STRATEGIC BRAND VENTURING as Corporate Entrepreneurship

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<td>CPG</td>
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ABSTRACT

This dissertation highlights the infrequently discussed role of the entrepreneur as founder of disruptive brands creating new categories often in a stealth-like manner. A recent corporate entrepreneurial response being pursued by Fortune 100 corporations' renown for their branding prowess is examined in the dissertation called *strategic brand venturing*. Strategic brand venturing (SBV) is a boundary-spanning activity whereby large firms access disruptive brands and entrepreneurial marketing know-how through equity investments in entrepreneurial brands. Using an abductive logic, eleven practitioner-based dimensions of SBV are iteratively refined through comparisons with intersection literature and venturing literature and theory, to arrive at a conceptual model. In the process, comparisons are also made between technology venturing and brand venturing. This model is empirically tested and refined within and across seven case studies from six subsidiaries of global consumer packaged goods corporations in the United States. The final model borrows from prior venture capital and corporate venture capital models but caters for the exigencies of brands and entrepreneurial founders. The model also acknowledges the role of antecedents and the role of influential exogenous communities such as consumers and retailers. Using a realism philosophical perspective, deeper structures and generative mechanisms are uncovered related to strategic and political context factors. The positive benefits through partnership with brand entrepreneurs, and the potential contribution to heightened corporate entrepreneurship in large firms is highlighted. The dissertation concludes with propositions and suggestions for future research as well as implementation implications for practitioners.
DECLARATION

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ACKNOWLEDGEMENTS

Scientists have discovered that a single strand of Deoxyribonucleic acid (DNA) from a human cell carries information equal to 600,000 printed pages. This dissertation on strategic brand venturing is a single, yet hopefully novel strand within the corpus of corporate entrepreneurship and venturing literature. Although somewhat lengthy, readers have thankfully been spared the 600,000-page version! I do however want to acknowledge the diligent scrutiny and coaching offered by my supervisor, Professor Peter Naudé, who read and critiqued every one of the 300+ pages across multiple iterations. His patience, promptness, and sage academic advice were greatly appreciated throughout the entire dissertation journey. A word of thanks is also extended to Professors Luke Pittaway (Ohio University), Gary Dushnitsky (London Business School), and Barry Nalebuff (Yale University) for critiquing papers and excerpts and offering commentary on ideas as they were being shaped.

In terms of my academic and professional pilgrimage, I am indebted at the undergraduate level to Professor Gavin Staude (formerly of Rhodes University) for piquing my interest in marketing that subsequently laid the foundation for a general management and marketing career at Unilever PLC and The Coca-Cola Company across South Africa, United Kingdom, Austria, Romania, Greece, Germany, and the United States. Secondly, at the post-graduate level, I want to acknowledge Professor David Ford (formerly University of Bath) for stimulating my intellectual curiosity in business marketing that ultimately paved the way for me wanting to accomplish doctoral-level research.

Moreover, I am deeply indebted to my precious wife, Rozanne, and our four awesome children, Joel, Micah, Bethany, and Josiah, for their kindness, encouragement and personal sacrifice in allowing Dad to spend endless hours at a desk barricaded by walls of paper while other more worthy and entertaining family pursuits beckoned to be accomplished. This accomplishment is as much theirs as it is mine.

Finally, I want to acknowledge God in giving me the ability and the ideas to complete this project. As Paul’s discourse with the Areopagus aristocratic council once declared: “for in Him we live and move and have our being; as even some of your poets have said, ‘For we are indeed His offspring’".

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PUBLICATIONS TO DATE

A number of academic articles have been (and are being) crafted out of the work done for this dissertation. These are:


INTRODUCTION

1.1 Dissertation genesis and locus
The researcher’s recent bricoleur-like experience in leading a venturing business unit within a global beverage company was the genesis and primary driver of interest in this study. Driving growth, innovation and competitive advantage has been a daily general management pursuit for the author over the last seventeen years. This study focuses on strategic brand venturing as a corporate entrepreneurship vehicle for accessing and driving brand portfolio growth. The focus is on the consumer package goods (CPG) and services industry, although best practice lessons will be garnered from other industry sectors in developing a suggested approach.

A burgeoning literature now exists on corporate entrepreneurship (Kuratko and Audretsch, 2013), corporate venturing (Narayanan et al., 2009), and corporate venture capital (Dushnitsky, 2012). Despite this, hardly any can be traced that call out the unique opportunities of venturing outside of high-technology assets with the more intangible asset (Hall, 1992) of brands. This opportunity is echoed in the editor’s note to an issue of the Journal of Business Strategy, citing an article published by the researcher:

“Most large corporations want to grow larger. But, as Deryck J van Rensburg, president of Venturing & Emerging Brands for The Coca-Cola Company and author of the lead article in this issue of JBS notes, there exist “liabilities of largeness.” While technology and service industries have for years attempted to combine the agility and responsiveness associated with smallness with the advantages of size, other industries have just begun their forays into this area. Consumer companies, especially those built on branding reputation, have concentrated mainly on expanding their brands from within or buying other established companies. Entrepreneurship and corporate venturing have typically not been included in the strategic planning of such companies. But as the search for hot new brands escalates in the face of intense competition, large consumer product companies like Coca-Cola are considering the attraction of entrepreneurship. They are forming organizational groups charged with finding new brands, often outside the company, that have the potential to jolt the market if they get the support a large company can offer”.

A somewhat novel feature of this DBA dissertation project was the concurrent process of working on the dissertation together with the preparation and submission of journal articles as a means of validating or refining ideas and argumentation. During the last three years of the dissertation project, six articles were submitted to five different journals, all of which were published (see p. 5), and most of which were subjected to double blind peer review. Textual and graphic extracts from these dissertation-based journal articles are interspersed throughout the dissertation and referenced with permission since publishers hold original copyright based on editorial policies. At the time of writing this chapter, a few citations had been received for these articles (see Appendix B) and the author has also participated as a reviewer of articles for *Management Decision* and the *International Entrepreneurship and Management Journal*. This dissertation makes a novel contribution to extant literature by empirically examining the dimensions of a corporate entrepreneurship growth strategy for consumer packaged goods (CPG) corporations called ‘strategic brand venturing’ (SBV), defined as:

“A strategy and capability of venturing with entrepreneurs to access brands and marketing know-how that possess disruptive value” (Van Rensburg, 2012a).

The term ‘disruptive’ is used in the sense that the new brand creates a category or marketing idea new to the world or new to the industry that incumbents initially either don’t notice or don’t value. A good example of this in the beverage industry is the advent of the energy drink category driven by Red Bull from Austria. It started off small, fulfilled an unmet consumer need, was made available in on-premise channels versus traditional supermarkets, and gradually expanded in a low key fashion to form a new global energy drink category worth billions of dollars (Kumar et al., 2004). Over time such disruptive new brands expand consumption in the industry creating new categories, or materially cannibalize existing categories thus stealing industry share from incumbent brands. Identifying innovative brands early enough in their lifecycle that have the potential for disruption, and forging venturing arrangements with entrepreneur founders of such brands could constitute a competitive advantage for large incumbent firms. The brand entrepreneur is not frequently mentioned in literature or marketing textbooks yet entrepreneurs invented many famous disruptive brands (Fucini and Fucini, 1985; Koehn, 2001; Vinjamuri, 2008). These brands can go unnoticed by the large firm preoccupied with competitive monitoring of similarly large rivals until they ‘suddenly’ appear in the market as challengers to the incumbent. For instance, one global CPG firm recently reported (Van Rensburg, 2009) that 30% of industry growth had come from categories and brands that had barely existed five years earlier (i.e. emerging brands with disruptive potential). Furthermore, while these entrepreneur-led, emerging brands were only 20% of the value of the industry, they had contributed to 50% of industry growth over the 5-year period. Based on this firm’s study, almost all beverage category disruptions had been pioneered by entrepreneurs (see Figure 1.1) and not by the large CPG corporations, for example: *Red Bull* (energy drinks); *Silk* (soy drinks); *Vitamin Water* (enhanced water); *5-Hour Energy* (energy shots); *Muscle Milk* (protein drinks); and *Snapple* (new age beverages).
It is proposed in this dissertation that SBV can take several forms such as equity investments in external entrepreneurial brands, intrapreneurial brand ventures, and new business models that involve entrepreneurs such as franchising, brand alliances, or brand spin-outs. While a brief description is provided of each form, this dissertation focuses on equity investments. Unlike a joint venture where both partners take equity stakes in a newly created venture, this form of SBV encompasses a unidirectional equity investment between unequal partners. Motivated by strategic intent, the investment (usually minority at first) is made by non-financial, incumbent corporations in external, autonomous entrepreneurial firms (ventures). These ventures have high growth, potentially disruptive brands, and receive experienced assistance, capabilities, and access to assets from this corporate investor over a long time frame (3–5 years) that creates strategic and financial value.

1.2 Research Question and Objectives
No one CPG corporation can claim all the bright thoughts, creative marketing, and entrepreneurial talent necessary for disruptive brand creation. Strategic brand venturing offers a complimentary way forward for large organizations to access brand disruption external to their boundaries and is a new topic within the cannon of corporate entrepreneurship literature. As such, emphasis is placed in this dissertation on helping organizations to implement this approach through balancing theory with practice-based reasoning. Like Moroz and Hindle’s (2012) analysis of entrepreneurship models, an overarching epistemology of process is adopted that narrows the focus of this dissertation to the “how” of strategic brand venturing. The importance of understanding the corporate venture capital (CVC) process is also underscored by Poser (2003), who asserts that: ‘process helps to improve the understanding of CVC’…and…‘the CVC process illustrates the challenges of generating benefits with CVC’ (p. 108). Similarly, the actors-activities-resources framework (Håkansson and Snehota, 1989) used to study business networks and relationships also offered a helpful analytical reference. However, the predominant emphasis in this study is on the key activities involved in SBV. The purpose of the study is therefore to answer the following research question:

How is strategic brand venturing as a corporate entrepreneurship activity implemented in practice and identified in theory?
To accomplish this, the research objectives were threefold:

- To understand why SBV is triggered - the antecedents of SBV within the large CPG Corporation.
- To identify and examine key processes (also called activities, practices, or dimensions) involved in the execution of equity investments by large incumbent corporations in entrepreneurial brand ventures.
- To explore the context and underlying dynamics of SBV investments.

1.3 Significance of this Study

The significance of the consumer goods industry in the global economy spreads beyond its utilitarian character and economic value to act as a carrier and way station of cultural meaning via communication mediums, the fashion system, and consumption rituals (McCracken, 1986). Brands and branding as a primary vehicle through which this is accomplished represents a strategic intangible asset (Hall, 1993) within consumer packaged goods (CPG) firms. The customary brand growth strategies practiced by CPG firms and mentioned in the literature are: internal brand developments, brand extensions, or brand acquisitions (Doyle, 1989 and 1990). However, powerful brands are not easy to build and are costly and complex to develop and maintain (Davis, 2002; Aaker, 2004). The expense of brand building, the high failure rates of new products, the dynamics of social media that have evolved the voice and power of the consumer, and the rise of competitive and retailer pressures pose serious challenges for CPG firms (Berthon et al., 1999; Keller, 2008). Instead of building entirely new brands, CPG firms often resort to leveraging existing brand names either through strategic alliances with other brands (Cooke and Ryan, 2000; Park et al., 1996), or line extensions and sub-brands (Aaker and Keller, 1990; Tauber, 1981). In recent times, the large corporation has not only raided public capital markets for attractive targets (e.g. P&G buying Gillette for $57 billion), but also scouted privately held entrepreneurial pastures for disruptive brand ideas (e.g. Coca-Cola buying Vitamin Water for $4.1 billion). Despite the preponderance of entrepreneur-founded brands, the mainstream brand marketing texts (e.g., Aaker, 1996; Kapferer, 2008) are still relatively silent about the entrepreneur as a source of brand creation. However, several consumer product firms are beginning to see the importance of a dedicated internal venturing unit connected externally to an entrepreneur eco-system that creates new growth horizons for the large firm. Some of the most influential corporate venturing consumer units are indicated in a ‘Global Corporate Venturing’ report (Mawson, 2011) and include corporations such as Unilever, Procter and Gamble, Nestle, Cargill, Best Buy, Coca-Cola, Ikea, Danone, Nike, Adidas, General Mills, Pepsico, Diageo, etc. Activities of these units range from investing in entrepreneur brands or technologies with an option to acquire (see McWilliams, 2010); to incubating internal brand innovations led by dedicated intrapreneurial brand venture leaders; to devising incubators with external entrepreneurs. SBV is not a sui generis strategic notion per se, since collaboration between large and small industrial companies is a growing area of interest (Ford, 1980; Botkin and Matthews, 1992; Alvarez and Barney, 2001; Prashantham and Birkinshaw, 2008) and examples of equity partnerships among technology firms exist (e.g., Pisano, 1989; Kale and Puranam, 2004). However, at the specific level of corporate
entrepreneurship within the CPG industry, venturing relationships between leading CPG corporations and brand entrepreneurs are now catching on in practice (see Mawson, 2011), are being described in business media (Weitzner, 2009; McWilliams, 2010; Rowe, 2011; Rifkin, 2012), and only just beginning to receive scholarly examination (Austin and Leonard, 2008; Nazarkina, 2012). SBV is an under-researched area. The ensuing discourse provides a practitioner viewpoint and a conceptual and empirical ‘springboard’ for future inquiry. Hopefully, researchers in brand marketing, strategic management, and entrepreneurship domains will take up the challenge and further investigate this complimentary growth phenomenon.

1.4 Methodological Overview
This dissertation embraces realism philosophy focused on theory generation within an intensive study that used naturalistic inquiry. A small number of case studies with embedded units of analyses and an abductive logic were used to achieve insights. Data collection and analysis for the case studies encompassed purposeful sampling incorporating qualitative data such as interviews, observations, and documents that were analyzed using a template approach that yielded analytical generalizations. Table 1.1 summarizes the key choices that were made and which are justified and discussed at length in Chapter 5.

Table 1.1 – Research Design Elements and Choices

<table>
<thead>
<tr>
<th>Approach to Inquiry</th>
<th>Philosophy</th>
<th>Critical Theory</th>
<th>Constructivism</th>
<th>Positivism</th>
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<td>Realism</td>
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<td>Study Type</td>
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<td>Strategy</td>
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<td>Units of Analysis</td>
<td>Embedded</td>
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<td>Research Logic</td>
<td>Inductive</td>
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Table 1.1 – Research Design Elements and Choices

<table>
<thead>
<tr>
<th>Data Collection and Analysis</th>
<th>Sampling</th>
<th>Data Type</th>
<th>Data Sources</th>
<th>Analysis Approach</th>
<th>Generalizability</th>
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<td>Probabilistic</td>
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<td>Observations</td>
<td>Content</td>
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<td></td>
<td>Convenience</td>
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<td>Documents</td>
<td>Template</td>
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Source: Author (format inspired by Parish 2007, p. 118)
As indicated above, the abductive research process was adopted for this study. Figure 1.2 illustrates how this dissertation is organized using this approach.

**Figure 1.2**
Abductive Research Process Used in this Study

<table>
<thead>
<tr>
<th>Empirical</th>
<th>Practice</th>
<th>Theoretical</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Deviating Real Life Observations &amp; Analysis (Chapter 6 &amp; 7)</td>
<td>1. Deviating Praxis (Chapter 2 &amp; 3)</td>
<td>2. Theory Matching: Intersection Literature (Chapter 3)</td>
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<td>3. Theory Matching: Venturing Literature (Chapter 4)</td>
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<td>4. Research Strategy (Chapter 5)</td>
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<tr>
<td>Application of Conclusions</td>
<td>Application of Conclusions</td>
<td>6. Theory Suggestion (Chapter 8)</td>
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</tbody>
</table>

Source: Adapted from Kovacs and Spens (2005)

In this study we start with (Step 1) a ‘deviating real-life observation’ of strategic brand venturing based upon the author’s own practice within a Fortune 100 firm. Prior external corporate venturing theories forged in technology intensive industries are available and became known to the researcher during the course of the doctoral program, but did not shape the practice that was developed at first in a ‘naive’, bricoleur fashion. The eleven dimensions of strategic brand venturing practice are identified and described in the form of a conceptual model in section 4.3. These are then subjected to a literature-matching process with intersection theory (Step 2) in Chapter 3. Subsequent to this, theory sourced from corporate venturing literature is examined and matched against the conceptual model in Chapter 4 (Step 3). A research strategy is then outlined (Step 4) that enables the refined conceptual model derived from the above to be systematically combined with empirical case observations in Chapters 6 and 7 (Step 5) to generate a suggested theory or set of propositions that can ultimately be applied (Step 6).

**1.5 Structure of this Dissertation**

Following this introductory chapter and given the uniqueness of venturing with brands in this dissertation, Chapter 2 contains an introduction to branding and its strategic significance within a corporate entrepreneurship context. A conceptualization of SBV is then outlined where an
extension of the typology for strategic brand growth options is proposed to encompass venturing.

Chapter 3 enumerates the practice-based dimensions that comprise executing a SBV approach predicated on personal praxis of the researcher and offers a conceptual justification of SBV using intersection literature and theory to arrive at a proposed research model (SBV 1.0). This initial matching of practice to a broader set of literature (strategic management, entrepreneurship, and marketing) is undertaken for two reasons. First, because the more conventional external corporate venturing literature provides little in the way of how the activity nests within a wider domain landscape that could inform the subject, instead choosing to more directly analyze strategy, process, structure, relationship, and behavioural variables. Second, given that almost all literature on corporate venturing has a technology asset focus, it was thought that a broader conceptualization was required for venturing with brands in an endeavour to capture the nuances of an intangible asset. The dissertation would however have inadequate theoretical grounding without a review of the mainstream corporate venturing and entrepreneurship literature. Accordingly, Chapter 4 advances the conceptual work of Chapter 3 by completing a further literature-matching step to arrive at a refined model (SBV 2.0) for empirical validation. To investigate strategic brand venturing, the original model is refined after interacting with empirical data. This systematic combining is referred to as abductive reasoning that involves a continual confronting of theory with practice and the empirical world.

Chapter 5 describes the research strategy. In terms of the empirical setting, the United States consumer products industry was selected and studied using seven case studies. An exploratory qualitative research approach was deemed more relevant given the paucity of data on this emerging practice. Chapters 6 and 7 analyze the results of the fieldwork and are the longest portion of the dissertation as they provide comprehensive within-case coverage plus cross-case analyses. The dissertation concludes with a discussion of the findings and an elaboration of theoretical and practical implications in Chapter 8.

1.6 Delimitations
The principal delimitations revolve around the limited incidence of SBV cases that could be traced and accessed for empirical examination. Although a respectable number of seven cases were ultimately analyzed, two of these were sourced from the author’s own company of employment and revolve around practices originated by the author in setting up a venturing business unit. Given the pioneering nature of this work, these two cases were deemed to offer valuable insights and were included in the dissertation. Furthermore, the dissertation could have adopted a comparative analysis approach by examining how SBV differs from the more commonly encountered technology-based venturing practices examined in literature. This scenario was dismissed in favour of a deeper analysis of SBV cases given its nascent status in the cannon of corporate entrepreneurship literature. Finally, all cases were located within a United States geographical context and hence cross-national perspectives were not possible.
1.7 Conclusion
This first chapter provided the foundational premises and roadmap for the dissertation report. It introduced the research question and associated objectives, and articulated the significance of this topic as a field of inquiry. The methodology used in examining the topic was briefly overviewed, and the delimitations were provided. On these foundations, the dissertation proceeds with a detailed articulation of the research context and endeavour.
CHAPTER 2

BRANDS AND CORPORATE ENTREPRENEURSHIP:
SETTING THE CONTEXT

2.1 Introduction
2.2 Origin and definition of brands
2.3 Strategic significance of brands
2.4 Portfolio growth typology
2.5 Entrepreneurial brands
2.6 Strategic brand venturing
2.7 Corporate entrepreneurship
2.8 Summary

2.1 Introduction

Building strong brand portfolios are considered to be an important source of competitive advantage and superior business performance in the consumer packaged goods (CPG) industry (Barwise and Robertson, 1992; Chailan, 2008; Morgan and Rego, 2009). Conventional brand portfolio growth strategies have encompassed new brand creation, line extensions, brand acquisition (Tauber, 1981; Aaker, 2004; Laforet and Saunders, 2005), and also co-branding (Washburn et al., 2000). The industrial growth logic that CPG firms either build brands, extend brands, or buy brands (Doyle, 1990) is beginning to be complimented with a strategy of in-sourcing novel brands under the purview of entrepreneurial brand founders via external corporate venturing (Rowe, 2011) thus adding a new vector to the growth typology. Chapter 2 introduces a hitherto scantily treated option in the literature of strategic brand venturing (SBV) that is gathering momentum among prominent CPG firms traditionally known for their marketing and branding prowess such as: Unilever, Procter and Gamble, Nestle, Coca-Cola, Danone, Nike, Adidas, General Mills, PepsiCo, and Diageo (see Mawson, 2011). The range of activities undertaken by venturing units nested within these corporations are diverse (minority investment, incubators, acquisitions, new business models, internal venturing, etc.), yet centered on a common goal of collaborating with entrepreneurs in creative ways (see Weitzner, 2009 and McWilliams, 2010 for one such case study of The Coca-Cola Company).

The purpose of this Chapter is twofold:

a) To define brands and branding and then describe this emerging wave of entrepreneurial behaviour among influential consumer goods firms triggered by the relative success of entrepreneurs at new brand creation;

3 Portions of this Chapter were also published in Van Rensburg (2012b and 2014a) by Emerald and Springer respectively.
b) To elaborate on the exigencies of strategic brand venturing as a new growth vector within the corporate entrepreneurship domain thereby creating the context for the model development and further literature review in Chapter 3.

2.2 Origin and Definition of Brands

The concept of *brand* or *branding* dates back to times of antiquity and was used to ‘brand’ or identify (with hot irons or embers) harlots, criminals (Henning, 2000), or animals (Arnold and Hale, 1940). Moore and Reid (2008) describe how the characteristics of brands evolved beyond utilitarian purposes, such as providing information on origin or quality (Bronze age), to more complex characteristics such as image and value (Iron Age), to encompass personality in more modern times. According to Stern (2006, p. 217), the compound ‘brand name’ first appeared in business and marketing in 1922 as trade names on menus. Within an academic marketing context it can be traced back to Copeland (1923, p. 286) who defines a brand as: “a means of identifying the product of an individual manufacturer of the merchandise purveyed by an individual wholesaler or retailer”. Copeland argued that the role of the brand owner was not only to direct active demand to his product, but also to “arouse latent demand” and move the consumer from mere brand recognition to preference, and finally insistence. This recognition and insistence was more commonly described as brand awareness and brand loyalty in later research. Gardner and Levy (1955, p. 35) assert that the ‘sets of ideas, feelings, and attitudes that consumers have about brands’ essentially comprise their ‘image’ of the brand, and are significant drivers of them choosing and remaining loyal to a particular brand within a product field. A brand name is thus more than the label used to differentiate between competing products, but a complex symbol that represents many ideas and attributes evoked by the way it sounds, the body of associations built up over time, and its meanings imbued by advertising and communication strategies, all of which result in a public image, character or personality of the brand. Although brands were subordinated initially in literature under the product ‘P’ at the inception of the marketing mix (McCarthy, 1960; Borden, 1964), branding has always been a key decision for the manager (see Keith, 1960 for explication of the brand manager structure at Pillsbury4). In 1960, the American Marketing Association (AMA) defined a brand as:

‘A name, term sign, symbol or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors’.

Not unlike Copeland (1923), it is apparent from the 1960 AMA definition that the two principal roles of the brand are ‘identification’ and ‘differentiation’. This definition prevailed for some time and became a mainstay in popular marketing textbooks (Kotler et al., 2002). However, a few critiques are necessary. For instance, we cannot tell from this definition whether we are referring to a manufacturer, a wholesaler, or a retailer brand. This imprecision drove confusion when retailer brands became established in the 1980s and marketing literature referred to the “battle of the brands” (see Corstjens and Corstjens, 1995). The concept of brands has moved

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4 According to Low and Fullerton (1994, p. 180), the brand manager system was adopted as early as 1919 by Libby, McNeil, Libby; Procter & Gamble (1931); and Johnson & Johnson (1935).
well beyond definitions based on brand instigators located within the value chain to also encompass corporate brands, destination brands, industrial brands, and service brands to mention just a few. In this dissertation I will focus my use of ‘brand’ on the domain of the consumer goods industry, and secondly to the owner who architects a brand for sale to consumers. Further, I am hesitant to apply the descriptor of ‘manufacturer owned brands’ because as we shall see later, brand entrepreneurs seldom invest in manufacturing capability to build their brands. Capital constraints usually force them to outsource the production process to third party manufacturers for a toll-packing fee, with entrepreneurs preferring to invest every discretionary dollar into demand creation and the brand’s interface with the consumer and the community. Instead, I therefore posit the term ‘brand entrepreneur’ in this dissertation. Since the AMA definition, there have been many conceptions and definitions of brands put forward. For example, in researching over 100 articles published on “brand” during the 1980s and 1990s, de Charnatony and Dall’Olmo Riley (1998) identified twelve themes or categories of definition: Brand as legal instrument; as logo; as Company; as shorthand; as risk reducer; as identity system; as an image in the consumer mind; as a value system; as personality; as relationship; as added value; and as an evolving entity. Wood’s (2000, p. 666) synthesis of various literature sources resulted in the following definition:

“A brand is a mechanism for achieving competitive advantage for firms, through differentiation. The attributes that differentiate a brand provide the customer with satisfaction and benefits for which they are willing to pay.”

The definition or meaning of the brand is also influenced by the ontological and epistemological position that researchers adopt. In an informative review of brand management between 1985 and 2006, Heding et al. (2009) propose a taxonomy of seven approaches across a range of scientific traditions including positivism, constructivism, existential, phenomenological, and cultural to include: the economic approach (McCarthy, 1960; Borden, 1964); the identity approach (Hatch and Schultz, 1997); the consumer-based approach (Keller, 1993); the personality approach (Aaker, 1997; Plummer, 1985); the relational approach (Fournier, 1998); the community approach (Muniz and O’Guinn, 2001); and the cultural approach (Holt, 2002). This dissertation aligns most closely with the latter approach where a brand encompasses:

1. The **promises** made by the owner about the functional and emotional benefits target customers can expect to enjoy;
2. The **experiences** held and defined by the actual consumers (whether they were included in the firm’s target market description or not);
3. The subjective and objective **value** attributed by the consumer through their own personal use, and any feedback they detect from their social network (people within the social network may not have personally used the product, but may have perceptions derived from emergent and already formed stories about the brand in society at large).

According to Holt (2003), these components combine to create a **brand culture** comprising stories, myths, images, testimonials, legends, assertions, and connotations that circulate in society continuously authored and edited by multiple constituencies. Holt (2003) posits that the
components of a brand include reputational value, relationship value, experiential value, and symbolic value as denoted in Figure 2.1. In light of this, effective branding can be construed to involve the strategic management of societal perceptions of the product-brand for advantage-seeking outcomes.

Figure 2.1 – Components of a Brand

2.3 Strategic Significance of Brands

Scholarly interest in brands and branding has grown significantly in recent years. Using the Scopus database and confining the literature search to the terms, ‘brand’ or ‘branding’ appearing in either the article title, abstract, or keywords, and further limiting the search fields to only ‘Business, Management, Accounting, Psychology and Social Sciences’ a total of 4,062 academic articles on branding were published between 1951 and 2010. However, 80% (or 3,243) of these articles were published in the 2001 to 2010 period reflecting a dramatic growth in research interest in recent times. Excluding publications in the ‘social sciences’ and ‘psychology’ fields, the number drops to 46% (or 1,879) illustrating the sizeable interest in the topic even in related domains of marketing. A literature review of 339 articles from the Journal of Marketing and Journal of Marketing Research done by Dahlstrom et al. (2008) shows a substantial increase in the number of branding studies from 12.0% of all articles in 1986-1990 to representing 29.9% of all articles published in the 1996-2000 period.

A helpful perspective for interpreting the strategic role of brands derives from the consideration of factors and processes contributing to the development of firm-level competitive advantage (Rumelt et al., 1994). The resource-based view provides the conceptual foundations for linking brands to sustained competitive advantage in two ways: First, firms are seen as unique bundles of tangible and intangible resources (see Wernerfelt, 1984) in which brands comprise a valuable
intangible strategic asset (see Hall, 1983). Second, it emphasizes the role of a firm’s portfolio of idiosyncratic and difficult-to-imitate resources and capabilities as the core determinants of firm performance (Barney, 1991). Strong, iconic, disruptive brands conform to many of the criteria proposed by strategic management scholars (Barney, 1991; Grant, 1991; Peteraf, 1993; Collis and Montgomery, 1995) for identifying rent-generating resources and capabilities or sustained competitive advantage in the sense that they are: valuable; enable firms to explore opportunities via range and line extension; rare in the context of the industry especially if disruptive brands; costly to imitate; and without close strategic substitutes. In comparison with other firm-based resources and competencies, the brand uniquely has the capacity to develop an identity through a process of creating “value” and “meaning”, and thereby to create valuable rent seeking relationships with consumers. According to Rigopoulou (2002), this corporate focus on creating value for brands and enforcing their identity ‘represents the expression of the strategic intent of the company’. This corporate strategic focusing around brands is also called ‘brand orientation’ in the literature (Urde, 1994 and 1999; Simoes and Dibb, 2001; Bridson and Evans, 2004; Wong and Merrilees, 2005; Reid et al., 2005).

Brands are typically seen as a tool to achieve marketing objectives such as increasing repeat purchase or household penetration. Miller and Muir (2004) and Louro and Cunha (2001) however have argued that branding is more than marketing but is pivotal to business strategy. This is because of the ability of strong brands to command market share, create barriers to entry (Karakaya and Stahl, 1989), to facilitate diversification, cope with market disruption, source and retain talent, and stimulate innovation (de Charnatony and Dall’Olmo Riley, 1998). All these matters transcend marketing and are of strategic management and corporate entrepreneurial concern. The changing global context has also imbued brands with political and financial power according to Askegaard (2006, p. 92): “With the growing impact of market institutions on almost all aspects of our lives, it does not take much imagination to see ‘brands’ and ‘branding’ as part of an increasingly dominant market economic and commercial ideoscape, carried by organizations such as WTO, by marketing and management practices and by the contemporary sovereign status of the liberal market economy. As [part of] such an ideoscape, branding is becoming central to the structuring of commercial and economic activities in still larger parts of the world”.

The power of brands and branding was brought home to the author when two local companies each made a defining strategic acquisition. On May 25th, 2007, The Coca-Cola Company announced it had purchased Glaceau, owners of the Vitamin Water brand for $4.1 billion. On April 15th, 2008, Delta announced its purchase of Northwest Airlines for $2.6 billion. While Delta acquired numerous hard assets (e.g. a fleet of over 300 aircraft), Glaceau was bought with essentially no buildings, plants, fleet, or advanced technology. At least three observations can be made:

First, the brand is a powerful intangible asset that can create significant shareholder value and provide leverage for a firm from a strategic management and marketing standpoint.
Second, the Vitamin Water brand had been built by an entrepreneur supported by a cadre of fervent brand missionary employees, and not by a large public company. It is noteworthy that virtually none of the major brand management texts (e.g. Aaker, 1996) contain meaningful reference to the entrepreneur as the source of brand creation. Most books on branding are targeted at executives assumed to be resident within large firms. Few studies have been completed on the role of the entrepreneur in brand creation, or their disrupting influence on established markets via innovative new brands, or even the role of brand management within entrepreneur firms. Koehn (2001) partially fills the literature gap with a study of six entrepreneurs who built great enduring brands amidst significant social and technological change in their eras. Her study covers the brand-building journeys of Josiah Wedgwood (tableware and fine china), Henry Heinz (packaged beans and foods), Marshall Field (department stores), Estee Lauder (cosmetics), Howard Schultz (Starbucks coffee), and Michael Dell (personal computers). Koehn (2001, pp. 320) attributes their success to five reasons:

- A deep knowledge and personal experience of their product or service
- Rapid learning from mistakes and rapid fine-tuning
- Creating meaningful and differentiated brands built upon consumers’ changing priorities
- Reciprocal learning with customers due to frequent two-way communication
- A range of capabilities ensuring the brand promise could be sustainably delivered

From a practitioner perspective, Vinjamuri (2008) examines ‘accidental’, extraordinary brands built by ‘ordinary’ entrepreneurs (J. Peterman catalog; Craigslist.org; Cliff Bar; The Art of Shaving; Columbia Sportswear; Baby Einstein; and Burt’s Bees). While the work offers some helpful practical rules for entrepreneurial brand building, several of the examples don’t warrant the moniker of ‘extraordinary’ given revenue threshold levels are purportedly only $20 million in some cases.

Third, while the Vitamin Water example is a case of brand acquisition, an equity stake at an earlier stage in the brand’s lifecycle could possibly have been a more cost effective option. However, no reference can be traced that includes brand venturing as a competitive growth strategy for CPG firms. There is literature on marketing alliances, partnerships, or co-branding (Botkin and Matthews, 1992; Gibbs and Humphries, 2009), but none seem to call out the special option of equity ventures with brand entrepreneurs.

2.4 Portfolio Growth Typology
Identifying innovative brands early enough in their lifecycle that have the potential for disruption, and forging venturing arrangements with entrepreneur founders of such brands could constitute a competitive advantage for large incumbent firms. The customary strategic growth options for CPG firms advocated in the literature are: internal brand development, brand extensions, or brand acquisition (Doyle, 1990). An extension of this typology is proposed in this dissertation to encompass venturing (see Figure 2.2) that can take several forms:
2.4.1 Equity investments in entrepreneurial brands

This is a form of external venturing and involves the large incumbent firm extending their innovation boundaries by taking equity stakes in promising new brand companies run by entrepreneurs and is the focus of this dissertation. A cooperation model is usually agreed that leverages the best assets of the large corporation to accelerate growth and strategic health of the entrepreneur brand (low cost supply chain, customer access, marketing research, procurement leverage, media buying power, etc.) while simultaneously retaining the best attributes of the entrepreneur firm in terms of agility, consumer affinity, improvisation, authentic story-telling, social value, specialized channel expertise, etc. Usually, a pathway to full ownership is agreed upfront based on a negotiated time period (2-5 years), or based on reaching predetermined revenue thresholds.

2.4.2 Intrapreneurial brand ventures

Here corporations launch new brand incubations using entrepreneurial approaches (e.g., recruiting an external entrepreneur – having an entrepreneur ‘in-residence’, or inviting internal corporate entrepreneurs to apply and then act as the brand missionary). Intrapreneurship is one of the oldest forms of corporate venturing and was first popularized by Pinchot (1985) through his seminal book *Intrapreneuring*. Pinchot appealed to the notion that managers within large corporations need not leave the corporation to commercialize an entrepreneurial idea, but should be encouraged to remain and be treated in an entrepreneurial fashion in terms of greater autonomy and more appropriate reward structures. One of the best-known intrapreneurial brand ventures is the founding of the ‘post-it’ note within the 3M Company (Fry, 1987). Projects are also good corporate entrepreneurship vehicles for cultivating intrapreneurial talent inside large firms (Frederiksen and Davies, 2008). The key here is not to commit too much resource to these upfront but to keep the project resourcing akin to a venture capital mode based on milestones achieved and the governance model akin to an entrepreneurial venture. Many times large CPG firms ‘think big and launch big’ with the attendant costs and upheaval. Intrapreneurial brand projects are a great way to ‘think big,’
start small, and scale intelligently'. Large-scale CPG brand launch failures have significant reputational and strategic costs associated with them, and while intrapreneurial brand ventures can also fail (for this is the nature of any concerted innovation thrust), the costs are not nearly as detrimental plus significant learning benefits can accrue. Innovating with new brands and products is challenging inside the brand management system of a typical CPG corporation given the pressures to deliver results on the current business. Opting to be a venture leader starting with zero revenue and a small team may seem a riskier option, yet a potentially more rewarding one with the chance of creating future disruptive brands.

2.4.3 New business models
This encompasses new business models that especially capitalize on entrepreneurial skills. Several options are illustrated below such as franchising, brand spin-outs, and alliances. In the first instance, the large firm leverages its existing brand equities into new industries and businesses via new business models such as franchising that involve entrepreneurs or entrepreneurial capabilities. This differs with brand extensions that usually involve extending the brand into a related consumer product category or segment that do not require an entrepreneurial capability but a more classical brand management capability (e.g. Dove soap into shampoo). Good examples of both a new business model and a new industry extension include Proctor & Gamble hiring entrepreneurs to assist them in building totally new businesses by leveraging an existing brand such as Tide detergent into dry cleaning and Mr. Clean household cleaner into car washes (Byron, 2009). Both of these are totally new industries for P&G and redefine the corporation’s brand domain beyond products into services through entrepreneurial franchising.

Brand name spin-outs to entrepreneurs is another example of a new business model. Most established CPG firms have dormant brands in their corporate vaults. A novel approach could be to spin out these brands to entrepreneurs via either a royalty arrangement, or an outright sale but one that retains a call option to re-purchase the brand later. Entrepreneurs benefit by selecting and acquiring those brands at nominal cost with positive values, built-in history, and brand name recognition versus building one from scratch which is both costly and time consuming. The established firm benefits by generating rent from amortized assets via the royalty fee or via preferential terms on a revitalized, resurgent brand that can add to future growth and market share when re-combined in its portfolio. Serial or new entrepreneurs with the skills to nurture and incubate have a greater chance of reviving such brands versus classical brand management who are constrained by legacy route-to-market systems, tight budgets and prioritized spending on existing key brands. Bellman (2005) cites 40 recent examples of brand revivals, many of which are examples of entrepreneurs purchasing dormant brands from established firms (e.g., Rheingold beer; Ovaltine).

Entrepreneurial brand alliances could include activities such as co-branding, licensing or cooperative arrangements with brand entrepreneurs that may or may not have an equity or ownership component at some later stage. An example in the consumer service sector is the
partnering, and ultimate incorporation, of the Geek Squad (a mobile computer/IT installation and trouble-shooting service brand founded by an entrepreneur student, Robert Stephens) into Best Buy, an electronics retailer (Tapscott and Williams, 2007). The founding entrepreneur has remained on within Best Buy as "founder and chief inspector". Building a corporate reputation for alliances through effective relationship architectures, and branding this competence can become a competitive differentiator and is a prerequisite to attract the right entrepreneurial partners.

2.5 Entrepreneurial Brands
The brand entrepreneur is infrequently mentioned in marketing textbooks despite the legacy and propensity of entrepreneurs to create disruptive brands, such as inter alia: Calvin Klein, Red Bull, Body Shop, Gucci, Wedgwood, Heinz, Estee Lauder, Carlsberg, Starbucks, Rolls Royce, Harley, Lipton, Virgin (see exceptions in Fucini and Fucini, 1985; Koehn, 2001; da Silva Lopes and Casson, 2007; Vinjamuri, 2008; and Kaputa, 2012). Most empirical and conceptual work on brand management has taken place within a large-firm context (Aaker, 1996; de Chernatony, 2001; Keller, 2008; Kapferer, 2008). Only recently has attention been drawn to the branding practices of SMEs - small-medium sized enterprises (Abimbola, 2001; Boyle, 2003; Krake, 2005; Berthon et al., 2008). A distinction however is drawn in this paper between SMEs and entrepreneurial ventures following the approach of Carland et al. (1984, p. 358):

*Small business venture*: any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices.

