey area, there are many deviations from the above mentioned pure-players. Through interviews we heard that companies widely seen as venture builders “*are not real venture builders*” and that experts have doubts around the effectiveness of these models. Although we partly agree, we will elaborate on four other models here, calling these ‘VC-initiated VBs’, ‘Incubator-initiated VBs’, ‘Corporate VBs’, and ‘VB-as-a-Service’.

The VC-initiated VB is a model where VCs effectively go ‘upstream’ in the value chain towards starting their own ventures. Examples of this type of VB is Atlantic Labs and ProjectA, both from Berlin. Reasons for moving into the VB space for these VCs are twofold: i) often VCs are heavily specialised in a certain industry, which makes it easier for them to see where the potential is within the market; ii) capital availability is almost never a differentiating factor among VCs. Rather, network and reputation can often be decisive factors. Thus, the VC-initiated VB model is a way of **generating deal flow** for smaller and less well-established VCs. On the latter, our hypothesis is that smaller PE players and established VC houses get first sight of good ideas and teams. They also have the ability to increase competition in the early-stage ecosystem by signing smaller check-sizes. The only way for smaller/boutique firms without major brand names to respond is to further specialise or change their business model, and partly to create their own deal flow. The problem these VCs usually encounter, is that they need a very different and more execution-focused skill set and capabilities within their team to be successful.

Similar to the VC-initiated VB, the Incubator-initiated VB consists of incubators moving upstream into the venture creation and VB space. They often have streamlined programs in place (e.g. ‘live in 90 days’ program) that is offered to both partnering ventures as well as their own initiated ventures. Incubators are often managed by serial-entrepreneurs or angel investors, well known within the industry. Rather than wait to be approached by ventures, Incubator-initiated VBs proactively seek out entrepreneurial talent with good ideas and use their entrepreneurial and angel capabilities to assist with ideation and venture creation. Although the business model sounds very similar to the pure-players, there are differences: i) Incubator-initiated VBs leave more responsibility to the entrepreneur on the ground, ii) their support focuses mainly on the first 1-2 years and less after, iii) they often take a small minority share and spread their risk.

**Figure 5: Key characteristics of selected models within Venture Builders category**



Although both ‘Corporate VBs’ as well as ‘VB-as-a-Service’ players fall outside our defined scope of venture building, we consider them as interesting trends within the innovation landscape. Corporate VBs are solely funded by, and create ventures specifically for, a large corporation (or a joint venture), often developing and commercialising ideas that originated within that corporation. Although the VB is setup as a separate entity, it is not operating fully independently and is often not backed by private equity. An example of a Corporate VB is LEO Innovation Lab (subsidiary of LEO Pharma in

Denmark). VB-as-a-Service is related to this model. Recently, the established management consultancies have also showed their interest in this space. A good example is BCG Digital Ventures, which invents, builds and invests in startups on behalf of their clients (e.g. Heycar in Germany was built by BCG Digital Ventures for Volkswagen).

## **1d. Selected Company Profiles**

To further illustrate some of the nuances around venture builders, we provide an overview of some real-life examples that combine traits of venture building with specific ‘twists’.

### **Rocket Internet: The “copycat” pure-play venture builder**

Rocket Internet was founded in Berlin in 2007 by three brothers: Marc, Oliver and Alexander Samwer, with a seed round of €500K by VC fund European Founders Fund (now Global Founders Capital, owned by two of the Samwer brothers). It specialises in identifying successful business models and replicating them in new markets before the arrival of the ‘original’ contenders. It started in 2007 with the founding of Zalando in Germany, replicating Zappos.com. Rocket Internet’s numerous successful ventures have popularised the venture builder model. Rocket Internet raised a total of \$2.2B in funding over 7 rounds from several VCs.

Rocket Internet’s focus on long-term majority ownership of companies, its ability to invest in multiple rounds, and source management teams internally leans it towards our definition of a “Pure Play VB”. Importantly, Rocket deviates from the pure play model through its external sourcing of ideas, and a resulting portfolio which is highly diversified across industries.

