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THE BUSINESS OF MEDIA | POST-EVENT THOUGHTS

"In a bid to win in the digital world, companies are increasingly looking to the high stakes game of start-ups and ventures. But with high investment and failure rates and where success comes from entrepreneurialism as much as a well-supported idea, how do today's incumbents cherry-pick, invest in and grow tomorrow's digital titans?"

William Mellis, Managing Director for TMT, Alvarez & Marsal

In May 2018, as part of Alvarez & Marsal's Business of Media series, Kate Bulkley led a panel discussion that revolved around the different approaches and risk-profiles that corporate venturing arms have. And, in particular, how corporates can drive "appropriate returns" from their investments.

The panellists, who all spoke 'behind closed doors' and in a personal capacity, were:

- Simon Freer, Chief Commercial Officer at Liberty Global Content and Chair of Formula E
- Emma Lloyd, Group Director of Strategic Partnerships & Investments at Sky
- Vinay Solanki, Head of the Commercial Growth Fund at Channel 4
- George Northcott, Co-Founder and Head of BD at Founders Factory

For those who could not make it on the day, the event's host, Paul Naha-Biswas, and media commentator and journalist, Kate Bulkley, share some of the edited highlights below.

THE BUSINESS OF CORPORATE VENTURING

KATE BULKLEY @KATECOMMENTS | PBISWAS@ALVAREZANDMARSAL.COM

There is no single definition of success

Corporates have differing risk profiles and goals around corporate venturing and achieving 'appropriate returns' means different things to different companies. For Sky and Liberty Global, gaining access and insights to new business lines is key, whereas Channel 4 sees its advertising airtime for equity approach more about educating digital companies about the value of TV advertising. "We can invest £2m to £5m of airtime into businesses that are at a growth phase and ready to make the move into brand advertising," says Vinay Solanki, Head of the Commercial Growth Fund at Channel 4.

The particular focus for Channel 4 has been on the digital consumer sector – for example, with car selling site Tootle.com and online mattress retailer Eve Sleep. "We aim to catalyse their marketing mix back to brand and TV advertising. We're shifting the digital consumer ecosystem away from one that, led by Airbnb and Uber had been, arguably, anti-brand."



Different measures of success characterise the six big corporates that are investors in Founders Factory, a digital business incubator and accelerator backed by a number of European tech entrepreneurs including lastminute.com's Brent Hoberman. "For L'Oreal, if corporate venturing changes their culture and strategy by 5 percent, that can be a success," says George Northcott, Co-Founder and Head of Business Development at Founders Factory. "But for easyJet and Guardian Media Group, success might be more weighted to exploring alternative revenue streams."

Venturing success is measured by Sky first and foremost by a strategic match with its business, so early investments included set-top box maker Roku, second-screen services provider Zeebox and VR-camera company Jaunt. "With our first investments starting six years ago we wanted to tap into a wider field of product innovation," says Emma Lloyd, Group Director of Strategic Partnerships & Investments at Sky. Roku eventually held an IPO and was a big financial success for Sky, but Lloyd says that it was "more important" that Roku provided the NOW TV box which has driven higher ARPUs and better customer retention. "The benefits to the business were high, so it was a nice bonus that it did well financially too," said Lloyd.

Corporates have a very different approach to risk than traditional VCs

Corporate venturing can also be about taking a stake to 'look, listen and learn' about a fast-developing sector like VR or eSports or, in the case of Founders Factory, to let corporates glean information from 'adjacent' businesses where innovation in another sector might contribute to a new way of thinking or even a new product. For Sky, its investment in Zeebox was not a financial success but it provided key learnings about second screen technology. "Zeebox wasn't a good financial return for us but the early insight that consumers didn't want second screen tech was very valuable," said Sky's Lloyd.

Any venture stake taken by Liberty Global always includes what Simon Freer, Chief Commercial Officer at Liberty Global Content and Chair of Formula E, calls "an appropriate financial return." Freer says that gathering market intelligence is not enough for Liberty to take a venture stake. Liberty also tends to take bigger bets – from a few million to a few hundred million – on companies that are beyond the seed and Series A rounds – but it also can look for 'riskier' companies that a more traditional venture fund might shy away from. "Liberty is an analytical, capital allocation and shareholder-value driven company so we wouldn't do pure look, listen and learn and see how it goes-deals," said Freer. "We always look for an appropriate return, either pure financial or in helping our specific businesses financially e.g. by lowering customer churn."

Liberty's investment in electric car racing company Formula E is a case in point: "We thought it could be a young-skewing, digital media, two-way, sports right that would open up the sports market but could take 3/5/7 years to develop and also could have failed," said Freer. "That's a set of risk criteria better suited to a corporate investor than a VC – especially for a corporate with a big balance sheet like Liberty."

Do the analysis or have a VC partner do it for you

The corporate venturing unit of Liberty Global has an in-house financial team looking for medium to long-term strategic relevance coupled with an appropriate financial return, like Liberty's investments in global production company All3Media and in broadcasting channel TV3 in Ireland, both of which add value to Liberty's core pay TV and communications business.



Meanwhile, Sky partners with outside venture capitalists for its financial legwork and so concentrates on ideas that could move its business forward. For example, Sky's investment in VR camera company Jaunt paved the way for Sky to open its own VR studio.

Channel 4's venturing strategy casts a wide net in terms of the types of companies it holds stakes in, so its £2 million media value for equity investment in Eve Mattresses made a substantial return only nine months later when the company listed. "We price our media as cash which is a hard sell, but our focus is on digital companies that are in a growth phase that requires marketing. So if we get it right it pays of." said Channel 4's Solanki.

What are the hot areas for smart investors?

Hot areas that Liberty, Sky and Founders Factory are looking into include blockchain and machine learning technologies. For example, these could prove useful in content distribution, new models to democratise journalism and AI that could disrupt advertising and open new ways of monetising content.

Anything to do with direct-to-consumer distribution and digital channelisation is also a keen area of focus, says Liberty's Freer. Both Sky and Liberty are already investors in the South East Asian DTC service iFlix, for example, and Liberty has a stake in the post-cable, digital video news network Cheddar, which targets millennial audiences.

Sports is also a key area. For instance, both Sky and Liberty holds investments in fan football site Whistle Sports and in the Drone Racing League (this is via Liberty Media, rather than Liberty Global). However not all sports ventures make sense, explained Freer. "A week doesn't go by when someone doesn't come by to talk about eSports," said Liberty's Freer. "It's topic du jour and I get that consumers love it but we are surprised by the volume of capital going in when many of the business models are unclear or appear unsustainable. Other than the game's IP owners, no-one is making sustainable profits in eSports."

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