*Entrepreneurial venture*: one that engages in at least one of Schumpeter’s innovative strategic practices to achieve profitability and growth.

This dissertation focuses on the latter while recent non-large firm branding studies focus their inquiry primarily on SMEs. However, size per se is not the key independent variable. Instead, it is the marketing behaviour of the founding entrepreneur and their intended strategic quest that matters. A classic example of a brand entrepreneur who created a disruptive brand can be found in the case of Red Bull energy drink. While on a business trip in Thailand, the Austrian Dietrich Mateschitz discovered a local taurine beverage called Krating Daeng [red water buffalo] that cured his jetlag. He identified the opportunity for a disruptive new brand with a functional benefit targeting an unmet consumer need-state in an industry dominated by brands with refreshment and emotional attributes. Initially unnoticed and started in a niche-like manner in bars and on-premise channels with cool and daring imagery, the brand’s distribution and consumption occasions were gradually broadened to birth a multi-billion dollar new global beverage category (see Kumar et al., 2004; McDonald, 2011). Disruptive brands use unconventional media channels (Joachimsthaler and Aaker, 1997) to build trial and engagement and suddenly ‘burst into our lives with little or no apparent support’ (Fry, 2005). They employ stealth-like marketing tactics to reach consumers surreptitiously (see Kaikati and Kaikati, 2004 for examples), and initiate rapid competitive actions in low-key, even secretive-like fashion (see
Chen and Hambrick, 1995; Katila et al., 2012). Using case studies, Simon (2009) provides an insightful treatment of successful ‘hidden companies’ in Germany to reinforce this notion. In a consumer product context, these brands can expand industry consumption and/or materially cannibalize established categories through delivery of superior functional and emotional benefits ultimately resulting in share erosion for larger firms. The recent accomplishments of Turkish immigrant, Hamdi Ulukaya with Chobani Greek yogurt in the U.S. yogurt category, is a good example of a new, disruptive entrepreneurial brand in an established category. Reaching $1 billion in sales in only six years, this explosive, unanticipated growth precipitated significant share loss among reputable incumbents such as General Mills (Yoplait brand) and Dannon (see Entrepreneur, 2012; and Ulukaya, 2013).

Some researchers suggest that larger firms are best suited to allowing entrepreneurial firms to pioneer new markets and entering later (as a “fast second”) to dominate with established brand names (Geroski and Markides, 2004). It has been argued that a fast-followership approach best leverages large firm capabilities and that opening new markets are less efficient (Norman et al., 2008). Ceding first-mover advantage to entrepreneur brands however can be a risky strategy as disruptive brands can imbue themselves with inimitability. Large incumbents typically react too late to these disruptors since large firms according to Kilduff et al. (2010), pay attention to rivals that are visible to them such as those similar in size or similar in characteristic. Once noticed, the large firm will try to compete through leveraging existing brand equities or launching entirely new brands. However, the classical brand management structure is notoriously ill equipped at building disruptive new businesses. Dissatisfaction with the brand management approach has been noted for some time in the literature (see Dietz, 1973; Low and Fullerton, 1994). This is unsurprising given the bureaucratic environment brand managers are often located within and their low levels of authority compared with the owner-entrepreneur that has created a new brand. Disruptive brand innovations are also difficult to gauge and detect through conventional market research methods employed by large firms’ since these tools cannot predict, measure or simulate the adoption/diffusion process for disruptive ideas. Morgan (2009) reinforces this notion of disruption with his work on challenger brands that successfully compete with reputable brand leaders by following eight credos: intelligent naivety; clarity on the core proposition; building a lighthouse identity; taking category thought leadership; creating symbols of consumer re-evaluation; sacrificial focus; over-commitment within the focus areas; entering social culture through communications and publicity; and ideas that constantly refresh and renew the relationship with consumers. Wacker and Mathews (2002) also contribute to this general theme of market disruption with their treatise on how ideas and products can migrate from the fringe of society to mainstream mass marketability.

In addition to launching new brands or extending existing brands as a response to disruptive threats, large corporations also seek to strengthen their brand portfolio through acquiring external brands. Surprisingly, not many academic articles can be found on the merits and trade-offs of expansion strategies for building a competitively advantaged brand portfolio. Doyle (1990) approaches the build vs. buy vs. extend decision from a conceptual viewpoint, while
Damoiseau et al. (2011) conduct one of the first empirical studies on brand creation versus brand acquisition. Creating and developing new brands within a firm is a risky venture, and a slow, complex and expensive route (Tybout and Calkins, 2005). For example, Doyle (1990) cites a Booz, Allen & Hamilton study that shows a very high proportion of new brands fail. Kohli (1997) mentions the costs of new product introductions reaching $100 million and quotes failure rates in the range of 75%. These findings are also supported by a major industry-level study performed on nearly 3,500 beverage brands over a five-year time period (Van Rensburg, 2009) that indicated 97% of new brands launched in the U.S. beverage market failed to survive or surpass a $10 million revenue threshold. The sheer difficulty of infusing entrepreneurship into new brand creation and into formal brand management structures has resulted in large organizations resorting to acquisition as a means of strengthening their brand portfolios: “For many companies the most practical and economic route to getting new products is to acquire them, thus taking advantage of entrepreneurial capacities which the corporation itself is no longer capable of developing” (Dietz 1973, p. 134). However, brand acquisitions may not only be expensive but also risky especially when trying to integrate a social icon brand into an efficiency-minded, bureaucratic brand management structure. An excellent example of this was the ill-fated acquisition of Snapple by Quaker Oats.

2.5.1 Example of Quaker Oats and Snapple

Senior management of Quaker overlooked and discarded the special soul and marketing intricacies of Snapple created by its entrepreneurial founders when seeking to integrate and harmonize marketing mix elements with Gatorade, a much larger brand in their portfolio. They bought the brand for $1.7 billion in 1994 only to divest it for $300 million a few years later thus damaging its balance sheet, credit rating and corporate confidence (Burns, 1997). Under its entrepreneurial founders, Snapple’s promotion strategy resembled an offbeat fusion of public relations and advertising. A spokesperson was created for the brand in Wendy Kaufman, a former truck dispatcher with an eccentric personality who attracted unpaid media attention appearing on television shows such as Oprah and David Letterman. Snapple also sponsored two programs with shock radio personalities – Howard Stern (sexist humor) and Rush Limbaugh (political sarcasm). These personalities regularly conveyed an authentic appreciation and knowledge of Snapple in their broadcasts. Shortly after acquisition, Quaker terminated relationships with both radio hosts eliciting unabated derision from them on the airwaves. Quaker also sought to terminate and redirect hundreds of family-owned distributors who had painstakingly built Snapple in small stores in favour of a direct-to-warehouse distribution approach for large supermarkets. Quaker under-estimated the in-store ‘hustle’ power of these smaller distributors and inadvertently overlooked the fact that many had perpetual contracts making it impossible or prohibitively expensive to terminate them. Additionally, Quaker launched larger pack sizes for Snapple (similar to Gatorade) in the hope of selling more liquid, but came unstuck as Gatorade’s premise for consumption (thirst quenching, rehydration) was totally different compared with Snapple’s brand premise (adding a little personal ‘whimsy’ to the daily humdrum). Faced with declining sales and market backlash, Quaker offloaded the brand to private equity firm Triarc Company, who immediately set about reinstating several of the original
marketing mix elements restoring growth and profitability, and eventually selling the brand to Cadbury Schweppes for about $1 billion in 1997. This case illustrates the deleterious effects of misjudging brand equity drivers and culture when acquiring entrepreneurial brands. Deighton (2002, p. 53) opines on the debacle this way:

“There are factors beyond economic analysis to take into account if the process of brand management is to cohere. What we call a brand identity is actually a form of meaning, made at least as much by small, impromptu managerial acts as by grand designs precisely executed. The managerial temperament makes itself known and felt in those small, almost unconscious, actions and decisions. Variations in temperament go a long way toward explaining why brands that flourish in the care of one custodian wither in another. So before committing to a deal, don’t just consider a brand’s sales. Give some thought as well to its soul.”

Barwise and Robertson (1992) and Phillips (1998) underscore this important notion of brand culture and soul asserting that many acquisitions prove hard to integrate and can lose momentum post acquisition. Acquisition is nevertheless a quicker (Barwise and Robertson, 1992) pathway to building a brand portfolio as the transaction occurs within weeks or months, and early development risks can be circumnavigated when buying a scaled and proven brand. Acquisition also allows the corporation to select the category and brand positioning that best augments the existing brand portfolio and enables a more measured pace of brand expansion (Kahn and Isen, 1993). However, empirical evidence suggests that most acquisitions fail to generate long-term shareholder value or build sustainable brand portfolios (Porter, 1987) and can even result in downstream divestitures. For instance, Kaplan and Weisbach’s (1992) study found that acquirers divested 44% of their target companies in later years. Acquisitions can also serve to fragment brand portfolios making a coherent global brand portfolio difficult to architect with a patchwork of country-specific deals being advocated by regional management to fill local portfolio gaps. The next section illustrates how SBV offers a complimentary approach to outright acquisition.

2.6 Strategic Brand Venturing

Notwithstanding the above challenges, brand acquisition is a popular strategy for large firms. Acquisition targets are typically sourced from publically traded peers (e.g., Kraft Foods buying Cadbury for $19.6 billion; General Mills paying $10 billion for Pillsbury), or privately held entrepreneurial brand firms (e.g., Japan’s largest cosmetics company, Shiseido acquiring the American start-up Bare Escentuals for $1.7 billion in 2010, or The Coca-Cola Company purchasing Glaceau Vitamin Water for $4.1 billion in 2007). Table 2.1 below shows a selective list of large firms that have either acquired or entered into strategic brand venturing relationships with businesses founded by brand entrepreneurs in the U.S.

Some of the more high profile moves include:

Clorox acquiring Burt’s Bees a range of natural personal care products from brand entrepreneur Roxanne Quimby in 2007. In 2000, Kellogg’s purchased an organic cereal Kashi from brand entrepreneur couple Philip and Gayle Tauber. L’Oreal bought The Body Shop from entrepreneur Anita Roddick in 2006. Unilever enhanced their brand portfolio when they bought
Ben and Jerry's ice cream from brand entrepreneurs Ben Cohen and Jerry Greenfield in 2000. A different approach to outright acquisition was pursued by Dean Foods dairy when they acquired a minority stake in Silk soydrink in 1998 and entered into a SBV relationship with founding brand entrepreneur Steve Demos in 2002. The Coca-Cola Company adopted a similar venturing approach making minority equity investments in Honest Tea during 2008, Innocent beverages in 2008, Zico in 2009, and FairLife dairy venture in 2012. Groupe Danone also orchestrated a SBV relationship with Stonyfield Farms organic yogurts in 2001. While Section 2.3 proposed several options for large firms to venture with and leverage brand entrepreneurs, the focus of this dissertation is on the first vector of the SBV typology of equity investments. As such, three case study vignettes have been compiled from business and academic literature below to illustrate the notion of SBV further.

Table 2.1 - Examples of Brand Entrepreneurs and Large Corporations

<table>
<thead>
<tr>
<th>Brand Entrepreneurs</th>
<th>Brand</th>
<th>Category</th>
<th>Incumbent Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roxanne Quimby</td>
<td>Burt's Bees</td>
<td>Personal care</td>
<td>Clorox</td>
</tr>
<tr>
<td>Philip &amp; Gayle Tauber</td>
<td>Kashi</td>
<td>Cereals</td>
<td>Kellogg's</td>
</tr>
<tr>
<td>Ben Cohen and Jerry Greenfield</td>
<td>Ben &amp; Jerry's</td>
<td>Ice-cream</td>
<td>Unilever</td>
</tr>
<tr>
<td>Todd Woloson and Anna Dougherty</td>
<td>Izzie</td>
<td>Carbonated juice</td>
<td>PepsiCo</td>
</tr>
<tr>
<td>Tony Hsieh</td>
<td>Zappos</td>
<td>E-commerce</td>
<td>Amazon</td>
</tr>
<tr>
<td>Leslie Blodgett</td>
<td>Bare Escentuals</td>
<td>Cosmetics</td>
<td>Shiseido</td>
</tr>
<tr>
<td>Brian Maxwell</td>
<td>Power Bar</td>
<td>Energy bars</td>
<td>Nestle</td>
</tr>
<tr>
<td>Dr. Hannah Howard</td>
<td>Oxiclean</td>
<td>Detergent</td>
<td>Church &amp; Dwight</td>
</tr>
<tr>
<td>Clare and David Heatt</td>
<td>Howies</td>
<td>Clothing</td>
<td>Timberland</td>
</tr>
<tr>
<td>Craig Sams and Josephine Fairley</td>
<td>Green &amp; Black's</td>
<td>Chocolate</td>
<td>Cadbury Schweppes</td>
</tr>
<tr>
<td>Clay Mathile</td>
<td>Iams</td>
<td>Pet food</td>
<td>Procter &amp; Gamble</td>
</tr>
<tr>
<td>Anita Roddick</td>
<td>Body Shop</td>
<td>Retailing</td>
<td>L’Oreal</td>
</tr>
<tr>
<td>Darius Beikoff</td>
<td>Vitamin Water</td>
<td>Beverages</td>
<td>Coca-Cola</td>
</tr>
<tr>
<td>Lara Merriken</td>
<td>Larabar</td>
<td>Food bars</td>
<td>General Mills</td>
</tr>
</tbody>
</table>

Strategic Brand Ventures

<table>
<thead>
<tr>
<th>Brand Entrepreneurs</th>
<th>Brand</th>
<th>Category</th>
<th>Incumbent Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Demos</td>
<td>Silk*</td>
<td>Soydrink</td>
<td>Dean Foods</td>
</tr>
<tr>
<td>Tom and Kate Chappell</td>
<td>Tom’s of Maine*</td>
<td>Oral care</td>
<td>Colgate</td>
</tr>
<tr>
<td>Rodrigo Veloso</td>
<td>O.N.E.</td>
<td>Coconut water</td>
<td>PepsiCo</td>
</tr>
<tr>
<td>Gary Hirshberg</td>
<td>Stonyfield Farms</td>
<td>Dairy (Yogurt)</td>
<td>Groupe Danone</td>
</tr>
<tr>
<td>Seth Goldman and Barry Nalebuff</td>
<td>Honest*</td>
<td>Tea/fruit drinks</td>
<td>Coca-Cola</td>
</tr>
<tr>
<td>James Rouse, Greg Stroh, Wes Bracher</td>
<td>Mix 1*</td>
<td>Protein drink</td>
<td>Hershey</td>
</tr>
<tr>
<td>Clayton Christopher and David Smith</td>
<td>Sweat Leaf</td>
<td>Tea</td>
<td>Nestle</td>
</tr>
<tr>
<td>Mark Rampolla</td>
<td>Zico</td>
<td>Coconut water</td>
<td>Coca-Cola</td>
</tr>
<tr>
<td>Richard Reed, Adam Balon, Jon Wright</td>
<td>Innocent</td>
<td>Smoothie drinks</td>
<td>Coca-Cola</td>
</tr>
<tr>
<td>Steve Ellis</td>
<td>Chipotle**</td>
<td>Ethnic restaurant</td>
<td>McDonald’s</td>
</tr>
<tr>
<td>John Cochrane and ‘Spike’ Buckowski</td>
<td>Terrapin</td>
<td>Craft beer</td>
<td>Miller-Coors</td>
</tr>
<tr>
<td>Robert Paul and Peter Wadlkek</td>
<td>Nawgan</td>
<td>Brain health drink</td>
<td>Kirin Holdings</td>
</tr>
</tbody>
</table>

* Migrated from SBV equity relationship to full acquisition over time  ** Exit ed from SBV equity relationship
Source: Compiled by author from various trade publications and press clippings
Published in: Van Rensburg (2014a)

2.6.1 Examples of strategic brand venturing

Example 1: The Coca-Cola Company and Honest Tea
In 2008 a SBV partnership was forged between The Coca-Cola Company and Honest Tea, an entrepreneurial brand venture co-founded in 1998 by Seth Goldman and his Yale professor, Barry Nalebuff. Honest Tea was positioned as an organic, less sweet tea with a self-proclaimed commitment to authenticity and integrity built on a reputation for social responsibility and environmental sustainability. Instead of an outright purchase, Coca-Cola acquired a 42% equity
stake in Honest. With this investment and the parent’s distribution and selling muscle, the brand dramatically increased distribution from 15,000 stores to over 75,000 stores and trebled revenue. The scaling of the brand’s distribution base fulfilled more than pure economic goals for the entrepreneur, it fulfilled a health and wellness desire to ‘democratize organics’ according to their CEO. The remaining 58% of the shareholder equity of Honest Tea was purchased in 2011 with Seth Goldman being retained as its Chief Executive. Even with the purchase, the business was maintained as a stand-alone entity based out of Bethesda under a unique operating model that allowed for autonomy while accessing the scale benefits of being part of the Coca-Cola system. "We’ve been engaged to Coke for the past three years, and now we are getting married," Goldman said. "When you’re engaged to somebody, you’re around them enough that you can gauge any bad habits. So we don’t really expect any surprises, and we certainly have developed a good working relationship" (Washington Post, 2011). One observer notes that:

‘Simply acquiring and absorbing a sustainable brand threatens to destroy what made the brand successful in the first place – the personal connection with consumers and their values…Coca-Cola’s Venturing and Emerging Brands business unit is an innovative attempt to allow an acquired brand to retain its personality and a degree of independence while ensuring that the new business benefits from the parent company’s financial muscle and ultimately produces a healthy return-on-investment’ (Rowe, 2011).

Commenting on the SBV relationship from the corporate investors perspective, the president of Venturing & Emerging Brands (VEB) said: “When we made the investment in Honest Tea, we did so because we saw that it had great potential to be a significant brand of the future. Three years after, the brand truly reflects where consumer demand is today and we are excited about being on the verge of still more growth…Beyond growth, having the unique vantage point of a minority investee and watching Honest Tea has helped our company in many other ways, from encouraging Coca-Cola to obtain organic certification at three of our facilities, to establishing a state of the art tea brewing and filtration system at a bottling plant. Additionally, it enabled us to participate with Honest in a number of sustainability initiatives on recycling. All of these efforts reflect why VEB has chosen to invest in entrepreneurs like the team at Honest – they provide a source of innovative ideas and energy that enhance our own efforts” (Business Wire, 2011). To this day, the company is still run as an independent entity under the stewardship of the Coca-Cola venturing unit and deemed to be a smart example of post-merger identity integration (Bouchiki and Kimberly, 2012). For the full story of this entrepreneurial brand venture’s journey and the factors contributing to forming an SBV partnership, see Goldman and Nalebuff (2013).

Example 2: Dean Foods and White Wave
Steve Demos, who had turned to entrepreneurship after studying Eastern philosophy with a vision to create a company based on principles of sustainability, invented Silk soy drink. He founded White Wave, Inc. in 1977 making and selling soy-related products. In 1996 he launched a new soymilk brand called Silk as a potentially disruptive alternative to dairy milk and positioned the brand in milk-cartons within the refrigerated segment of supermarkets. For lactose intolerant and health conscious consumers seeking natural organic nutrition, Silk met an unfilled need in the market. Early on the brand broadened its appeal beyond efficacy and
nutrition to encompass a progressive culture and image around sustainability, purchasing wind power for its supply chain and contributing to charities. Demos began marketing the benefits of conscious capitalism but soon ran into funding limitations to build distribution, secure key account listings, and raise brand awareness. In 1998, Dean Foods, one of the country’s largest milk processors, invested $15 million in exchange for a 35% equity stake in White Wave with a further option to acquire the company outright. Sales reached $10 million by end of 1999. In early 2002, White Wave became fully owned by Dean Foods. Demos agreed to remain as entrepreneur in-residence, was appointed president of the new subsidiary with attractive financial growth incentives, a free-reign to run the business continuing their entrepreneurial marketing approach (innovative products, speed to market, intuitive-based decisions versus formal market research, etc.), and a commitment to retain White Wave’s headquarters in Boulder, Colorado. The Silk brand benefitted from access to the parent’s direct-store delivery system, its manufacturing assets, and additional financial muscle that came in the form of increased marketing expenditure. By the time Demos departed in February 2005, the brand had achieved sales of $280 million and a 78% share of the refrigerated soymilk market (Wasden, 2009).

Example 3: Groupe Danone and Stonyfield Farm
Stonyfield Farms was founded in 1983 as an organic farming school that grew to become the world’s largest branded organic yogurt producer. The company has built a reputation for its leadership in organics, natural nutrition and corporate environmental responsibility under the stewardship of brand entrepreneur/CEO, Gary Hirshberg. By 2000, sales had reached $57 million. In 2001 a strategic brand venturing partnership with the global CPG firm, Groupe Danone was agreed whereby Danone purchased 40% of Stonyfield Farm equity, with Gary Hirshberg the brand entrepreneur/CEO remaining operationally in charge. The partnership gave Stonyfield access to a reservoir of capabilities within Danone such as financial, manufacturing, purchasing, and logistics expertise. On the other hand, Danone gained access to the marketing thought leader in the US natural and organic market and the strongest brand within the influential natural trade channel and marketplace. Jointly, their respective strengths have enabled a niche, purpose-driven brand to thrive, to scale and penetrate mainstream US households with a healthier, more socially and environmentally responsible model. Two years later in 2003, Danone increased their ownership to 85%. To this day, Hirshberg remains a shareowner, and under a long-term performance arrangement he continues as President and Chairman of Stonyfield. According to a Stonyfield website press release (Toomey, 2004), the sales, brand and marketing strategies remain independent from Danone and their commitment to donate 10% of annual profits to environmental causes remains intact. Since the equity investment and entrepreneurial partnership with Groupe Danone, sales of Stonyfield Farm under Hirshberg’s leadership have grown from $57 million at the end of 2000 to $360 million in 2010 yielding a compound annual growth rate of 20% versus 5.4% for the parent company (derived from Danone website).
2.6.2 Benefits of SBV

SBV thus offers an interesting alternative to full acquisition as it gives both the large corporation and the agile entrepreneurial firm the opportunity to get to know each other while concomitantly benefiting from each other strategically and commercially. Presumably under an SBV arrangement, the marketing missteps made by Quaker management may have been averted with the Snapple brand entrepreneurs still intact navigating the relationship with an eye on brand culture, and learning from each other about where best to leverage respective strengths in complementary ways. For the large established firm, SBV may help circumvent certain ‘liabilities of largeness’ (see Henley, 2007) such as prior success, entrenched commitment to legacy systems, rejection of change, and agency issues that may impede disruptive brand creation occurring. Leonard-Barton (1992) found that core competencies (values, skills, managerial and technical systems) that had served the company well in the past might be experienced as core rigidities when executing innovative projects (such as new brand creation in this thesis). Since SBV is a boundary-spanning activity implemented via a corporate venture unit separate to the core business, it is more conceivable that external disruption can be accessed unencumbered by core rigidities. For the entrepreneurial brand firm, SBV helps counteract liabilities of newness and smallness (financial resources; skilled work force; supporting networks; etc) that organizational ecology theorists (Hannan and Freeman, 1977) suggest impair organization success rates. Table 2.2 below summarizes some of the intermediate benefits for each party. The ultimate goal for the incumbent is forging a competitively superior, high growth brand portfolio. On the other hand, enhanced venture survival and the heightened prospect of achieving iconic brand status are an aspirational goal for the entrepreneur.

Table 2.2 - Potential Benefits of Strategic Brand Venturing

<table>
<thead>
<tr>
<th>Intermediate Benefits</th>
<th>Incumbent Firm</th>
<th>Entrepreneurial Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Access to high growth, disruptive brands</td>
<td>Access to distribution capability for scaling brands in mass channels</td>
</tr>
<tr>
<td></td>
<td>Imbibing entrepreneurial culture and talent that can spur intrapreneurship, opportunity identification, and attract capable, motivated people</td>
<td>Access to international markets</td>
</tr>
<tr>
<td></td>
<td>Leverage value from existing assets (production, distribution, procurement, etc.)</td>
<td>External legitimacy and awareness</td>
</tr>
<tr>
<td></td>
<td>Relatively low risk or low cost strategic exploration beyond core categories and markets</td>
<td>Ability to leverage incumbent firm expertise to fill competency voids</td>
</tr>
<tr>
<td></td>
<td>Access to interesting new ingredients, recipes and technologies</td>
<td>Potential exit strategy via acquisition</td>
</tr>
<tr>
<td></td>
<td>Access to new distribution channels and influential retailers supporting disruptive brands</td>
<td>More flexible financing options</td>
</tr>
<tr>
<td></td>
<td>Halo effect of being innovative and entrepreneurial especially with sustainability and mission-driven brands</td>
<td>Access to large firm resources, capabilities and strategic marketing assets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ultimate Goal</th>
<th>Incumbent Firm</th>
<th>Entrepreneurial Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strategically advantaged, high growth brand portfolio</td>
<td>Venture / mission survival, and iconic brand status</td>
</tr>
</tbody>
</table>

Source: Van Rensburg (2014a).
In essence, **strategic brand venturing** is a business development strategy that falls under the broader notion of corporate entrepreneurship and venturing.

### 2.7 Corporate entrepreneurship

#### 2.7.1 Introduction and definition

Entrepreneurship can be enacted in various contexts ranging from the autonomous entrepreneur, to entrepreneurship enacted in a corporate context (the topic of this dissertation), to public sector entrepreneurship, and to socially motivated entrepreneurship. Drucker (1985) espouses a broad application of entrepreneurship across various forms:

> "Entrepreneurship is based on the same principles, whether the entrepreneur is an existing large institution or an individual starting his or her new venture singlehanded. It makes little or no difference whether the entrepreneur is a business or a nonbusiness public-service organization, nor even whether the entrepreneur is a governmental or non-governmental institution" (p. 143).

Given the changing demands upon organizations as they evolve through different growth stages (Greiner, 1972), and the exigencies of a global and highly competitive environment, researchers began exploring how established corporations could revive, develop and imbibe entrepreneurial characteristics to regain their innovativeness, stimulate growth and create wealth (Stevenson and Jarillo-Mossi, 1986; de Simone et al., 1995). This movement has become known as ‘**corporate entrepreneurship**’ (Burgelman, 1983a; Zahra, 1986) and defined as:

> ‘The process whereby an individual or a group of individuals, in association with an existing organization, create a new organization, or instigate renewal, or innovation within that organization’ (Sharma and Chrisman, 1999, p. 18).

While differences exist between the independent entrepreneur and the corporation, Covin and Slevin (1991) have proposed that the entrepreneurial notions of risk taking, innovativeness and proactivity can be applied to both. The key difference between the two however is the challenge within the large corporation context of balancing ‘existing’ business requirements with the needs of ‘**new**’ business creation, sometimes referred to as ‘oldstreams’ and ‘newstreams’ (Kanter, 1989). Over three decades ago, Peterson (1981) noted that this mixture was relatively unstable. March (1991) examined adaptive processes building on the contributions of Schumpeter (1934) and articulated this as balancing the need for exploitation of old certainties (efficiency, execution, refinement, choice, production) with the need for exploration of new possibilities (search, variation, risk taking, discovery, experimentation). How opportunity is discovered and pursued through innovative, new resource combinations within the context of a firm mainly preoccupied with exploiting existing resource combinations is the core focus of corporate entrepreneurship (Elfring, 2005). As noted by Hamel (2007, p. 220) in ‘**The Future of Management**’, no one “owns” the white spaces in established companies. Corporate entrepreneurship is a strategy and orientation that puts white space growth and future market creation back onto the executive strategic agenda.
The formation of CE as a field of study is nearly a half-century in the making. The notion of entrepreneurship or new venture creation within the firm was hinted at by Galvin (1966) who referred to it as ‘refounding’ which he defined as: “the establishment of a new business within an existing corporation” (1966, p. 1). CE however first appeared as a term in a 1969 Academy of Management Journal article that defined its purpose as “inducing entire corporations to establish new, need-satisfying business enterprises” (Westfall, 1969, p. 235). The field was given a boost with the creation of two journals Entrepreneurship, Theory and Practice in 1988 (re-imagined from the former American Journal of Small Business 1976-1988) and the Journal of Business Venturing (1985) plus some practitioner-oriented books by Pinochet (1985), Brandt (1986), and Farrell (2001), promoted CE as a contemporary paradigm straddling the domains of entrepreneurship and strategic management. Since these earliest references that suggest entrepreneurial orientation and activity inside large corporations can source or stimulate new businesses (Westfall, 1969; Peterson and Berger, 1971; Shils and Zucker, 1979), a significant body of work has been published on corporate entrepreneurship (Phan et al., 2009), corporate venturing (Narayanan et al., 2009), and corporate venture capital (Dushnitsky, 2012).

The field is however replete with conflicting definitions, confusing terminology, and diverse typologies (see Sharma and Chrisman, 1999). The most common surrogates for corporate entrepreneurship (CE) are: corporate venturing (Von Hippel, 1973; Biggadike, 1979; Block and MacMillan, 1993); intrapreneurship (Pinchot, 1985); new ventures (Roberts, 1980); exopreneurship (Chang, 2001; Christensen, 2004); copreneurship (Harper, 1992); interpreneurship (Moore et al., 2007); strategic entrepreneurship (Hitt et al., 2001); inventuring (Buckland et al., 2003); new streams (Kanter and Richardson, 1991); intra-corporate entrepreneurship (Susbauer, 1973); strategic renewal (Guth and Ginsberg, 1990; Baden-Fuller, 1995); and the ‘discipline of entrepreneurship’ in business (Drucker, 1970).

2.7.2 Typology
Notwithstanding the above definitional and nomenclature challenges, corporate entrepreneurship is typically viewed as the sum of an organization’s innovation, strategic renewal, and venturing efforts (Guth and Ginsberg, 1990; Zahra, 1996) and can take various forms (Corbett et al., 2013; Kuratko and Audretsch, 2013; Morris et al., 2011) – see Figure 2.3:

- **Strategic entrepreneurship** involves large-scale innovations of the firm’s strategy, products and brands, served markets, internal organization, or business model that may or may not result in the creation of new businesses; and

- **Corporate venturing** involves bringing new businesses (or brands) to the corporation via corporate venture capital (CVC), co-operative ventures with external parties, intrapreneurship, or internally generated corporate ventures.

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5 There is some controversy in the literature about whether strategic entrepreneurship is a pleonasm and synonymous with corporate entrepreneurship and/or strategic renewal (see Kuratko and Audretsch, 2000; Foss and Lyngsie, 2011; Van Rensburg, 2013b). The more recent and growing tendency is to regard SE as a sub-set of CE (see Morris et al., 2011; Corbett et al., 2013; Kuratko and Audretsch, 2013); a position also adopted in this dissertation.
Each will be briefly explained below followed by a more detailed treatment of venture investing (corporate venture capital) in Chapter 3.

**Figure 2.3 – Typology of Corporate Entrepreneurship**

![Diagram of Corporate Entrepreneurship]

Source: Author

**Strategic entrepreneurship**

While Minkes and Foxall (1982) make mention of ‘strategic entrepreneurial activity’, the term ‘strategic entrepreneurship’ was first introduced by Herbert and Brazeal (1998) and subsequently heralded by Hitt and Ireland (2000). The field was officially birthed it could be argued with a dedicated 2001 special issue on strategic entrepreneurship by the *Strategic Management Journal*. It was later amplified by Hitt et al. (2002), and adopted by others – Ireland et al. (2003), Wickham (2006), Luke and Verreyne (2006), Ketchen et al. (2007), Ireland and Webb (2007), Morris et al. (2008), Schindehutte and Morris (2009), Kuratko and Audretsch (2009), and Luke et al. (2011). What unifies almost all these authors is that strategic entrepreneurship borrows opportunity-seeking behaviour (exploration) from entrepreneurship and combines it with advantage-seeking behaviour (exploitation) from strategic management:

“The integration of entrepreneurial (i.e., opportunity-seeking behaviour) and strategic (i.e., advantage-seeking) perspectives in developing and taking actions to create wealth” (Hitt et al., 2001).
Strategic entrepreneurship can take several forms:

a) **Domain Redefinition**
According to Covin and Miles (1999), domain redefinition is where a firm “proactively creates a new product-market arena that others have not recognized or actively sought to exploit” (p. 54) which can either birth new industries (e.g. eBay and creation of the on-line auction industry), or redefine the existing industry boundaries (e.g. Cirque du Soleil who fused elements of circus with theater to reinvent the circus industry). Kim and Mauborgne (2005) refer to moving into “blue oceans” or unchallenged markets, while Golder and Tellis (1993) call it “market pioneering”. As Morris et al. (2008) notes, domain redefinition necessarily results in new business creation unlike other forms of strategic entrepreneurship.

b) **Organizational Rejuvenation**
Here the firm “seeks to sustain or improve its competitive standing by altering its internal processes, structures, and/or capabilities” (Covin and Miles, 1999, p. 52). In this case, a core attribute(s) linked to the firm’s internal operation is the focus of the innovation, such as organization redesigns, business process reengineering, administrative innovations that revive culture, foster intra-organizational collaboration, and competency transfers. These endeavours usually do not result in changes in firm strategy, product offerings, or served markets.

c) **Business Model Reconstruction**
Magretta (2002, p. 87) describes the business model as “stories that explain how enterprises work”. Morris et al. (2005, p. 727) propose the following definition of business model as: “a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets”. Gottfredson et al. (2005) describes the entrepreneurial adaptation of 7-Eleven’s business model. 7-Eleven moved from a traditional integrated convenience store business model, to a streamlined modern entity that only focused on areas where proprietary knowledge could be deployed with efficiency and effectiveness such as pricing, in-store merchandising, inventory control, order management, and customer data analysis. All other functional activities were outsourced to enable this reconstruction of their business model.

d) **Strategic renewal**
Guth and Ginsberg (1990, p. 5) refer to strategic renewal as the transformation of the key ideas on which organizations are built. Volberda et al. (2001, p. 160) defines strategic renewal as “the activities a firm undertakes to alter its path dependence”. Instead of using the term strategic renewal, Kilman and Covin (1988, p. 2) denotes it as ‘corporate transformation’ and views it as ‘system wide change in an organization that demands new ways of perceiving, thinking, and behaving by all its members’. Strategic renewal is a type of entrepreneurship in which according
to Covin and Miles (1999, p. 52), the firm “seeks to redefine its relationship with its markets or industry competitors by fundamentally altering how it competes”. An example of this would be where a retailer attempts to reposition its business from a mass merchandiser to a more high-end branded retailer.

e) **Sustained regeneration**
This common form of corporate entrepreneurship is sometimes referred to as ‘reinventing the core’ or ‘innovation’. Covin and Miles (1999, p. 51) describe firms that pursue this as those who “regularly and continuously introduce new products and services or enter new markets”.

**Corporate Venturing**
Corporate venturing is an exploratory mode of corporate entrepreneurship (Zahra, 1995; Guth and Ginsberg, 1990) that essentially involves the creation or promotion of new businesses within or outside the firm. Corporate venturing is often incorrectly used as a surrogate for CE. There is general definitional consensus that the output of venturing is some form of new business that expands the scope of the firm. However, definitions also differ from each other in several aspects. One dimension of difference is the source of new venture activity. Some refer only to new business resulting from internal corporate ventures (Block and MacMillan 1993). Most authors however focus on generating new business from both internal and external sources. A second dimension is the identification of an organizational unit dedicated to venturing activity (Birkinshaw and Hill, 2005; Burgelman, 1980). Others do not insist on this, but do also not exclude its possibility (Sharma and Chrisman, 1999). The rationale being that the learning should initially be built in one place within an organization, or that the risk should be contained and not dispersed. A third dimension is the inclusion of a broader strategic ambition beyond mere new business growth. Aspects mentioned here include creating new technology, knowledge or competencies (Biggadike, 1979; Burgers et al., 2008). Janus like, the two major faces of corporate venturing recognized in the literature are: internal and external. For internal venturing, the locus of entrepreneurship lies within the boundaries of the firm, and conversely outside the boundaries of the firm for external venturing. Internal modes include corporate ventures formally sponsored by senior management and autonomous intrapreneurial activity that spontaneously emerge from employees. External venturing includes venturing alliances, transformational arrangements, and venture investing.

a) **Internal Ventures**
between strategic context and autonomous behaviour (e.g. Burgelman, 1983b), but less than encouraging commercial results on occasion.

In one of the earlier doctoral dissertations on this topic, Fast (1977) examined three case studies of new venture departments (NVD’s) supplemented by industry interviews. He concluded that while NVD’s may be an appropriate organizational vehicle for new business development, they eventually became inoperative because either the corporate strategic situation had changed rendering the NVD superfluous, and/or the NVD’s political posture eroded within the company and was rejected by the existing power structure. Factors contributing toward an erosion of a NVD’s political posture included, poor performance, loss of sponsorship, unreasonable expectations generated, or perception of the NVD as a threat to other divisions within the corporation. Dunn (1977) reviewed ten venture groups and tracked their rise and fall concluding that the desire for control invariably replaces entrepreneurial features. Morse (1986) contends that the potential benefits are delusional in large companies because:

“The reward structure will not permit compensation in line with the expectations of entrepreneurs, the locus of control in the organization does not allow for sufficient personal autonomy, and the corporate climate in bureaucratically organized firms promotes stability which often runs counter to the needs of innovative processes” (p. 95).