In 2014, Rocket Internet’s IPO raised over \$2B for a valuation of approximately \$8.49B, yet the stock has traded below its opening price since mid-2015. Rocket is often criticised for blindly mimicking

existing US business models and has recently faced a series of failed ventures and unprofitable investments<sup>4</sup>.

Despite the criticisms Rocket Internet faces from industry stakeholders and its weak stock market performance, its impact on the venture builder landscape is hard to ignore. For example, as far as Singapore, ex-Rocket members (Zalora and Lazada alumni) are often found at highest positions of thriving startups. Some, like Magnus Grimeland, have even started their own venture builders.

### **Antler: A combination of a talent-focused incubator and a fixed-term venture builder**

Antler was founded in 2017 by McKinsey and Rocket Internet alumni. Started in Singapore and now present in Sweden, it calls itself a ‘startup generator’ and currently focuses on technology venture building (B2B and B2C). Similar to a classic incubator, Antler runs a 5 months program to help develop a startup. Compared to incubators however, it will provide assistance upstream in the process, by helping with business ideation and founding team creation. It secured a seed round of US\$3M from private investors in August 2018.

The first step of Antler’s business model focuses on attracting talents individually. Applicants are encouraged to apply with several business ideas. After selection, prospective entrepreneurs will be hosted, mentored and allocated a small grant for the first two months. During this stage, brainstorming is expected to yield concrete ideas and teams of co-founders are expected to emerge from similar interests and complementary skills. When ideas and teams are validated by Antler management and a tribe of mentors, founders will receive an early stage investment from Antler for a small equity stake (~10%). From that point forward, Antler will act like a standard incubator, assisting with team building, reaching a Minimum Viable Product and connecting to international investors. With this

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<sup>4</sup> <https://global.handelsblatt.com/companies/rock-internet-claims-its-success-is-misunderstood-867727>

formula, its goal is to launch 20 new ventures every year from Singapore and replicate its model rapidly in other countries.

### **Creatella: an incubator-initiated venture builder**

Creatella is a venture builder self-funded by two INSEAD alumni, inspired by the models of the Japanese companies Cyber Agent and Recruit Holding. Creatella is run from Singapore by Guillaume Catella. In exchange for service fees and a small equity stake (~5%), Creatella proposes to entrepreneurs to handle all IT development and digital marketing, effectively earning their equity through the provision of services at zero or below-market cost. It also offers advisory support to access funding. The relationship between Creatella and its partner startups is based on long term agreement, with no definite exit plan. To support the IT and marketing effort, Creatella employs a pool of remote talent across the globe: 30 team members, working full time from home around the world, support the startups with IT development and digital marketing, often even acting as CTOs. This offers a solution to the lack of developers in Singapore. The reduced service fees still allowed Creatella to start without raising its own funding and it has scaled rapidly by hiring ahead of its needs. In addition to his remote team, Creatella leverages its INSEAD and local networks to give access to funding partners. To date, Creatella has partnered and taken stakes in over 35 ventures in Singapore, Paris and New York.

Leveraging its pool of talent, Creatella also originates ventures in-house. With 5 startups currently being grown, Creatella scouts for promising co-founders to join the team. According to Catella, this type of VB provides individuals experiencing 'Entrepreneurship FOMO' with a safe solution to take a shot at venture building. Pooling resources to experiment on several ventures simultaneously also allows less promising ideas to be dropped easily in favor of others. Because the venture builder model replaces the myth of a crucial need for a 'Visionary Founder' by focusing on team effort, it may be viewed as a better fit to Asian cultures. Creatella has also been approached by partners in Indonesia to create ventures around social entrepreneurship.

In contrast to many other VBs, Creatella does not pay stipends to the founders. According to Catella, this allows the founders to remain plainly committed to the success of their ventures, and reduces the delays caused by having to raise external funding. Other similar companies, like Orevon in Paris, offer “IT for Equity” (30-40%) formulas coupled with mentorship. They also work with external funders and raise their own funding to invest in ventures themselves.