Souder (1981) investigated the role of internal ventures as a means of encouraging entrepreneurship in the large corporation. In significant research across 17 firms concerning 50 successful and 50 failed venture projects, he found six conditions that were correlated with entrepreneurship and project success: (1) the early identification of potential entrepreneurs inside the firm – the ability to allay fears of empire building was key though in the process; (2) giving the entrepreneur champion a clear license and mandate to execute – this provided a sense of legitimacy, ownership and self-pride and was also a visible token of authority within the firm that fostered recognition, respect, and confidence; (3) informal influence and network of the entrepreneur – while this could be conferred by management it was an earned respect among peers. However, the formal license paved the way for the entrepreneur (or later to be termed ‘intrapreneur’ by Pinchott, 1985) to use his informal influence. Broad prior experience within the firm was deemed a helpful foundation for assembling legitimate informal influence; (4) sponsorship was critical as few one-man shows were effective in Souder’s (1981) study. Sponsors typically had high degrees of formal authority and informal influence, provided coaching, bootleg resources, and helped shoulder personal risks involved in working on ‘non-sanctioned projects’. The study also indicated that keeping the project concealed at times was necessary to avoid premature excitement, focus, and unrealistic expectations being formed; (5) locating the project at the lowest consistent level within the organization – this being defined as the level ‘where the project’s scope and goals can be enclosed within the license and mandate of that level’ (p. 20). Souder (1981) observed that placing the project at too high a level could yield undesirable results; (6) discretionary powers – ventures by their nature sometimes go off plan and are risky. For the entrepreneur to be effective, certain degrees of
flexibility needs to be afforded to cope with changing conditions and evolving project needs. Using statistical analysis, Souder (1981) found that when all six conditions were present, success was much more likely and when no more than two or three of the conditions prevailed, the project was usually a failure. While useful analyses, it was not possible to conclude from this study whether one condition was more critical than another, or whether certain conditions applied more readily than others at differing stages of a project’s lifecycle. McKinney and McKinney (1989, p. 82) contend that entrepreneurship can only succeed in large corporations when top leadership is entrepreneurial in their own right. They make an interesting point by asserting that managed entrepreneurship is an oxymoron and that “management systems were originally developed by entrepreneurs such as Alfred P. Sloan to enable entrepreneurs to direct growing organizations. Managers cannot manage entrepreneurs; the entrepreneur must lead the manager”. Sinetar (1984) argues that creative people who thrive on uncertainty are unlikely to remain within large corporate structures unless companies learn how to understand and support these workers. More recent research by Campbell and Birkinshaw (2004) into corporate venture units and incubators found that less than 5% of these had created new sustainable businesses that were actually adopted by the parent company. A contrarian view is outlined by O’Reilly et al. (2009) based on IBM’s successful experience at launching ‘emerging business opportunities’. The authors cite that through a disciplined ‘innovation recipe’, integration of the ventures with the core business, capable and ambidextrous venture leadership, and strong senior management engagement, that of the 25 ventures launched only 3 had failed. The remaining 22 had contributed more than 15% of IBM’s revenue with some single ventures attaining over $1 billion in revenue such as Linux, Pervasive Computing, and Life Sciences. Basing their conclusions on the Lucent new venture group, Albrinck et al. (2001) also see benefits from internal venturing beyond immediate commercial results such as:

“Corporate venture groups are particularly fertile ground for observing next-generation models. More importantly, these groups are pioneering new business concepts for corporate growth. Indeed, their plans with respect to structure, people, and partnerships will serve as prototypes for the corporation of the future”. (p. 12).

b) Autonomous Intrapreneurship

Intrapreneurship (the entrepreneur working within the large organization) is one of the oldest forms of corporate venturing. The term was first introduced into the management lexicon by Pinchot (1985) through his seminal book Intrapreneuring and its later companion, Intrapreneuring in Action by Pinchott and Pellman (1999). Since Pinchott, several authors have amplified this concept (Antoncic, 2001; Coulson-Thomas, 2000; De Clercq et al., 2007; Duncan et al., 1988; Kolchin and Hyclak, 1987; Pearce and Carland, 1996). Autonomous intrapreneurship is similar to ‘dispersed entrepreneurship’ where entrepreneurship is not restricted to a specific unit, but distributed across the organization based on the premise that each employee has the capacity for both managerial and entrepreneurial behaviour (Birkinshaw, 1997). Pinchott appealed to the notion that managers within large corporations need not leave the corporation to commercialize an entrepreneurial idea, but should be
encouraged to remain and be treated in an entrepreneurial fashion in terms of greater autonomy and more appropriate incentive structures. Pinchott made assertions such as:

“Intrapreneurs will make all the difference between your firm’s success and failure. The cost of losing entrepreneurial talent is more than just losing a skilled technologist or effective marketer. Intrapreneurs are the integrators who combine the talents of both the technologists and the marketers by establishing new products, processes, and services. Without them innovation remains potential, or moves at the glacial pace of bureaucratic processes that no longer suffice in an environment filled with entrepreneurial competition.” (p. xiii).

Shulman et al. (2011) cite a litany of overlooked potential and demeaned ideas in listing intrapreneurs who left their original company and went on to create industry breakthrough and disruption: Thomas Watson left National Cash Register (NCR) to join a start-up that developed into a multi-billion dollar firm called International Business Machines (IBM); Pierre Omidyar was a software engineer at General Magic (worth $160 million) and left to create an internet company selling Pez containers. His on-line auction house later turned into eBay and in 1999 was worth $11 billion; Sabeer Bhatia was a software developer at Apple where he came upon the idea of a web-based email service. He later sold his company, Hotmail to Microsoft for $400 million. Shulman et al. (2011, p. 31) exhort large, public organizations to “capture the growth that may be incubating within its walls and that may soon depart”.

c) Venturing Alliances
A significant body of literature exists on strategic alliances, also referred to as inter-firm collaboration or inter-organizational relationships (Doz, 1988; Gulati, 1998; Rees, 2005). For a detailed review of empirical and practitioner findings, see McNally (1995) and Kale and Singh (2009). Drawing from an extensive literature search, Alvarez (1999, p. 29) provides a comprehensive inventory of reasons that firms form alliances, namely: to acquire technology-based capabilities; to acquire tacit knowledge or learning; to converge technologies; reduce development time; to reduce or share costs; for economies of scale in production, distribution and R&D; to pursue synergy effects; for tacit collusion; to license technology; to acquire rights to products and markets; for transaction cost savings; as a transitional governance mode prior to acquisition; to monitor or control partner technology; and to gain access to new markets or new product developments. Interestingly, none of these reasons refer to accessing entrepreneurially developed brands. Entrepreneurial collaboration between large and small companies is a recent and growing area of interest (Alvarez, 1999; Alvarez and Barney, 2001; Botkin and Matthews, 1992; Cao, 2006). In a brief McKinsey article (Cook et al., 2003) referencing the study of 77 leading consumer-packaged-goods enterprises, the authors claim that the ten most alliance-intensive ones achieved average total returns to shareholders nearly four times larger than the rest. One key according to their study was the pursuit of a broad range of alliances including innovation alliances; partnerships to extend into new channels or customer segments; geographic expansion; and performance improvement agreements to lower cost and improve efficiency.
d) Transformational Arrangements

At least two major external venturing arrangements are envisaged that have a transformational potential: acquisitions (bringing external ventures inside) and spin-offs (moving internal ventures outside). It is a moot point whether joint ventures could also be included here since they too have transformative capacity. Acquisitions essentially involve the internalization of the majority of the share capital of a formerly external, independent venture. The internalization need not mean the integration of the firm, as it may still be appropriate to retain the entrepreneurial spirit and original management operating separately while benefiting from the core capabilities and resources of the acquiring parent. The acquisition of Ben & Jerry’s by Unilever is a good example of this loose-tight coupling (Mirvis, 2008), while the acquisition of Gillette by P&G is a good example of an immediate integration (Bloch and Lempres, 2008). In either case however, it does involve the acquisition of control over the former privately held venture or publically traded firm. Spin-offs are a creative alternative to the termination of an internal venture whereby former executive intrapreneurs from within the parent or entrepreneurs external to the parent, continue managing the venture external to the parent’s boundaries. The parent may or may not retain equity or options to re-purchase the spin-out at some future date or circumstance. Parhankangas and Arenius (2003) pinpointed three types of spin-offs: those created using new technologies (usually triggered by uncertainty), those serving new markets (triggered by reluctant financing of a diversification effort by the parent), and restructuring spin-offs (spawned by divestiture decisions from the parent). According to Parhankangas and Arenius (2003), each type is varied in terms of its direction and breadth of new product development, its knowledge and resource sharing with their parent, and its timing and duration. Although portfolio theory suggests that a successful business should be retained within the boundaries of the firm, Ito (1995) takes a genealogical perspective and argues the opposite by illustrating how Japanese firms foster longevity and vitality of a family of firms through spin-offs - a new organization with a better management structure that best fits the new competitive environment and where the parent retains an equity stake. Ito (1995) cites Toyota, Yamaha Motor, Hitachi, Fujitsu, Bridgestone, and Nomura Securities as powerful examples of this growth strategy driven by the need to either: 1) balance costs associated with managing diversified businesses, 2) leveraging core competencies of the firm to further generate growth, and/or 3) when in pursuit of a more efficient internal labor market.

e) Venture Investing

This form of corporate entrepreneurship focuses on giving the corporation access to ideas, technologies, knowledge, and products that originate outside the firm’s boundaries (Miles and Covin, 2002; Zahra, 2005) via investment in external ventures. In this dissertation, brands are included in the list as a desirable intangible asset for in-sourcing. Also referred to as ‘corporate venture capital’, this form of corporate entrepreneurship also suffers from confusing definitional use in literature. For example, it is sometimes labeled as ‘corporate venturing’ (Battistini et al., 2013) which as previously explained, is a much broader concept encompassing both internal and external forms of venturing activity. Since venture investing sails closest to the locus of this
dissertation, a more comprehensive survey of literature is undertaken in Chapter 4 than the other forms of corporate entrepreneurship.

### 2.7.3 Research streams

Three broad domains of research endeavour characterize the literature on CE: studies that link corporate entrepreneurial activity to national economies and cultures; studies of entrepreneurial endeavour within large corporations; and the relevance and contribution of managerial functions to a heightened corporate entrepreneurial posture. For instance:

Researchers have examined a wide range of corporate entrepreneurship issues using data from corporations in diverse national contexts:

- Denmark (Husted and Vintergaard, 2004), Finland (Keil, 2004), Great Britain (Stopford and Baden-Fuller, 1994), Russia and Ukraine (Filatotchev et al., 1999), Slovenia (Antoncic and Hisrich, 2001), and Sweden (Brown et al., 2001).

Additionally, case study narratives of corporate entrepreneurship or venturing have been published for a number of large firms:

- Johnson & Johnson (Karim and Mitchell, 2004); Walmart (Fottler and Malvey, 2007); Fedex (Bhardwaj and Momaya, 2006); Acordia (Kuratko et al., 2001); AT&T (Morris and Trotter, 1990); 3M (Roberts, 1980; Sathe, 2003); Eastman Kodak (Kanter et al., 1991); Ohio Bell (Kanter and Richardson, 1991); Toshiba (Abetti, 1997); Sun Microsystems (Garud et al., 2002; Valikangas et al., 2009); IBM (Hamel, 2000); Raytheon (Kanter et al., 1991); Nees Energy Inc. (Kanter et al., 1992); Koch Industries (Hornsby and Goldsby, 2009).

Finally, the linkage and impact between corporate entrepreneurship and various managerial disciplines or functions has also been examined, for example:

- Finance (Dushnitsky and Shapira, 2010); manufacturing (Jones, 2005); human resources (Hayton and Kelley, 2006); strategic management (Burgelman, 1983; Barringer and Bluedorn, 1999); sales (Abrishamkar et al., 2011); logistics (Bhardwaj and Momaya, 2006); general management (Day, 1992); boards of directors (Dalziel, 2005); chief executives and top management (Ling et al., 2008; Heavey and Simsek, 2013); operations (Goodale et al., 2011); and marketing (Morris and Paul, 1987; Zampetakis and Moustakis, 2007).

This latter domain is of most relevance to this dissertation and in particular the linkage between CE and marketing. A systematic literature search using Scopus, Google Scholar, Web of Science, and Zetoc surfaced only a handful of articles examining this interface. These are briefly reviewed below:

1. In a survey across 116 companies, Morris and Paul (1987) found support for greater corporate entrepreneurial activity in firms where a formal marketing department existed, where marketing professionals were represented at the senior executive-level, where
marketing research practices were commonplace, and where marketing was perceived to contribute meaningfully to innovation efforts and overall corporate strategy.

2. Davis et al. (1991) analyzed the influence of perceived environmental turbulence on corporate entrepreneurship and marketing characteristics across 93 industrial firms. They found that a firm’s marketing and entrepreneurial orientation was positively associated under conditions of greater turbulence as firms sought to segment and organize against customer needs and became more innovative, proactive, and risk taking.

3. Barrett et al. (2000) found there to be a strong, positive link between corporate entrepreneurship and business performance across 142 firms (especially the larger firms) using multiple regression analyses. Their hypothesis that the implementation of marketing mix factors such as, product, price, and promotion would significantly moderate this relationship only received modest support. Interestingly, the role of brands is not mentioned within the product component of the marketing mix.

4. Schindehutte et al. (2000) examine the marketing and entrepreneurship interface within established firms by categorizing triggering events of entrepreneurial effort and marketing’s role therein. They link aspects of marketing’s engagement to each category of trigger, such as the pattern, timing, and scope of inputs.

5. Using the pharmaceutical industry and subsidized AIDS medication as exemplar, Miles et al. (2002) analyze how social responsibility initiatives (especially if ‘forced’), may have unintentional impacts on corporate entrepreneurship and ultimately even social welfare itself. The study while novel in its treatment of social marketing does not offer anything in the way of prescriptions or models for this dissertation.

6. Zampetakis and Moustakis (2007) examine how corporate entrepreneurship can be coupled with internal marketing to foster innovation at the organizational level within the public sector. Although unique in its focus on internal marketing, the paper has more relevance to public sector policy makers and does not have much relevance to the locus of this dissertation.

Despite the burgeoning research on corporate entrepreneurship and venturing, none could be traced that call out the unique opportunities of venturing outside of hard technology assets with the intangible asset of brands (Hall, 1992). Furthermore, given the strategic contribution of branded products and services to gains in performance for firms who orient their managerial actions towards brands (Noble et al., 2002), it is surprising that brand venturing has not been examined alongside other diversification and growth strategies such as acquisition, joint ventures, and new brand creation. In accordance with the resource-based view where competitive advantage lies in possessing and deploying superior tangible and intangible resources and skills (Wernerfelt, 1984; Barney, 2001), brands are a strategic resource that can help drive core business processes and firm performance. Compared with other firm-based resources and competencies, the brand uniquely has the capacity to develop an identity through a process of creating “value” and “meaning”, and thereby to create valuable rent seeking relationships with consumers (see also Louro and Cunha, 2001 for further arguments on the
strategic role of brands). Strategic brand venturing thus offers a way forward for large organization's to access disruptive brand assets external to their boundaries and is a new topic within the cannon of corporate entrepreneurship literature that this dissertation examines.

2.8 Summary
This chapter introduced the strategic significance of brands and branding as a topic and posited a typology of brand portfolio growth options that encompassed a new vector of venturing. The chapter then briefly described the difficulty of infusing entrepreneurship into new brand creation and management that has de facto resulted in large organizations resorting to acquisition as a means of strengthening brand portfolios. This chapter suggests another route should be considered by large corporations of minority equity investment (termed SBV), a strategy typologically nested within the broader domain of corporate entrepreneurship. However, for the large corporation seeking to pursue SBV there is a paucity of literature on this topic. Austin and Leonard (2008) study the relationship between three social icon brands founded by entrepreneurs and their large corporate investors. Two of these involve acquisition (Ben & Jerry's ice-cream and Tom's of Maine dental products) while the third resembles an SBV investment (Stonyfield Farm yogurt). Their paper titled “Can the virtuous mouse and the wealthy elephant live happily ever after?” enumerates the benefits to each party and offers suggestions for merger effectiveness. Nazarkina (2012) studies the positives and negatives of various strategy options facing sustainability brand entrepreneurs (e.g., organic growth, equity sale or SBV, acquisition, franchising, licensing, and strategic alliances). These two papers cover certain facets of SBV, but offer little in the way of helping large firms to think about and implement this corporate entrepreneurial strategy. This gap in the literature highlighted the opportunity to further examine the theory and practice of SBV in order to stimulate further research and business application. Chapters 3 and 4 endeavour to identify how components of SBV can nevertheless be traced within extant literature. Chapter 3 draws its conclusions from an examination of intersection theory and literature, while Chapter 4 draws its conclusions and model refinements from corporate entrepreneurship and venturing literature.
3.1 Introduction

As previously noted, strategic brand venturing was inspired through the author’s bricoleur venturing practice in a Fortune 100 multinational corporation. This living body of learning emerged from thinking and acting in personal ‘praxis’ and from benchmarking other venture groups in non-CPG contexts. SBV is not about outsourcing brand development but about insourcing entrepreneurial new brand creativity by fostering a co-nurturing based interaction with outside entrepreneurs, as opposed to a transaction-based orientation that characterizes much of the earlier corporate venture and corporate entrepreneurship literature.

A fresh, complementary organizational approach is therefore proposed in this dissertation for large CPG firms. Within the context of the CPG industry, SBV is one possible corporate entrepreneurial response to the need for the ambidextrous management of existing brands while simultaneously exploring the possibilities for new disruptive brands founded by entrepreneurs. The idea of a venture team focused on new product development inside the marketing organization is not a new idea per se (Hill and Hlavacek, 1972). However, executing SBV requires a different organizational construct than a new product development team or a brand management system. It requires a separate organizational entity that houses a blend of venture capital skills (to create brand deal flow and invest in external brands), entrepreneurial social skills (to build the relationships with entrepreneur elites), brand marketing and innovation skills (to identify opportunities, vet and shape the brand ideas and create new internal brand innovations), and intrapreneurial commercial skills to run the incubation brands in an entrepreneurial-like manner.

In terms of the research process followed in this dissertation, Figure 3.1 provides a schematic of the different stages of the process. In section 3.2 of this chapter, the eleven key dimensions of the practice of SBV are briefly enumerated. This is immediately followed by a review of

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6 Portions of this Chapter were also published in Van Rensburg (2013a) by Emerald.
intersection theory in an attempt to ground or match the practice with concepts found in extant literature and posit a preliminary conceptual model of SBV.

**Figure 3.1 – Research Process**

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<th>Empirical</th>
<th>Practice</th>
<th>Theoretical</th>
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<tr>
<td>5. Deviating Real Life Observations &amp; Analysis (Chapter 6 &amp; 7)</td>
<td>Application of Conclusions</td>
<td>1. Deviating Praxis (Chapter 2 &amp; 3)</td>
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<td>2. Theory Matching: Intersection Literature (Chapter 3)</td>
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<td>5. Theory Suggestion (Chapter 8)</td>
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Source: Author

A second literature-matching step is undertaken in Chapter 4 as the initial conceptual model is verified and adapted to reflect a second body of literature found within the corporate entrepreneurship and venturing corpus. Following a discourse on the research strategy adopted for the dissertation in Chapter 5, the refined conceptual model is then used to examine several case studies (Chapter 6) and in accordance with the abductive research process, the model undergoes further iteration and improvement based on empirical analyses. The dissertation closes with suggestions for practice and theory in Chapter 8.

### 3.2 Practice-Based Dimensions

Based on direct experience and practice of the researcher, eleven dimensions have been identified that are deemed important to strategic brand venturing:

1. The ability to scan the environment, to identify consumer need-states, cultural and technology trends, and define opportunity areas (or ‘sweet spots’) for strategic participation (“strategic exploration and opportunity identification”).

2. The ability to select the right entrepreneurial companies and brands with high or yet untapped value creation potential for customers that match the strategic opportunity areas (“picking the winners of the future”).
3. Positioning the Company favourably such that the entrepreneur chooses to partner with it versus venture capital firms, private equity firms, and other large corporations (“positioning for preferential selection”).

4. An ability to understand the risks and benefits entrepreneurs face when evaluating and selecting a strategic partner (“understanding entrepreneurial ambitions and needs”).

5. An ability to work together via equity investments and/or alliance agreements in a mutually beneficial manner to support their businesses within legal parameters, brand portfolio and lifecycle considerations, and internal politics (“corporate venturing for mutual growth and value creation”).

6. The ability to build an ongoing network in the entrepreneurial community to access deal flow, stay abreast of trends, build reputation in the ecosystem (“ecosystem creation and networking”).

7. Build credibility internally to secure support from functions and senior management to ensure the venturing unit can deliver on support commitments made to entrepreneurs and to execute internally led incubation projects (“internal stakeholder management and support”).

8. The ability to access and replicate entrepreneurial learning and knowledge such that the organization improves execution of its own ventures and incubations via internal intrapreneurs e.g., intimacy with consumers and influencer communities, brand building approaches, locating and marketing to influencers, speed, improvisation, distributor management, sales team development, flexible go-to-market strategies, and flexible supply chains, etc. (“brand intrapreneurship”).

9. Knowledge of stages of emerging brand growth so as to understand where an entrepreneurial ‘venture’ fits and the key elements and requirements of that stage (“brand life cycle management”).

10. Graduating proven brands out of the venturing or incubation unit into the core business units at the right stage in their life cycle while maintaining the right mix of entrepreneurial and managerial characteristics, and ensuring the new brand plays a strong role in the category portfolio strategy. Even when brands are fully acquired they may still need an incubating phase in the venturing unit prior to graduation (“brand portfolio management”).
11. Creating an organizational structure with venturing capabilities, and governance mechanisms with strong stakeholder support that minimizes bureaucracy and a bias to action ("governance and capabilities").

However in academic literature, theory is mostly privileged over practice. This practice-based approach therefore needs to be theoretically anchored by academic predecessors in domains related to the topic, these being, entrepreneurship, strategic management, and marketing. The next section examines whether the logic and dimensions of strategic brand venturing can be evidenced within existing literature. An attempt is made in the next section to do this by positing a conceptual grounding based upon intersection theory.

3.3 Conceptual explanation

This section examines the literature from a novel perspective of key intersections in an attempt to identify whether the practice of SBV can be located or matched within the literature. As the external environment continues to change dynamically and pressure organizations to find novel ways to grow, create differentiation, competitive advantage and wealth, the intersections of several managerial domains have received attention. These are:

The intersection of strategic management and entrepreneurship theory and practice termed as ‘strategic or corporate entrepreneurship’: Herbert and Brazeal (1998), Ireland and Webb (2007), Ketchen et al. (2007), and Kyrgidou and Hughes (2010). Strategic entrepreneurship has been defined as: “the integration of entrepreneurial (i.e., opportunity-seeking behaviour) and strategic (i.e., advantage-seeking) perspectives in developing and taking actions to create wealth” (Hitt et al., 2001).

The intersection of entrepreneurship and marketing theory and practice termed as ‘entrepreneurial marketing’: Davis et al. (1991), Hills and LaForge (1992), Miles and Darroch (2006), and Kraus et al. (2010). Entrepreneurial marketing has been defined as: “the proactive identification and exploitation of opportunities for attracting and retaining customers through innovative approaches to risk management, resource leveraging and value creation” (Morris et al., 2002).

The intersection of marketing and strategic management theory and practice termed as ‘strategic marketing’: Schendel (1985), Lynch (1994), Fahy and Smithee (1999), Slater and Olson (2001), and Varadarajan (2010). Strategic marketing is used in the sense of marketing’s contribution to strategy and involves analysis and decision making to select a product portfolio, and the formulation of strategies to support this portfolio (Kerin and Peterson, 1983).

A literature search was conducted using the Scopus database that covers 14,000 academic journals. Only published, peer-reviewed articles were selected versus conference papers, book reviews, unpublished papers, or editorial notes. The search was further limited by subject area
to the social sciences and humanities, excluding the life sciences, health and physical sciences literature. The search was performed entering the terms “entrepreneurship” and “strategic management” and whether they appeared in the article title, abstract, or keywords.

A total of 191 academic articles were published between 1971 and 2010 (see Table 3.1). However, 70% (or 133) of these articles were published in the 2001 to 2010 period reflecting a strong numerical growth in research interest in recent times. A similar search was conducted for “marketing” and entrepreneurship” where the number of articles combining these two domains more than tripling to 172 during 2001-2010 versus 46 in the previous decade. Finally, the search for “marketing” and “strategic management” generated a total of 184 published articles on the combination of these two domains between 1971 and 2010, with 65% appearing in the most recent decade.

**Table 3.1 - Articles Published on Key Intersections (1971-2010)**

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Strategic Management AND Entrepreneurship</th>
<th>Entrepreneurship AND Marketing</th>
<th>Marketing AND Strategic Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971 – 1980</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>1981 – 1990</td>
<td>10</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>1991 – 2000</td>
<td>48</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>2001 – 2010</td>
<td>133</td>
<td>172</td>
<td>120</td>
</tr>
<tr>
<td>Total # of Articles</td>
<td>191</td>
<td>224</td>
<td>184</td>
</tr>
</tbody>
</table>

Source: Compiled by Author using Scopus database

It seems from the above literature search that there has been a noteworthy increase in combining these domains in research. However, apart from a few rudimentary signposts, there is scant treatment in the literature on the opportunities arising from combining several intersections and perspectives at the same time. The closest examples are Varadarajan and Jayachandran (1999) who conceptually link corporate strategy, business strategy and marketing strategy; Day (1997) co-mingles organization, marketing and entrepreneurship; and Thompson (1999) examines the intersection of environment, values, and resources within the corporate context. In an article on interdisciplinary communication, Murthy and McKie (2006, p. 21) state that, “how disciplines interface is a neglected dimension of practice, research, and theory” but provide no further insights on how to approach this. In describing entrepreneurial alertness, discovery and action, Smith and Di Gregorio (2002) borrow the concept of bisociation from the seminal work on creativity by Koestler (1964). Bisociation occurs when an individual merges two or more previously unrelated matrices of skills or information to generate creative innovations.

Johansson (2006) introduces ‘the intersection’ as a creativity concept for practitioners that involve associating concepts from one field with concepts in another. He differentiates between combining concepts within a particular field (directional ideas), and combining concepts between multiple fields (intersectional ideas). According to Johansson (2006, pp. 19-20), intersectional ideas produce radical innovations with these characteristics: “they are surprising and fascinating; they take leaps in new directions; they open up entirely new fields; they provide
a space for a person, team, or company to call its own; they generate followers, which means the creators can become leaders; they provide a source of directional innovation for years or decades to come; they can affect the world in unprecedented ways.” New fields of study or scientific revolutions have been founded at the intersection of formerly separate disciplines. For example, Vo-Dinh (2005) gives an account of the paradigm shift resulting from the founding of nanobiotechnology - a convergence of nanotechnology, molecular biology, and biomedical sciences.

While intersectional literature has burgeoned it is not without controversy spawning a variety of notions relative to which domain is more important than the other at the intersection. Taking the intersection between strategic management and entrepreneurship called strategic entrepreneurship as case in point, notions of ascendancy, courtship, and middle space can be detected in some works. One extreme view asserts that strategic management is dominant over entrepreneurship and that future endeavours should concentrate on ‘making the marriage work’ given strategy’s ‘takeover’ (Baker and Pollock, 2007). Meyer (2009) cautions against use of ‘takeover’ and ‘integration’ terminology arguing that words are not pebbles in alien juxtaposition but must be analyzed in the context in which they appear. Another extreme posits the inverse, that strategic management is a ‘subset’ of entrepreneurship (Browne and Harms, 2003). Venkataraman and Sarasvathy (2005) use a Shakespearean “courtship” metaphor to liken strategic management to ‘all balcony and no Romeo’, and conversely entrepreneurship being ‘all Romeo and no balcony’ to infer that both are needed (‘two sides of the same coin’). To take either one away, Romeo or the balcony, the whole story would fall apart. Drawing from complexity-science, Schindehutte and Morris (2009) argue that strategic entrepreneurship is not a new territory to be colonized by either discipline, and introduce the notion of a “fertile middle space” with various continua that allow for movement from one theoretical viewpoint to another. The most common notion is that overlapping domains of research, or points of “intersection” exist across disciplines and that wealth can be created through combining the core advantages of each (see Hitt and Ireland, 2000).

This dissertation posits that the intersection of the above three management fields represents a conceptually fertile middle space for CPG firms encompassing the opportunity-seeking behaviour of entrepreneurship, the advantage-seeking behaviour of strategic management, and the customer-relationship advantages of entrepreneurial marketing. The relevance of these three domains is affirmed by Lynch (1994, pp. 532-3) who contends that, “If strategic management provides the purposive framework that unifies organizational activity, effective marketing provides the externally oriented vision that illuminates that strategy…In particular, effective marketing institutionalizes entrepreneurial vision and creative imagination.” These three intersections are important because they all share common dependent variables: firm performance; competitive advantage; innovation; value and wealth creation. Furthermore, hypercompetitive environments and the new economy require real time responsiveness and flexibility from firms and hence the benefit of all three perspectives could be invaluable.
Burgelman (1983a) argues that firms need both order and diversity in strategy for continued survival and that corporate entrepreneurship and venturing provide the much needed experimentation and selection components within the strategic management process. Also, marketing is the home of the branding process and branding is a core intangible asset in strategic management literature (Hall, 1993). Thus, conceptually speaking, strategic brand venturing (SBV) is one such intersectional idea with its etiology located at the fertile nexus of entrepreneurship, strategic management and marketing (see Figure 3.2).

![Figure 3.2](image)

Source: Van Rensburg (2013a).

Having conceptually positioned SBV as a polycentric notion using intersection literature, the next section examines whether the eleven practice-based dimensions can also be traced within the same body of literature. To this end, the eleven practice-based dimensions were mapped against prevailing intersectional constructs such as:

**Strategic entrepreneurship** (e.g., Day, 1992; Sandberg, 1992; Eisenhardt et al., 2000; Hitt and Ireland, 2000; Ireland et al., 2003; Luke and Verreynne, 2006, Kyrgidou and Hughes, 2010; Kraus et al., 2009). For example, Ireland et al. (2001) enumerates six dimensions that characterize the interface, namely: innovation; networks; internationalization; organizational learning; top management teams and governance; and growth.

**Entrepreneurial marketing** (e.g., Davis et al., 1991; Hills and LaForge, 1992; Collinson and Shaw, 2001; Morris et al., 2002; Shaw, 2004; Zontanos and Anderson, 2004; Schindehutte et al., 2009). By way of illustration, seven dimensions are posited by Schindehutte et al. (2009) that typify the interface of entrepreneurship and marketing:
obsession with opportunity; proactiveness; innovativeness; customer intimacy; calculated risk taking; resource leveraging; and exceptional value creation.

Strategic marketing (e.g., Biggadike, 1981; Wind and Robertson, 1983; Schendel, 1985; Day, J., 1992; Varadarajan and Jayachandran, 1999; Slater and Olson, 2001). Dimensions of the marketing and strategic management interface proposed by Varadarajan and Jayachandran (1999) include: competitive behaviour; quality; innovation; market pioneering; strategic alliances; market orientation; and share.

Referring to Table 3.2 and taking dimension #1 called ‘strategic exploration and opportunity identification’ as illustration, one notes that this can be traced in strategic entrepreneurship literature as one of the dimensions that characterize the intersection of strategic management and entrepreneurship termed as: opportunity identification (Luke and Verreynne, 2006), opportunity seeking, or new business creation (Sandberg, 1992), or entrepreneurial mindset (Kyrgidou and Hughes, 2010). Additionally, this dimension can be identified in entrepreneurial marketing literature as one of the dimensions that characterize the intersection of marketing and entrepreneurship: opportunity recognition (Shaw, 2004), opportunistic nature (Collinson and Shaw, 2001), opportunity driven (Morris et al., 2002), obsession with opportunity (Schindehutte et al., 2009), venture idea identification, or exploiting opportunity (Hills and LaForge, 1992).

A similar literature-matching process was undertaken for each of the eleven practice-based dimensions to architect a conceptual model of strategic brand venturing that has been portrayed in Figure 3.3. These eleven dimensions are clustered under four groups: 1) opportunity identification; 2) venture networks and partnerships; 3) branding and customer innovation; and 4) governance and capabilities.

The dimensions within the first two groups are consistent with the first four steps of the highly cited model of venture capitalist investment activity by Tyebjee and Bruno (1984): deal origination; deal screening; deal evaluation; deal structuring. The remaining dimensions within the last two groups are consistent with Tyebjee and Bruno’s (1984) fifth step, called post-investment activities. However, the venture capital model is only useful to a point for strategic brand venturing activity. The model needs to reflect venturing activity housed within a non-financial corporation that operationally manages an existing brand portfolio, and also one that caters for the opportunity to stimulate internal corporate venturing (or brand intrapreneurship) within the marketing function.

The four groups are expanded on below with primarily a practitioner’s lens in mind.
### Table 3.2 - Practice-Based Approach Linked to Intersection Literature

<table>
<thead>
<tr>
<th>Dimensions in Practice</th>
<th>Related Dimensions in Intersection Literature</th>
<th>Author(s)</th>
<th>Proposed Grouping</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Opportunity seeking (SE)</td>
<td>Sandberg (1992)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Entrepreneurial mindset (SE)</td>
<td>Kyrgidou and Hughes (2010)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Opportunistic nature (EM)</td>
<td>Collinson and Shaw (2001)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Opportunity driven (EM)</td>
<td>Morris et al. (2002)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Obsession with opportunity (EM)</td>
<td>Schindehutte et al. (2009)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Venture idea identification (EM)</td>
<td>Hills and LaForge (1992)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exploiting opportunity (EM)</td>
<td>Hills and LaForge (1992)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New business creation (SE)</td>
<td>Sandberg (1992)</td>
<td></td>
</tr>
<tr>
<td>2 Picking the winners of the future</td>
<td>Market segmentation (MS)</td>
<td>Biggadike (1981)</td>
<td>Opportunity identification</td>
</tr>
<tr>
<td></td>
<td>Market pioneering (MS)</td>
<td>Varadarajan and Jayachandran (1999)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Environmental &amp; demand analysis (MS)</td>
<td>Schendel (1985)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Segmentation &amp; targeting (MS)</td>
<td>Slater and Olson (2001)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Positioning (MS)</td>
<td>Biggadike (1981)</td>
<td></td>
</tr>
<tr>
<td>4 Understanding entrepreneurial ambition &amp; needs</td>
<td>Complex relationships (EM)</td>
<td>Zontanos and Anderson (2004)</td>
<td>Venture networks &amp; partnerships</td>
</tr>
<tr>
<td></td>
<td>Networks &amp; networking (EM)</td>
<td>Zontanos and Anderson (2004)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Centrality of individual (EM)</td>
<td>Zontanos and Anderson (2004)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strategic alliances (MS)</td>
<td>Varadarajan and Jayachandran (1999)</td>
<td></td>
</tr>
<tr>
<td>6 Ecosystem creation and networking</td>
<td>Organizational networks (SE)</td>
<td>Hitt and Ireland (2000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Networks (SE)</td>
<td>Ireland et al. (2001)</td>
<td></td>
</tr>
<tr>
<td>7 Internal stakeholder management and support</td>
<td>Capabilities (SE)</td>
<td>Kraus et al. (2009)</td>
<td>Governance &amp; capabilities</td>
</tr>
<tr>
<td></td>
<td>Top management teams &amp; governance (SE)</td>
<td>Hitt and Ireland (2000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Organizational learning (SE)</td>
<td>Ireland et al. (2001)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Resource leveraging (EM)</td>
<td>Ireland et al. (2001)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Managing resources strategically (SE)</td>
<td>Ireland et al. (2003)</td>
<td></td>
</tr>
<tr>
<td>8 Replicating consumer and brand capabilities</td>
<td>Customer intensity (EM)</td>
<td>Morris et al. (2002)</td>
<td>Branding &amp; customer innovation</td>
</tr>
<tr>
<td></td>
<td>Strong customer focus (EM)</td>
<td>Zontanos and Anderson (2004)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer intimacy (EM)</td>
<td>Schindehutte et al. (2009)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capabilities (SE)</td>
<td>Kraus et al. (2011)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Team building (EM)</td>
<td>Hills and LaForge (1992)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Assemble/integrating resources (EM)</td>
<td>Hills and LaForge (1992)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Flexibility (EM)</td>
<td>Davis et al. (1991)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Learning as capability renewal (SE)</td>
<td>Kyrgidou and Hughes (2010)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Internal sales force (MS)</td>
<td>Slater and Olson (2001)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Selective distribution (MS)</td>
<td>Slater and Olson (2001)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Advertising (MS)</td>
<td>Slater and Olson (2001)</td>
<td></td>
</tr>
<tr>
<td>9 Brand life-cycle improvisation</td>
<td>Co-adaptation (SE)</td>
<td>Eisenhardt et al. (2000)</td>
<td>Branding &amp; customer innovation</td>
</tr>
<tr>
<td></td>
<td>Time pacing (SE)</td>
<td>Eisenhardt et al. (2000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Experimentation (SE)</td>
<td>Eisenhardt et al. (2000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Growth via life cycle concept (MS)</td>
<td>Schendel (1985)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product life cycle (MS)</td>
<td>Biggadike (1981)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Applying creativity (SE)</td>
<td>Kyrgidou and Hughes (2010)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Innovativeness (EM)</td>
<td>Davis et al. (1991)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Portfolio analysis (MS)</td>
<td>Wind and Robertson (1983)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product line breadth (MS)</td>
<td>Slater and Olson (2001)</td>
<td></td>
</tr>
<tr>
<td>11 Intrapreneurship supported by governance structures</td>
<td>Entrepreneur culture &amp; leadership (SE)</td>
<td>Ireland et al. (2003)</td>
<td>Governance &amp; capabilities</td>
</tr>
<tr>
<td></td>
<td>Entrepreneurial leadership (SM)</td>
<td>Kraus et al. (2009)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Organizational learning (SE)</td>
<td>Ireland et al. (2001)</td>
<td></td>
</tr>
</tbody>
</table>

Note: the abbreviations in parentheses represent dimensions identified by intersections located in literature – strategic entrepreneurship (SE), entrepreneurial marketing (EM), strategic marketing (MS)

Source: Van Rensburg (2013a).
3.4 The SBV Model (1.0)

3.4.1 Opportunity identification

Strategic exploration. Deriving future focus areas or ‘sweet spots’ for the SBV unit is an amalgamation of science, art and serendipity. They start with an understanding of what the consumer is looking for (via syndicated and proprietary research), as well as a point of view as to where consumers could be in the future (via cultural information, trends on health and sustainability). But the main process is being in the market and networking with cultural leaders, entrepreneurs, sustainability and wellness experts, progressive retailers, and early adopter consumers both within the target spaces and at behaviour extremes.

The SBV unit would benefit from deploying a lead-user adoption model at both the consumer level and the retail level. Early adopter consumers are consumers whose needs for certain benefits today could hold mass-market appeal at some future stage. Von Hippel (1986) was one of the first to empirically examine this concept and how lead users could be used as a ‘need-forecasting laboratory.’ The recent Greek yogurt phenomenon in the United States is an example of how an everyday need from one market suddenly became popularized in another geography led by lead-adopter consumers first trying imported brands (Fage) and an entirely new entrepreneur brand (Chobani). As a disruptive newcomer to the yogurt and dairy industry dominated by incumbents such as General Mills and Danone, Chobani yoghurt developed into a
billion dollar brand in only six years (Entrepreneur, 2012). In the U.S. food and drinks industry the LOHAS consumer (Lifestyle of Health and Sustainability) represents a $300 billion industry (Natural Marketing Institute, 2010) and comprises nearly 20% of the population and is used by some CPG’s as a surrogate for the trend-setting, early adopter consumer. Lead users also frequent certain retailers or channels to purchase innovative new brands such as for example, Whole Foods in the United States. The SBV unit should conduct frequent store visits to such retailers in addition to attending entrepreneur exhibitions such as Expo West a leading trade show in the natural, organic and healthy products industry attended by 58,000 industry professionals interacting with over 3,000 entrepreneur exhibits.

**Picking future brand winners.** Searching for entrepreneur ventures and brands with disruptive potential is not an easy task and by nature such brands are as yet unproven and defy traditional category descriptors. Frequently these brands are mission-driven and focused on an environmental or social cause. In academic literature, this is referred to as ‘sustainability-driven ventures’ (Schlange, 2009), ‘social icons’ (Austin and Leonard, 2008), or ‘mission-driven companies’ (Russo, 2003) with some high profile examples being Ben & Jerry’s ice cream, Body Shop retailing, Timberland clothing, Innocent Drinks, Stonyfield Farm yogurt, Burt’s Bees beauty care products, and Tom’s of Maine dental care products. Picking future winners is more art than science, but a typical checklist could include:

- Uniqueness and authenticity of brand idea
- Product functionality story and efficacy
- Quality of consumer connection (deep engagement with target ethnography)
- Quality of revenue (deep focus in few influencer channels/markets vs. generic availability)
- Achieved “proof of concept” (e.g. surpassing a certain revenue threshold in a specific lead market with a specific consumer group)
- Relevance of idea to become future mainstream.

While a product initially stands out because there is buzz in the marketplace, the thing that frequently makes it stick is the management team’s ability to execute on their passion to be successful. Selection criteria should certainly include the caliber and experience of the management team and the entrepreneur leader. Their innate aggression, capability for sustained effort and risk management, leadership track-record, passion, and imaginative approach to business are signs to watch for in keeping with the venture capitalist’s maxim, that a first-class entrepreneur with a second-class idea is preferred to a first-class idea with a second-class entrepreneur. See also MacMillan et al. (1985) for criteria used by venture capitalists.