### **NLC: a pure-play VB in healthtech, focused on exiting at the point of scaling**

NLC is a healthtech venture builder founded in Amsterdam in 2014. It was founded upon the realisation that 95% of healthtech inventions will never reach society, mostly due to the lack of interest or competence from academic research institutes to market their inventions. According to Tim van Vledder from NLC Corporate Finance in Netherlands, universities’ research is fundamental to healthtech ventures. In the United States universities have their own tech transfer organisations. In contrast, Dutch universities fail to bring their innovations to market because corporations need proof that ideas are viable before they invest. By acquiring patents from universities and developing startups around them, NLC fills this gap. The VB model allows them to develop further several technologies before showing the products to VCs. NLC’s team of 25 healthtech experienced professionals, including 5 healthcare experts and several business ventures developers, provide the required ecosystem to bring new technologies to market, including FDA approvals experience. Additionally, when IPs are acquired, the scientist who originated them sometimes join the team. The operations of different ventures are centralised, back office resources (finance, IT) are shared, and the sharing of experiences allows NLC to increase synergies. The team is now able to combine more and more technologies to improve products. NLC’s goal is not to keep a big portfolio of companies. Once the product is established and the time to scale comes, NLC tends to exit its venture investments and let established healthcare corporations drive market expansion.

## JCS Venture Lab: a curious case of a corporate-backed and public sector partnered VB

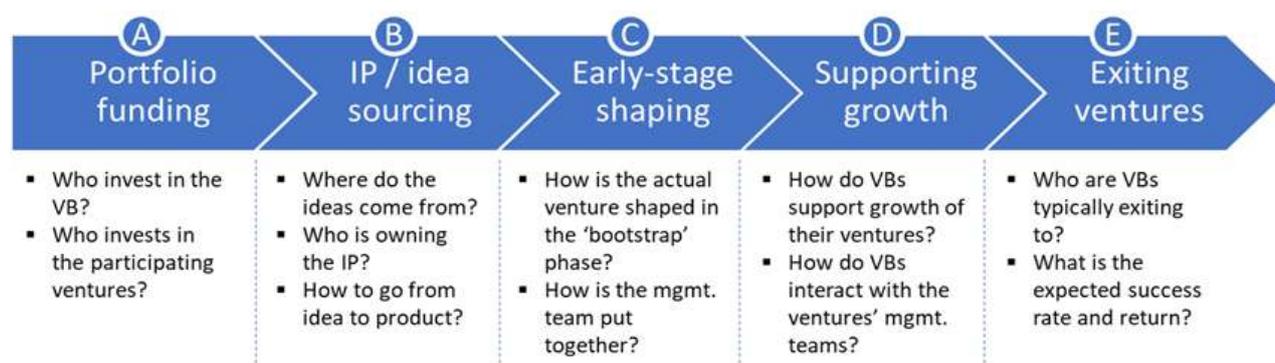
JCS Venture Lab (JCS VL) is a recently created in-house venture builder of JCS Group, a Singaporean holding company known for developing a diversified set of engineering-led businesses. JCS VL is in a close partnership with Singapore Agency for Science, Technology and Research (A\*STAR). Focusing on precision engineering, JCS Venture Lab is one of the A\*STAR Co-Creation partners that helps commercialise and bring to market the innovation generated by A\*STAR's 18 research institutes. Wei Li, an INSEAD alumnus, is an engineering expert who transitioned from A\*STAR to JCS, and have experienced first-hand the challenges of commercialising innovation at the source. At present, Mr. Li is able to divide his time on two of JCS VL's projects. According to him, the venture builder model is very well adapted to deep-tech industries that require long cycle and big investments. Keeping the long term view is essential, and it can make finding external funding partners tricky. When venture builders need to bring in external funding at some point, especially in capital-intensive industries, they often need to carefully choose VCs who wouldn't steer the portfolio companies towards high risk strategies in order to create a 'unicorn' or towards a liquidity event as part of the need to close a given VC fund.

## 2. The Venture Builder Operating Model

A value chain perspective can be used to describe the typical operating model of VBs in more detail.

For simplicity, our analysis below focuses solely on the 'pure-play' VBs.

**Figure 6: Operating Model of Pure-Play Venture Builder**



## 2a. Portfolio Funding

Considering the fact that the VB model is less established and proven than for instance VCs, interviewees told us that *“most VBs struggle to get investments from institutional investors. This might change in the future if the traction that we already see also is translated into healthy returns.”*

To overcome this problem, VBs are using several sources to fund their ventures:

- **Founder’s wealth** – Fully self-funded, often by entrepreneurs that exited one or more successful businesses before. Examples include Monkey Inferno (USA) by the Birch brothers and eGinius (Brazil) by Alexandre Liuzzi.
- **Other venture investors** – Backed by VC and angel capital. Pioneer Square Labs (USA) is a good example with 15 VCs and 50 angel investors investing in their ventures (like LPs, not necessarily as co-investors).
- **Family offices and corporate investors** – Family offices seem to be a common source of funding for VBs. Corporate investors are typically well-known within the specific industry (e.g. insurers in the healthtech industry). An example is NLC in the Netherlands.
- **External partners on deal-by-deal basis** – Some VBs try to not use fund structures or SVPs, but rather find external investment partners (e.g. established player in the industry) who are willing to invest in the specific venture. In that context, you could see a start-up studio as a team of serial entrepreneurs rather than an investment vehicle.

It is unclear what structure is most popular based on the amount of data we have, but we expect founder’s wealth to be the bigger source of investment in North America, given the amount of successful entrepreneurs investing their money back into the start-up ecosystem. Expert interviews show that in Europe and Asia family offices and angel investors seem to be more common.

## **2b. IP/Idea Sourcing**

The way VBs source their ideas is very much dependent on the industry. In general we see 3 different ways to get ideas: i) innovation driven (external), ii) team driven (internal) and iii) problem driven (both internal as well as external). Here we explain what each of these categories entails.

Innovation driven means that the innovation or IP is already created somewhere else – for instance in universities, research institutes or hospitals – and is picked up by a venture builder. NLC is a good example of such a model. They have strong ties with a various universities and researchers, as well as academic doctors in hospitals. They screen about ~1000 new patents on a yearly basis, narrowing these down to a smaller number of potential ideas. They often hold brainstorming sessions together with the inventors on how to monetise the innovation and shape a business model with a viable product-market fit. This model works particularly well for capital or IP-heavy industries like healthcare, food and agriculture, or space and aviation, where the value-add of newly created IP is visible early-on.

Monkey Inferno from the US is an example of team-driven idea sourcing. Serial-entrepreneur and renowned programmer Michael Birch got together a group of entrepreneurs and programmers to work in parallel on many ideas they already have internally. Monkey Inferno's emphasis on brainstorming means its process is less structured than the average venture builders, but goes to illustrate further the nuances within the VB category.

The problem-driven approach is somewhere in the middle, combining internal and external inputs. In this scenario, the venture builders are tackling problems, often very specific to the industry, after being prompted by the industry itself. It's not atypical for VBs to get funding from companies to solve a specific problem which hasn't been addressed yet by anybody in the industry.

The ideation process is often considered as one of the hardest nuts to crack when it comes to the scalability of venture builders. Internal ideation is highly dependent of the quality of the people and these ‘entrepreneurial visionaries’ are scarce. Whereas, for external sourcing of ideation, VBs need intimate knowledge and a strong network within of the academic ecosystem to become successful.

## **2c. Early-Stage Shaping**

VBs often differ in the way they shape their portfolio companies in their formative months. Some VBs try to hire external talent (e.g. consultancies) and let them work with in-house experts on several projects at the same time. The intention of such VBs is that external talent will start dedicating their time on one venture only (e.g. as CEO) after a formative period of 1-2 years. Blazar Capital and Atlantic Food Labs are examples of this model. The great benefit of this approach is that the management team of ventures can be allocated flexibly and be recycled when the venture turns out to be a failure.