**3.4.2 Venture networks and partnerships**

*Positioning and entrepreneurial ambition.* In examining three case studies of social icon brands, Austin and Leonard (2008) identified five motives for partnering with large firms: preserving the
mission via scale; access (customers, distribution, international markets); enhancing competitiveness and protection; permission to make needed internal changes; and financial exit. In the courtship phase, the SBV unit needs to understand the drivers and ambitions of the entrepreneurial leaders and not only assess whether there is strategic complementarity but also a good cultural fit and whether both parties are willing and able to make the relationship work. Venturing arrangements differ from outright acquisition and require more dexterous relational architectures and skills since the courtship evolves through progressive phases of minority to majority equity positions. A well-orchestrated relationship management approach can lead to entrepreneurs remaining on even when the large firm has exercised its option to purchase the brand. Entrepreneurs who are sustainability and mission-driven regard scale enabled by the large firm as the best way to protect their brand idea and if given the opportunity to remain on with the appropriate empowering governance model may do so.

*Corporate venturing.* Many approaches can be followed in developing relationships and venture deals with external entrepreneurs: equity investments, new business models, joint ventures, alliances, etc. For a more comprehensive review of thinking in this area see Narayanan et al. (2009) and Dushnitsky (2012).

*Ecosystem creation.* Ketchen et al. (2007) cite Nokia’s network of over 300 small hi-tech firms to facilitate rapid innovation. Nokia have created a rich ecosystem of flexible ‘collaborative networks’ that has significant strategic and entrepreneurial potential. Procter and Gamble’s (P&G) former CEO, Lafley announced the audacious goal that 50% of P&G’s growth would be secured from sources external to P&G (Lafley and Charan, 2008). There are a few important differences between brand-based and technology-based CVC activity. With the former, the intent from the strategic incumbent investor is to ultimately own the brand and options are purchased upfront or at later stages to do so. In the case of technology ventures it is rare for the entrepreneurial firm to exit to an incumbent strategic investor since the entrepreneur and their financial co-investors (venture capital firms) typically prefer an IPO route. The expected life-span also differs between brands and technology. With brands the expectation is that the brand will last ‘forever’ thus value-added contribution and role within the long-term brand portfolio strategy is critical. The expectation with technology is that it is constantly evolving and renewing thus requiring multiple venture bets.

### 3.4.3 Branding and customer innovation

A new dominant logic from a traditional goods-centered to service-centered is espoused for marketing by Vargo and Lusch (2004) where the customer is a co-producer of service and value and marketing is a process of doing things in interaction with the customer. This interactive and ‘high-touch’ approach is evidenced in the entrepreneurial approaches to brand building where the customer is an operant resource more than an operand resource.

*Entrepreneurial marketing.* Constant improvisation is a hallmark of the entrepreneurial marketer as they refine their brand proposition real-time in response to market feedback. Notions of
flexibility (Davis et al., 1991; Zontanos and Anderson, 2004), proactiveness (Schindehutte et al., 2009), change focus (Collinson and Shaw, 2001), and creativity (Hills and LaForge, 1992) all support the need for adaptation and innovation across the brand’s life cycle. Entrepreneurial brands often have a ‘story’ that conveys the efficacy of the product which they tout through social media and grass roots marketing. For example, Seth Goldman and Barry Nalebuff who founded ‘Honest Tea’ respond in person to every email or blog that consumers send them. They also use the label to send messages that they sign. This perception of taking the time to care about what consumers say (good or bad) has spread a belief that Honest Tea is a trusted, authentic and quality brand.

Life-cycle improvisation and analysis. One U.S. beverage corporation familiar to the author conducted an analysis that tracked revenue progression of 2,500 brands over a five-year period. This analysis allowed them to detect certain revenue inflection points (stages of growth) and success rates in the life-cycle for moderately successful, unsuccessful, and disruptive brands. These stages helped the SBV unit to set investment criteria and develop an understanding of the marketing mix strategies, tactics and metrics most suitable for each phase. This eventually led to the creation of a knowledge resource (a brand ‘playbook’), used to artfully market emerging brands across their stages of evolution, be they investments in entrepreneur brands, or internally founded intrapreneur brand ventures. A similar approach is advanced by Tyebjee et al. (1983), who identify four marketing development phases that growing ventures can anticipate, and strategic and organizational characteristics of each: entrepreneurial marketing > opportunistic marketing > responsive marketing and > diversified marketing. They caution that the marketing organization and strategy that may be appropriate for one stage can become a liability as the venture evolves into its next phase.

Brand portfolio. Graduating brands from the SBV unit into the broader brand portfolio requires diligence around preserving the entrepreneurial culture that embodies the brand. A simple ‘lift and shift’ approach into a brand management structure and into the mainstream business system is bound to impair some aspect of the unique ethos and soul of the mission-driven brand. The Snapple case mentioned in Chapter 2 is very instructive in this regard albeit that it is an example of an inter-organizational versus an intra-organizational graduation.

3.4.4 Governance and capabilities

The key governance issues surrounding stakeholder support as well as the capabilities to both work with external ventures and foster internal entrepreneurship are outlined. There is no right or wrong solution to most of these and each firm will need to judge what works best given their unique culture, capabilities, and desired outcomes.

Stakeholder support. An entrepreneurial governance charter should be developed for the SBV unit. The unit should be empowered and at liberty to refine tactics without constant referral back to higher levels of management. Milestone reviews with a senior steering committee could go a long way towards ensuring there is enough of a finger on the pulse without disrupting the
rhythm needed in a creative and innovative unit. While budgets for each milestone should be established, the SBV unit should retain total control over how these budgets are deployed. Several options are open to management in deciding where best to locate the SBV unit: corporate vs. operating subsidiary; strategy or business development functions vs. inside a business unit; external, separate division vs. inside and connected to parent. Some organization cultures have powerful corporate headquarters constructs, while with others, the ‘power base’ lies with the operating unit presidents. History is a good guide here in helping to think this through. If historical resistance has been encountered in trying to push change and innovation from the center into the operating groups, the new SBV should think very carefully about being sponsored out of the headquarters. Being tied to an operating group helps provide access to multiple resources that will prove crucial to the successful execution of any SBV unit. Clear and strong sponsorship from the operating group president is essential however as the many support functions will take their cues from senior operating leadership in deciding just how much collaboration will be given to the fledgling businesses within the SBV unit amidst the multiple core business priorities. Just because the venture may be small does not mean it is simple. In fact, often these tiny businesses in their start-up phases are highly complex and demand significant attention and support. Having visible endorsement of the venturing strategy from senior leadership is crucial to unlocking these resources.

**Intrapreneurship.** Participating in SBV will foster the development of new capabilities and the adaptation and recombination of existing competencies. Given the SBV unit straddles the entrepreneurial world and the corporate world and is at the heart of inter-organizational knowledge and resource exchanges, an ambidextrous capability-set encompassing exploration and exploitation skills is quintessential. It is unlikely that all the necessary skills and experiences can be sourced directly from inside the large corporation (the converse being equally true). The core capabilities required to run a mainstream business effectively can sometimes translate into core rigidities when considering newstream business needs. A blend of corporate experience, venture capital or private equity experience, and entrepreneurial or small firm background is ideal. The corporate capability set required includes brand marketing, new product and packaging innovation, commercial finance, key account and sales force management, and hybrid route-to-market skills (e.g., direct-store-delivery, warehouse, broad-liners, brokers, etc.). Additionally, SBV unit members need the skill to engage entrepreneur elites in co-managing the cultural nuances and differences between the two organizations, align the values, preserve brand mission, while also capturing opportunities for synergy and learning. The SBV unit leader should ideally have a proven general management track record in the parent firm since they know how to navigate its political and social network and are able to mobilize it as appropriate. Finally, successful venture managers are best self-selected versus simply being appointed. The belief in entrepreneurial endeavour and the personal affinity for challenge, tenacity, independent decision-making, risk taking, and non-hierarchical accoutrements (e.g., job grades, size of budgets, number of direct reports, etc.) are important elements, especially during the inevitable lean times of incubating. The intrapreneurial capabilities of the venture unit are critical as the unit should be responsible for nurturing and incubating new brands until they reach an
appropriate level of brand health and scale suitable for further exploitation by the established mainstream business. Premature graduation can stunt rapid growth or even worse, through lack of focus, be left floundering and ultimately decline. An agreed set of criteria between the venture unit and the inheriting business unit should be developed prior to graduation and a process agreed whereby joint stewardship of the brand’s health and special culture occurs for some period until the brand has traction and focus within the core business.

### 3.5 Conclusions

A conceptual justification of strategic brand venturing was proposed in this Section based on intersection literature. This is a novel treatment for arriving at a conceptual framework with some of the following hallmarks:

1. All 3 intersections are discussed in literature and deemed to be important. None appear to integrate the various intersections into an overall framework. This dissertation attempts to do so within the context of CPG firms and brands.

2. The literature has very diverse views on what each intersection comprises indicating the pre-paradigmatic nature of these domains. Certain dimensions are attributed to one interface by some researchers while other researchers locate that same dimension within a different interface. For example, opportunity identification is ascribed to the strategic entrepreneurship construct by (Luke and Verreynne, 2006; Sandberg, 1992), while others locate it within the entrepreneurial marketing construct (Schindehutte et al., 2009; Collinson and Shaw, 2001; Hills and LaForge, 1992). Where this occurred, some critique and a recommendation were provided.

3. While innovation and acquisition have been extensively covered in literature as sources of growth and development for large corporations, no literature can be traced that includes the notion of corporate venturing around brands. This will be a central feature of this study.

4. There appears to be an adequate theoretical grounding for the proposed concept strategic brand venturing. Some elements of the practice of strategic brand venturing have shed light on gaps in the literature especially around the role of brands within entrepreneurial marketing, the role of the entrepreneur in creating brands, and the opportunity for large firms to extend their venturing practices into branding. It is hypothesized that strategic brand venturing helps to challenge the dominant logic of branding and innovation within large CPG organizations.
VENTURE INVESTING AND MODEL REFINEMENT

4.1 Introduction
This chapter contains a literature review of venture investing leading to a refinement of the conceptual model originally proposed in Chapter 3 to produce a SBV model (2.0) used to guide fieldwork – see Figure 4.1.

Corporate venture investing or corporate venture capital initiatives first appeared in the 1960s around twenty years after the first venture capital firms (Cooper et al., 2001). DuPont was probably the first recorded corporate equity venturer acquiring a 40% stake in General Motors (see Rind and Miller, 1980; Chandler, 1962). Stevens (1972) makes a novel point by
speculating that venture capital behaviour goes even further back to when Queen Isabella funded an intrepid venturer called Columbus, in the hope of discovering new resources and amassing a great fortune! CVC is a relatively recent phenomenon in academic and doctoral research, but a rapidly growing area of interest and controversy (Hardymon et al., 1983; Winters and Murfin, 1988; Sykes, 1990; McNally, 1997; Brody and Ehrlich, 1998; Kann, 2000; Chesbrough, 2000; Maula, 2001; Gaba, 2002; Ernst et al., 2005; Weber and Weber, 2005; Wadhwa, 2005; Anokhin, 2006; Dushnitsky and Lenox, 2006; Basu, 2007; Henley, 2007; Hill et al., 2009; Yang et al., 2009). However, from all the work reviewed there are no studies that investigate CVC practices that access innovative, and potentially disruptive brands.

Typologically speaking, corporate venture capital or corporate venture investing (Gaba, 2002) are boundary spanning activities (Maula, 2001) and hence belong to the external venturing mode of corporate entrepreneurship as depicted in Figure 2.3. However, CVC should be distinguished from corporate venturing since the latter is a more holistic approach to new growth and innovation encompassing both external and internal modes of venturing. CVC is a necessary but insufficient component of a comprehensive CV strategy but is unfortunately used interchangeably with CV in literature. CVC is a venture capital (VC) investment practice administered by regular, established enterprises that take equity positions (usually minority stakes) in SMEs or start-up firms. Hardymon et al. (1983, p. 119) distinguishes between in-house new ventures and CVC, defining CVC as “the purchase of securities in external enterprises independently managed by employees of those enterprises”. In industrial economics literature, this practice can be traced as just one form of an inter-organizational collaborative arrangement called “partial equity” investments (Pisano, 1989).

4.1.1 Waves of CVC

Several ‘waves’ of CVC activity have been identified and described in literature (see Table 5.1 for a synopsis) that generally track the up and down cycles of the independent venture capital sector (Gompers and Lerner, 2000) punctuated by economic downturns. There is broad consensus that the first wave occurred during the late 1960s and early 1970s with more than 25 percent of Fortune 500 firms launching CVC divisions and programs (Rind, 1981) that typically only lasted four years (Gompers, 2002).

The second wave was evidenced in the late 1970s and early 1980s enabled by reductions in capital gains tax and easement of pension investment restrictions (see Gompers and Lerner, 2000) which significantly increased the supply of venture funding (Bygrave and Timmons, 1992). By 1986 nearly 12 percent of the total pool of venture financing or $2 billion was attributable to corporate funds (Gompers, 2002). With the stock market crash of 1987, and the concomitant decline in new public offerings, corporations scaled back their venturing proclivity significantly to only 5 percent of a reduced total venture pool by 1992 (Gompers, 2002). Venture capital burgeoned again in the late 1990s and CVC investment followed reaching as much as $16 billion by 2000. This equated to roughly 15% of all venture capital investment funding (Dushnitsky, 2011). Shuen (2007) references a fourth wave of CVC activity in the mid-2000s
(Dushnitsky, 2011 positions this fourth wave a little later and does not refer to a fifth wave), while Mason (2011) heralds a fifth wave rising from the ashes of the 2008 recession.

Table 4.1 - Waves of Corporate Venture Capital

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>1st Wave</th>
<th>2nd Wave</th>
<th>3rd Wave</th>
<th>4th Wave</th>
<th>5th Wave</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timing</strong></td>
<td>Mid 1960s</td>
<td>Late 1970s/Early 1980s</td>
<td>Mid 1990s</td>
<td>Early/Mid 2000s</td>
<td>+/- 2011</td>
</tr>
<tr>
<td><strong>Catalysts/Swell</strong></td>
<td>Trend towards diversification, excess cash flow availability, and success of technology VCs in firms like DEC, Memorex, Raychem, SDS</td>
<td>Capital gains tax cuts and easing of pension fund investment restrictions.</td>
<td>Advent of telecom and dot-com era. VC successes in internet economy.</td>
<td>VC investments in hi-profile IPOs (Google 2004) and launch of Facebook.</td>
<td>Recognition of mutual need. VCs needing firms for exit; firms needing network of partners to win</td>
</tr>
<tr>
<td><strong>Nature</strong></td>
<td>Corporations emulate VC practices. Startup CV units. Early exponents were General Electric, DuPont, Boeing, Dow, Exxon, Monsanto, and American Standard</td>
<td>Hi-technology and pharma companies lead way such as Control Data, Eli Lilly, and Monsanto</td>
<td>Firms look outside (open innovation) for ideas to supplement R&amp;D. Tentative collaboration of VCs and firms not only for funds, but to access expertise in large firms.</td>
<td>Innovation seen as strategic imperative for growth. CV viewed as viable path to accomplish this.</td>
<td>Mutual collaboration between VCs and firms, and firms with other firms, government, universities &amp; research units creating ecosystems (global; horizontal; cross segment and cross-industry)</td>
</tr>
<tr>
<td><strong>Extent</strong></td>
<td>25% of Fortune 500 firms (Rind, 1981)</td>
<td>Corporate funds of $2 billion by 1986. 12% of total venture capital pool</td>
<td>Tracked CV investments amounted to 400 programs and nearly $16 billion by 2000 (+/- 15% of all venture capital investment).</td>
<td>Unspecified</td>
<td>Industry leaders excelling in inter-entity collaboration</td>
</tr>
<tr>
<td><strong>Dissipation</strong></td>
<td>Oil shock, macro changes, and collapse of market for IPOs in 1973. As market dries up, CV units also dissolved</td>
<td>Crash of 1987; IPO dries up. By 1992 CV programs fallen by a third; comprise 5% of smaller pool.</td>
<td>NASDAQ stock market crash in 2000.</td>
<td>2008 financial meltdown.</td>
<td>Unknown</td>
</tr>
</tbody>
</table>

Source: Compilation by Author from Gompers (2002); Shuen (2007); Dushnitsky (2006, 2011); Mason (2011)

As CVC continues to evolve and become part of the corporation’s innovation strategy, Dushnitsky (2012) speculates whether its volatility and sensitivity may shift from its historical dependence on financial markets to the technological ferment and emergence of novel technologies (or novel brands in the case of this dissertation). Finally, it is worth pointing out that CVC literature and research conclusions need at some level to be interpreted based on which wave the data was collected in as conclusions drawn at the heights of the financial markets in the late 1990s may not apply in a challenged global economy. Additionally, the advent of large-scale databases such as VentureXpert and Venture One made possible by venture capital associations (e.g. U.S. National Venture Capital Association), scientific and
knowledge database firms (e.g. Thomson) and corporate counterparts have increased usage of
econometric analyses and contributed positively toward theoretical and methodological
advances in CVC.

4.1.2 Transferability of VC model
While CVC was originally modeled on VC practices, it is worth noting some key differences
between CVC and traditional venture capitalists that could impact strategy, structure, and
process factors. McCahery et al. (2012) identify the following three differences: (1) limited VC
partnerships are independent while CVCs are reliant on the ongoing sponsorship of their
corporate owners. CVC activity can be terminated for reasons entirely disconnected with the
operations or success of the CVC unit itself even if the unit proves to be very successful e.g.,
Lucent New Ventures (see Chesbrough, 2000). This drives volatility and shorter tenure of CVC
programs that have historically contributed to cautious linkages with VC firms and
entrepreneurs. (2) CVC managers are usually compensated like their organizational peers and
not like venture capitalists that typically receive 1-2 percent fixed fees plus 20 percent of fund
profits. This may create top-talent retention issues within a corporation losing their best CVC
fund managers to VCs. (3) CVCs operate within a narrower product and technology scope
versus VCs driven by the parent company’s business boundaries and strategy thus creating a
less diversified portfolio.

Chesbrough (2000) highlights four essential features of venture capital against which to
benchmark CVC. The first is that the VC model has strongly aligned incentives between the
venture capitalist, other limited partners, and the entrepreneur in whom the VC invests.
Incentive alignment intensity is weaker within most CVC programs. Second, financing is
cautious initially, carefully staged, and contingent on achievement of certain milestones this
imposing discipline on the venture. Third, venture capitalists provide extensive oversight that
leads to insights not usually available to CVCs and faster decision cycles. Fourth, VCs are
indifferent to the ventures business model whereas CVCs are influenced by whether the
investment is complementary to or a substitute for activities of the parent.

Birkinshaw and Hill (2003) and Hill et al. (2008) investigate the applicability of venture capital
models to corporate venturing. In the latter study, the performance implications of the VC model
are empirically tested on 95 corporate venture units using a longitudinal database of survey,
archival, and survival data. The key elements of the VC model that were tested included
autonomy over investment decisions, use of high-powered incentives, syndicating of
investments among other VC firms, and investing in areas of related competence. The authors
found that most of the four dimensions were significantly related to either strategic or financial
dimensions of venture unit performance but not to both. Overall, their findings indicate only
moderate support for the proposition that higher venture unit performance is associated with
adoption of VC model elements. The VC model predominantly predicted financial rather than
strategic benefits. Brody and Ehrlich (1998) consider flat organization structure and quick
decision making as a VC distinctive. Structural and procedural variables were not examined in
the Hill et al. (2009) study and could perhaps be one explanation for only moderate support of the VC model in their finding.

4.1.3 Is CVC sector specific?

While CVC and strategic alliances within technology intensive industries have been around for the last thirty years, examples of venturing with brands can scarcely be found in the literature and is even relatively new in industry. A study sponsored by the U.S. Department of Commerce (MacMillan et al., 2008) showed that consumer products and services only accounted for 2.1% of all venture investment and a mere 0.8% of CVC investment. The principal sectors attracting CVC interest were biotechnology (22%), software (13.4%), and telecommunications (12%). This finding is similar to two earlier surveys. One conducted by the U.S.-based National Venture Capital Association and reported by the Corporate Executive Board (2000), showed only 1.9% of investments were ‘consumer related’; Bannock (2001) reporting a European survey on behalf of the European Commission showed 5.2% were classified as ‘consumer’ investments. Interestingly very few empirical studies have examined industry sector characteristics that may contribute towards more or less favourable venturing practices.

Da Gbadji and Gailly (2009) examined Fortune 500 firms and the prevalence of CVC by industry in 2007. Overall, 20.2% of Fortune 500 firms had established a CVC unit. They found that industrial sectors with high CVC also had a high R&D intensity, and similarly, those with low CVC prevalence had a low R&D intensity. However, the study did indicate that consumer versus industrial markets was not necessarily a driver of CVC. For example, oil and gas firms, transportation, heavy engineering, utilities, and mining firms had some of the lowest levels of CVC incidence (ranging from 0% to 9%). Consumer goods and services accounted for 94 of the Fortune 500 firms and had a CVC incidence of 13.8% that compared with pharmaceutical and biotechnology at 66.7%, telecommunications 44%, computer related industries 42.9%, financial (banking and insurance) at 29.7%, chemicals 25%, industrial goods and services 21.1% and healthcare at 20%. They conclude that firms embark on CVC activity due to corporation-specific factors, and R&D intensity.

Given the paucity of empirical analyses, a few hypotheses can be advanced as to why the incidence of brand and consumer related CVC is nascent: a) industry leaders are more rapid adopters of open innovation and boundary enlarging strategies, and/or b) industrial markets have a greater technological component than consumer goods markets and larger firms can no longer afford the R&D costs lending themselves more readily towards external partnering in order to access technologies in smaller firms. There is some scattered evidence to suggest that larger firms are indeed contributing less to the R&D pie. In a Corporate Executive Board report (2004) on managing R&D partnerships for competitive advantage they show that the percentage of U.S. industrial R&D expenditure borne by firms with 25,000+ employees declined from 70.7% of the industry total in 1981 to 41.3% by 1999. Surprisingly, the contribution from firms with less than 1000 employees rose from 0% to 22.5% over the same period. Medium-sized firms (5,000 to 24,999 employees) increased their share of the R&D pie from 18.9% to
22.6%. The same report shows the results of a survey of 209 large companies in Japan, Europe, and North America that depicts a sharp rise in their reliance on external sources of technology thus creating a more crowded marketplace for external innovation. CVC amidst a variety of other inter-firm collaborative approaches is an understandable strategic option given this context. It seems that where branded consumer products are concerned, the dominant efforts at achieving growth, marketing innovation and advantage are through new product development, line extensions, and acquisition strategies by large companies (Doyle, 1989). It would be erroneous however to assume that brand reasons and technology reasons are at polar opposites of a spectrum.

According to the 2012 BrandZ survey of most valuable global brands administered annually by Millward Brown, four of the world’s top ten brands are technology-based brands, i.e. Apple, IBM, Google, and Microsoft7. So the issue isn’t that technology-based products or services do not pursue a branding strategy and that CPG firms do, it is more about the differences in their approach to strategy, branding, and the underlying industry fundamentals. A closer examination of potential differences between brand and hi-technology venturing is explored later in Section 4.4 to reflect any nuances that may impact the tentative SBV conceptual model (1.0).

4.1.4 Objectives of CVC

Two main categories of value creation objectives can be discerned in the literature that explains why large firms pursue CVC – financial and strategic. However, clear typologies are still lacking linked to theoretical perspectives and substantiated by empirical support.

Financial value is commonly used by VC firms and by large corporations to measure their success with entrepreneurial venture investments. For example, in the venture capital industry, a pre-tax internal rate of return on investment for a fund typically delivers between 20 and 25 per cent in the aggregate (Bleicher and Paul, 1987). Corporate endeavours are benchmarked against these returns to evaluate relative performance. Financial measures are also helpful when comparing the efficacy of corporate venturing strategies against other diversification strategies and other studies in organizational performance.

Strategic value however is more difficult to define and therefore to assess for CVC programs. One approach to assessing value creation is to measure the ratio of the market value of the firm to the replacement value of the firm’s assets, defined as Tobin’s q (Chung and Pruitt, 1994). Researchers have demonstrated the utility of this measure in evaluating the impact of R&D expenditures (Hirschey and Weygandt, 1985) and in assessing sustainable competitive advantage for the firm (Grant, 1991). Its application in measuring the strategic value of CVC programs was demonstrated by Mishra and Gobeli (2000). They found that firms with both strong technology bases and brand equities, that implemented CVC programs as a lever, were likely to be more successful in generating strategic value for the firm. Using a theory of financing

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7 Available at http://www.millwardbrown.com/BrandZ/Top_100_Global_Brands.aspx
choice, Arping and Falconieri (2010) argue that while strategic objectives make it more worthwhile to elicit a strong entrepreneurial effort, they can (unlike more ruthless venture capital firms) undermine the corporations disciplined ability to penalize poor performance of an entrepreneur partner. They also contend that, in general, corporate venture investments do not perform better than VC investments, but only those with a strategic fit do.

Some of the most prominent typological suggestions are outlined below:

a) Silver (1993) interviewed one hundred executives to ascertain the following reasons why their corporations had made investments in entrepreneurial firms: to incubate and reduce the cost of acquisitions; exposure to new markets; add new products to existing distribution channels; less expensive form of R&D; expose middle management to entrepreneurship; training for junior management; utilize excess plant space, time and people; mesh the activities of several departments; generate capital gains; develop new antennae for new technologies; generate income; group therapy for senior management; good public relations; encourage new business creation in the community; fear of competitor involvement in it; fear that intrapreneurs may leave the corporation.

b) In one of the earliest comprehensive studies of CVC activity, McNally (1995) outlined four primary motivations for making CVC investment decisions among UK firms: financial, strategic, social, and educational.

c) Within the realm of strategic objectives, Keil (2000) identified four categories: early market warning signals, learning new markets and new technologies, option building, and market enactment (i.e. using CVC investments to shape markets, or set standards).

d) Kann (2000) suggests an alternative classification of strategic goals based on an archival study of 152 CVC programs, namely: Accelerated market entry, accessing external R&D to enhance internal R&D, and enhancing demand through leverage of internal resource base or stimulating demand for the corporation's own technologies and products as investee firms adopt them.

e) Ernst et al. (2005) analyzed 21 corporate venture units in Germany and identified five strategic objectives being pursued: monitoring technological developments that may have a major impact on the large firms future growth prospects; gaining access to highly skilled technology experts; creating new growth options for the parent firm’s core business; encouraging an internal entrepreneurial spirit; increasing the internal efficiency of R&D.

f) Henderson and Leleux (2005) use three theoretical perspectives such as the resource-based view, the real options-based view, and a networks-based view to conceptualize the objectives of CVC programs as: leveraging or upgrading competences, retaining
the right to play (an option) in new markets or new technologies, and shaping the industry’s future through cultivating a supportive network of investments.

g) Brettel (2010) distinguishes three types of objectives based on German experience with CVC activity: strategic, social and public relations, and financial. With respect to the strategic objective, Brettel (2010) identifies four sub-goals: technology observation, growth enhancement, efficiency enhancement, and motivational impact of CVC activities on the investing firms entrepreneurial spirit.

The view subscribed to by this author resembles Maula (2001) who posited three primary strategic goals for CVC programs - learning (about markets, ventures, processes, skills), option building (identifying future brands/markets or possible acquisition candidates or simply hedging risks), and leveraging (stimulating demand for the firm’s own products/brands, and/or leveraging complementary resources). These goals also find support from Da Gbadji and Gailly (2009).

4.1.5 Modes of CVC

Significant heterogeneity in program structure is also observed in the literature. CVC can be organized in several ways using either internal units or external VC firms, to make direct or indirect investments, resourced via a formal one-time fund or capital disbursements on an as-needed basis. Several approaches can be discerned in the literature (Barry, 2000):

a) Dedicated programs run by internal venture capital units
b) Dedicated programs run by external venture capital groups
c) Direct investments by corporate development groups
d) Co-mingled pools managed by internal venture capital teams
e) Investing in a portfolio fund managed by an external VC firm
f) Joint venture with an external VC

Some of these approaches have been visually depicted below in Figure 4.2 extracted from Aernoudt and Josée (2003). Corporate ventures are divided into external and internal search and development approaches. The indirect approach assumes some form of dedicated instrument such as a fund or a dedicated unit is included within the corporation. In keeping with the corporate entrepreneurship typology presented earlier, external investment would be regarded as CVC, while internal forms of development and investment would be regarded as internal corporate venturing (ICV).

According to an Ernst & Young (2002) survey, 86% of firms used the direct external approach as the most common mode and usually reflects a strategic orientation to CVC. The indirect external approach typically outsources the investment practice to a fund managed by an independent VC firm and usually reflects a financial returns and lower risk approach to CVC.
Many different preferences are expressed in literature as to which structure delivers the best results. For example, Bleicher and Paul (1987) advocate the external CVC fund using a limited partnership vehicle managed by a venture capitalist as general partner, where the firm is the sole limited partner, provides the funding, and defines its investment charter. They suggest the following benefits from such a model: above-average financial returns; identification and initial entry into related and new areas of business; assistance in spin-outs and divestitures; and exposure to entrepreneurial practices. Winters and Murfin (1988) observe four different structure types for corporate participation in the venture capital process: (1) investing in VC funds acting as one of several limited partners; (2) funding a stand-alone VC subsidiary that makes direct investments and is compensated and autonomous in the same way as a professionally managed VC fund; (3) establishing a venture development subsidiary capitalized by the parent that invests in venture funds and venture companies typically alongside other venture capitalists; (4) direct investing in venture companies as part of the corporate development function but without forming a separate entity. Initial investment in funds could evolve to direct investing as experience is accumulated. Three types are primarily strategically motivated while structure type (2) is primarily financial in orientation. The authors conclude that a structure primarily designed for financial purposes is less likely to succeed due to difficulty in
accessing good deal flow. This aligns with an earlier negative diagnosis about CVC by Hardyman et al. (1983) that critiqued three cases of corporations trying to act as VCs. The subsidiary structure type (3) is deemed most likely to succeed. Such a structure signals a serious corporate commitment externally to venturing. It is also possesses an ability to react in a timely fashion with minimal bureaucratic review and is therefore likely to attract VC involvement as well as mitigate entrepreneur concerns about corporate malfeasance.

Sykes (1990) gathers survey data using questionnaires and interviews from 31 major corporations involved in strategically driven CVC programs. Data on two modes of investment program were analyzed: direct investment in new ventures, and investment in VC limited partnerships managed by private VC firms. Sykes (1990) finds that 64 percent of the programs pursue both, while 81 percent act as direct investors, and 84 percent invest via VC firms as limited partners. In ranking a list of strategic objectives, the two groups rank similarly with the exception that direct investors also seek to change corporate culture while limited partners seek to learn about venture capital markets and practices through their investments. McNally’s (1995) survey of 35 UK firms practicing CVC found that, 23 made investments via an in-house function or operating division of which 16 were direct and 7 indirect CVC investments; while 12 made investments via a subsidiary company of which 7 were direct and 5 were indirect CVC investments. Deal flow sources for direct investments came from accountants, merchant banks, and venture capitalists. Only 9 of the 23 direct CVC investors made investments in conjunction with independent venture capitalists, and only 4 had been approached directly by small firms seeking equity financing. This was a surprising finding given that two-thirds of the 45 companies contacted that had not made CVC investments had been approached by entrepreneurs seeking direct CVC funding.

In summary, various modes of organization are evidenced in practice and research. Each firm needs to decide on the best approach given their experience, objectives, and capabilities. With regards to the role and relevance of VC firms in brand-based venturing, some differences are posited in this dissertation and explored in a Section 4.4.

4.2 Towards a Definition
4.2.1 Introductory thoughts
An attempt at definitional clarification now follows to incorporate the nuances of brand venture investing as distinct from technology-based venturing. The mainstream definition is now presented followed by some proposed adaptations.

For instance, Kann (2000, p. 2) defines CVC as “equity investments in privately held entrepreneurial firms by established corporations, usually motivated by strategic interest”. At a minimum, the definition could be improved through the insertion of ‘non-financial’ corporations. Established corporations could include financial institutions that make private equity placements, called ‘merchant venture capital’ firms (Janney and McFarlin, 2011). CVCs are different from investments made by independent VC firms, private equity (PE) firms,
financial institutions, or even block equity positions taken by corporations in other publicly traded firms (Allen and Phillips, 2000). However, for the purposes of this dissertation the term itself requires minor modification. CVC has also been described as ‘strategic venture capital investing’ (Kann, 2000) to ensure the organizational focus is on CVC as a strategic versus purely financial vehicle. The Corporate Executive Board (2000) has coined the term ‘strategic equity investing’ as a surrogate for CVC. Introducing the word ‘strategic’ is positive as it suggests the aim is not purely financial. However, the locus of business development, the corporation, is lost which seems unfortunate given the express purpose is how industrial firms adopt venture capital investment practices. Also, to incorporate the notion of value-added partnership and the support being provided by the incumbent to the portfolio firm, other terms have been used such as ‘strategic partnering’ (Silver, 1993) or ‘corporate venture partnering’ (Oakley, 1987).

Strategic brand venture investing (SBVI) is however preferred to CVC, as it not only clarifies the loci as brand-based venturing, but also removes the word ‘capital’ since this can evoke a perception that the primary raison d’être is the provision of financing, i.e. capital. This is understandable, given that the term was introduced in the first wave of CVC activity when large industrial firms were trying to mimic the practices of venture capitalists and financial objectives were primary. This in turn suggests a more arm’s-length stance toward the investee firm or an approach guided by strictly financial objectives versus strategic goals. While not perfect as a term, SBVI moves closer towards suggesting an investment relationship that includes both monetary (Kann, 2000) and non-pecuniary support (Dushnitsky, 2006) provided by the corporation. This binary nature is consistent with one of the earlier influential articles on corporate venturing by Roberts (1980) who identifies ‘venture nurturing’ as one option within a spectrum of venture strategies. According to Roberts (1980), venture nurturing involves more than just capital investment but commits the investing corporation to provide managerial and resource assistance to the investee firm.

4.2.2 Defining Strategic Brand Venture Investing

Strategic brand venture investing (SBVI) is the preferred term for use in this dissertation. To clarify the meaning of the term for the purposes of this dissertation, a set of incorporated and non-incorporated characteristics are listed below. In developing the list of characteristics, the work of several authors were utilized, notably, McNally (1997), Kann (2000), Maula (2001), Rauser (2002), and Schween (1996) as represented by Poser (2003), and Dushnitsky (2006).

Strategic brand venture investing in this dissertation is:

1. An equity investment option (primarily minority);
2. Motivated by strategic intent;
3. Made by non-financial, incumbent, industrial corporations (usually via a venture unit or non-financial intermediary of the parent corporation);
4. In external, autonomous, privately-held ventures;
5. Founded by marketing savvy entrepreneurs;
6. That have high growth, potentially disruptive businesses (or brands) and;
7. Receive experienced assistance and access from the investing corporation;
8. Over a prolonged period (circa 3 – 5 years); to
9. Create strategic and financial value.

Strategic venture investing is not:

1. To be confused with ‘corporate spawning’ which is the study of corporate spin-outs whereby an employee exits the corporation to start a venture in a related market (Klepper, 2009; Gompers et al., 2005). Even if the corporation retains an equity stake or a purchase option in the spin-out to perhaps spin it back in to the corporation (called ‘spin-along’ by Michl et al., 2012), this is not included within the scope of SBVI being examined since the focus is on accessing entrepreneurial knowledge, brands and marketing practices originated externally. Related to this thought is the spawned entrepreneur who leaves a public company to start a venture capital backed firm (Gompers et al., 2005). This is also excluded from the above definitional orbit.
2. An equity carve-out (Anslinger et al., 1997) where a public company places a portion of a subsidiaries’ common stock for sale via an initial public offering (IPO), with the parent holding the remainder of the equity.
3. Non-equity forms of inter-organizational relations (e.g., strategic alliances, licensing, cooperative agreements, franchising, subcontractor networks).
4. Internal corporate venturing or intrapreneurship (Pinchott, 1985).
5. Corporate venture capital funds used for new business incubations originated within the firm (Rice et al., 2000).
6. Investments of corporate pension funds (even if placed in SMEs and entrepreneurial firms) as these are exclusively for return-on-investment purposes (Winters and Murfin, 1988).
7. Other equity-based forms of inter-organizational relationship (e.g. joint ventures in public companies). SVI is unlike a joint venture where both partners take equity stakes in a newly formed venture. SVI is a one-directional equity investment between unequal partners (Kann, 2000, p. iv).

The CVC literature has blossomed quite extensively in recent times and a full review of all topics is beyond the scope of this dissertation and bounded by the research objectives specified in Chapter 1. As such, the processes and activities of CVC will now instead be analyzed.

4.3 Key Venturing Processes or Dimensions

Most corporate venturing process literature relates to internal corporate ventures and less so with respect to external corporate ventures. For example, Block and MacMillan (1993) describe a six-stage process encompassing: setting the stage (strategy and conditions); selecting ventures (opportunities and venture champion selection); launching the venture (business plan and location of venture); monitoring and controlling the venture (risk and progress); championing the venture (promote internal viability and manage politics); and learning from
experience (continual improvement). Ucbasaran et al. (2001) analyze the entrepreneurial process and make applications to internal corporate venturing by advancing the following process notions: opportunity recognition; information search; resource acquisition; and business strategizing. While the internal venturing process literature has some commonalities with SVI (separate units; funding; championing; risk; etc.), the absence of relationships with external organizations such as entrepreneur firms and venture capital firms pushes the thinking towards the VC process as the closer-in foundational example. The corporate venture capital literature offers only a few process models for consideration largely modeled after the venture capital process since CVC is a special form of VC. The review starts with VC process models followed by three CVC models culminating in a comparison and synthesis.

4.3.1 Venture capital investment decision process

In a well-cited paper on the venture capital process, Tyebjee and Bruno (1984) posit a five-stage sequential model (Figure 4.3) based on 41 venture capitalists providing data on a total of 90 deals.