The alternative is to hire a management team specifically for a given venture. This appears to be the dominant model within healthcare where the VBs have a list of potential CEOs. These people are often more senior, with extensive academic or entrepreneurial experience, and with a strong network within the industry. It depends on the VB whether these people are hired in the ideation stage or when the venture is already shaped to some extent. NLC and VentureBuilders in Amsterdam are good examples of the latter.

## **2d. Supporting and Growing Portfolio Businesses**

VBs tend to take a majority share in their ventures and are therefore more involved than a VC in the first 3-5 years of a venture. Apart from space and shared back-office resources, the venture builders we interviewed offer industry-tailored services that can be leveraged across all portfolio companies. Again, we can take the example of Blazar Capital, where programmers of different ventures spend part

of their time on building a joint marketing algorithm. This algorithm is then used by all ventures to push their sales of luxury goods online.

Other significant synergies come from deep industry knowledge (e.g. experts), shared networks (e.g. people with strong industry ties working for multiple ventures to create partnerships) and temporary sharing of resources if urgent.

## **2e. Exiting the Business**

While most of the VBs are still very young, it is hard to say how they will exit their ventures. We wouldn't be surprised if many of the VB-initiated ventures are also strategic targets for corporations, like Tumblr being bought by Yahoo from start-up studio Betaworks. Companies like Rocket Internet often choose the IPO route. Nonetheless, an IPO is definitely more of an exception, as most of the VBs focus on building smaller and less risky companies rather than try to create a unicorn.

During their inception years, the leading VBs of the 1990's and 2000's like Rocket Internet and Betaworks demonstrated good traction and healthy margins. At the same time, the VBs that started in the last 3-4 years seem to have a more industry-focused and risk-averse business model. Most VBs that we interviewed told us that they have good traction with most of their ventures that are still alive and are able to raise new rounds of external capital. Whether the returns on a portfolio level are attractive still needs to be proven in most of the VBs.

## **3. Current Venture Builder Landscape**

A 2015 study of 51 venture builders by Startup Studio Playbook documents the boom of start-up studios in Europe between 2010 and 2013, followed by a decline in 2014 and 2015.

**Figure 7: Startup studio evolution 1996-2015 (Based on CrunchBase and MatterMark data)**

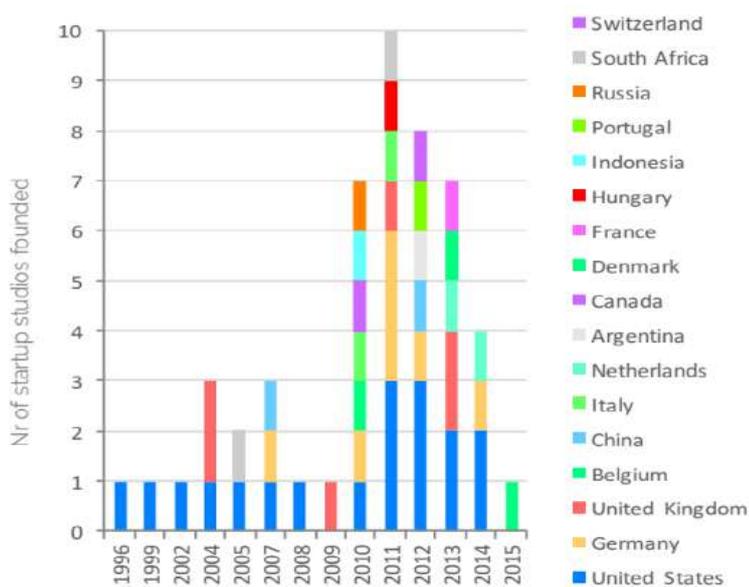


Figure 3: Nr of studios founded per year and per country

Source: *Startupstudioplaybook.com*

In the absence of more recent data, it seems that the studio model is making a resurgence, particularly in Europe and Asia. In 2017 Royal Montgomery from LeStudioVC published a list including over 100+ start-up studios globally<sup>5</sup>. In line with the 2015 data, about half of the studios can be found in Europe, ranging from start-up hubs such as Berlin and London, to Austria, Estonia and Ukraine.