![Figure 4.3 - Venture Capital Process](image)

**Figure 4.3 - Venture Capital Process**

The first phase of an orderly process is: (1) *Deal origination* encompassing the processes by which deals enter into consideration as prospects for investment via cold contacts, technology scans, and referrals. (2) *Deal screening* entailing the delineation of key policy variables that delimit prospects to a short-list for further in-depth evaluation. (3) *Deal evaluation* based on a weighting of venture characteristics and an accompanying assessment of perceived risk and expected return prefacing the investment decision. Tyebjee and Bruno (1984) tested 23 characteristics of a deal that were reduced by factor analysis to five underlying dimensions.
Using regression analysis, market attractiveness and product differentiation was found to determine expected return, while perceived risk was determined by managerial capabilities and by environmental threat resistance. A discriminant analysis correctly predicted whether or not a VC was willing to invest on the basis of perceived risk and expected return in 89.4% of the cases. (4) Deal structuring that establishes the price of the deal and equates to the equity taken up by the VC firm coupled with any covenants limiting investor risk. (5) Post investment activities where the role of the VC expands beyond investor to collaborator and can span a range of support provided to the venture such as strategic planning, recruitment of key executives, expansion financing, and orchestrating exit via a merger, acquisition, or initial public offering (IPO). Various other venture management models employed by VC firms have been proposed in the literature. Table 4.2 provides a comparison of some of the key frameworks across each of the venture management process steps. The Tybjee and Bruno (1984) model is included for benchmarking purposes.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Search</td>
<td>Deal origination</td>
<td>Search</td>
<td>Generating deal flow</td>
<td>Origination</td>
<td>Deal generation</td>
</tr>
<tr>
<td>2</td>
<td>Screening</td>
<td>Screening</td>
<td>Initial screen</td>
<td>Proposal assessment</td>
<td>VC-Firm specific screen</td>
<td>Initial screening</td>
</tr>
<tr>
<td>3</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Proposal assessment</td>
<td>Generic screen</td>
<td>Feedback: Investment committee</td>
</tr>
<tr>
<td>4</td>
<td>Evaluation</td>
<td>Evaluation</td>
<td>X</td>
<td>Project evaluation</td>
<td>First-phase evaluation</td>
<td>Feedback: Supervisory board</td>
</tr>
<tr>
<td>5</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Pre-approval completions</td>
</tr>
<tr>
<td>6</td>
<td>X</td>
<td>X</td>
<td>Due diligence</td>
<td>Due diligence</td>
<td>Second phase evaluation</td>
<td>Approval and due diligence</td>
</tr>
<tr>
<td>7</td>
<td>X</td>
<td>Structuring</td>
<td>Deal structuring</td>
<td>Deal structuring</td>
<td>Closing</td>
<td>Deal completion</td>
</tr>
<tr>
<td>8</td>
<td>a) Venture board meeting</td>
<td>b) Venture operations</td>
<td>Post-invest activities</td>
<td>Monitor progress</td>
<td>Ventura operations</td>
<td>Monitoring</td>
</tr>
<tr>
<td>9</td>
<td>Cashing out</td>
<td></td>
<td>Cashing out</td>
<td>Cashing out</td>
<td>Exit</td>
<td></td>
</tr>
</tbody>
</table>

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Starting with one of the earliest doctoral dissertations on venture capital, Wells (1974) identified six distinct stages in the VC funding decision process through interviews with partners at seven VC firms, these being: (1) the search for investment opportunities involving inquiries and contacts with other intermediaries such as banks and partner VC firms; (2) the screening of
proposals based on a set of filters and questions; the (3) evaluation of these proposals to the best of the VCs knowledge to arrive at an accept/reject funding decision using more detailed criteria versus the screening phase; (4) VCs then spent considerable time with funded ventures in venture board meetings and follow-up; (5) in dealing with venture operations; culminating in (6) cashing out their initial investment in the ventures. By comparison, Tyebjee and Bruno (1984) had essentially compressed the fourth and fifth stages of the Wells (1974) model, supplemented a stage called deal structuring, and embedded the cashing out step within a broader notion of post-investment activities.

A very similar venture decision process was espoused by an experienced venture capitalist, Silver (1985). His version of evaluation was termed due diligence and comprised a series of five audits: the size of the problem the business is attempting to solve, the elegance of the solution, the entrepreneurial team, the financial statement, and legal aspects. Once a funding decision had been made, the VC monitored the progress of the investment and attempted to add value leading ultimately to a termination of the VCs involvement when the business was either sold, or the VC firm liquefied its investment. These final stages were essentially incorporated in the fifth stage of the Tyebjee and Bruno (1984) framework and similar terminology was used except in the term used relating to the pre-cash stage.

In ensuing models by Hall and Hofer (1993), Fried and Hisrich (1994), Bliss (1999), and Klonowski (2007) a broadly similar process can be found with some having a few extra stages involved for screening and evaluation based on alternate governance modes (Klonowski, 2007), or based on firm-specific versus generic criteria (Fried and Hisrich, 1994). For the purposes of this dissertation, the Tyebjee and Bruno (1984) model is preferred as a representative VC model due to it being supported by a robust empirical and quantitative approach, its more all-encompassing definition of stages versus micro-steps or VC firm-specific nuances, and its enduring citation in the venture capital extant literature.

4.3.2 CVC investment decision process

The discussion below assumes that the CVC unit is making direct investments versus channeling their investments as a limited partner through an independent VC fund. Before doing so, a few comments on the latter approach are appropriate. In most cases, the VC firm has all decision rights over investment and exit stages. The corporation may still be involved in collaboration with the investee since this is usually the way in which business value is generated for the entrepreneur. Learning occurs from this interaction as well as from the interaction with VC professionals that may prepare the organization to cut loose from VC dependence at later stages in their venturing maturation.

Partnerships with VC firms may even follow a U-shaped phenomenon with strong almost exclusive involvement with VCs in the start-up phase of CVC diminishing over time as
experience and success builds, but reigniting again as the CVC strategy begins to broaden its influence and role within the parent. For example, Sykes (1990) found that CVC programs more than five years old generated 42% of their deal flow from VCs compared to 22% for younger CVC programs. However, this dissertation is focused on the capabilities needed within large corporations setting up and running their own SVI unit and making direct investments. Partnerships with independent VCs may be part of their strategy to augment a specific technology or product/market focus area, but do not constitute the core of their venturing approach. Interestingly, decision-making process models are sparse in the CVC literature. Most models of CVC are not process models but depict interactions between entities in the post investment phase. For instance, the Ernst et al. (2005) model shows interaction between the parent firm, the venturing unit, and the portfolio of start-up companies. Dushnitsky (2006) portrays the governance relationship between parent and CVC program, plus the investment relationship between CVC program and portfolio firms. Two German language sources, Schween (1996) and Berger and Dördrechter (1998), are cited and briefly described in Poser (2003). These do not appear to differ materially from the Yates and Roberts (1991) model described below. Brody and Ehrlich (1998) only briefly note four phases of venture investment based on the VC model (gathering ideas; evaluating ideas; building business value; and exiting). They discuss the advantages and disadvantages of VCs roles within a CVC program, such as: co-venturing on a specific investment; launching a dedicated fund; or investing in a pooled VC fund managed by the VC. The comprehensive process models that could be accessed in CVC literature are described below.

Yates and Roberts (1991) studied the strategies of 49 large U.S. corporations that made CVC investments as part of their new business development strategies. The study proposes four process building blocks for managing a CVC program each with affiliated sub-processes (see Figure 4.4 below). The four major process steps are: Developing the venture program; initiating investments; managing the investment portfolio; and assimilating investments into the business. The empirical inquiry was confined to the initiating investments phase.

Figure 4.4 – CVC Model

<table>
<thead>
<tr>
<th>Developing the venture program</th>
<th>1. Establish venture goals and focus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. Formulate venture group structure and strategy</td>
</tr>
<tr>
<td>Initiating investments</td>
<td>3. Uncover investment opportunities</td>
</tr>
<tr>
<td></td>
<td>4. Establish investment selection criteria</td>
</tr>
<tr>
<td></td>
<td>5. Structure and make investments</td>
</tr>
<tr>
<td>Managing the investment portfolio</td>
<td>6. Assist the management of individual firms</td>
</tr>
<tr>
<td></td>
<td>7. Foster synergies among portfolio firms</td>
</tr>
<tr>
<td></td>
<td>8. Help determine each portfolio firm’s strategy</td>
</tr>
<tr>
<td>Assimilating investments into business</td>
<td>9. Establish common strategies among firms</td>
</tr>
<tr>
<td></td>
<td>10. Develop significant new business group</td>
</tr>
<tr>
<td></td>
<td>11. Transfer venture expertise into core business</td>
</tr>
</tbody>
</table>

Source:  Yates and Roberts (1991, p. 31); numbering by Author
Developing the venture program is similar to the design of most corporate entrepreneurship organizational vehicles (see Burgleman, 1984 example) in the sense that venture goals and focus areas are determined and the relevant structure and strategy for that dedicated CVC group is formalized. Initiating investments includes many of the same steps encountered in the previously discussed VC process models such as, generating deal flow, screening, evaluation, and deal structuring (resembling the first four stages of the Tyebjee and Bruno, 1984 model). The key point of departure from classical VC process models lies in the next two CVC stages: managing the investment portfolio and assimilating the investments into the core business. Yates and Roberts (1991) identify three sub-processes within managing the investment portfolio, namely: assist the management of venture firms; fostering synergies among other portfolio venture firms; and helping determine each portfolio firm’s strategy. However, this is a rather limited portrayal of what is possible since the range and nature of support activities of the corporate investor stretch beyond strategic planning, recruitment of key executives, expansion financing, and external connections offered by the VC investor. The full spectrum of value chain activities resident in any large organization can be leveraged to assist the entrepreneurial venture, such as: procurement synergies, manufacturing, distribution, order-to-cash capabilities, marketing and selling, access to key customers and channels, international expansion, market research, and talent development disciplines and personnel (for literature on leveraging complimentary resources see Siegel et al., 1988; Winters and Murfin, 1988; Sykes, 1990; Silver, 1993). The Yates and Roberts (1991) model reflects a more traditional role of a CVC as a financial emulator of VC practices rather than as a value-added strategic collaborator. This is perhaps unsurprising given the timing when this model was developed within the evolution of CVC practices (between 2nd and 3rd wave of CVC – see Table 5.1 in Chapter 5). More recent CVC literature reflects a move away from pure financial venturing to the use of CVC for strategic partnerships (McCahery et al., 2012), using CVC as a vital part of the innovation toolkit (Dushnitsky, 2012), embracing external sources of ideas and innovations (Chesbrough and Tucci, 2004), and creating global, cross-segment and cross-industry ecosystems (Mason, 2011).

In their fourth process step assimilating investments into the business, Yates and Roberts (1991) do however push CVC process thinking beyond the classical VC model emphasizing the integration of CVC investments (rather than exit as is the norm for venture capitalists), and the transferring of venture expertise into the core business (not performed by VCs). They also identify a process opportunity of developing a substantial new business inside the firm that was originally sourced external to the firm as a consequence of the CVC strategy. Unlike the VC model where cashing out is always the goal, the Yates and Roberts (1991) model suggests that exit may not always be the primary motive of CVC and the corporation may opt for full acquisition. Unfortunately, their model does not explicitly mention exit as a strategic option. Ventures are risky, and not all venture investments will prove successful nor remain strategically advantaged. As such, these ventures should not be assimilated into the core business. Importantly however, their model does recognize that learning and knowledge transfer may
occur via CVC activity that could be transferred from the CVC unit into the operating business, or alternatively, once learning has occurred through creation of a dedicated CVC unit, the core business could incorporate CVC activity as part of their ongoing business development toolkit and strategy. The notions of developing significant new business groups and of transferring venture expertise into the core business are consistent with the dimensions proposed in the SBV model (1.0) described earlier in Chapter 3.

Poser (2003) examines the impact of CVC on the sustainable competitive advantage of investing firms across four case studies. He divides CVC processes into the stages/steps required for setting up CVC activity, and those required for running CVC activity. According to Poser (2003), setting up a CVC activity within a large corporation involves five steps: setting CVC objectives, defining the investment approach, determining organizational linkages, staffing and designing compensation, and setting up monitoring mechanisms. These five steps are tantamount to the first step identified in the Yates and Roberts (1991) model called, developing the venture program.

Since many of these steps have already been covered under prior sections, attention will focus on the processes involved in running CVC activity. Figure 4.5 indicates the six process steps involved in running a CVC: generating deal flow, assessing investment opportunities, investing, interacting with start-ups and exiting investments. These first five process steps essentially match process steps two through four found in the Yates and Roberts (1991) model. A sixth process step called, monitoring CVC success, is added by Poser (2003) based on the inclusion of a controlling step espoused by Berger and Dördrechter (1998), and based on the venture capital investment process models previously listed in Table 4.2.

**Figure 4.5 – Running CVC Activity**

![Diagram](Source: Adapted from Poser (2003, p. 139))

In the Poser (2003) CVC process model, the VC term *generating deal flow* (p. 140) is used for accessing investment opportunities. Winters and Murfin (1988) identify this step as the most important success factor of CVC. According to Poser (2003, p. 59), CVCs can pursue many of
the same tactics used by VCs to generate deal flow, such as: marketing and public relations activities; active internet search; visiting industry exhibitions, VC conferences and incubators; networks with other VCs, bankers, former entrepreneurs, consultants, board members of start-ups, technology transfer centers, etc. Siegel et al. (1988) pinpoint three important sources of CVC deal flow in their study: venture capitalists (35%), direct contact with entrepreneurs (29%), and other functions within the company (25%). There is inadequate empirical evidence to suggest whether different deal flow sources drive varying levels of deal flow quality (see Sykes, 1990), although Yates and Roberts (1991) identify from their study that venture capitalists served as the primary source of deal flow for top performers (48%). When making direct investments, understanding the needs of entrepreneurs and conveying an ability to deliver on the necessary business building support through dedicated venture group structures, senior management commitment to venturing, and other means is critical. Rind (1994, p. 103) advises entrepreneurial ventures what to expect from a strong CVC partner: longevity, experienced people running CVC, adequate funds available, a long investment time horizon, and flexible and fast decision making. Corporations with great reputations for innovation and collaboration may even be more attractive to entrepreneurs. Empirical evidence is available that indicates ventures co-financed by multiple global Fortune 500 corporations receive higher valuations than comparable firms financed by venture capitalists alone (see the Maula and Murray, 2002 study of 325 venture backed information technology IPOs).

The next step in the CVC process is assessing investment opportunities. This step contains three sub-activities: venture due diligence; assess strategic relevance; and leverage organization for due diligence. Once again, Poser (2003) draws heavily from the VC literature and experience for conducting due diligence (e.g., the management team; the product market concept; the potential value generation) but earmarks the need to assess strategic fit as one key additional criterion for CVCs. Several studies have been completed on VC decision criteria used in evaluating investments (Siskos and Zopounidis, 1987; MacMillan et al., 1986; Fried and Hisrich, 1994; Baum and Silverman, 2004). Siegel et al. (1988) also compares VC criteria with CVC criteria and finds that both entities value the experience and personality of the founding entrepreneur the most, while unsurprisingly for VCs a strong financial return was deemed much more important. Once evaluation and due diligence has been completed, Poser’s (2003) process model calls for investment in start-ups. This is tantamount to deal structuring in the Tyebjee and Bruno (1984) VC model. Four tasks are involved here: valuing the start-up; determining the cash requirements; designing a legal investment agreement covering price, control rights, representations and warranties; and syndicating with VCs where necessary. The ability to conduct deal structuring is a valuable resource and skill required in the CVC unit and should be resident within the CVC unit, or loaned from corporate development or M&A departments when deals are being constructed. While these expert skills can be imported into the deal, many of the strategic value components need to be shaped by the CVC unit management as they will be accountable in the day-to-day relationship with the entrepreneur ventures for delivered promised synergies. Building a trust-based relationship is a critical foundation between the CVC unit and the external venture community. Entrepreneurs will prefer
to interface with the same team members that both structured the deal and that remain active counterparts throughout the duration of the relationship.

*Interacting with start-ups involves not only monitoring and supporting start-ups in similar ways that venture capitalists do, but also involves the realization of the strategic benefits (a unique focus of CVCs), such as: leveraging partnerships, accessing technologies, cultivating alliance-management skills, and changing the internal culture toward innovation. Poser (2003) describes several areas of interaction and support such as managerial support, help in staffing key positions, becoming a customer or a component supplier to the start-up, using its sales organization to sell start-up products or gain access to new channels, regulatory support with clinical trials, and R&D support that allows access to powerful laboratories. Similar to Rind (1994, p. 104), who suggests additional ways in which investing companies can support entrepreneurial ventures (e.g., credibility with customers, banks and other investors, immediate income from R&D or consulting contracts, customer access), Poser (2003) covers these points too stressing the importance of well-designed and managed organizational links to enable fruitful interaction and a mutually beneficial relationship. Since much of the empirical research on this topic has already been reviewed separately and in more detail in Sections 5.3.1 and 5.3.2, further elaboration of this part of the Poser (2003) process model is circumnavigated.

Knowing when and how to exit investments in a start-up is an important capability to build within the CVC unit. Admitting financial or strategic failure may be a difficult thing to do for the CVC unit. This is where acceptance of risk and senior management support for such an options based growth strategy is critical to ensure rationality of decision versus politicizing the decision in an attempt to avert further scrutiny of CVC competence or ineptness. According to Poser (2003) this comprises a regular and balanced net assessment of the investment's strategic and financial success. Table 4.3 outlines a series of scenarios and decision options for exit based on these two dimensions that differ from a traditional VC where only financial considerations prevail.

**Table 4.3 – CVC Exit Decision Matrix**

<table>
<thead>
<tr>
<th>Strategic success</th>
<th>Successful</th>
<th>Pending</th>
<th>Unsuccessful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stop funding and try to secure strategic benefits**</td>
<td>Exit and/or keep equity position if beneficial for strategic relationship</td>
<td>Exit and possibly continue working with start-up</td>
<td></td>
</tr>
<tr>
<td>Continue to support start-up and realize strategic benefits</td>
<td>Continue to support start-up and consider possibilities of increasing probability of success</td>
<td>Exit and realize financial benefits</td>
<td></td>
</tr>
<tr>
<td>Exit</td>
<td>Consider ways to exit, maximizing financial returns</td>
<td>Unsuccessful</td>
<td></td>
</tr>
<tr>
<td>Unsuccessful</td>
<td>Pending</td>
<td>Potentially successful*</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Poser (2003, p. 150)

* Since financial success is realized through exit, investments are only potentially successful before then

** Situation unlikely since financially unsuccessful start-ups will rarely deliver strategic value
Assessing strategic success is not a straightforward task hence a collaborative assessment with the corporate parent and/or business units may be the best way forward. If both the financial and strategic success is pending, the CVC unit should exit according to Poser (2003) to maximize financial return. If the investment is considered to be successful on both dimensions, the CVC unit should either exit or keep their equity stake depending upon which option best maximizes strategic return. Poser (2003) does cater for the possibility that exit could be deferred to either foster a longer-term relationship with the start-up or as a prelude to acquisition. However, the underlying assumption of his model is that CVC, like VC investments, are time-bound investments and that start-ups typically go public if successful. This is in marked contrast to the CPG experience of the author, where the principal objective of a CVC investment is to acquire the brand if it is successful. A tri-vector buy/increase equity/exit decision matrix is more appropriate in the CPG context than purely the exit/hold decision matrix of Poser (2003).

Monitoring CVC inputs, activities, and outputs is an ongoing requirement of the total CVC process. Where results are unsatisfactory, understanding the challenges being faced (see Table 4.4), diagnosing root causes of success and failure, and capturing key learning’s, then moving forward with corrective plans become essential for longevity and health of the CVC strategy.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Key Challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generate deal flow</td>
<td>• Generate sufficient high quality deal flow</td>
</tr>
<tr>
<td>Assess investment opportunities</td>
<td>• Perform due diligence to assess potential of investment opportunity and to determine strategic relevance</td>
</tr>
<tr>
<td></td>
<td>• Leverage organization to support due diligence</td>
</tr>
<tr>
<td></td>
<td>• Achieve strategic objectives through due diligence support by organization</td>
</tr>
<tr>
<td>Invest</td>
<td>• Build investment and negotiation skills for pricing deals and designing investment agreements</td>
</tr>
<tr>
<td></td>
<td>• Structure investments to protect proprietary start-up assets and also enable strategic benefits for investing company</td>
</tr>
<tr>
<td>Interact with start-ups</td>
<td>• Monitor start-ups and provide ‘classic’ VC support to them</td>
</tr>
<tr>
<td></td>
<td>• Leverage the organization to provide corporate support to start-ups</td>
</tr>
<tr>
<td></td>
<td>• Realize strategic benefits by interacting with start-ups</td>
</tr>
<tr>
<td>Exit investments</td>
<td>• Determine when to exit</td>
</tr>
<tr>
<td></td>
<td>• Manage exit process</td>
</tr>
<tr>
<td>Monitor success</td>
<td>• Monitor CVC activities</td>
</tr>
<tr>
<td></td>
<td>• Adapt CVC activities based on results of monitoring</td>
</tr>
</tbody>
</table>

Source: Extracted from a larger table in Poser (2003, p. 152)

The third and final CVC investment process model is now briefly highlighted.

Zu Knyphausen-Aufseß et al. (2010) use six case studies to empirically examine how intra-organizational relationships can be mobilized to advance CVC. Following a grounded theory research approach (Glaser and Strauss, 1967), 20 interviews were coded to facilitate within-

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9 The McNally (1995) doctoral dissertation has a chapter titled ‘The CVC Investment Process’ that deals with internal organization, approvals, deal flow, selection criteria, communication with investee firms, and characteristics of investment. It does not map these in any sequential manner or stress the inter-relationship between activities, nor does it make any reference to venture capital literature that existed at the time. However, it does through mention of these activities validate the general themes underscored in this process review.
case and cross-case analysis. Qualitative data analyses identified three categories of social capital that could be mapped alongside the CVC investment process: (a) knowing the network, (b) mobilizing the network, and (c) developing and leveraging the network. In addition, their analysis suggested that the investment process followed by CVC firms included these sequential steps: (i) deal generation, (ii) deal evaluation, (iii) deal structuring, (iv) investment decision, (v) portfolio support management, and (vi) exit. It is immediately apparent that their outcome derived from theorizing an investment process using ‘grounded’ research (see Langley, 1999) is consonant with models previously discussed. The only nuance the authors do not expound upon further is why they sequenced the investment decision after deal structuring. This seems a little at odds with previous models where deal structuring is only initiated once a positive evaluation has been made and a decision to invest is seriously contemplated.

4.4 Neglect of Brand Versus Technology Venturing

The most noteworthy gap in literature on venture investing relates to brand related assets. As previously mentioned, the literature is dominated by corporate venture investment in high technology assets. It is conceivable that there are some differences between these two that can impact practice, theory selection, and the venturing investment process, and require deviations from conventional corporate venturing models. An analysis of the literature suggests the following four differences (illustrated in Table 4.5):

Role of financial investors

Empirical evidence in technology-based venturing indicates that investing firms frequently do not acquire their portfolio companies (Maula and Murray, 2002; Dushnitsky and Shaver, 2009; Masulis and Nahata, 2010). In many technology-intensive industries, corporate venture capital investors rely on independent venture capitalists for (a) generating a deal flow of innovative startups, (b) co-investment as a way to further introduce capital efficiency (namely, the CVC has to invest only part of the funding amount), and (c) bringing financial discipline, access to relevant talent pool and nurturing scale-up knowledge. Historically many independent venture capitalists (VCs) were wary of co-investing alongside a corporation that may later become an acquirer as this often complicates things around the negotiating table. In a CPG venturing unit studied by the author, 80% of the arrangements with brand entrepreneurs ended up in acquisition or having a pre-agreed pathway to ownership over time.

Role of the entrepreneur

The brand is the heart and soul of the venture from which external expressions emanate and the entrepreneur plays a key role in imbuing the brand with its distinctiveness (Rode and Vallaster, 2005). Often the brand is the entrepreneur and the entrepreneur is the brand according to Krake (2005). Similarly, Kaputa (2012, p. xiv) defines a brand entrepreneur as “leaders who weave their personalities, leadership styles, and values tightly into their business brands”. In a recent interview by the author with an elite brand entrepreneur captured later in case #7, this point was vividly illustrated. Six new brand concepts developed by an advertising agency were about to be put before consumers in a test. The entrepreneur didn’t like any of
them. In his words, “on the spot I did what entrepreneurs do. I wrote a seventh one! All six had taken months of work and refining, and I sat there and literally in three minutes, no exaggeration, I wrote a concept. Well, lo and behold, my concept blew all the others away. We got 90% acceptance levels”. In addition to this entrepreneur-brand symbiosis, the public profile of the brand entrepreneur is typically different to that of the technology entrepreneur with the former being inextricably linked to the brand. “It is true that many entrepreneurs and inventors have used their stories to assist in promoting their brands - for some, like Richard Branson, the entrepreneur is symbolic of the brand and the primary source of that brand’s success” (see Boyle, 2003, p. 93). The role played by an entrepreneur of a CPG brand venture is in the direct public purview whereas the technology inventor may only be known in more specialized communities.

### Table 4.5 - External corporate venturing: Hi-technology vs. CPG brands

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Hi-Technology</th>
<th>CPG Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Role of financial investors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital invested – initial round</td>
<td>Typically smaller $1m - $20m+</td>
<td>Can be larger $5m - $50m+</td>
</tr>
<tr>
<td>Total capital invested per entrepreneur /portfolio firm</td>
<td>Modest to significant</td>
<td>Can be very significant</td>
</tr>
<tr>
<td># investments by CVC unit</td>
<td>Many</td>
<td>Selective; due to alliance support efforts/capacity, portfolio role and # of brands</td>
</tr>
<tr>
<td>Learning benefits for CVC</td>
<td>Yes; multiple applications (exposure to new; culture change; ecosystem creation; etc)</td>
<td>Yes (e.g., how to incubate and improve internal ventures; radar on disruptive brands; culture)</td>
</tr>
<tr>
<td>Leverage own assets/capabilities</td>
<td>Increase demand for own products; shape markets; new applications</td>
<td>Yes; manufacturing utilization, distribution leverage</td>
</tr>
<tr>
<td>Initial Public Offering (IPO)</td>
<td>Desired; also exit to strategic investor beyond initial CVC firm</td>
<td>IPO’s less common; usually captive to initial corporate investor</td>
</tr>
</tbody>
</table>

| **Role of the entrepreneur**            |                                 |                            |
| Role of founder                         | Can be important (e.g. scientist in biotech) | Entrepreneur usually inextricably linked to the brand (B=E; E=B). Important to structure deal such that reliance diminishes over time. |
| Preserving entrepreneurial autonomy     | Important but not a deal breaker when arranging CVC investment | Entrepreneurial flair is key to these brands; Often mission and cause-driven creating very loyal consumers; control by large corporate can incur consumer backlash |

| **Role of exogenous communities**       |                                 |                            |
| Customer and intermediary role          | Not essential to prove technology with end customer | Some channels/retailers and influential consumers are key to brand success and adoption |
| Reputational impact of a CVC deal failure | Undesirable but can be less ‘visible’ to external markets | Brand image for CPG firms is material – a failure can be perceived as marketing and strategic ineptness. |
| Expected product life-span/cycle        | Short medium term; more discontinuous. Communities are therefore transient. (e.g. who still wants an MP3 player?) | Hopefully ‘forever’ – soap, soda, toothpaste, crème cheese basically same product as 100 years ago. Brand communities can be multi-generational in their influence/loyalty |

| **Venture identification**              |                                 |                            |
| Importance of venture capital (VC) firms as partners with corporations | Mostly important – technology can be ‘underground’; need VCs for deal flow and deal evaluation; VCs also helps bring network together to sell to each other | Less important. Brands more ‘visible’ on shelves. Entrepreneurs more prone to seek out corporations given distribution criticality |
| Geographic focus                        | Can source technology globally (hence also need for VC help) | White brand concepts can be sourced globally, the proof of concept test still needs to be met in each market context given local consumer preferences |
| Role of intellectual property           | Very important, but CVC more easy in weak protection regimes | True functionality sometimes hard; brand extrinsic attributes can be perceived to be more valuable |

Source: Van Rensburg (2014a).
Role of exogenous communities

Successful brands build external relationships with consumers who turn into a community of admirers and in some cases brand zealots. According to Muniz and O’Guinn (2001) these brand communities exhibit a shared consciousness, shared rituals and traditions, and a sense of moral responsibility. How such brands are changed and managed, how they are communicated, and with whom they become affiliated is of significant import to these brand communities. A strategic brand venturing relationship between an iconic, entrepreneurial brand and a large corporation will elicit a reaction from consumers concerned about whether their brand’s character or mission may be negatively impacted (see Mirvis, 2008; Nazarkina, 2012). The same community construct with ardent support is less likely to be found in the case of emerging technology ventures.

Venture identification

Located in science parks, garages, and labs, technology inventions are initially less noticeable to the public than brands that have a visible presence on retailer shelves. As such, corporations seeking disruptive new technologies look to VCs to help them access deal flow and entrepreneurial ecosystems (MacMillan et al., 2008). By contrast, the CPG firm may choose to co-invest with a VC firm but the business imperative is less clear since they are often directly approached for distribution by entrepreneurs when the brand is ready to move beyond selective channel incubation to larger scale availability and mass retailing. Accessing deal flow seems less problematic in consumer products versus industrial products given the channel/distribution power of the incumbents.

4.5 Theoretical Foundations and Interaction with SBV

Several managerial theories can be deployed to further understand inter-organizational relationships (IOR) and in particular, corporate venture capital (CVC). This section briefly introduces the use of theory in respect of inter-organizational relationships but focuses on the interaction of relevant theory to the SBV model 1.0 already posited to reinforce or modify the model.

4.5.1 Inter-Organizational Relationships and Theory

Barringer and Harrison (2000) review inter-organizational relationships (IOR) and categorize the literature into six theoretical paradigms that explain IOR formation. Transaction cost economics (e.g. Williamson, 1991) focuses on how boundary-spanning activities of firms can minimize the sum of their production and transaction costs. Make, buy, or partner decisions are applications of this paradigm. Resource dependence asserts that all firms interact with their environment to obtain resources and to the extent that they can use IOR to gain power over other firms (or reduce dependence) that leads to competitive advantage. Strategic choice (e.g. Shan, 1990) is a broader paradigm focused on using IOR to increase market power (e.g. erecting entry barriers or monopoly-type influence); to enhance political power (e.g. influence authorities); to achieve efficiency in research, production, or marketing; or to create a service or product differentiation. Stakeholder theory (e.g. Jarillo, 1988) recognizes that all firms are in some form of inter-
dependent network or constellation and can use these to reduce environmental uncertainty and facilitate goal congruence. *Organizational learning theory* (e.g. Hamel, 1991) focuses on knowledge absorption through IOR, which in turn, leads to enhanced competencies and value creation potential for the organization. *Institutional theory* is a behavioural paradigm that posits that institutional pressures compel firms to seek IORs to secure legitimacy and reputation, but also as a means of adaptation and survival. While several of these theories may be helpful, the search for supplementary theoretical frameworks are needed as some important differences exist between IOR and CVC such as: the fact that equity partnerships reflect a one-directional equity investment between unequal partners (Kann, 2000) versus joint ventures or other forms of IOR that raises important agency issues; and the fact that equity stakes represent real options for the incumbent to acquire the entrepreneurial firm or not at a future stage. This latter aspect is also a key difference between technology CVC and brand CVC. In the case of brands, CVCs are placing strategic options in emerging potentially disruptive new brands with a clear intention to acquire the brand over time should certain revenue, market share, or other performance hurdles be met. Co-investing with another corporation or having an independent VC present in the deal may place complex governance strictures on the incumbent, or even block the incumbent from having an unimpeded roadmap to acquire and integrate the brand in their category and brand portfolio.

### 4.5.2 Strategic Brand Venturing and Interaction with General Theory

This section narrows the spectrum of relevant theoretical foundations to those deemed most pertinent to implementing the four core components of the SBV 1.0 model in Figure 3.3. The following four theoretical perspectives associated with each model component were selected:

- Resource-based view (RBV) in relation to “Opportunity Identification”
- Real options theory in relation to “Venture Networks & Partnerships”
- Principal-agent and syndicate theory in relation to “Governance & Capabilities”
- Absorptive capacity in relation to “Branding and Customer Innovation”

*Resource-based view*

The genesis of the resource-based view (RBV) lies in the work on the theory of the growth of the firm by Edith Penrose (1959). Penrose (1960) further illustrated this theory in a case study of The Hercules Powder Company. She conceived of the firm as a collection of resources and posited that growth emanated from a judicious and strategic exploitation of these resources as well increasing the resource base of the firm commensurate with the pursuit of productive opportunities. This thinking was later popularized into a resource-based theory of competitive advantage by Wernerfelt (1984) and Rumelt (1984), and also later on by Barney (1991), Peteraf (1993) and Prahalad and Hamel (1990) in contradistinction to the dominant product-market and industry positioning theory of Porter (1980 and 1985). These author’s conceived that the basis for competitive advantage derived from the manner in which existing firm-specific capabilities and other tangible and intangible resources are used, or are internally developed or acquired externally. Initial research focused on resources housed and generated internally (e.g., brand names, in-house knowledge of technology, employment of skilled staff, trade contacts,
machinery, capital, efficient procedures, etc.), but inter-organizational relationships allow firms to assemble a larger repository of resources than any single firm can muster (Dyer and Singh, 1998). CVC was later viewed as simply another inter-organizational strategy for accomplishing the same goals (Maula, 2001; Rauser, 2002; and Poser, 2003; Hendersen and Leleux, 2005; Toschi, 2009). In Section 2.3, I argued that brands in many ways fit the requirements of a valuable, rare, non-imitable, and non-substitutable resource (Barney, 1991) that could contain the seeds of competitive advantage. SBV is thus an interesting exploratory in-sourcing alternative versus acquisition or internal brand development efforts to assemble a competitively advantaged resource pool called a brand portfolio.

Implication for model: Ensure strategic exploration capabilities are developed to identify and access the most promising, future-oriented external entrepreneurial brands as a means of building a strategically advantaged, high growth brand portfolio (firm resource).

Real options theory
SBV investments in potentially disruptive brands are exploratory bets in ‘wild ideas’ (March, 2006) and in this sense can be interpreted via the lens of real options theory (Allen and Hevert, 2007). Real options confer the right but not the obligation to participate in a future strategic opportunity that may require greater investment (Dixit and Pindyck, 1994). The theory encompasses the option to defer, to stage investments, to alter operating scale, to abandon, or to enable downstream opportunities in inter-related projects (Trigeorgis, 1993). Upfront commitment is minimized under real options theory while preserving the SBV units ability to gain from the upside potential of a successful disruptive brand through subsequent investments. This makes the strategy attractive because unlike brand acquisitions, they allow irreversible investments in uncertain brand propositions to be deferred until further proof is available, hence economizing on commitment costs and maintaining strategic flexibility (Folta and Miller, 2002). The initial investment cost represents the option price and in tandem, the strategic investor secures some form of preferential right for exercise or abandonment - a necessary condition for it to classified as a real option (Leiblein, 2003). The application of this theory within the CPG context is not without its challenges. The brand entrepreneur is not necessarily willing to confer the right for subsequent exercise or abandonment upon one single investor as they too wish to keep their options open to maximize shareholder exit value. Also, in a market characterized by a few large competitors the options for exit apart from an initial public offering (IPO) may be limited. By siding with one investor, the brand entrepreneur is signaling to the market a preference that may preclude it from switching at a subsequent phase. In such cases, the entrepreneur may only agree to the large firm having an option (a ‘call’ right) for subsequent increases in equity or purchase, if they in turn have the option to ‘put’ the brand to the large investing firm should the large firm not exercise the call right. This ensures they are able to exit without being abandoned by the large investor if things don’t work out as envisaged. In most CPG markets however, distribution is a key ingredient of brand scaling and large firms have significant competence here making it much easier for the emerging brand to achieve its goals
(“tie small to big”). In such cases, the entrepreneur may concede that granting the option is a de facto condition for brand success.

**Implication for model:** Ensure incumbent pre-negotiates an option right when making brand investments to ensure brand is not auctioned to competitive bidders after having benefited from resources, funding, and expertise from the incumbent. Furthermore, how the CVC unit uses its intra-organizational network and social capital within the incumbents business units and departments in order to deliver the agreed value proposition with the brand entrepreneur is of great importance.

**Principal-agent and syndicate theory**

The agency relationship comes into play where one or more persons (the principal) engage another (the agent) to perform a service where decision-making authority is devolved to the agent (Jensen and Meckling, 1976) and where both parties are assumed to be self-interested, rational, and risk-averse (Eisenhardt, 1989). In the case of SBV there are two potential governance relationships where this theory applies. The first is where the corporate parent (principal) has entrusted strategy and resources to the SBV unit managers (agent), the second is where the brand entrepreneur (principal) has ‘entrusted’ their brand to the corporate investor in exchange for resources, advice, and funds from the large firm benefits via the SBV unit (agent). Appertaining to both of these relationships two key problems may occur:

First, the difficulties principals have in ensuring agents possess the capabilities to execute the agreement (*adverse selection*). In the entrepreneur-SBV case, the SBV unit may have over-promised certain supply chain synergies or distribution benefits in the courting phase to attract the brand entrepreneur to partner with their firm versus any other. In reality, other political and business priorities within the parent, may frustrate or bar the SBV unit from realizing these promised benefits. Additionally, the SBV unit may not have the venturing experience and ability to perform against the pre-agreed objectives of the relationship even though they may be honest and diligent in attempting to accomplish these (*honest incompetence*).

Second, the SBV unit or parent may purposefully misappropriate resources from the entrepreneurial venture (Katila et al., 2008) and/or underperform because of some hidden agenda (*moral hazard*). This may be done to deny the entrepreneur brand resources in order to favour an existing brand within the firm portfolio. Alternatively, the initial investment may have been motivated to deny a competitor the option to partner with a potentially disruptive entrepreneur brand, but in the post investment phase the relationship is put on the ‘back-burner’ so to speak. The brand entrepreneur can mitigate some of these risks by selecting a corporate partner with a void in their brand portfolio that only the entrepreneurs’ emerging brand can fill. This incremental value-add will encourage resource allocation and support from the corporate to secure competitive advantage vis-à-vis their large firm rivals. Syndicate theory has been posited as an alternative governance mode for higher growth companies (such as emerging brands). Instead of self-interest as the primary motive in agency theory, syndicate theory views this in a
more multidimensional manner including motives such as reputation, the collective interest, altruism, and the success of the firm (Graebner and Eisenhardt, 2004).

**Implications for model:** Ensure appropriate governance model is in place (e.g., board seats and alliance agreements) to protect rights of entrepreneur but also to safeguard the incumbent from anti-competitive lawsuits that may be filed by disgruntled shareholders who accuse the incumbent of having unduly influenced the brand venture in an adverse fashion.

*Absorptive capacity*

Involvement in SBV relationships with brand entrepreneurs is likely to increase the stock of entrepreneurial knowledge and absorptive capacity i.e., the ability to recognize, assimilate and use additional external knowledge (Cohen and Levinthal, 1990) within the SBV organizational unit. One form of learning that has interesting potential is whether the incumbent firm as a result of engaging in SBV, can develop the ability to learn firsthand entrepreneurial marketing practices to launch more successful brand incubation ventures run by corporate intrapreneurs (see Winters and Murfin, 1988; Hass, 2011).

**Implications for model:** Ensure the SBV unit is capturing learning and practice from exposure to external entrepreneurs and mechanisms are put in place to foster intrapreneurial activity.

### 4.6 SBV Conceptual Model (2.0)

The Conceptual Model (1.0) developed in Chapter 3 provided a framework for understanding the *activities* and *process* of strategic brand venturing. The model was validated using a creative approach to intersection literature sourced from three domains: strategic management, marketing, and entrepreneurship.

In this Chapter, a review of corporate venture investment literature was undertaken and various decision process models drawn from VC and SVI were assessed. In order to further validate and refine the SBV Model (1.0) representative venturing models from this ‘closer-in’ body of literature are now juxtaposed to create a (2.0) version that can be used for the fieldwork.