Our interviews and research do not indicate that the venture builder model is limited by geography. However, it can be argued that the VB model is better suited to the more fragmented markets and conservative business approach in Europe – issues that are often pointed out as the main reasons for Europe’s laggard position in developing world-leading start-ups, compared to the US and China<sup>6</sup>. With an estimated average exit timing of 3 years (2015 data by Startupstudio), the venture builder model can be seen as more attractive by European entrepreneurs and VC investors, compared to a longer exit lifetime of traditional venture-backed companies, especially with the dearth of recent VC-backed IPOs.

<sup>5</sup> <https://medium.com/le-studio-vc/the-300-startup-studios-taking-on-the-world-6e3c44b52d20>

<sup>6</sup> <https://www.euronews.com/2017/10/20/what-is-standing-in-the-way-of-start-up-businesses-taking-on-europe>, <https://www.wheforum.org/is-europe-going-to-be-the-next-startup-capital-of-the-world/>

Furthermore, the flexibility to pivot or re-distribute resources between start-ups in a start-up studio ‘stable’ allows for quicker experimentation and a way to soften the stigma of failure, that is often seen as a barrier to developing businesses in Europe.

## **4. Success Factors for Venture Building**

In the competitive, high-stakes world of venture investing, it is often subtle changes in model that are the defining features of success. Like any fragmented industry, a diversity of VBs have sprung up across the venture space. In the preceding sections, we discussed the standard VB business and operating model and presented a few profiles of active VBs. Through discussions with VB directors and examination of VB models, we identify four key attributes that contribute to the success (or failure) of VBs.

### **4a. Focus on Midrange Growth Targets, Not Unicorns**

The VB model takes a high-touch, high-exposure approach to early-stage investment. Since VBs build teams around ideas and provide resources, office space, and development tools to their teams, they create a fundamentally different risk profile across their portfolio. While traditional VCs spread their capital across a large number of highly ‘binary’ business ventures, VBs require a higher ‘hit rate’ on their businesses. For this reason, it is important for VBs to focus their attention on a class of businesses that are lower-risk, lower-return than what is typically seen in the VC space.

*“We target business ideas that, at maturity, are worth between USD 50 and 100 million,”* a VB director in Singapore told us. He added, *“we don’t even consider unicorn ideas.”* Successful VBs build this midrange focus into the full lifecycle of their portfolio businesses, beginning with industry focus and extending through specific idea, the team around it, structure of invested capital, and the types of VB support given to ventures.

From an organisational perspective, doing this well requires a combination of deep industry awareness and targeted discipline. We saw in the VB directors we spoke with the same scrupulous approach found in value investors. While successful VCs invest like roulette plays, placing small sums across the board hoping for a jackpot, successful VB gambling looks more like Blackjack, with higher expectations of winning smaller sums.

#### **4b. Consistent Access to Innovative or Proprietary IP**

To have a higher success rate relative to traditional VC, VBs require consistent access to high-quality business ideas. Thus, access to innovation or proprietary IP through proximity to and relationships with IP generation is key.

With the notable exception of blue-chip Silicon Valley VCs, in a world of ever-increasing capital availability, many VC funds can struggle with sourcing worthy investments which, in the VB world, are generated internally. Though strong VB executives are able to conceptualise and launch successful businesses in their early days, longevity rests on a VB's ability to build a portfolio of quality businesses with product/market fit and the right teams to execute. Though many VBs appear to be doing well, many managers we spoke with identified access to quality business concepts and technologies as a leading challenge facing their future success. Those that do report being well positioned for future growth are those that have direct access to relevant business IP, as seen in Singapore's A\*STAR and other VBs across Europe and America.