#### 4.6.1 Mapping Extant Models to SBV Model (1.0)

A comparison of the three key CVC investment process models with the leading VC investment process model is portrayed in Table 4.6 below.
### Table 4.6 - Comparison of CVC and VC Investment Process Models

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Setting up CVC</td>
<td>Developing the venture program</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>2. Deal generation</td>
<td>Generate deal flow</td>
<td>Initiating Investments</td>
<td>Deal origination</td>
</tr>
<tr>
<td>3. Deal evaluation</td>
<td>Assess investment opportunities</td>
<td>Evaluation</td>
<td></td>
</tr>
<tr>
<td>4. Deal structuring</td>
<td>Invest</td>
<td></td>
<td>Structuring</td>
</tr>
<tr>
<td>5. Investment decision</td>
<td>Interact with start-ups</td>
<td>Managing the investment portfolio</td>
<td>Post-investment activities</td>
</tr>
<tr>
<td>6. Portfolio support management</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>7. Exit</td>
<td>Exit investments</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>8. Monitor success</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Source: Compiled by Author

A mapping of the five meta-processes from Tyebjee and Bruno (1984) and the four meta-elements from Yates and Roberts (1991) was undertaken onto the SBV Model (1.0). The venture capital model elements of deal origination and screening are essentially the same as ‘opportunity identification’ within the SBV (1.0) model, while the evaluation and structuring elements fit within the ‘venture networks and partnerships’ component. Finally, all post investment activities undertaken by venture capitalists equate to the remaining two elements of the SBV Model (1.0).

Similarly, the CVC model elements were also mapped. In this case, ‘initiating investments’ is tantamount to the first two components of the SBV Model (1.0); managing the investment portfolio fits against ‘branding and customer innovation’; developing the venture program is essentially about governance structure and capability; and assimilating ventures into the mainstream business is dealt with in both of ‘governance and capabilities’ and branding and customer innovation’ within the SBV Model (1.0).

However, a more granular matching process is needed based on all the sub-processes. To this end, Table 4.7 captures the key dimensions identified in the VC, SBVI and CE literature and how these match with the original practice-based dimensions outlined earlier in Chapter 3. Following this matching, some new dimensions are proposed either because the VC, SBVI and CE literature identified a crucial gap in the original model, or because this literature provided a more nuanced and improved interpretation of one of the original dimensions.
### Table 4.7 – VC, SBVI, and CE Literature Matched to Practice-Based Approach

<table>
<thead>
<tr>
<th>Dimensions in VC, SVI, and CE Literature</th>
<th>Author(s)</th>
<th>(Original) Dimensions in Practice</th>
<th>(New) Meta Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry and firm level drivers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Set objectives</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formulate structure &amp; strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Setting strategy and conditions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Define investment approach</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determine organizational links</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff and design compensation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Set up monitoring</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decide on VC role</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initiating investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generate deal flow</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deal origination</td>
<td>Tyebjee and Bruno (1984)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Screening</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assess investment opportunities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assess strategic relevance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment decision</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Find co-investment partners</td>
<td>Poser (2003)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initiating investments</td>
<td>Yates and Roberts (1991)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foster synergies among firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Absorptive capacity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cashing out</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assimilate investments</td>
<td>Yates and Roberts (1991)</td>
<td>=&gt; 9) Brand life-cycle improvisation</td>
<td>Brand Entrepreneur Partnerships</td>
</tr>
<tr>
<td>Develop new business group</td>
<td>Yates and Roberts (1991)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer venture expertise</td>
<td>Yates and Roberts (1991)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CE complementarity</td>
<td>Van de Vrande et al. (2011)</td>
<td>=&gt; 11) Intrapreneur-ship supported by governance structures</td>
<td>Portfolio Management</td>
</tr>
</tbody>
</table>

Source: Compiled by Author

4.6.2 Revised SBV Model

Figure 4.6 below portrays the revised SBV model (2.0) that forms the basis for the planned fieldwork. The model retains certain elements from before, but also is strengthened through the incorporation of new elements discussed in the literature review.
A brief description of revisions to the core model elements are outlined below:

**Antecedents**
This encompasses an understanding of the industry and firm level factors that precipitated the large CPG firm entering into strategic brand venturing activities (e.g., need for new avenues for growth and innovation; competitive action; failure at internal brand incubation; failure at integrating entrepreneurial brand acquisitions; heightened entrepreneur activity; changes in technology and legal barriers to entry; etc.). Understanding antecedents may also help in anticipating when competitors may implement similar venture growth strategies if they are confronted with similar drivers.

**SBV program design**
Key elements include: Establishing SBV objectives; Formulating SBV strategy and structure including focus areas, location and approach, and role of VCs. Designing a governance relationship model encompassing staffing and compensation policies, funding and autonomy charter, involvement of business units and parent, monitoring and syndicate support, knowledge capture and learning transfer mechanisms. The imperative here is to create an organizational structure with venturing capabilities and governance mechanisms with strong stakeholder support that minimizes bureaucracy and has a bias to action.
Opportunity identification

Key elements being: *Strategic exploration* is the ability to scan the environment, to identify consumer need-states, cultural and technology trends, define opportunity areas or ‘sweet spots’, and uncover investment opportunities for strategic participation. *Building a diverse ecosystem of networks and support infrastructures* to ensure ongoing deal flow access and reputation building will sustain the effort going forwards. *Picking winners of the future* using relevant organizational and venture-specific assessment criteria to select the right entrepreneurial companies and brands with high or yet untapped value creation potential for customers that match the strategic opportunity areas. *Positioning the company for preferential selection* such that entrepreneurs choose to partner with it versus other venture financiers. In so doing, the firm needs to match the corporations’ capabilities and intentions with an *understanding of entrepreneur ambitions*, needs, risks, and benefits faced when evaluating and selecting a strategic partner. *Structuring and executing a deal* that reflects these aspects and positions the partnership for strategic and financial success is key. This may include decisions to partner on specific investments with VC firms.

Brand entrepreneur partnerships

Working together in a value-creating manner to support the entrepreneur’s business within legal parameters, brand portfolio and lifecycle considerations, and internal politics. Building intra-organizational support with functions, business units, and senior management to generate portfolio synergies and ensure the venture unit can deliver on support commitments made across the venture portfolio while also achieving the corporation’s strategic objectives. Helping shape a winning brand strategy together with the entrepreneur is key and involves having knowledge of stages of emerging brand growth so as to understand where an entrepreneurial venture fits and the marketing requirements of each brand life-cycle stage.

Venture portfolio management

*Ongoing brand monitoring* of performance against the original financial valuation and strategic criteria is important given continual changes in the competitive landscape and evolutions in strategic direction of existing brands. The deal structure that was negotiated may provide the corporation with options to increase equity or acquire at various stages of development in revenue. In any event, the venture unit has a key responsibility to steward a recommendation back to the parent organization as to the future potential of the brand investment. An *option decision* using firm-specific and deal-specific criteria to either exit, increase equity position, or to fully acquire the entrepreneur brand needs to be made at the appropriate juncture. *Assimilating and graduating* proven brands out of the venturing or incubation unit into the core business units at the right stage in their life cycle while maintaining the right mix of entrepreneurial and managerial characteristics, and ensuring the new brand plays a strong role in the category portfolio strategy. Entrepreneurial marketing knowledge capture can occur and learning can be transferred to the venture unit and core business during strategic brand venturing relationships. This important knowledge asset can be replicated internally in order that the organization improves its execution of venture incubation through use of *brand intrapreneurs.*
4.7 Summary

The overwhelming focus of conceptual and empirical research in corporate venture capital, corporate venturing and corporate entrepreneurship can be located in industries that are technology-intensive versus industries known for the marketing of branded consumer products. As previously mentioned in Section 4.1.3, CVC activity in consumer-related product and service sectors account for between 2% and 5.8% of all investments dollars. However, given the likely rates of change in consumer industries and associated competitive dynamics, given the cost of large-scale brand acquisitions and the cost of launching new brands inside large systems, the thesis of this dissertation is that a strategic opportunity lies in venturing with entrepreneurs to secure the option to ‘star’ brands of the future. It is hoped that the preceding literature review and model development has produced an approach for consumer products that can now be tested empirically for the first time. Chapter 5 discusses the research strategy used for this dissertation.
Different approaches to advancing knowledge can be employed dependent upon factors such as research objectives and questions, the individual characteristics of the inquirer, the use or not of a priori knowledge, and the research audience. According to Yin (2003) and Riege (2003) potential biases can be avoided and the internal validity and reliability of the research can be enhanced through clarification of the philosophical and theoretical stance of the researcher prior to data collection and theory formation. The goal guiding the selection of my research strategy and methods was to achieve consistency between the paradigmatic and epistemological approach undergirding this dissertation and its key research question and objectives. As such, this section will address paradigmatic and epistemological considerations, clarify the methodological and reasoning approach used to merge practice and theory, and offer a justification and balanced critique of case study strategy and methods.

5.1 Paradigmatic Considerations
A paradigm or worldview is the identification of the underlying basis that is used to construct a scientific investigation. Guba and Lincoln (1994, p. 105) define it as “the basic belief system or worldview that guides the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways”. Bogdan and Biklan (1982, p. 30) define it as a “loose collection of logically held-together assumptions, concepts, and propositions that orientates thinking and research”. These paradigms are accepted on simple faith and the establishment of their ultimate truthfulness is impossible. Since they are not open to proof, one paradigm cannot be elevated over another using foundational criteria. Rather “paradigms define for inquirers what it is they are about, and what falls within and outside the limits of legitimate inquiry” (Guba and Lincoln, 1994, p. 108). Discerning which paradigm or basic set of beliefs is being adhered to by a researcher depend on the answers to three questions: the ontological question, the epistemological question, and the methodological question. Since answers to such questions contain inter-linked assumptions, coherence between answers to questions about ontology,
epistemology and methodology is key, and in doing so, persuasiveness and utility become more important than proof. Each of these concepts is defined below.

Ontology refers to: “The claims or assumptions that a particular approach to social enquiry makes about the nature of social reality” (Blaikie, 1993, p. 6). Similarly, Guba and Lincoln (1994, p. 108) express it in question format as: “the form and nature of reality and, therefore, what is there that can be known about it?”

Epistemology is concerned with: “The claims or assumptions made about the ways in which it is possible to gain knowledge of this reality, whatever it is understood to be; claims about how what exists may be known” (Blaikie, 1993, p. 7).

Methodology answers the question: “How can the inquirer (would-be-knower) go about finding out whatever he or she believes can be known?” (Guba and Lincoln, 1994, p. 108).

The dominant research philosophy in management is the positivist, natural science paradigm of hypothetico-deductive methodology that assumes quantitative measurement, multivariate, and parametric statistical analysis as the epitome of ‘good science’. However, there are alternative philosophies or paradigms just as worthy. For instance, by way of contrast, there is a phenomenological, inductive, holistic, process-oriented, and social anthropological worldview. The phenomenological worldview has its origins in hermeneutics (Fleetwood and Ackroyd, 2003) and can be segmented into at least three main schools: critical theory; constructivism; and realism.

To elucidate the interconnectedness and salience of these and other questions such as axiology, logic, and criteriology, the philosophical assumptions that support these four paradigms of science have been compiled from a wide range of literature sources and are depicted below in Table 5.1. A brief description of each now follows:

Positivism assumes there is a single apprehensible reality driven by immutable natural laws and mechanisms. Independent facts about this reality can be accessed through specific scientific methods and thus “research can, in principle, converge on the ‘true’ state of affairs” (Guba and Lincoln, 1994, p. 109). Commensurable and objective causal relationships can be shown through using constructs of discrete elements. The inquirer and the object of inquiry are assumed to be independent entities with the former capable of impartiality (values and biases are set aside) and incapable of influence on the latter. Should a threat to validity arise (risk of influence in either direction between inquirer and subject), various strategies are pursued to eliminate or reduce it. A deductive method of inquiry is most commonly adopted seeking theory confirmation via statistical generalizations (see Deshpande, 1983; Hirschman, 1986; Tsoukas, 1989; Riege, 2003).

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A cursory examination of leading management journals such as Administrative Science Quarterly, Academy of Management Journal, Strategic Management Journal, shows this to be so.
Table 5.1 - Categories of Inquiry Paradigms and Elements

<table>
<thead>
<tr>
<th>Elements</th>
<th>Positivism</th>
<th>Critical Theory</th>
<th>Constructivism</th>
<th>Realism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontology</strong> (nature of reality)</td>
<td>Reality is real and apprehensible and deterministic (naive realism)</td>
<td>Virtual reality shaped by social, economic, diversity, political &amp; cultural, crystallized in time (historical realism)</td>
<td>Multiple, local and specific ‘constructed’ realities as seen by participants (critical realism)</td>
<td>Reality is ‘real’ but only imperfectly &amp; probabilistically apprehensive, and so triangulation from many sources is required to know (critical realism)</td>
</tr>
<tr>
<td><strong>Epistemology</strong> (relationship of inquirer to that inquired)</td>
<td>Objectivist stance – findings are true. Inquiry takes place as through a one-way mirror.</td>
<td>Subjectivist stance – value-mediated findings</td>
<td>Subjectivist stance – inquirer interacts with that being researched. Created findings</td>
<td>Modified objectivist. Findings probably true with awareness of values between them</td>
</tr>
<tr>
<td><strong>Axiology</strong> (role of values)</td>
<td>Influence denied; value free. What to study &amp; how to study driven by objective criteria</td>
<td>Formative influence and inclusive. Seen as ineluctable in shaping inquiry outcomes.</td>
<td>Formative influence and inclusive. Values seen as ineluctable in shaping inquiry outcomes.</td>
<td>Excluded. Influence denied, but value aware</td>
</tr>
<tr>
<td><strong>Logicality</strong> (argumentation)</td>
<td>Deductive</td>
<td>Inductive</td>
<td>Inductive</td>
<td>Abductive or Retroducive – Underlying structures &amp; mechanisms</td>
</tr>
<tr>
<td><strong>Methodology</strong> (research process used to investigate that reality)</td>
<td>Experiments and surveys. Mainly quant. Verifying hypotheses. Context free generalizations leading to prediction, explanation, and understanding</td>
<td>Dialogic/dialectical. Inquirer is a “transformative intellectual” who changes the social world within which participants live</td>
<td>Hermeneutical / dialectical. Inquirer is a “passionate participant” in the world being studied. Theories developed for understanding. Mainly qualitative.</td>
<td>Case studies and convergent interviewing.</td>
</tr>
<tr>
<td><strong>Criteriology</strong></td>
<td>Accurate and reliable via conventional validity (construct, internal, external) &amp; reliability testing</td>
<td>Historical situatedness; erosion of ignorance; action stimulus.</td>
<td>Trustworthiness (credibility, integrity, transferability, confirmability, and dependability)</td>
<td>Triangulation; interpretation of research issues by qual and/or quant methods</td>
</tr>
</tbody>
</table>

Source: Created from Blundel (2007); Bollingtoft (2007, p. 413); Creswell (2007, pp. 16-30); Deshpande (1983); Easterby-Smith et al. (2008, pp. 57-69); Guba and Lincoln (1994, pp. 109-112); Hirschman (1986); Johnson et al. (2006, p. 134); Perry et al. (1999, p. 17)

**Critical theory** agrees with positivism that reality is apprehensible but that this reality has been shaped and reified into a series of structures now inappropriately considered to be ‘real’ because of an accumulation of factors (social, political, cultural, ethnic, gender, economic). Unlike positivism however, research findings are value mediated. Here the investigator and the investigated object are linked interactively through dialectical dialogue. The goal is to transform ignorance and ill-found acceptance of immutable historical structures into a more informed consciousness through the belief system of the researcher who influences the inquiry (see Guba and Lincoln, 1994; Riege, 2003).

**Constructivism** envisages multiple local and specific ‘constructed’ realities as seen or experienced by participants. Individual constructions can only be refined and discerned through interaction between and amongst the researcher and the respondent. Hence, a separation of researcher and research subject/object is not possible under this paradigm as the aim is to try
and distill a more sophisticated consensus construction or revised interpretation than any predecessor constructions including even the etic construction of the researcher (see Anderson, 1986; Guba and Lincoln, 1994; Mir and Watson, 2000; Riege, 2003).

*Realism* proponents believe that reality is capable of being discovered and known but only imperfectly so, and hence triangulation from many sources is required to know. Underlying structures and mechanisms are sought and research methods that have an abductive and retroductive nature are used for discovering and building theory rather than testing theory through analytical generalizations. According to Riege (2003, p. 77) qualitative methods such as case studies are typically employed to uncover new realities and in order to “build up an understanding of the meanings of the experiences rather than verify predetermined hypotheses”. As this is the chosen paradigm of this researcher, a more detailed discussion is found in section 5.1.1.

These four paradigms are simply illustrative of the spectrum of philosophies available to the researcher since there is no lack of typologies within qualitative research. To mention a few examples: Guba and Lincoln (1994) refer to four inquiry paradigms in positivism, postpositivism, critical theory, and constructivism. Creswell (2007) refers to postpositivism, social constructivism, advocacy/participatory, and pragmatism. Easterby-Smith et al. (2008) covers positivist, relativistic and social constructionist philosophies in their text. Johnson, et al. (2006) enunciates four approaches to management research – positivism, neo-empiricism, critical theory, and affirmative postmodernism. Gioia and Pitre (1990) describe interpretivist, radical humanist, radical structuralist, and functionalist paradigms in their work. Realism is sometimes called critical realism, or the postpositivist paradigm (Guba and Lincoln, 1994).

### 5.1.1 Synopsis of Realism

The founding fathers of realism are generally traced back to the writings of Bhaskar (1978), Hare (1972), or Sayer (1984). Helpful portrayals related to the study of management were also found in Blundel (2007), Easton (2010), Hunt (1989), Perry et al. (1999), and Tsoukas (1989).

Eight key “signposts” of realism are identifiable (see Easton, 2010):

1. The world exists independently of our knowledge of it
2. Our knowledge of the world is fallible and theory-laden but is not immune to empirical check and effectiveness.
3. Knowledge develops neither continuously nor discontinuously.
4. There is necessity in the world; objects – whether natural or social – necessarily have particular powers or ways of acting and particular susceptibilities.
5. The world is differentiated and stratified consisting not only of events, but objects, including structures, which have powers and liabilities capable of generating events.
6. Social phenomena are concept dependent. We not only have to explain their production and material effects but to understand, read or interpret what they mean.
7. Science or the production of any kind of knowledge is a social practice. For better or
worse, the conditions and social relations of the production of knowledge influence its
content. The nature of language and the way we communicate is also not incidental to
what is known.

8. Social science must be critical of its object. In order to be able to explain and understand
social phenomena we have to evaluate them critically.

Ontological assumptions of the realist paradigm are demarcated below in Table 5.2.

<table>
<thead>
<tr>
<th></th>
<th>Real Domain</th>
<th>Actual Domain</th>
<th>Empirical Domain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanisms</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Events</td>
<td>✔</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Experiences</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

Source: Bhaskar (1978) and Easton (1998)

Within the realism paradigm, three domains of reality are distinguishable: mechanisms, events, and experiences. The first world, the real domain, is similar to positivism in that it describes a world independent from human perception and consists of generative mechanisms or causal powers that exist independently to produce observable or unobservable events under contingent conditions. According to realism, the accessibility of this to human understanding takes place through the other two domains. In the actual domain, patterns of events occur, whether observable or not. Finally, in the empirical domain experiences may be obtained by direct observation thus determining what can actually be known.

5.1.2 Rationale for Selecting Realism

The realism paradigm was selected for these reasons:

i) *Its inquiry potential* - I selected it for similar reasons articulated by Kuhn (1996, p. 10) in explaining new paradigms: their achievement was sufficiently unprecedented to attract an enduring group of adherents away from competing paradigms, yet simultaneously, it was sufficiently open-ended to leave questions for newly redefined practitioners to resolve.

ii) *Its compatibility with entrepreneurship* – Borrowing from Blundel (2007), it is suitable for entrepreneurship research because:

- It can promote the much-needed contextualization of entrepreneurial phenomena;
- It can facilitate greater theoretical integration between disciplines and across multiple levels of analysis. This is key in my case given the locus of study lies within three intersecting domains
- It can enhance the explanatory potential of existing qualitative research strategies, especially case studies (see Easton, 1998).

iii) *Its use in related domains* – The realism paradigm has been used before in all three domains pertinent to my dissertation topic: entrepreneurship (Blundel, 2007); strategic
management (Mir and Watson, 2001; Godfrey and Hill, 1995); and marketing (Hunt, 1989; Perry, 1998; Easton, 2002).

iv) It is personal – I believe in its assumptions, believe it is more akin to the way the world truly is, and believe it is more persuasive than other paradigms.

5.2 Qualitative or Quantitative Methodology

Qualitative or quantitative methodologies and methods can be used with any research paradigm. However, according to Guba and Lincoln (1994, p. 105) “questions of method are secondary to questions of paradigm”. The corporate entrepreneurship topic chosen for this dissertation involves close relationships between corporations and small firm brand entrepreneurs. The topic has also not been researched before and hence the study could be considered to be exploratory in nature. An in-depth knowledge of cultural contexts, and socio-economic relations of actors is also required pushing the research methodology towards disciplines more experienced with human interaction research. Qualitative research provides the opportunity for ‘fine-grained analyses’ that captures nuances (Harrigan, 1983) and helps to develop a deeper understanding of a complex and multi-faceted phenomenon within a specific context. Quantitative approaches are susceptible to ‘context stripping’ through focus on selected variables, appropriate controls or randomization that may indeed alter findings if present. While increasing theoretical rigor of a study, they may detract from its relevance according to Guba and Lincoln (1994). Furthermore, unlike physical objects, human behaviour cannot be divorced from the meaning and purpose attached to the behaviour by the human actors. The traditional qualitative scientific approach is not equipped to handle these requirements and we therefore need to turn to a qualitative, interpretivist research approach. Denzin and Lincoln (2005, p. 3) define qualitative research as:

“Qualitative research is a situated activity that locates the observer in the world. It consists of a set of interpretive, material practices that make the world visible. These practices transform the world. They turn the world into a series of representations, including fieldnotes, interviews, conversations, photographs, recordings, and memos to the self. At this level, qualitative research involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of meanings people bring to them”.

Finally, a brief word on methodology and method is appropriate. Many texts confuse these two and/or use them interchangeably. They are not synonyms and a distinction is made between them for the purposes of this dissertation drawn from Mackenzie and Knipe (2006). Methodology paves the way for research methods by providing the philosophical assumptions and basis underlying the research process. Methodology aims at employing the correct procedures and protocols to discover solutions, while methods aim at finding solutions using specific techniques (e.g., semi-structured interviews, repertory grids) to research problems and data collection under those philosophical assumptions. Methodology is thus prior to method. Also, the notion of ‘case studies’ used in this dissertation suffers from confusion. Some call it a ‘research design’ (Gerring, 2004), others a ‘means of investigating’ (Merriam, 1988). Stake (2005, p. 438) asserts ‘case study is not a methodological choice but a choice of what is to be
studied’. Finally, VanWynsberghe and Khan (2007, p. 9) argue that case study is ‘a transparadigmatic heuristic that enables the circumscription of the unit of analysis’. For the purposes of this dissertation, case study is not contemplated in some quixotic or philosophical manner, but merely referred to as a strategy for accessing qualitative insights that is both compatible with the realism paradigm (Easton, 2010; Christie et al., 2000) and with abductive reasoning (Dubois and Gadde, 2002 and 2013). This corresponds with Hartley’s (2004) stance that case study is not a method but a research strategy.

5.3 Research Logic
Given the lack of prior research and emerging practice with brand venturing a more flexible research approach was needed than an approach based upon traditional deductive or inductive reasoning. The conceptual model developed for empirical testing was derived through an abductive approach combining practice with different theoretical lenses that were then subjected to further iterations following empirical encounters with theory and with each case study. Various iterations are presented throughout the dissertation commencing with a practice-based version that reflects experience drawn from a five-year longitudinal case within a Fortune 100 corporation. With the complexities of case study research as a means of generating theory, several authors have begun to explore an approach based on ‘systematic combining’ grounded in an ‘abductive’ logic (Alvarez, 1999; Dubois and Gadde, 2002; Kovács and Spens, 2005; Forsberg, 2008). Abduction, the logic suggested by philosopher Peirce (1839-1914), can be viewed as the logic of exploratory data analysis. According to Staat (1993), for Peirce, abduction is the firstness (possibility, potentiality); deduction, the secondness (existence, actuality); and induction, the thirdness (generality, continuity). Abduction plays the role of generating new ideas or hypotheses; deduction functions as evaluating the hypotheses; and induction is justifying of the hypothesis with empirical data. Explained another way, ‘induction sets out with a theory and it measures the degree of concordance of that theory with fact. It never can originate any idea whatever. No more can deduction. All the ideas of science come to it by the way of abduction. Abduction consists in studying facts and devising a theory to explain them’ (Guttman 2004, p. 46). Since pure deduction may prevent the generation of new theory and pure induction might prevent the researcher from benefiting from prior theory, it seems that ‘both extremes are untenable and unnecessary’ (Parkhe, 1993, p. 252) and require ‘continuous interplay’ between the two (Parkhe, 1993, p. 256). Dubois and Gadde (2002) advocate the value of going ‘back and forth’ from one type of research activity to another and between theory and empirical observation. In other words, theory cannot be understood without empirical observation and vice versa. Observations in the field may surface unanticipated yet related issues that merit further exploration and may engender a redirection or expansion of the theoretical framework being used. The evolving framework then directs the search for empirical data. This continual confronting of theory with the empirical world and matching between framework, data sources, and analysis is called ‘systematic combining’. Figure 5.1 illustrates the core elements in systematic combining.
In a similar vein, Kovács and Spens (2005) describe the abductive research process as starting with a real-life observation (just like induction). Even if prior theories are available, abductive reasoning commences when the observation does not match these prior theories. The previous theoretical framework is not able to explain the anomaly of the observation itself and a creative process ensues of ‘theory matching’ or ‘systematic combining’ with the aim of trying to find a new matching framework, or extend the theory used just prior to this observation. The ultimate objective of this process is to understand the new phenomenon and to advocate new theory in the form of new propositions (P) that are then applied in downstream empirical settings. This process is captured in Figure 5.2 below.

By way of comparison, the route to advancing knowledge using deductive reasoning starts with prior theoretical knowledge, leads to a new theoretical framework that is then used to generate hypotheses, which is tested empirically in order to derive new knowledge. Induction on the other hand, moves from prior theoretical knowledge to real life observations that then produce...
hypotheses that are matched with existing theoretical frameworks before positing new knowledge or theory. The use of abduction as a form of research logic was employed as the dissertation charted its course through stages of interaction with theories and empirical observation.

5.4 Case Study as Research Strategy

Piercy (1999) documents fifteen stories of corporate revolution, reinvention and renewal and asserts, “a single well-told story may reveal more insights for managers than a hundred surveys or models” (p. 350). Case studies have also been used as research strategies in entrepreneurship (Chetty, 1996; De Weerd-Nederhof, 2001; Perren and Ram, 2004). Within the realism paradigm, the case study is well suited to understanding underlying causal tendencies or powers. It was my task as researcher, to discover, understand, describe and analyze, the structures and generative mechanisms related to strategic brand venturing - see Easton (2010) for discussion of realism as a coherent philosophical position for case study research. Case study narratives of corporate entrepreneurship and venturing can be found in the literature for a number of large corporations as already cited in Section 2.7.3. However, these examples provide only a parsimonious discourse on the distinctive philosophical consequences of applying the case study approach to corporate entrepreneurship. In mentioning case study, I am referring to the rigorous analytical method of case study research (see Eisenhardt, 1989; George and Bennett, 2005; Gibbert and Ruigrok, 2010; Leonard-Barton, 1990; Ragin and Becker, 1992; Smith, 1988; Stake, 1995; Yin, 2009), and not the descriptive form of case studies that have been impugned by some (see Adams and White, 1994). Analytical case studies are guided by a process model of discovery which leads to (1) a set of theoretical generalizations from the clinical observations, (2) clinical “constraint testing” of these generalizations, and eventually, (3) a clinically validated theory of some phenomenon (see Bonoma, 1985, p. 199). They are usually based on qualitative fieldwork comprising many interviews (or other methods) within 4 to 14 cases conducted using set questions in a research protocol. The data is then analyzed using structured steps. In reflecting on the scope of a case study, Yin (2009, p. 18) defines case study as:

“In an empirical inquiry that investigates a contemporary phenomenon in-depth and within its real-life context, when the boundaries between phenomenon and context are not clearly evident”.

Since phenomenon and context are not completely separable in every real-life situation, Yin (2009, p. 18) adds further embellishment to his definition as follows:

“The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion…”

This definition distinguishes case studies from other research strategies such as histories, ethnographies, action research, or archival analysis. It also places it as a research strategy and not a mere method. According to Hartley (2004, p. 323):
“A case study is not a method but a research strategy. The context is deliberately part of the design. As such, there will always be too many ‘variables’ for the number of observations made and so the application of standard experimental or survey designs and criteria is not appropriate. Issues of reliability, validity and generalizability are addressed, but with different logics and evidence.”

While garnering renewed interest in recent times, case studies were only 6% of papers published in prestigious journals over the period 1995 – 2000 (Gibbert et al., 2008). Traditionally case studies were deemed relevant for descriptive research only. Yin (2009) combats this unappreciated and underutilized view and argues for a broad range of uses including generating and testing theory. Another cogent defense of case studies can be found in Flyvbjerg (2006) who counteracts five critiques of theory inadequacy, reliability, and validity. The five critiques being: context independent knowledge is more valuable than context dependent knowledge; generalizations cannot be made from cases and therefore they cannot contribute to scientific advancement; cases are useful for hypothesis generation but not for hypothesis testing and theory building; cases have a bias toward self-verification; and it is difficult to develop general propositions and theories on the basis of specific case studies. Criticisms of the data analysis aspect of qualitative and case research surfaced early in the literature. Miles (1979) viewed qualitative research as an “attractive nuisance” that did not transcend ‘story-telling’ and that its only possible merit lay in contrasting it with quantitative information from the same organizational setting. His principle objection lay in the subjective problem of the qualitative data analysis stage, which he described as “intuitive, primitive and unmanageable in any rational sense”. He doubted someone else could come to the same conclusions. Verschuren (2003) also provides a lucid account of some of the ambiguities in case study research.

Despite the criticisms, literature reveals that a case study is an appropriate research strategy in a wide range of situations. A critique of the putative superiority of quantitative methods is beyond the scope of this Section. Guba and Lincoln (1994, pp. 106-7) for instance, describe nine problems with quantitative research: context stripping; exclusion of meaning and purpose; disjunction of grand theories with local contexts; inapplicability of general data to individual cases; exclusion of the discovery dimension in inquiry; theory-ladenness of facts; under-determination of theory; value-ladenness of facts; and the interactive nature of the inquirer-inquired. Perecman and Curran (2006, p. 173) advance a comprehensive list of uses for case studies including literature examples for each e.g., When it promises to yield fundamental insight into a rare but important process or event that offers no obvious point of comparison; when it addresses an ambiguous, obscure, or otherwise inhospitable population that is difficult to reach through traditional methods; when it explores a crucial, deviant, or negative case that will shed light on an established theory; when a case study approach is used in conjunction with a large-n statistical study to flesh out underlying causal mechanisms; when it is combined with a small-n comparative approach to assess necessary causal conditions or conditional theoretical statements; when it can be evaluated against an established body of theory that offers multiple observable implications; or when no adequate body of theory exists, and the relevant hypothesis or control group is therefore unclear. Perhaps the most frequent criticism of case

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studies revolves around the concern for generalization. However, Yin (2009, p. 15) rebuffs this concern as follows:

“Case studies, like experiments, are generalizable to theoretical propositions and not to populations or universes. In this sense, the case study, like the experiment, does not represent a ‘sample’, and in doing a case study, your goal will be to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization)”.

5.4.1 Rationale for Selecting Case Study

I have chosen to focus on the case study method for the following reasons:

1. *Symbiosis between research question and research strategy*
   According to Yin (2009, pp. 8-9), one of the most important conditions to differentiate among the different research methods is to identify the type of research question being asked. The “how” and “why” questions are conducive to case studies as they are more explanatory in nature and deal with the operational links that need to be traced in-depth over time, rather than simply frequencies or incidences. My dissertation poses a “how” question and will pursue a case study research strategy.

2. *Pre-paradigmatic stage of corporate entrepreneurship*
   Theory building rather than theory ratification is more important for corporate entrepreneurship at this stage in its evolution. Case studies using the realism paradigm can uncover phenomena that are not yet well comprehended, and allow the data and the theory to interact repeatedly. Eisenhardt (1989, pp. 548-9) reinforces this notion by asserting that case study research is ‘particularly well-suited to new research areas for which existing theory seems inadequate’. Roche (1997) examines the relationship between theory maturity and case study design and offers a useful schematic for plotting the appropriate approach. Figure 5.3 shows that where explanatory theory and deductive models of logic prevail, the research designs typically include systematic multiple case studies that focus on confirmation or falsification. The polar opposite is where hunches, conjectures, and metaphors are used to explain a phenomenon thus yielding more exploratory theory and research designs such as exploratory case studies. This dissertation is positioned in the middle of the spectrum such as variable range case studies but with strong exploratory tendencies.

3. *Gaining a deeper understanding of the phenomenon*
   The goal of realism research is to discover the observable and unobservable structures and mechanism that underlie events and experiences (Tsoukas, 1989). It is therefore well suited to exploring the opportunity identification and exploitation processes at the heart of entrepreneurship.
Finally, some of the most influential research in strategic management, strategic alliances, and corporate venturing have followed a case-based approach, such as: Porter's work on competition (1980, 1985, 1990), Burgelman's (1983) and Kanter's (1988) pioneering work on corporate venturing, and Hamel's (1991) study of strategic alliances are a few such examples. Porter's own reflections on the value of this approach is illustrated in the following quote:

“In my own research, I pursued cross-sectional econometric studies in the 1970s but ultimately gave up as the complexity of the frameworks I was developing ran ahead of the available cross-sectional data. I was forced to turn to large numbers of in-depth case studies to identify significant variables, explore the relationships among them, and cope with industry and firm specificity in strategy choices”. (Porter, 1991, p. 99).

5.5 Design Decisions and Methods
5.5.1 Number of Cases
There is no precise guide in literature to the number of cases that is most appropriate and Romano (1989, p. 36) suggests this decision should be left to the researcher. Patton (1990, p. 181) reinforces this by stating there are no rules for sample size in qualitative research. Eisenhardt (1989, p. 545) recommends cases should be added until “theoretical saturation” is reached. Lincoln and Guba (1985, p. 204) recommend sampling selection “to the point of redundancy”. However, experience has led some researchers to advocate some ranges. Eisenhardt (1989, p. 545) suggests between 4 and 10 cases: “With fewer than four cases, it is often difficult to generate theory with much complexity, and its empirical grounding is likely to be unconvincing”. Nevertheless, the single case study also has a valid place in research (Marsh et al., 1991; Barzelay, 1993; Llewellyn and Northcott, 2007; Stouffer, 1941) provided they meet Yin’s criteria of unique, extreme, or revelatory. A precedent for one exhaustive case study in corporate entrepreneurship at the doctoral level can be traced to Burgelman (1980) whose dissertation at Columbia University on the process of internal corporate venturing within a large diversified firm examined six new internal ventures and yielded a series of influential articles.
Burgelman now teaches at Stanford University and is one of the foremost academics in corporate venturing. Other doctoral dissertations of single-firm case studies within corporate venturing can be found in Lewis (2000) and Ranta (2005). Case study designs according to Yin (2009, p. 46), can either follow single-case or multiple-case designs and in so doing, can either examine the phenomenon using a single unit of analysis (holistic) or examine it using multiple units of analysis (embedded). Figure 5.4 shows the four designs case study: Type 1 single-case (holistic) designs; Type 2 single-case (embedded) designs; Type 3 multiple-case (holistic) designs; and Type 4 multiple-case (embedded) designs.

![Figure 5.4 – Types of Case Study Designs](image)

Source: Yin (2009, p. 46)

This dissertation adopts an embedded, multiple case design. Evidence from multiple-case designs are considered to be more robust than single-case designs (Eisenhardt, 1989). Furthermore, in this dissertation, I have subscribed to Patton's (1990, p. 185) counsel on the number of cases:

“The validity, meaningfulness and insights generated from qualitative inquiry have more to do with the information-richness of the cases selected and the observational/analytical capabilities of the researcher than with sample size”.

5.5.2 Unit(s) of Analysis

Defining the unit(s) of analysis is an important boundary-defining step as it defines what the “case” is (see Ragin and Becker, 1992; Yin 2009) and what datum therefore is relevant or redundant. The case should be a real-life phenomenon and not a vague abstraction, topic, or argument. Selection of the unit of analysis starts to take shape once the research questions are articulated, but closure should not be considered permanent (especially with exploratory, qualitative research designs) until data collection is complete according to Yin (2009, p. 30):

“Your choice of unit of analysis, as with other facets of your research design, can be revisited as a result of discoveries during your data collection”. The general idea of course with research is
to formulate conclusions about the phenomenon being investigated. This is made possible through clarifying the unit of analysis. In an embedded case design, the overall unit of analysis is studied through the examination of sub-units of analysis by relating sub-units to the overall unit of analysis through aggregating empirically gathered data (interviews, observations, etc.), and using this to draw conclusions about the phenomenon in question. In this dissertation it was decided to select the process experiences of the dedicated organizational unit engaged in SBV activity as the primary unit of analysis, and the specific investment(s) experience of that SBV unit in third-party entrepreneurial brand firm(s) as sub-units of analysis.

5.5.3 Sampling strategy

In contrast with quantitative sampling methods that are predicated on random or stratified sampling techniques, cases within a qualitative research context are sourced on the basis of theoretical rather than probabilistic reasons. Instead of theoretical sampling, Patton (2002) refers to purposeful sampling as well as convenience sampling where the latter is only suitable when opportunities to study a rare case become available to the researcher. Most small ‘N’ qualitative studies such as this dissertation, deliberately choose cases (purposeful sampling) for their ability to reveal important information about the phenomenon of interest. Pettigrew (1990) advocates selecting cases where the phenomenon of interest is ‘transparently observable’, cases which disconfirm patterns from earlier case studies, and cases that exemplify high experience levels of the phenomena under study. Table 5.3 below provides a few descriptive elements for each corporation and case. The research sample comprised six very large branded consumer product and service corporations with revenues between $15 and $100 billion. Category and industry sectors included food, snacks, alcoholic beverages, soft drinks, pet food, and restaurants. All firms had strong local and international reputations as premier branding and marketing corporations. For instance, with one exception, all firms boasted brands ranked on global top 100 brand lists\(^\text{11}\). Fieldwork was conducted within the U.S. based subsidiaries of these global firms with operating unit revenues ranging between $4 and $25 billion. Venturing experience of these SBV units or organizations performing SBV activity stretched from 3-12 years, and cases represent a variety of shareholder equity evolutions beyond an initial minority investment stake.