#### **4c. Systems to Quickly Shut Down Failures and Recycle Resources and Talent**

VBs invest heavily in the businesses they create, providing tools and systems to support their hired entrepreneurs. These resources routinely spread beyond office space to include aspects of skills training, HR, accounting, and payroll. Conversations with VBs made clear the value of these internal systems in supporting business growth. These investments, however, come at significant cost, even if synergies are realised among portfolio companies.

Successful VBs are able to construct systems of business support that balance the customisation needed to be relevant for their portfolio businesses with a level of flexibility high enough that systems can be recycled into new companies. Balancing this is the VB's ability to know when a company should be shut down. Avoiding the tendency to throw good money after bad is a challenge facing investors across industries. For VBs, it is particularly acute because they place both capital and systems behind their ventures; the capital is sunk, but the resource allocation often is not. This means that investment managers have to assess not just the potential of a specific business, but the relative value if resources were reallocated.

Though no magic formula exists to determine the future viability of a venture, successful VBs stress the focus they give to making these assessments. When the idea is generated internally, it can become more difficult for a fund manager to decide to pull the plug, making objective, explicit systems of assessment even more important.

#### **4d. Alignment of Business Concepts, Talent, Market Fit, and Geography**

The final key to successful VB operation is the alignment of business models to their target market and geography. Excelling individually in the categories described above is insufficient without a unified direction extended throughout VB activities.

For this reason, we found that many of the most successful VBs focused on a single industry, allowing them to source ideas, hire teams, and provide support systems along a defined theme. (The exception throughout is Rocket Internet, the model for which, though successful, has not been replicated.)

VBs that specialise are able to more easily align their operations. A VB specialising in healthcare solutions, for example, has a talent need that is relatively consistent across ventures. By creating multiple businesses within a particular industry with a similar leadership profile, the VB is able to

develop channels of recruitment that allow more consistent access to higher quality candidates than would be possible with one-off recruitment. Similarly, focus allows VBs to develop semi-customised systems and tools that are more easily transferable among various ventures in their portfolios.

Though focus often makes alignment more natural, it is not sufficient. Some of the VBs we spoke with worked within a stated industry but had not developed the synergies described above, generally due to lack of attention. Further, it is possible for VBs to develop multiple channels once they attain a size sufficient to achieve full synergies in each channel.

## **5. The Future of Venture Building**

As the VC market has matured globally, we have seen increasing diversity in the types of fund structures positioned to foster and profit from early stage business development and support. Incubators and accelerators are the first round of model innovation and we see VBs representing a continuation of this trend. While traditional VC was well designed to find and create high-potential, high-risk tech companies, VBs are positioned to create more consistent streams of more moderate venture value and cater to a different risk profile. Given this ‘sweet spot’ of VB success, we predict VBs will continue to gain prominence for a specific genre of business in a particular set of industries and geographies. Where this does end up quantitatively (number of VBs, market size, etc.) is hard to predict at this stage and with the available data. Nevertheless, if the business model can truly prove itself over the coming years, institutional investors might start investing in VBs on a large scale, giving it another boost.

### **VB-Suitable Industries: a Function of Risk, Visibility and Certainty**

Traditional VC model of ‘2 out of 10’ is well-placed to fund predominantly B2C, asset-light businesses, which have a chance of rapidly accumulating a customer base and benefitting from extensive network effects (e.g. social networks, platforms and virtual marketplaces).

In contrast, the higher operational involvement of the VB model, along with the balanced take on capturing value from a broader set of ‘winners’ within the investment portfolio makes it suited for a different set of industries, in our view. We believe VB can help bring the benefits of agile start-up development to industries that are characterised by B2B focus, capital-heavy investment requirements, and long cycles of innovation. In deep tech or healthcare for example, having a big team of experts building ventures simultaneously, driving synergies between IPs, and leveraging a network and reputation can be a substantial advantage. In general, we would argue that applying the agile techniques employed in venture creation (e.g. ‘lean start-up’ model) to the above-mentioned industries can increase the speed and probability of taking an innovation successfully to market, faster than if product development is done by a traditional corporate incumbent after the acquisition of IP.