<table>
<thead>
<tr>
<th>Case</th>
<th>Incumbent Firm</th>
<th>Entrepreneur Brand</th>
<th>Description of Venture</th>
<th>Description of Incumbent</th>
<th>Venturing Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alpha</td>
<td>Maine</td>
<td>Tea</td>
<td>Global beverage CPG</td>
<td>6 years</td>
</tr>
<tr>
<td>2</td>
<td>Alpha</td>
<td>California</td>
<td>Coconut water</td>
<td>Global beverage CPG</td>
<td>6 years</td>
</tr>
<tr>
<td>3</td>
<td>Beta</td>
<td>Texas</td>
<td>Craft beer</td>
<td>Global alcoholic drinks</td>
<td>3 years</td>
</tr>
<tr>
<td>4</td>
<td>Gamma</td>
<td>Florida</td>
<td>Pet food</td>
<td>Global food &amp; beverage CPG</td>
<td>4 years</td>
</tr>
<tr>
<td>5</td>
<td>Delta</td>
<td>Oregon</td>
<td>Snacks</td>
<td>Global food CPG</td>
<td>2 years</td>
</tr>
<tr>
<td>6</td>
<td>Epsilon</td>
<td>Georgia</td>
<td>Ethnic fast food</td>
<td>Global food service restaurant</td>
<td>6 years</td>
</tr>
<tr>
<td>7</td>
<td>Zeta</td>
<td>Vermont</td>
<td>Yogurt</td>
<td>Global food CPG</td>
<td>12 years</td>
</tr>
</tbody>
</table>

\(^{11}\) BrandZ Top 100 Most Valuable Global Brands 2013, Millwood Brown; Best Global Brands 2012, Top 100 Brands, Interbrand.
5.5.4 Selection Criteria and Sample

Corporations were selected on the basis of their fit with the following criteria:

(a) The firms needed to be classified as large corporations and not small-medium sized enterprises. Why? The focus of this dissertation is large-small firm investment ties engendered by corporate entrepreneurship strategies and not small-small firm ties.

(b) The firms needed to be consumer product corporations with reputations for marketing and branding that have been involved in corporate entrepreneurship and venturing activities. Why? The corporate venture literature is replete with technology and industrial firms, this study seeks to differentiate from past studies by focusing on brands.

(c) The firms ideally needed to have established some kind of a dedicated venturing unit, department, or an organizational construct for the purposes of conducting venturing activities. Why? A clearer commitment to venturing as a strategic instrument is generally acknowledged in creating dedicated organizational units to execute.

(d) These firms/units/constructs have made investments in external brand companies founded by entrepreneurs and have at least one year of experience in doing so. Why? The focus is on minority equity venturing investments not to be confused with strategic alliances, joint ventures, or other forms of inter-organizational arrangements. Given the recency of this strategy, the available pool of potential companies was not limited by demanding prolonged experience timeframes.

(e) The firm must allow field access to the researcher and a willingness to facilitate the researcher in furthering their research endeavour. Why? The pragmatic need to complete the study and conform to ethical requirements.

The first two cases studied were embedded within one global CPG firm that also served as the firm of employment of the researcher at the time of the research. In both cases, while executives were interviewed from within the venturing group, at least one interviewee in each instance was sourced beyond the boundaries of the venturing group. In addition, extensive documentation about the group and its ventures were sourced (significantly more so than in the other case studies) to complement insights gleaned through the interviews, to compensate for bias, and to promote triangulation of sources. The Alpha Company is a good case study candidate because they have executed several brand venturing strategies and also have the reputation for being one of the world’s most admired brand marketing corporations making their interest in externally founded entrepreneurial brands particularly intriguing from a strategic management standpoint. The work underway in Alpha can be considered as ‘unique’ and possibly even ‘revelatory’ as evidenced by the strong external media interest it has generated. This is consistent with Pettigrew’s (1990) advice to target corporations where high experience levels of the phenomenon exist. Nevertheless, the design extends beyond one deep corporate case study to encompass seven cases in total - two sourced within the corporation where the researcher is currently employed, plus five externally sourced case studies from other

12 Only one exception to this guideline was needed in Case #6.
industries. Concerns of external validity are traded off against the unique opportunity to gain deep insight into as yet incompletely documented phenomena. A vignette of each case corporation’s SBV case now follows:

Case 1: Alpha Corporation and Entrepreneur Brand Maine
A dedicated venturing unit within Alpha led a (42%) minority investment in a socially and environmentally motivated entrepreneurial company with an option to purchase the company 3 years later. This case potentially provides rich insight at multiple levels: First, it will allow examination into how a large corporation can partner with an entrepreneurial firm over a protracted period and from an empirical standpoint provide useful longitudinal data. Second, it also offers a complete case of all dimensions of strategic brand venturing proffered in the conceptual model. Third, it validates the economics of strategic brand venturing given its financial and growth performance over the 3 years. Finally, it offers unique insight into how to continue harnessing passion and skills of the entrepreneur founder. The 3-year period has recently expired, and a creative agreement was reached with the entrepreneur to remain at the helm, operate largely autonomously, keep a small equity interest, and delegate Alpha brands for the entrepreneur firm to manage, thus ensuring bi-lateral value transfer.

Case 2: Alpha Corporation and Entrepreneur Brand California
This case documents a 2009 initial 20% equity investment by the SBV unit of Alpha Corporation in a $6 million revenue entrepreneur brand, California (ready-to-drink coconut water). Unlike the Maine investment that was time-based, this deal structure was based on achievement of successive revenue milestones. Successive revenue milestones were agreed, that when reached, each triggered an option for Alpha to increase its shareholding. California shareholders however did not have a put option. The case narrative spans the period starting from the initial investment through the first call option at $35m revenue that enabled Alpha to increase its equity to 53%. At the time of the fieldwork, the next revenue trigger had nearly been reached. However, competitive dynamics had changed significantly since the initial investment forcing a re-appraisal of the best way forward. This case provides interesting insights into some of the contextual issues that can impact SBV partnerships.

Case 3: Beta Corporation and Entrepreneur Brand Texas
This case documents an initial foray into SBV equity investments by the venturing unit of Beta Corporation. In an attempt to jumpstart their relationships with the craft beer entrepreneurial community, Beta provided a loan to entrepreneur brand Texas. The loan was later converted into a 25% equity stake in 2012, but without a call option on purchase of future shares negotiated. The case plays an interesting role in the corpus of cases selected as it illustrates how a SBV unit within a large corporation needs to flex its strategy and focus toward internal ventures when the parent is undergoing tough trading conditions, when the deal flow is challenged, and when senior level commitment to minority equity investments is at an inflection point.
Case 4: Gamma Corporation and Entrepreneur Brand Florida
This case represents an example of a venture investment failure and the resultant re-purposing of the venturing unit that promulgated the investment. Gamma Corporation is a manufacturer of pet food brands and invested in an entrepreneurial brand focused on pet resorts, called Florida. The deal structure allowed for progressive increases in equity if certain success criteria were met. However, the brand venture did not achieve its goals and Gamma arranged for a financial exit from the venture. The fieldwork was conducted at a time that the parent was assessing changes in the focus of its venturing unit and provided some useful human resource lessons for large firms, as well as, for executives considering strategic brand venturing as a career option.

Case 5: Delta Corporation and Entrepreneur Brand Oregon
Delta is a large diversified food CPG Corporation. This case examines the investment in an entrepreneurial snack brand called Oregon undertaken by a corporate venturing unit housed within the corporate mergers and acquisitions department. However, unlike the first three cases where the SBV unit acted as investor and as operator, the corporate venturing arm of Delta brokered and structured the deal but the day-to-day relationship with Oregon was managed within one of the operating business units. This is an interesting case where entrepreneurial influence and market disruption was growing in the industry, but where the incumbent large firm was yet unclear which way to structure and manage their strategy towards external growth opportunities. Several growth vehicles were evidenced in the corporation (venturing, innovation, incubation, acquisition), yet the strategic role if external investments had not been fully crystallized.

Case 6: Epsilon Corporation and Entrepreneur Brand Georgia
Several venturing investments were made in related and unrelated entrepreneurial brand ventures that originated from different organizational locations inside Epsilon Corporation. This is a fascinating case where the financial returns from SBV investments were outstanding but because of franchisee issues around a lack of focus and investment in their core restaurant business, the SBV investments were eventually liquidated. This case focuses on one particular investment in an ethnic restaurant chain called ‘Georgia’, the factors that led to the investment, and the exit despite already holding a majority shareholding and enjoying strong financial and operating performance.

Case 7: Zeta Corporation and Entrepreneur Brand Vermont
The final case is an example of a successful SBV investment by a global food CPG corporation Zeta in an entrepreneurial organic yogurt brand Vermont. The case is interesting in that the journey of the partnership resembles a typical SBV unit approach, yet was executed without any dedicated SBV organizational unit in place. The narrative covers the initial minority equity investment that migrated to a majority stake with an option for outright acquisition having been pre-agreed. Similar to case #1, the entrepreneur remained intact and was fully responsible for operating the venture despite being 80% owned by Zeta. This SBV partnership has also been discussed in academic literature before. The fieldwork performed for this dissertation retraces
some former ground, but provides an update on the intriguing evolution of the founding entrepreneur’s role towards performing some elements normally undertaken by an SBV unit, thus making it a unique case of SBV.

Table 5.4 depicts the elements taken into consideration in rationalizing the specific case selections. Each of these seven cases provides the opportunity to examine multiple, and yet unique dimensions of the SBV conceptual model. All cases qualify as examples of an initial SBV minority equity investment. However, each case contains insights across different stages of consummation of a strategic brand venturing investment relationship between large corporations and entrepreneurial firms – initial minority equity investment; majority equity investment; decision to acquire 100% ownership; and decision to exit the investment. This corresponds with Pettigrew (1990) who urges researchers to select a diverse or deviant range of cases. The cases selected for study differ from the vast majority of technology based corporate venture capital investments in that they predicate their initial minority investment on a belief or need to acquire the brand.

Table 5.4 - Rationalizing Case Selection

<table>
<thead>
<tr>
<th>Elements</th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
<th>Case 4</th>
<th>Case 5</th>
<th>Case 6</th>
<th>Case 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meets the 5 selection criteria in Section 5.5.4</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Offers broad coverage of the dimensions of SBV Conceptual Model</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Meets base SBV criteria of initial minority investment</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Provides example of shift from minority to majority</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Provides example of 100% acquisition decision</td>
<td>✓</td>
<td>[✓]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provides example of an exit decision</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

[✓] = A development post the fieldwork.

Source: Author

5.5.5 Methods of data collection

Case data was collected from multiple sources to facilitate the principle of triangulation (data richness; credibility and dependability criteria). Given the unique access of the researcher to internal documentation (advisory board presentations, strategy papers, venture reviews, etc.) and proximity to the venture teams, this together with personal observation played significant roles in collecting empirical research material. Archival records, media and digital texts, and artifacts were also sourced. However, the principle data collection method involved semi-structured interviews based on the research objectives and a review of relevant literature (see Appendix for the interview questionnaire).

Prior theory was incorporated in the interview protocol to enhance methodological soundness (Lincoln and Guba, 1985; Miles and Huberman, 1994; Perry and Coote, 1994; Yin, 2009). To help in the development of the design and length of the semi-structured questionnaire, 4 participants were consulted (2 brand entrepreneurs, 1 private-equity executive; 1 corporate
venturing executive). Additionally, an industry expert and consultant in corporate venturing was given a copy of the conceptual model and the proposed set of questions and asked for comment. Her insights around program design, structuring and making investments, and venture portfolio management were incorporated in the proposed version used for the fieldwork. Data gathering took place across a 30-month period commencing in 2011 and encompassed extensive documentation from both publically available sources and confidential internal sources that the interviewer was given access to by participating corporations. In addition, 21 semi-structured interviews were conducted across the 7 case studies between March 2013 and May 2013. The researcher was able to gain access to multiple levels of management for most cases with an emphasis on the most senior organizational levels. A breakdown by level is as follows:

<table>
<thead>
<tr>
<th>Title</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief executives, C-suite level</td>
<td>9</td>
</tr>
<tr>
<td>Senior vice president and vice president</td>
<td>6</td>
</tr>
<tr>
<td>Director level</td>
<td>5</td>
</tr>
<tr>
<td>Manager level</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
</tr>
</tbody>
</table>

All interviewees were asked to read an introduction to the research project and sign a sheet granting their consent to participate. With one exception where the interview was conducted telephonically, all interviews were face-to-face (in-person, via Skype or Facetime). All interviews were recorded with the interviewee's permission and subsequently transcribed into 557 pages of single-spaced typed text, and analyzed. Interviews ranged in length between 2 hours 20 minutes and 31 minutes with a mean interview time of 1 hour 23 minutes. Interviews and materials were first analyzed within each case and subsequently cross-case analyses were performed to derive deeper insights.

Upon completion of each interview, the researcher as a means of personal reflection and to gauge interview effectiveness immediately completed a self-assessment. Post transcription and analysis, a copy of the case write-up was sent to some sponsoring executives within their organization in order to assess the veracity of the write-up and solicit any suggestions for improvement. This is referred to as ‘member checking’ in the literature (Doyle, 2007) and is covered later in this chapter.

5.5.6 Number of Interviews

There is wide divergence as to the number of interviews and interviewees used in doctoral dissertations on corporate entrepreneurship that utilize the case study method. Table 5.5 lists eleven doctoral studies from universities around the world that utilized the case study method to examine corporate entrepreneurship and venturing. A wide range in terms of number of cases examined and number of interviews conducted is evident.
Table 5.5 – Case Studies in Doctoral Research on SBV Domains

<table>
<thead>
<tr>
<th>Author</th>
<th>No. of Firms</th>
<th>No. of Cases</th>
<th>No. of Interviews</th>
<th>Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austin (2008)</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>University of Georgia, USA</td>
</tr>
<tr>
<td>Biniari (2007)</td>
<td>4</td>
<td>4</td>
<td>18</td>
<td>University of Strathclyde, U.K.</td>
</tr>
<tr>
<td>Burgelman (1980)</td>
<td>1</td>
<td>6</td>
<td>65</td>
<td>Columbia University, USA</td>
</tr>
<tr>
<td>Fast (1977)</td>
<td>3</td>
<td>3</td>
<td>*</td>
<td>Harvard University, USA</td>
</tr>
<tr>
<td>Hang (2007)</td>
<td>6</td>
<td>8</td>
<td>18</td>
<td>Jönköping University, Sweden</td>
</tr>
<tr>
<td>Korhonen (2006)</td>
<td>*</td>
<td>11</td>
<td>62</td>
<td>University of Helsinki, Finland</td>
</tr>
<tr>
<td>Lewis (2000)</td>
<td>1</td>
<td>1</td>
<td>25</td>
<td>Colorado State University, USA</td>
</tr>
<tr>
<td>Ranta (2005)</td>
<td>1</td>
<td>4</td>
<td>22</td>
<td>Helsinki Univ of Technology, Finland</td>
</tr>
<tr>
<td>Rauser (2002)</td>
<td>6</td>
<td>6</td>
<td>20</td>
<td>Otto-Friedrich-Universität, Germany</td>
</tr>
<tr>
<td>Roberts (2007)</td>
<td>2</td>
<td>2</td>
<td>21</td>
<td>University of Wales, Bangor, U.K.</td>
</tr>
</tbody>
</table>

* not evident from the dissertation  
Source: Compiled by author


5.5.7 Elite Interviewing

In addition to the five multi-participant case studies, two elite interviews were undertaken to yield a further two cases. The study of elites covers a broad range of categories: political elites; female or feminist elites; corporate managerial elites; entrepreneur or business owner elites; ultra elites (e.g., Nobel prize winners; wealthy philanthropists; bureaucratic elites). The definition of ‘elites’ range from being so restrictive making the finding of an elite virtually impossible, to so all-embracing as to denude the category of its sharpness and analytical value. A synthesis of some key operative terms found include: influential, prominent, well-informed, privileged position. In a commercial context these are typically the CEOs of corporations (Thomas, 1993; Pettigrew, 1992; Useem, 1980; Bednar and Westphal, 2006; Schoenberger, 1991; Welch et al., 2002), or founder entrepreneurs in SMEs (Wright et al., 1997; Gilding, 2004; Healey and Rawlinson, 1993). Elites provide useful perspectives when public records are unsatisfactory on the inner workings, practices, and strategies of societies or organizations, and the key attitudes of senior managers/officials. Elite research is under-represented in literature as researchers’ generally do not “study up” (Ostrander, 1993) while the challenges are different to those
encountered in “studying down” (Desmond, 2004). Some elites targeted are also considered experts in their field given the relatively new phenomenon of brand venturing between large corporations and entrepreneurial firms. According to Littig (2009, p. 107), experts can have both formative power (‘the authority to establish socially binding definitions of problems and predetermine solutions’), and /or interpretive power (‘authority to establish significant terms and concepts for interpreting phenomena, [and]...for legitimizing decisions’). The elite may have more formative power, but does not necessarily have significant interpretive power. In this sense, the elite can be viewed as a sub-set of the expert. Littig (2009, p. 109) concludes by asserting that ‘research into the elite is confronted with similar methodological problems to those encountered in the interviewing of experts. If the actual experts in question are also members of the elite, the access problems will be considerable’. Given the rare occurrence and nature of the dissertation topic, this was a key factor governing research design, as some of the targeted elites also held the formative and interpretive power of an expert. Prior to the elite interviews, the topic was discussed through telephonic and email contact. The key focus areas were sent several days in advance via email to facilitate preparation. In the build-up communication to the interview date, the researcher obtained as much relevant background material in advance on all elites and their organizations as possible. This was done to be well prepared, project an image of a serious and well-informed researcher to the elite, and implicitly signal that superficial and/or evasive answers on their part would not suffice.

Elite #1:
The first elite holds the formative and interpretive power of an expert from the standpoint of the entrepreneur. The elite is Chairman, and until recently the CEO of ‘Vermont’, and one of the first brand entrepreneurs who forged a strategic brand venturing partnership with a large CPG corporation (‘Zeta’). He is a sought-after conference speaker on sustainable business and considered an expert and sage in the natural food industry. He has been awarded several honorary doctorates, and an academic article has been written about him and the brand venturing partnership (Austin and Leonard, 2008). A unique opportunity was available for the researcher to interview this elite since he was a board member of Maine (one of the equity investments mentioned earlier). This relationship helped to facilitate access to the elite and an interview with him greatly benefitted triangulation of the empirical work generated via the case studies.

Elite #2:
The second elite holds the formative and interpretive power of an expert from the standpoint of the corporate venture executive. He served as head of global strategy and business development for Epsilon before becoming managing director of Epsilon’s Ventures until 2007 when it was disbanded despite very successful investments in several entrepreneur businesses. The reason for shut-down of the corporate venture unit was because franchisees wanted to get involved with the investment companies and were putting the core business and relationship with the parent at risk. Senior management decided they needed to focus on the core business and could not afford franchisee misalignment and distraction triggered by investments in the
new businesses. The elite is a sought after conference speaker, board member, and heads a private equity firm that invests in purpose-driven entrepreneurial brands and businesses. Although this was a retrospective account of the Epsilon Ventures experience with the potential for selectivity and recall bias (Golden, 1992; Leonard-Barton, 1990), the opportunity to glean insights from one of the foremost SBV corporate unit case studies outweighed the potential limitations.

5.6 Data Analysis and Criteriology
Several primary techniques were deployed for data analysis: Tape recording of interviews, transcription, and template analysis. This section also discusses the criteria used to assess the veracity and appropriateness of the research.

5.6.1 Transcription
As mentioned, all interviews were tape recorded and transcribed with interviewee permission to facilitate systematic analysis and interpretation. The recording of interviews however was not a substitute for note taking during the interview (Burgess, 1984). Transcription analysis enabled focus on verbal communication during the interview, while note taking during and after each interview captured non-verbal interview data. Tape recording also ensured personal meaning and language was reflected thus ensuring low inference descriptors (i.e., verbatim/exact words were provided through direct quotations). While transcribing of the tapes was outsourced to a professional transcriber, the responsibility for accuracy was retained by the researcher through listening to the tapes upon receipt of the typed transcripts to ensure correct transcription, to stay close to the speakers’ meaning, and to check that the process had been ethical. In line with the advice of Etherington (2004), this discipline afforded the researcher the opportunity to pick up on nuances, hesitations, pauses, emphasis, and multiple other ways in which people add meaning to their words.

5.6.2 Template analysis
This is a useful technique not wedded to any specific epistemological position and allows for the use of a priori codes derived from theory or practice to organize and corroborate data in large volumes of text (see King, 2004). The conceptual model provides a framework for the coding scheme prior to the data collection (as per Miles and Huberman, 1994) that can then be validated or mapped to the empirical data using template analysis. The interaction between template and text involved several iterations (Crabtree and Miller, 1999) across the interviews until no further iterations were deemed necessary (see Figure 5.5 below) for the final report or model. Template analysis is also an efficient style as research can be geared toward specific fragments of the text and has been used before in doctoral level research (Atkinson, 2005).
5.6.3 Computerized software

Computerized support for the data management, retrieval and analysis process was considered given the sheer volume of the envisaged database. For example, NVivo has also been used to enhance validity and add rigor to qualitative dissertation research, as reported by Siccama and Penna (2008). While software helps, it cannot engage in intuition and reasoning and the ultimate analysis and interpretation remains the researcher’s responsibility. However, given the chosen paradigm of realism that stresses relationships, and creative connections, a software program may engender a reduced sensitivity about these (Carson and Coviello, 1996) and was therefore eschewed in favour of manual analysis. Computer software programs such as NVivo are appropriate where the nature of qualitative research is “not aware of anything other than the text properties of the data and cannot interpret, make deductions or generalizations from the data” (Dembrowski and Hammer-Lloyd, 1995, p. 53). This does not fit well with research conducted using a realism paradigm.

5.6.4 Procedures

Informed by an approach taken by O'Dwyer (2004), I also merged together several sources for data analysis from:

- Huberman and Miles (1994) who outline three linked sub-processes of data reduction, data display, and conclusion drawing/verification.
- Creswell’s (2007) four iterative procedures of data managing, reading and memoing, describing, classifying and interpreting, and finally, representing and visualizing.
- Eisenhardt (1989) who stresses the frequent overlap of data analysis with data collection in case study research and proposes several steps: entering the field, analyzing within-case data, searching for cross-case patterns, shaping hypotheses, enfolding literature, and reaching closure.
Qualitative research is by nature ideographic. The exact approach opted for, according to Patton (1990), depends somewhat on the creative and conceptual capabilities of the researcher blended with the requirement for scholarly work to be analytically rigorous and explicitly systematic. Specific steps followed in analyzing the cases in this dissertation are set out below:

1. Made site observations prior to, or during, or after interviews where possible, noting interesting observations e.g., distance of venturing unit personnel from core business, any special treatment of space, etc.
2. Took notes during the interviews even though they were all tape-recorded. When interviewing colleagues for cases 1 and 2, interviews were conducted at an offsite location to disassociate the interview as far as possible from political symbolism, power structures, etc.
3. Completed a self-assessment immediately post the interview making high level comments, observations on new themes, context, important ideas.
4. Listened to tape recordings after interviews (no more than 48 hours after the interview) to maintain a ‘live’ impression of field experience and ensured key observations were captured.
5. Had the interviews professionally transcribed.
6. Listened to tape recordings for each case study in sequence with typed transcription notes in front of me – noted errors, themes, ideas.
7. Used transcript and conceptual model/questionnaire as guide and colour-coded each section of text based on which section of text corresponded to which section of the model. A separate colour was used for content not directly associated with the model (inductive).
8. Reviewed supplementary case documentation (in some instances this was quite extensive) to capture themes and also link back to the model using same colours.
9. Started to record codes and definitions to help structure content in a consistent manner.
10. Used a special Word function key to allocate text line numbers against every line of text. Noted timings from the recordings at the bottom of each transcript page. Both steps were taken to facilitate location of text later on when needing to immerse myself in a particular theme, as well as, to extricate quotations for case write-ups.
11. Commenced within-case analysis by sorting all content across interviews and documents by core theme/code. Created a separate Word file for each theme/code by interviewee within one case and later across all cases by interviewee. Looked for similarities, inconsistencies and contradictions between interviewees, between data sources and between cases.
12. In parallel with above, captured strategic level observations, theories, drawings, and questions for further analysis and for incorporation in the interpretive narrative stage.
13. Compiled case summaries based on prefigured \( (a \text{ priori}) \) and emergent \( (a \text{ posteriori}) \) themes for each case. Cut and pasted quotations by code and by case where relevant. Ensured adequate consideration of contextual information.
14. Reflected on case writing experience noting: satisfaction with richness in data exposed, context adequately represented, complexity embraced, quality of interpretation and visualization, and avoidance of detachment from data.
15. Compiled across-cases themes and case clusters using matrices, diagrams, and models to render an invocative account and a final empirically derived conceptual model.
16. Sought to integrate Realism philosophy into data analyses and interpretive narratives.
17. Maintained self-awareness of any selectivity in what was captured, highlighted preconceptions and contradictions, and remained open to creativity in writing.

All these procedures ultimately lead to a descriptive and insightful account of the case in question. Hence, within-case analysis was the starting point and took place during data collection and concurrent with data reduction, data display, and drawing conclusions. Thereafter, cross-case analysis and explanation building occurred to compare cases against the
framework of SBV iteratively refined through matching with literature and theory. Data was thus analyzed within cases and across all the cases.

5.6.1 Criteriology
Researcher bias is identified by many as one of the key risks in case study research. To minimize bias and other threats to trustworthiness, Lincoln and Guba (1985) offer the following checklist for researchers - How do we know ……

- Whether to have confidence in the findings?
- The degree to which the findings apply in other contexts?
- The degree to which the findings emerge from the context and the respondents and not solely from the researcher?
- The degree to which the findings would be repeated if the study could be replicated in essentially the same way?

One critique of case research by positivists is the generalizability (or external validity) of the results due to sample size. However, several case study proponents (Yin, 2009; Guba and Lincoln, 1982; Easton, 1995) dismiss this as a relevant goal for qualitative case research: “This analogy to samples and universes is incorrect when dealing with case studies. This is because survey research relies on statistical generalization, whereas case studies (as with experiments) rely on analytical generalizations” (Yin 1989, p. 43). Analytical generalization pushes the researcher to generalize results to a broader theory (through replication), rather than to other cases. Additionally, the positivist views the results of small numbers of ‘cases’ as only having descriptive or exploratory utility and that true scientific usefulness can only occur when the qualitative data is converted into metrical or logical form. Against this criticism, the realist case researcher views their objective as very different to a positivist researcher, asserting that they should….“aim at understanding and explaining the reality underlying every and any event or sets of events (i.e. cases) by unpacking and describing the contingent causal powers of the objects that brought them about. One case can create and/or test a theory to the extent that it uncovers reality” (Easton 1995, p. 382).

One of the most cited authorities in case study research design and methods is Yin (2009), who suggests four criteria for evaluating the empirical rigor of a case study: construct validity, external validity, internal validity, and reliability. Construct validity refers to the quality of the operationalization of the measure in question i.e. does the study actually investigate what it claims to be investigating and lead to accurate observation of reality? External validity refers to the “generalizability” of the theory beyond the direct setting in which it is being studied, to its applicability in other contexts. Internal validity refers to the causal relationships between variables and outcomes, and is employed at the data analysis phase. Reliability refers to the “replicability” of the study due to the absence of random error i.e. future researchers ought to be able to reach the same insights if they replicate the study using the same steps and procedures. While many of Yin’s concepts and arguments are persuasive, some case researchers suggest
that three of his criteria (i.e. internal and external validity, and reliability) display an overt leaning towards positivist methods and assumptions thus making them inappropriate for judging qualitative case research within a post-positivist or realist framework. Lincoln and Guba (1985) suggest Yin’s three criteria should be substituted with these four:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credibility</strong></td>
<td>The adequate and believable representations of the constructions of reality needed</td>
</tr>
<tr>
<td><strong>Transferability</strong></td>
<td>The extent to which working hypotheses (or models) can also be employed in other contexts, based on an assessment of similarity between the two contexts</td>
</tr>
<tr>
<td><strong>Dependability</strong></td>
<td>The extent to which interpretation was constructed in a way, which avoids instability, other than the inherent instability of a social phenomenon.</td>
</tr>
<tr>
<td><strong>Confirmability</strong></td>
<td>The ability to trace a researcher’s construction of an interpretation by following data and other records kept.</td>
</tr>
</tbody>
</table>

Unfortunately, an expeditionary foray into the literature uncovers a bewildering array of criteria for evaluating interpretive research - see Campbell and Fiske (1959), Creswell (2007); Eisenhardt (1989), Gibbert et al. (2008), Klein and Myers (1999); Lincoln and Guba (1985); Parkhe (1993); Wallenbeck and Belk (1989); and Yin (2009). Johnson et al. (2006) argue that choice of criteria is contingent upon the philosophical convention espoused, and misappropriation occurs through improper understanding that ontology and epistemology drive certain methodological commitments and criteria. Knox (2004) contends that while there may be an elective affinity between certain philosophies and methods, this should not necessarily constrain the methods chosen. Some thus argue for a “rapprochement” methodology (Borch and Arthur, 1995; Easterby-Smith et al., 2008; Hunt, 1991) that blends the rigor and validity of objectivist, scientific research with the contextual and insight elements of subjectivist research. However, I would posit that realism pushes for reconsideration beyond just methodology to also encompass the ontological and epistemological elements of scientific paradigms (as summarized in Table 5.6). Given this, we need evaluative criteria within the realism paradigm that pertain to case studies. The only traceable examples of criteria developed for case study research within the realism paradigm however, emanate from Christie et al. (2000), Healy and Perry (2000), and Riege (2003). For my dissertation, I borrowed from this work and have summarized six realism criteria juxtaposed against Yin’s four criteria in Table 5.6. The six being: ontological appropriateness, contingent validity, multiple perception, methodological trustworthiness, analytical generalization, and construct validity. From this analysis, two noteworthy techniques triangulation and member checking, are discussed in a bit more detail.

### 5.6.2 Triangulation
A few comments on the notion of triangulation are appropriate since many qualitative and case study researchers advocate its use (e.g., Yin, 2009; Denzin, 2009; Miles and Huberman, 1984; Jick, 1979; and Patton, 1990). Researchers recommend the need for triangulation of various data sources and methods that lead to a singular proposition about the phenomenon being studied. In their view, triangulation eliminates bias and dismisses plausible rival explanations thereby increasing validity. Denzin (2009, p. 301-310) offers four types of triangulation:
Table 5.6 - Criteria for Case Study Research within Realism Paradigm

<table>
<thead>
<tr>
<th>Realism Criteria</th>
<th>Criteria Description</th>
<th>Case Study Techniques within Realism</th>
<th>Corresponding to Yin’s Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ontological Appropriateness</td>
<td>Research problem deals with complex social science phenomena involving reflective people</td>
<td>Selection of research problem, for example, it is a ‘how’ and ‘why’ problem</td>
<td></td>
</tr>
<tr>
<td>2. Contingent Validity</td>
<td>Open “fuzzy boundary” systems involving generative mechanisms rather than direct cause-and-effect</td>
<td>Theoretical &amp; literal replication; in-depth questions; emphasis on “why” issues; description of the context of the cases</td>
<td>1. Internal Validity</td>
</tr>
<tr>
<td>3. Multiple Perception</td>
<td>Neither value-free nor value-laden, rather value-aware</td>
<td>Multiple interviews; supporting evidence; broad questions before probes; triangulation. Self-description and awareness of own values. Published reports for peer review.</td>
<td></td>
</tr>
<tr>
<td>4. Methodological Trustworthiness</td>
<td>Trustworthy – the research can be audited</td>
<td>Case study database; use in the report of relevant questions and matrices that summarize data; and of descriptions of procedures like case selection and interview procedures.</td>
<td>2. Reliability</td>
</tr>
<tr>
<td>5. Analytical Generalization</td>
<td>Analytic (theory building) rather than statistical generalization (theory testing)</td>
<td>Identify research issues before data collection, to formulate an interview protocol that will provide data for confirming or disconfirming theory</td>
<td>3. External validity</td>
</tr>
<tr>
<td>6. Construct Validity</td>
<td>How well information about constructs is being measured</td>
<td>Use of prior theory; case study database; triangulation</td>
<td>4. Construct validity</td>
</tr>
</tbody>
</table>

Source: Adapted from Healy and Perry (2000); Riege (2003)

(a) *Data triangulation* of several data sources including time, space, and person. The most obvious being use of more than one individual as a datum source. All cases used in this study for example utilize a minimum of three individuals in the interviewing phase (except for the elites).

(b) *Investigator triangulation* involves more than one investigator in the research process. However, decisions about who these should be, what their roles should be, and how much primary data collection should be made by the lead investigator versus support field workers leaves much to be desired. This type was not used, as this study is a personal doctoral dissertation requiring the author to be the sole investigator.

(c) *Methodological triangulation* refers to the use of multiple methods (either within-method or between-methods) in the examination of a phenomenon. In this study, use will be made of multiple sources of evidence (interviews, documents, and observation) and even within the interviews, use of multiple levels of executive informants to enable different groups of analysis. For example, in all cases three levels of executives will be interviewed such as the entrepreneur or senior member from the entrepreneurial brand firm; an executive from the
strategic brand venturing unit; and an executive outside of the boundary of the dyad such as outsider affiliated with the SBV unit, a headquarters executive, or business unit executive who would be the beneficiary of the SBV units work.

(d) **Theoretical triangulation** that involves viewing data against frameworks derived from theory. In this study an abductive logic is adopted that dictates a constant matching and systematic combining between observation and theory.

However, triangulation is predicated on a key assumption best described as follows:

“The assumption that bias in methods, data sources, and investigators cancels out permits the assumption that what is left is the truth about what is investigated. This assumption suggests that when a triangulation strategy is used the result will be convergence on a single perspective” (Mathison, 1988, p. 14).

Mathison (1988) argues that triangulation often results in multiple states of evidence (convergent, inconsistent, and contradictory evidence) and that the task of the researcher is to make sense of this rather than disqualify the findings because of a lack of confirmatory triangulation process. He states:

“Practicing researchers and evaluators know that the image of data converging upon a single proposition about a social phenomenon is a phantom image. More realistically, we end up with data that occasionally converge, but frequently are inconsistent and even contradictory. And we do not throw up our hands in despair because we cannot say anything about the phenomenon we have been studying. Rather, we attempt to make sense of what we find and that often requires embedding the empirical data at hand with a holistic understanding of the specific situation and general background knowledge about this class of social phenomenon. This conception shifts the focus on triangulation away from a technological solution for ensuring validity and places the responsibility with the researcher for the construction of plausible explanations about the phenomenon being studied” (Mathison, 1988, p. 17).

To this end, significant effort was made by this researcher to understand the context and details of the cases. This was of course made a lot easier with the internal case studies where the researcher acted as both manager and architect of the SBV approach thus enabling deep and unique insights to be available that a normal qualitative case investigator would be hard pressed to uncover and comprehend in 60-90 minute interviews.

5.6.3 **Member Checking**

This falls within the realism criteria of ‘multiple perception’ in Table 5.6 and in a sense is also a form of triangulation. However, it is important as a concept of ‘negotiated meaning’ (Doyle, 2007) and is singled out for brief discussion. Some researchers have used member validation in the process of constructing case descriptions and interpretations to increase validity through verifying facts but also to generate new data (Bygstad and Munkvold, 2007). Others, like this researcher, have encountered several traps in its use (Carlson, 2010) and that consistent and rigid procedures need not be used for every participant. The key challenges in member checking lie in post-hoc rationalization, the lack of a shared language and context between member and researcher, and practical concerns related to the conduct of members during validation activities (Bygstad and Munkvold, 2007). In this dissertation the researcher started out with the intent of providing each case write-up to each corporation for member validation. In
the end, four of the seven corporations were afforded this opportunity. This was partially driven by practical constraints but also by concern about cases being withdrawn given the problems uncovered. Member feedback included validation of some facts and some post-hoc revisionism especially around use of 'non-professional' language. As members were confronted with their own words, they sought in a few instances to ‘polish’ them a bit just in case they could be identified through the write-ups. Where this occurred the researcher ensured no substantive observation was removed. One of the four corporations never responded back despite two attempts from the researcher to follow-up. Member checking did not uncover any substantial new insights. The three corporations not afforded this opportunity emanated from concerns by the researcher about the cases possibly being withdrawn for inclusion in the study, as the SBV performance of these renown and prestigious corporations was diagnosed to be below par.

5.7 Integrity Issues

5.7.1 Ethics
Any research endeavour that involves human subjects demands that ethical issues be of paramount importance (Emory and Cooper, 1990; Leedy, 1997) in order to protect all involved parties from damages and adverse consequences. According to Pettigrew (1990, p. 286), research ethics is "linked to key issues such as free choice of participation for all respondents, respect for all persons and points of view, clear contracting at the front end of research assignments, and an open and reciprocal relationship between the researchers and their host organizations". Three topics inherent in this quote are briefly discussed below:

Access and reciprocity
No researcher has an inalienable right to gain access to any person or institution even if the organization is the same one where the researcher is employed. As such, all target corporations were presented with a request for participation containing a description of the purpose and nature of the research (usually via email). In the case of the researcher’s own organization, a specific letter of consent from the organization was sought and signed by a senior executive officer. The researcher also ensured all interviewees were handed a briefing note in advance describing the project, their role within it, and providing assurances relative to confidentiality. To demonstrate reciprocity, a summary report of key findings was promised to all participating corporations upon completion of the study.

Confidentiality and compliance
All participants were requested to sign a consent form allowing the researcher to tape the interviews. No rebuttals were encountered. Pseudonyms were used to ensure anonymity and prevent quotations being attributed to any single individual and to prevent participants and corporations from being identified. The project strictly adhered to the code of ethics established by the University of Manchester, and permission was obtained from the Ethics Committee to conduct the research in advance of commissioning any fieldwork.

Data security
The above-mentioned briefing note informed participants that all interviews would be transcribed and that copies of the tapes would be retained until successful completion of the dissertation. A commitment was made that all tapes would be destroyed thereafter. Tapes and transcripts were kept confidentially in one location with restricted access (Dowling, 2000) afforded to only the researcher and a designated professional transcriber. Finally, the potential for publication of the findings was brought to the attention of all participants with concomitant reassurance relative to anonymity. Data control and management is a serious responsibility as underscored by Easterby-Smith et al. (1991, p. 65) who urge researchers to: “exercise due ethical responsibility by not publicizing or circulating any information that is likely to harm the interest of individual informants, particularly the less powerful ones”.

5.7.2 Reflexivity

Kleinman (1991, p. 184) remarks how science is not value free: “Researchers expectations and feelings not only affect the research, but also become part of the process itself” and instead of throwing off these feelings as impediments to objectivity, seeing “feelings ...(as)... resources for understanding the phenomenon under study”. What we feel, who we are, and how we analyze are key considerations thus making reflexivity integral to the end-to-end research process. Consequently, the researcher completed a self-assessment after each interview as a reflexive measure (see Table 5.7). I noted down immediately after the interview in the car park or at my desk any immediate observations on the participant or elite as an individual. Elements that were noted in particular: whether they conveyed an impression of openness and spontaneity; signs of reticence and embarrassment; lapses or disjointedness in recall or clarity; respect for the nature of intellectual inquiry undertaken by the researcher.