Moreover, from a VB investor perspective, the emphasis on IP- and capital-heavy industries means that often the potential value of an innovation is more easily assessed at the earlier stages of development, as it can be more objectively compared to existing solutions within the industry. In contrast, within VC-backed B2C ventures, predicting success can be far trickier, as consumer preferences can be difficult to gauge and small nuances in product offering can lead to a company quickly losing ground to a competitor. Thus, it can be argued that when applied to B2B, capital and IP-heavy industries, investors in VBs face lower risks than traditional VCs and can adjust their return requirements accordingly, putting less pressure on generating ‘unicorns’ and focusing rather on the VB executing and scaling efficiently the bulk of its portfolio companies.

### **Geography: VB as a Facilitator to Bring Europe’s Innovation to Market?**

We believe that venture builders can be part of the answer in geographies/industries that have a high degree of innovation and strong educational institutions, but a lower ability to bring that innovation to the market (e.g. a less developed entrepreneurial culture, less capital available, high regulatory or other boundaries for market expansion).

Europe has long been seen as an example of an innovative region with anemic entrepreneurial results to show for it. The 2018 Global Innovation Index (GII), developed jointly by INSEAD, Cornell University, and the World Intellectual Property Organisation (WIPO) lists 8 European countries within its Top 10: Netherlands, Switzerland, Germany, Ireland, Finland, Sweden, Denmark and the UK. Among 80 indicators, the GII factors in intellectual property creation rates, education spending, mobile application creation, as well as scientific and technical journal publications.

Some of the factors holding Europe back, we believe, are i) conservative risk tolerance and a societal stigma of failure ii) a multi-market landscape that impedes venture expansion due to cultural, regulatory, and language differences iii) a public university system with lesser emphasis on commercialising innovation (e.g. through in-house incubators), compared to the top private universities in the US, for example.

We believe venture builders are well-positioned to leverage the innovation coming from Europe's public universities, while addressing some of the obstacles to venture creation in the region. Firstly, the 'serial' nature of VB, as well as its emphasis on talent retention and 'recycling' of resources give a VB-backed entrepreneur a sense of stability and continuity, which would cater to European risk-aversion. Moreover, the more distributed nature of VB portfolios and their emphasis away from 'unicorns' is able to tackle Europe's market differences in a systematic way. Finally, the operational expertise and support that VBs offer can be a strong support pillar towards the increasing university-led commercialisation.

Thus, we expect to see European VBs to continue growing strongly and becoming an important part of the region's start-up ecosystem.

## **Appendix 1: List of interviews conducted**

**Interview 1** (9/21/2018): Chia Jeng Yang is Investments Ops Manager at Venture Builder Antler. Chia Jeng had experience working for Rocket Internet and has written articles on the subject of Venture Builders (<https://e27.co/venture-builders-criminally-underrated-contributor-startup-economy-20180215/>)

**Interview 2** (9/27/2018): Wei Li (INSEAD MBA) is building ventures with JCS venture lab. He wrote the article : <https://e27.co/choose-venture-builder-model-starting-new-business-20180713/>

**Interview 3** (9/24/2018): Mark Hon is a Partner and Founder at Sugar Ventures –a venture capital firm that creates and invests in its own portfolio companies.

**Interview 4** (9/28/2018): Guillaume Catella is Co-Founder and CEO of Creatella, a Singapore based venture builder who helped launched 20 startups in the past year.

**Interview 5** (10/5/2018): Tim van Vledder is Head of Corporate Finance at NLC, a healthtech venture builder in Amsterdam that is now expanding to other European countries.

**Interview 6** (9/24/2018): Michael Lints is Partner at Golden Gate Ventures, which is an early-stage venture capital firm investing across Southeast Asia.