### Table 5.7 - Reflexivity Self-Assessment for a Successful Interviewer

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
<th>1-5 Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledgeable &amp; anticipatory</td>
<td>Is thoroughly familiar with the focus of the interview</td>
<td></td>
</tr>
<tr>
<td>Structuring</td>
<td>Gives purpose for interview; rounds it off; asks whether interviewee has questions</td>
<td></td>
</tr>
<tr>
<td>Clarity</td>
<td>Asks simple, short questions; no jargon.</td>
<td></td>
</tr>
<tr>
<td>Gentle</td>
<td>Lets people finish; gives time to think; tolerates pauses</td>
<td></td>
</tr>
<tr>
<td>Sensitive &amp; naïve nature</td>
<td>Listens attentively to what is said and how it is said; is empathetic. Naïve nature (the researcher’s special learner role)</td>
<td></td>
</tr>
<tr>
<td>Open</td>
<td>Responds to what is important to subject and is flexible</td>
<td></td>
</tr>
<tr>
<td>Bilateral steering</td>
<td>Knows what he wants to find out; dominant yet also submissive; questions of power and control</td>
<td></td>
</tr>
<tr>
<td>Critical &amp; probing</td>
<td>Prepared to challenge what is said; handle inconsistencies in replies; patiently probing</td>
<td></td>
</tr>
<tr>
<td>Remembering</td>
<td>Relates what is said to what has previously been said</td>
<td></td>
</tr>
<tr>
<td>Interpreting &amp; analytic</td>
<td>Clarifies and extends meanings of interviewees’ statements without imposing meaning on them; considers salience &amp; relationships</td>
<td></td>
</tr>
<tr>
<td>Balanced</td>
<td>Does not talk too much making subject passive, or too little allowing them to dominate or feel they are not talking along the right lines; non-reactive, non-directive and therapeutic</td>
<td></td>
</tr>
<tr>
<td>Ethically sensitive</td>
<td>Ensuring subject appreciates what interview is about, its purposes, and confidentiality of their answers</td>
<td></td>
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</tbody>
</table>

Scale represents self-assessed proficiency against each criterion with a score of 1 = little or none; 5 = strongly proficient

Self-assessment scores were lower for criteria related to deploying interpretive power in a live context. Due to inexperience, the researcher was more concerned in the earlier interviews with getting through the interview than clarifying and extending meaning in the interview. Attributes related to the procedural aspects of an interview accordingly received higher ratings. It seemed that the bricolage and ideographic nature of interviews required an ambidextrous ability to comprehend, to probe meaning and clarity of what is being said, and not simply to accurately record what is being said.

5.7.3 Delimitations of this Research Strategy
The obvious risk in this research project is the dual position of the researcher as inquirer as well as generator of empirical content and leader of several participants being researched. To help mitigate potential bias, at least one interviewee for each case was selected from outside the organizational boundary of the case and the researcher’s unit within the host corporation. Gaining access to information and meaning from associates and colleagues needed to be balanced with the ongoing imperative of maintaining productive working relationships with these same colleagues (or ‘respondents’) post the research event. This demanded new levels of managerial adroitness and sensitivity from the researcher.

Agar (1980) and Tietze (2012) use the notions of familiarity and strangeness to illustrate the unique features of conducting research inside one’s own organization. Familiarity being the perceptions and perspectives gleaned by the researcher prior to engagement with the research site through occupational and organizational social processes. Strangeness refers to the position of the researcher entering a research site as an outsider. The task of the researcher through the research process is to render that which is novel and strange as something that can be made sense of within an academic framework. The dual role of ‘employee-researcher’ complicates this research process compared with the conventional ‘outsider-researcher’. Instead of attempting to translate the unfamiliar and strange into the familiar and known, the process is inverted for the employee-researcher according to Tietze (2012, p. 60): “The challenge is to transform the ‘familiar’ and ‘known’ into the ‘strange’ and ‘unknown’ with a view to generate a different, more informed understanding of the issues under investigation”.

These considerations and risks were constantly borne in mind by the researcher throughout the entire research process and counter-balanced via inclusion of reflexivity self-assessments, elite interviews, and external case studies. Finally, the case study strategy raises the danger of voluminous data needing to be interpreted and that according to both Eisenhardt (1989) and Parkhe (1993) can lead to overly complex theory. While complexity reduction was not always achievable in this dissertation driven by use of seven case studies that spawned significant material, the research was parsimoniously guided through an a priori framework subjected to modification based on empirical reality hence curtailing risks of trying to capture everything.
5.8 Summary
The key methodological choices made in this research project were justified and outlined throughout this chapter. This dissertation embraces realism philosophy focused on theory generation within an intensive study that used naturalistic inquiry through medium of a small number of case studies with embedded units of analyses and an abductive logic to achieve insights. Data collection and analysis for the case studies encompassed purposeful sampling incorporating qualitative data such as interviews, observations, and documents that were analyzed using a template approach that yielded analytical generalizations. For easy reference, a synopsis of research design elements and choices was made available in Table 1.1 of Chapter 1 and will not be recapitulated here.
CHAPTER 6

WITHIN CASE ANALYSIS:
DISCOVERING CODES AND THEMES

6.1 Introduction to the SBV Cases
6.2 Case #1: Alpha and Maine
6.3 Case #2: Alpha and California
6.4 Case #3: Beta and Texas
6.5 Case #4: Gamma and Florida
6.6 Case #5: Delta and Oregon
6.7 Case #6: Epsilon and Georgia
6.8 Case #7: Zeta and Vermont
6.9 Conclusions

6.1 Introduction to the SBV Cases
In line with the abductive research process previously outlined, this chapter contains the empirical portion of the dissertation covering seven real-life strategic brand venturing case studies (see Figure 6.1 below).

Figure 6.1 – Research Process

<table>
<thead>
<tr>
<th>Empirical</th>
<th>Practice</th>
<th>Theoretical</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Deviating Praxis (Chapter 2 &amp; 3)</td>
<td>2. Theory Matching: Intersection Literature (Chapter 3)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Theory Matching: Venturing Literature (Chapter 4)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Research Strategy (Chapter 5)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Deviating Real Life Observations &amp; Analysis (Chapter 6 &amp; 7)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6. Theory Suggestion (Chapter 8)</td>
<td></td>
</tr>
</tbody>
</table>

Application of Conclusions

Application of Conclusions
Each case study write-up will comprise the same five sub-sections starting with a corporate profile. Cases are then analyzed and insights are reported against each component of the SBV conceptual model covering antecedents and program design, followed by the ‘SBV in action’ elements, opportunity identification, brand entrepreneur relationships, and venture portfolio management. A ‘within case analysis’ is then performed and write-ups conclude with a case summary and implications for the a priori model. As mentioned in Chapter 5, an embedded case design was selected with two units of analysis: the dedicated organizational unit engaged in SBV activity as the primary unit of analysis, and the investment experience with third-party entrepreneurial brand firm(s) as sub-units of analysis. Commentary for all case studies encompasses both levels of analysis. For example in case #1, sections 6.2.1 to 6.2.4 primarily but not exclusively cover the 1st unit of analysis, and sections 6.2.5 to 6.2.6 predominantly but not solely examine the 2nd unit of analysis. A similar pattern is followed in the other cases. Given that case #1 (Alpha - Maine) and case #2 (Alpha - California) both stem from the same parent corporation, section 6.2.1 containing the company profile, and section 6.2.2 covering antecedents, and section 6.2.3 covering program design, will serve as a singular narrative for both cases and will not be repeated when introducing case #2 in section 6.3.

To allow for a richer, more diverse empirical perspective, the cases also illustrate different SBV equity pathways taken as portrayed in Figure 6.2.

For instance, case #1 started as a minority investment and migrated over time to a 100% acquisition. In case #2, a staged equity investment model was agreed upon starting with a minority stake and followed by several additional majority share steps en route to an anticipated full acquisition. Case #3 started out as a loan from the incumbent that was later converted into a minority equity position but without an agreed upon roadmap to further equity increases or ownership. In case #4, a minority stake was agreed with successive increases in equity
negotiated predicated upon venture performance. However, the venture failed to deliver against expectations and the incumbent liquidated their investment position. In case # 5, the incumbent took a minority equity stake with an ability to increase equity or fully acquire should certain performance conditions be met in the future. Case #6 is interesting because it started as a minority equity stake, increased to a majority stake, but due to strategic concerns at the corporate level and the need to refocus on the core business, the investment was liquidated despite significant financial gains from their venturing bet. Finally, case #7 represents an instance where an initial minority stake was upgraded to a majority stake with a time-bound option to acquire 100% of the brand.

Finally, cases 6 and 7 differ slightly in the intensiveness of research versus the other five cases. These two cases comprise singular interviews with an elite in each instance, whereas each of the other five cases comprised multiple interviews with a minimum of three corporate executives per case. While multiple sources were certainly used in all seven cases (e.g., documents, public information, observation, group discussion) to supplement interviews and promote triangulation, cases 6 and 7 were justified for inclusion in terms of their explanatory power rather than for their typicality despite the limitation inherent in any qualitative research, that of the subjective and capricious human being exemplified in particular by a singular interviewee. The exigencies of each will be elaborated upon in the introduction sections for each of these cases. Finally, in preserving the anonymity of interviewers and case corporations, pseudonyms were used for real live characters referred to by interviewers in narrating each case study. For the interviewers themselves, an interviewer code was used such as A1 or G2 to refer to executive 1 from Alpha and executive 2 from Gamma respectively by way of illustration.

This concludes the introductory remarks pertinent to the case fieldwork. The next section contains the analysis of the first case between a large CPG corporation called Alpha and an entrepreneur beverage brand called Maine.
6.2 Case #1: Alpha and Entrepreneur Brand ‘Maine’

6.2.1 Introduction
Alpha is the North American group of a large global beverage corporation with global renown for its brands and its marketing prowess. At the time of the dissertation, this group was divided into three category business units: namely, sparkling beverages, still beverages, and venturing and emerging brands. The latter termed the SBV business unit in this Chapter, was formed in 2007 (Pecoriello and Cooper, 2007). The belief of Alpha senior management was that a dedicated business unit was needed to focus on emerging brands and to “pick the winners of the future” at an early enough stage. The mission of the SBV unit was defined as identifying and developing the next series of brands or businesses with future large-scale (e.g. billion dollar) potential. The SBV unit operated as a full business unit with profit and loss responsibility for its venture portfolio. Since the formation of the SBV in 2007, this unit has received coverage in public media suggesting a level of interest among the business and investment community for its venturing strategies and actions (see Weitzner, 2009; McWilliams, 2010; Rifkin, 2012). The Alpha venturing unit’s first investment was a 100% acquisition of a juice-tea fusion beverage brand, called Idaho, from a serial brand entrepreneur in 2007 that provided the initial learning laboratory for the SBV unit. The entrepreneur was retained on a two-year consultancy agreement but an Alpha executive was immediately transferred to the venture as CEO. While the Idaho case provides an example of very successful incubation and graduation of an entrepreneurial acquired brand managed by a SBV unit, the case was excluded from the dissertation since the unit of analysis chosen was minority equity investments by large firms in entrepreneurial firms. The SBV unit made its first such investment in an entrepreneurial brand venture called Maine in 2008. A chronology of key milestones pertinent to this case study, are outlined in Table 6.1 below.

Table 6.1 - Chronology of Key Milestones in Alpha-Maine Case

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Maine founded by a social entrepreneur and his former professor</td>
</tr>
<tr>
<td>2007</td>
<td>Alpha CEO and Head of North America Group form venturing unit</td>
</tr>
<tr>
<td>2008</td>
<td>Alpha venturing unit purchase a 40% stake for $43m in Maine with an option to acquire the remaining 60% three years later.</td>
</tr>
<tr>
<td>2011</td>
<td>Alpha acquires the rest of the company, retains founding entrepreneur as CEO, and repurposes former board into advisory council.</td>
</tr>
<tr>
<td>2012</td>
<td>Maine organization used as incubation entity for other ventures too.</td>
</tr>
<tr>
<td>2013</td>
<td>Decision made that Maine will graduate into core business unit in 2014.</td>
</tr>
</tbody>
</table>

Source: Author (compiled from internal Alpha documents)

6.2.2 Antecedents
As previously noted, this section will cover the antecedents preceding and leading to the formation of a SBV unit within Alpha Corporation, thus straddling cases #1 and #2. Several
triggers were evident in this instance as depicted diagrammatically in Figure 6.3 below. These included: an inability to integrate entrepreneurial small brands that had been acquired, relative failure within Alpha at launching successful new brands, the emergence of disruptive entrepreneurial brands in the industry driving new growth and new category formation, and interestingly, the dislocating effects of franchisee distribution partners taking on distribution of external brands as well as in one case, the creation of their own brand venturing unit. The franchisor, Alpha, was being forced as it were by its franchisees to broaden its brand portfolio and cater for new higher growth segments. The confluence of all these factors conspired towards Alpha senior management forming a SBV unit.

Figure 6.3 – Antecedents of SBV in Alpha Corporation

a) Inability to integrate acquisitions and failure at brand incubation

Preceding the formation of the SBV unit, Alpha had several failed attempts at integrating and scaling acquired entrepreneurial brands, as well as, less than successful attempts at internal innovations with new brands. For instance, Bahamas (an ice coffee launched in 2001) and Wyoming (natural teas, juices, and sodas founded in 1989) were fast growing brands acquired by Alpha and immediately merged into the core business. With the entrepreneurs gone post the acquisition, Alpha made several changes to each brand’s marketing mix within a short period of time. For instance, Wyoming’s packaging was changed from a proprietary glass bottle to an industry standard plastic bottle to save on packaging costs and make the product more compatible with production capabilities of Alpha’s bottling partners. The formulas were changed to incorporate more mainstream ingredients and generate cost-of-goods savings. Production was moved from third-party contract packers to the Alpha system to reduce manufacturing cost. In so doing, the manufacturing process was changed from a ‘hot fill’ manufacturing process that allowed for more sensitive ingredients and a more natural tasting product, to a ‘cold fill’ manufacturing process requiring preservatives and altering the taste. Distribution was changed from a network of local independent distributors in the Northeast, mid-Atlantic, and Northwest to the national Alpha bottling system in order to substantially boost in-store national availability. However, for a small brand like this being co-distributed and merchandised in tandem with well-established billion dollar brands, the sales force was unable to give Wyoming the necessary care and attention that the independent distributor network once gave it.
The inability to focus on a small brand underlies a growth dilemma facing large CPG systems – as the core business matures and growth is harder to come by the system needs new brands and new areas of growth. Yet these new areas take patience and nurturing to bring to scale, which are not qualities or capabilities the large system is designed for. As noted by one interviewee:

"in a bottling system that demands scale to get attention, the Catch 22 is how do you get scale when there is no scale?" [A3]

This dilemma later prompted the SBV unit to seek alternative distribution partners and channels for smaller brands that were more conducive to nurturing and incubating and only bringing brands to the large, legacy distribution system when they had achieved ‘proof-of-scale’. In addition to the distribution challenges, brand communication was also changed from the viral, word-of-mouth marketing and sampling used by the entrepreneur to conventional above-the-line television advertising in order to raise brand awareness and scale the brand more rapidly. In doing so however, the brand’s character and ‘mojo’ was sacrificed. Needless to say, with all these changes, the original consumers buying Wyoming were no longer attracted to the brand and sales declined rapidly among its core users. Additionally, potential new consumers reached by the greater distribution and mass advertising were not given enough time to discover, try, and become loyal to this new brand as low velocity rates versus core brands prompted Alpha to discontinue the brand only three years after acquiring it. Similar errors were incurred on a much larger scale than the Wyoming example when The Quaker Oats Company acquired the Snapple beverage brand from its entrepreneur founders. In a short space of time, the brand’s distributors, packaging, flavors, and character were all changed in the quest for efficiency and compatibility with Quaker’s systems (see Section 2.5.1). Similar problems ("liabilities of largeness") were also encountered within Alpha when attempting to launch new niche innovative brands prior to the formation of a dedicated emerging brand business unit.

b) Disruptive entrepreneur brands

The dynamics of the industry and the activity of entrepreneurs played a significant role in the eventual formation of a venturing strategy within Alpha. According to one executive interviewed:

“You know one of the things that we’ve learned within our group is that within the beverage industry they play a lot larger role than we ever imagined within [Alpha]. So we undertook a significant research study beginning about 6 years ago where we tried to understand how many brands there were, what effect they were having in the industry, what percentage of the industry they represented, etc. The headlines of some of the output of that research are that first of all there’s a lot of emerging brands. There are over 3,000 emerging brands. Second, the road to becoming large is a long and perilous one. Ninety-seven percent of the brands that are launched never make it past 10 million dollars. Third, these emerging brands while it’s difficult to grow and there’s lots of reasons for that actually do end up driving a significant amount of the growth in the beverage industry. So over a roughly 8-year period that we looked at, more than 50% of the growth of the industry was driven by brands that represented less than 20% of the size of the industry. So they play a significant role. Lastly, if you look at the major disruptions that occurred within the industry - meaning newly created categories like the energy drink category or enhanced waters, isotonics, sports drinks, all of those disruptions were driven by young entrepreneurial beverage companies that really created beverages in categories that didn’t exist. And so they play significant roles particularly with innovation within the industry and then growth of the industry”. [A1]
The implication of this was that Alpha had no organizational vehicle monitoring these entrepreneurial brands nor was it able to interface with the founders of these businesses. They were either noticed and disregarded as insignificant threats, or not noticed until they were much larger and a costly acquisition was needed as referenced below:

“So frankly our company missed a lot of the disruption and growth and an example of that would be Vitamin Water is a brand that we ultimately purchased, but paid 4 billion dollars for that brand. And it’s an example of something that you know was occurring, it was a trend, some perceived health and wellness benefits associated with the business and by the time we realized it and dealt with that opportunity it was so large that it kind of required us to go out and acquire it”.[A1]

c) Intra-system dislocation
At the core of this antecedent was the changing consumer landscape with consumers demanding a greater variety of beverages with a broader array of benefits such as health and wellness to take more proactive care of their bodies, energy for their busy lives, and natural ingredient and product solutions. Alpha’s principal competitor, Sigma had recently invested significant dollars to acquire brands that addressed these emerging consumer preferences, while Alpha’s portfolio had not yet been broadened sufficiently to match the new market realities and prior attempts at these such as the one described above had not succeeded. Given that Alpha operated a franchise system, its franchisee bottlers began to pressure Alpha to acquire new brands:

“bottlers were putting a lot of pressure on us to go buy brands. [Sigma] had spent a lot more on brands than we had and ultimately if you’re a bottler you want the franchise company to buy brands and you want to get the distribution for them and not have to buy the brands yourself”. [A3]

Some bottlers were unconvinced of Alpha’s intentions or speed to act and began to take actions of their own to bolster sagging revenues and profits. The most common course of action was to distribute trendy, 3rd-party growth brands that in a system typically dedicated to the brands of the franchisor, created a serious strategic misalignment. In one case, a fairly large independent bottler (franchisee) formed its own venturing unit to invest in and develop its own brands. This step created a major dislocation in the relationship and even though Alpha was ultimately able to secure special option rights and financial agreements to purchase any successful brands should they reach pre-agreed revenue levels, this step was effectively an indictment on the franchisor’s ability to diversify its brand portfolio. Alpha had to take action and curtail the potential schism emerging in its franchise system, and as such, one of the steps it took was the formation of a dedicated venturing unit focused on new brands and categories. The head of commercial and incubation within the SBV unit summarized this well:

“So I like to refer to the graveyard effect. So one was and especially in North America there had been a series of failed brand experiments, in both acquisitions and internally created brands. And over the course of a decade or so our company in North America had either purchased and took over distribution of or launched about 7 or so new brands that all failed and were very expensive to our bottling system from a risk standpoint a lot of write offs for packaging and lost sales and upset customers and that sort of thing as well as the capital loss for the investment in the brands. So that would be one thing from an internal perspective, the graveyard effect, that the growth was coming but we weren’t taking advantage of it. We weren’t executing on it. And that we were focused so inwardly on our own struggles with our bottling system, the political issues and the conflicts that had occurred. The focus was more on how we didn’t get along with our bottlers versus how do we win and compute these smaller ideas. And out of that was the realization by our bottlers that the consumers were changing their purchasing habits and so they started demanding more emerging brands and
if we had not created [the SBV] to bring more brands to them, then they were threatening to go outside of our system for that solution and the company didn’t need to have that happen”. [A5]

6.2.3 Program Design
Several aspects of SBV program design were uncovered in the interviews ranging from the objectives of the SBV unit, its key strategies, decisions related to where to locate the unit, how it would be structured, led and staffed, and key process and governance elements considered essential to its successful operation. Each of these will be reviewed in turn starting with the strategic role and objectives.

a) Objectives and strategic role of SBV unit
The interesting insight uncovered here was that Alpha knew it needed a unit focused on ‘new’ and focused on the external theatre, but it did not prescribe exactly what it should focus on and what its specific goals should be. Alpha’s approach was to appoint a team of experienced, quality leaders and empower them to define the role, the goals and the strategies. Since there was no prior organizational unit from which to learn, the learning would need to be organic and original to the strategic context, as enumerated by the former CFO of Alpha:

“I mean this was not a job that you could just put somebody in and say well just do the same thing the person did last year. Well, there was no last year. So I think that was important. But I think the hope was that this group of people would fan out to use that expression, in whatever way they thought was appropriate to understand the landscape, number one. Let’s understand this world. This is a different world. This is an entrepreneurial world…So as opposed to saying to [the SBV] from the beginning based on our latest business plan, our strategic intent shared with Corporate, here are the areas that we want to look at, I think you have to give them more space than that to say we’ve got a couple of areas we think might be interesting, but bottom line is you need to tell us what the opportunities are…”[A3]

In addition to this notion of goal emergence, the second notion discerned from fieldwork revolved around the SBV executives being able to make a ‘fit’ between external opportunities uncovered and the strategies, strengths, weaknesses, culture, and ‘brain’ or knowledge-set of the parent corporation, Alpha. This can be termed goal congruence. Respondents articulated this notion as follows:

“Ultimately the responsibility will be to make a fit that learns something about this world - identify opportunities - but also bring to that the areas of strength and weakness of [Alpha Company] and its systems because you may find in this space an opportunity to which is very interesting, but it’s not right for [Alpha] for a million reasons. And those reasons could include it’s not a product we could be proud of right. I mean maybe it’s just not for us. But help us make the fit, right”. [A3]

or

“it was about understanding the brain, if you will, the collective brain of a new community, and then already bringing into it the collective brain of the [Alpha] system” [A5]

The third notion was goal diversity. It became clear that a spectrum of goals were envisaged even if not mandated by senior management, encompassing financial, reputational, and knowledge goals. Goal diversity was described in multiple ways by respondents interviewed, such as:

“At the end of the day again this is not a philosophical exercise; we’re looking to do something on behalf of the shareholders of [Alpha] Company financially, but also reputational, and so there can be many different goals which are identified - but ultimately it’s about trying to find the good fits, separate out the bad fits and
A fourth notion that became evident could be described as goal maturation. As the SBV unit gained experience and credibility, the specificity, and strategic role of the unit also progressed. Figure 6.4 below captures some of this maturation process underway.

**Figure 6.4 - Goal Maturation for Alpha’s SBV Unit**

<table>
<thead>
<tr>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being seen as the group that’s focused on the future and on ‘what’s next’ without specific tangible measures.</td>
<td>The connection between the SBV role and objectives and the strategic goals of Alpha Corporation beginning to solidify.</td>
</tr>
</tbody>
</table>

“We really allow the rest of the organization to focus on our core businesses and innovating within those core businesses, while we sort of focus on the external and what’s next and that’s our role”.

“We’re currently working as part of a long-term strategic planning process to determine how much of that growth should come from a group like ours. It’s my belief that that should be 30-50% of our future growth. And looking at some companies that have done similar things that doesn’t seem to be an unreasonable target based on those benchmarks”.

Source: Author

One brief note on venturing unit credibility is appropriate before concluding the discussion on ‘objectives’. The credibility and success of SBV units appear to have a key bearing on their ability to contribute corporate strategic impact. Later on, in the cross-case analysis (Section 6.9), the concept of a rite of passage is elaborated upon that illustrates some of the key transitions that such units must successfully navigate to enable strategic impact to be delivered.

**b) Strategies of the SBV unit**

In the discussion around the strategy of the SBV unit, it became apparent that the where to play and the how to play of strategic decision-making was inextricably linked and was raised by most respondents. In terms of the first aspect (where to play), discussion will be deferred until Section 6.2.4 as this relates to the processes and activities pertaining to opportunity identification and seems to fit best there from a conceptual model standpoint. In terms of how these opportunities once identified will be acted upon, the SBV unit practiced two corporate entrepreneurial strategies:

- **External investment** – taking an equity stake in, or fully acquiring emerging beverage companies run by external brand entrepreneurs;
• **Internal incubation** – developing and incubating new brands developed from scratch within the unit, or by importing existing brands from other global markets and re-purposing their marketing mix to appeal to the U.S. consumer.

"And there’s a couple of ways we do that, two strategies...one is an investment strategy where we will take either a minority stake with a clear path to ownership later or an outright M&A with a brand and shepherd it through an emerging phase to a scaled phase at which point the brand would graduate to a larger, more capable group within our company, as well as incubation brands. An incubation strategy where we may take an idea that’s already developed in another part of the world by [Alpha] or by R&D within [Alpha] and bring the product to market, likely in a pilot to see if the idea makes sense, and then if it does make sense, we would begin to expand it to the point where it’s ready to be scaled further". [AS]

In this case study, financial models had been built by the SBV unit valuing the relative rates of return and risk profiles of each of the two strategies. The consensus of the team was that the first strategy produced a higher economic value-add since brands were typically selected for investment once they had progressed past what was termed ‘proof-of-concept’. By comparison, internal incubations while more readily activated versus finding an agreeable external partner, had not been de-risked yet but started from scratch and were subject to market risk and the internal rigidities of operating within a large firm most often not conducive to entrepreneurial orientation and behaviour. Proof-of-concept was articulated as the brand life-cycle stage where sufficient repeat purchase and frequency of use of the brand among a core target consumer group was accomplished within a specified set of geographic markets. Based on the SBV units analyses, this typically approximated a retail revenue of between $20-50m for their industry across a less than national distribution base, but achieved in influencer city markets such as New York and/or Los Angeles coupled with a number one or two share position within the given category in an influencer trade channel such as natural foods. This focused base for the revenue indicated a depth of relationship among a core group versus the same revenue being generated across a wider, less deep consumption and distribution base.

Finally, although this dissertation is focused on the occurrence and nature of the first strategy type (external minority investment), it became apparent throughout almost all the case studies that venturing units experimented with both external and internal brand venturing strategies. These were driven by a series of endogenous and exogenous factors that will be reviewed in more depth in cross-case analysis in Chapter 7. Also, there appeared to be interplay and mediating effects between both strategies that will be discussed in the within-case summary under Section 6.2.7.

c) **Location and structure of SBV unit**

In terms of where to locate the SBV unit several options were possible ranging from within the geographic operating unit, or an external entity specially formed to conduct this activity, to locating the unit within corporate headquarters. The SVP for Business Development summarizes the options well:

"I mean these things are always discussable in a big company. There were at least three possibilities. One, you put it in corporate, or you put it in the operating unit. The third, you get it outside of both in some form, in some third party kind of thing, right. I was an advocate from the very beginning as was Joe, to put it in the operating unit, which ended up being what we did. And the rationale for it would be pretty straightforward. You want it to be very close to what’s going on in that market first of all which includes all the players and bottlers in that market. Corporate doesn’t provide that. If you put it in corporate I think it becomes a corporate function but where does it really live? They’re not selling anything in corporate and so if you’re not careful it becomes a supervisory function of 200 markets. But I wanted it to be on the ground level in one market with
the idea that we could put it in other markets in the future potentially or do something even as connection corporate in the future but I don’t think you take something that's embryonic and put it further from the cold face. I think you put it closer to the coalface. And so that was the reason to not do corporate. The separate parties are a more interesting conversation because I could certainly make a case for that. You want it to have some separation for sure. You don't want it to have the same constraints as the rest of the business. The same constraints would include in a quarter your expenses for all U.S. are running too high and so therefore you cut them – you can't live with that. You need to keep it off limits. And the only way you can keep it off limits is make it third party, then I think maybe you have to consider that. The disadvantage of third party though is that it’s not as close to what happens every day, which is ultimately where it has to live where the bottlers are and everything. And so if it looks like something which is held out to its own the question is: who is it accountable to? And so if you’re not careful it becomes almost such a separate thing that it gets tissue rejection from the offering. So I thought that as we said all those things, my suggestion and Joe was in the same place, was the best of all worlds was the operating unit with a pretty hands-off approach. And ultimately the two people that have to adhere to that the most are the president; in this case Joe, and the CFO, no longer me now, because those are the two people that feel the pressure of having to make numbers. And you can just cut the guts out of this thing if you only fund it when [the big core brand] grows. I mean you need to give it a budget and let it roll and consider it to be a strategic investment as the term I've used for it and basically say, "If I need to make a set of numbers, I'll cut something else – I won't cut that". [A3]

Regarding structure, several key decisions were made by senior management that had an important effect on the prospects for success and the modus operandi of the unit. First of all, a dedicated, stand-alone unit was decided upon as opposed to a department within another unit, and the SBV unit shared an equal hierarchical status as the core brand operating units by also reporting into the President of Alpha. This immediately signaled strategic intent and support for the unit to the entire organization as well as to its franchise partners. Secondly, the unit was treated as an operating unit with an annual business plan and an income statement and not as a staff function with a budget. This decision legitimized the unit as a direct contributor to the commercial results of Alpha. Thirdly, the selection of the leader was a thoughtful one also designed to bolster credibility of the unit as captured in the quotation below:

"And I thought it was extremely important that we had a senior player who would be recognized as someone that wasn't going to do this because they didn't have any other opportunity within [Alpha]. For somebody that had been successful and was respected and they would immediately bring some credibility to this as being something that we should all sit up and take notice…And then of course, you know you get a good leader, he starts to get some good people around him…" [A3]

d) Governance and process factors

Given the new organizational experiment of forming a venturing unit, there was a broader need to communicate proper conduct, accountability, and due diligence regarding the activities of the SBV unit not only within Alpha, but also to Alpha’s corporate headquarters where the CFO and Mergers and Acquisitions department were housed. One of the facilitating mechanisms instituted was the appointment of an ‘Advisory Council’ comprising senior executives from corporate headquarters and also from within the ranks of Alpha. This Council met on a quarterly basis to provide guidance to and sponsorship of the SBV unit. It was purposely not designed to act as a decision-making authority, since the SBV unit was already set-up as an operating unit accountable for operating results directly to the President of Alpha. Clarity of role between the Council and the line manager was demarcated early on, thus removing a lot of confusion and unnecessary political interference in decisions. After several years, the Council was gradually disbanded once the strategic and political credibility of the SBV unit had been established.

Another feature of the governance model was a somewhat informally defined set of operating principles agreed between the head of the SBV unit and the president of Alpha. These included a release from mandated attendance of operating routines applicable to the core business. The spirit of the principle was an avoidance of undue internal bureaucracy and importantly also
liberation of time to spend on the external marketplace. In the cross-case analysis in Chapter 7, the use or abuse of leader and SBV unit privileges will be elaborated upon as this turned out to be a major factor in shaping perceptions and support of SBV units among firm associates. A further principle was the acceptance of venturing risk, and that unlike the established core business where failure was not tolerated failure among early stage firms seeking to be disruptive was commonly understood. A further principle revolved around the income statement and the fact that such venturing units often operate with losses derived from minority investments in early-stage entrepreneurial ventures that had themselves not yet made a profit. None of these principles were deemed to be a ‘hall-pass’ for tough commercial stewardship, but were borne out of an instinctive belief in the necessity of an entrepreneurial posture for strategic brand venturing to succeed. Finally, and crucially, borrowing from past experience, the SBV unit was given permission to operate outside the legacy franchise system for incubating and initial scaling of brands. This required upfront strategic conversation with leading bottling partners to outline the strategy and the need to ensure that smaller brands were given a chance to grow unfettered by large brand priorities. The bottlers were also given the reassurance that once any new brand incubated by the SBV unit had achieved proof-of-concept (consumer readiness) and proof-of-scale (system readiness), that these brands would be extracted from 3rd party distribution systems and transferred to franchisee partners. This reassurance was critical to allay concerns from franchisees that Alpha was intent on circumnavigating them by building an alternative distribution system. The credibility of the leader of Alpha [Joe] was mission critical to being able to deliver this kind of outcome in an amicable fashion with the franchisees. The theme of leadership across several levels emerged more strongly than envisaged in the case raising implications for the conceptual model.

6.2.4 Opportunity Identification

Opportunity identification involved at least three elements: strategic exploration of the external environment, cultivation of an entrepreneurial support system (ecosystem), and the picking and courting of future brand winners.

a) Strategic exploration

Exploration began with a definition of ‘where to play’ from a strategic investment standpoint. Alpha executives referred to consumer benefit areas as ‘sweet spots’. These ‘sweet spots’ represent needs that consumers have which may be currently met, partially met, or unmet by current beverage offerings. For example, consumers have a need for relaxation or a need to cope with a stressful lifestyle. No non-alcoholic beverage brand may exist yet in the market that can fulfill this need. Instead, this need may be met currently through dietary supplements, alcoholic beverages, non-ready-to-drink tea and herbal products. If a ready-to-drink beverage was made available that met the functional needs of consumers to relax and enhance sleep then this would theoretically present a new business opportunity. Another ‘sweet spot’ could be for beverages that offer beauty benefits. Traditionally, these benefits are met through health and beauty care products such as skin creams and lotions. Given that liquid hydration is beneficial to the skin, functional benefits can also be ingested via a beverage and not only via topical skin
applications. It is thus plausible that beverages offering beauty and anti-aging benefits could be a potential source of market disruption and business opportunity. Deriving these ‘sweet spots’ appeared to be an amalgamation of science, art and serendipity starting with an understanding of what the consumer is looking for (via syndicated and proprietary research), as well as a point of view as to where consumers could be in the future (via cultural information, trends on health and sustainability). According to interviewees, the main process is being in the market and networking with cultural leaders, entrepreneurs, sustainability and wellness experts, progressive retailers, and early adopter consumers both within the target spaces and at behaviour extremes. The SBV unit deployed a lead-user adoption model at both the consumer level and the retail level. Early adopter consumers were consumers whose needs for certain benefits today could hold mass-market appeal at some future stage. Von Hippel (1986) was one of the first to empirically examine this concept and how lead users could be used as a ‘need-forecasting laboratory.’ In the U.S. food and drinks industry, the LOHAS consumer (Lifestyle of Health and Sustainability) represented a $300 billion industry according to the Natural Marketing Institute (2010) comprising nearly 20% of the population. The LOHAS concept was used by the Alpha venturing unit as a surrogate for trend-spotting and early-adopter consumers. According to Alpha, lead users frequented certain retailers or channels (e.g. Whole Foods Market) to purchase innovative new brands. The SBV unit conducted frequent store visits to such retailers in addition to attending entrepreneur exhibitions such as Expo West, a leading trade show in the natural, organic and healthy products industry attended by 58,000 industry professionals interacting with over 3,000 entrepreneur exhibits.

b) Ecosystem participation

The notion of an entrepreneurial ecosystem or network was considered important to the Alpha venturing unit. This ecosystem comprised all those third-party entities and individuals in the industry (influencers, distributors, contract manufacturers, incubation agencies, etc.) that could play a relevant role in identifying and building emerging brands and thereby form an extension of the venturing unit’s reach and capabilities. Since most venturing units are resource constrained and dependent on others, the active nurturing and maintenance of a healthy ecosystem was deemed paramount to the unit’s ability to successfully execute its mandate. The general role and value of the ecosystem was described by one executive as:

“It all comes down to it’s how you use resources that you don’t have to tell your story, manage your risk and grow the brand. And that ecosystem becomes such an integral part of what I’d like to think of as open innovation. Open innovation is the recognition that no one company can do it all. And that if they want to be successful and minimize the amount of investments that they have to make to achieve what they want they’ve got to have partners. [A2]

At least three benefit areas were extracted from the Alpha interviews: operational efficiency, search effectiveness, and reputation building. For example, in addressing the first area, one executive noted:

“It allows us to be a lot more efficient by having this strong ecosystem because we’re not burdened with the cost of operating all those different entities that are in the ecosystem so we can access the ecosystem in a marginal way from our investment - both time and energy and money standpoint”. [A5]
Additionally, the ecosystem played a role in helping the SBV unit with opportunity identification and search effectiveness:

“A lot of our awareness around trends, opportunities with brands, connections to people are made through our ecosystem. So that’s one. It allows [the SBV unit] to be more externally focused because we can tap into a pretty broad and diverse ecosystem of partners...I think that the diversity of the ecosystem is important because that way people are looking at things in very different ways than we might look at things only through our lens and it helps to challenge our thinking from time to time as we visit with some of these external partners in the ecosystem”. [A5]

Third-party endorsement of the SBV unit as a credible strategic partner to entrepreneurial ventures was also enabled through active participation in the ecosystem:

“I think that having an ecosystem that is supporting VEB is important because it casts a more positive halo around VEB so we get credit for being a leader in the emerging space, in building connections in the space, and that actually is earned media in a way with a lot of the emerging brand companies and entrepreneurs who someday we may want to meet that we don’t even know about yet. So they hear about us through different ways not just through VEB”. [A5]

c) Picking and courting brands

Searching for entrepreneur ventures and brands with disruptive potential is not an easy task and by nature such brands are as yet unproven and defy traditional category descriptors. Frequently these brands are mission-driven and focused on an environmental or social cause. In literature, this is referred to as ‘sustainability-driven ventures’ (Schlange, 2009), ‘social icons’ (Austin and Leonard, 2008), or ‘mission-driven companies’ (Russo, 2003) with some high profile examples being Ben & Jerry’s ice cream, Body Shop retailing, Timberland clothing, Innocent Drinks, Stonyfield Farm yogurt, Burt’s Bees beauty care products, and Tom’s of Maine dental care products. Picking future winners appears to be more art than science, but their checklist included:

• Uniqueness and authenticity of brand idea
• Product functionality story and efficacy
• Quality of consumer connection (deep engagement with target ethnography)
• Quality of revenue (deep focus in few influencer channels/markets vs. generic availability)
• Achieved “proof of concept” (e.g. surpassing a certain revenue threshold in a specific lead market with a specific consumer group)
• Relevance of idea to become future mainstream.
• Caliber and experience of the management team and founder.

The latter criteria was aptly summarized by one Alpha executive as follows:

“It’s not just the brand. Then you get into management team and capabilities. And capabilities is always something that can be supplemented or added but the leader, which is typically the founder but not always, but the leader and his or her management team are really important. Are they people that from a values perspective fit with the [Alpha Company] would be one thing. Are they people that we believe can take the brand – while the brand has been successful early on do we believe they can take it to the next couple or three phases of emerging brand growth or not, because one of the things we’ve learned in our model is again the art of retaining the entrepreneurial culture and leveraging the [Alpha Company] is just that. It’s an art. Part of the recipe of that is having an entrepreneurial team that we can keep intact through these important emerging brand growth phases. So there have been several examples of a brand that we thought gee it had a lot of potential and results were good but the leader of that brand just wasn’t going to work and therefore we backed off. And one example was it was a person who values wise didn’t fit with the [Alpha Company] would be one example. And so the management team would be a critical element of that”. [A1]

Maine was selected by the SBV unit based on these criteria but building its investment thesis around several key arguments: differentiated brand positioning, symbiosis between founder and brand, filling a brand portfolio gap, bolster franchise leadership, and competition. Maine was uniquely positioned at the intersection of three lifestyle and beverages mega-trends: Health & Wellness, Environmental Consciousness and Social Responsibility. Its products offered
consumers premium low calories and organic ready-to-drink tea and juice drink in glass and plastic. The key founder of Maine was viewed as a very authentic and credible entrepreneur within the sustainability-driven marketplace and an embodiment of the brand, making his public appearances and utterances an attractive part of the brand’s own strategic marketing communication with consumers and other stakeholders. Maine was also deemed to be expandable across tea, juice drinks and kids beverages and complimentary within the Alpha tea portfolio strategy as the premium brand. The eventual acquisition of Maine would enable further bottler alignment in the US and could help avoid or eliminate situations where bottlers may be attracted to launching or distributing competing brands. However, Alpha was ‘late to the game’ as two large competitive corporations had already acquired a 15% and 12% equity stake in Maine. The deal was hinged on the founders being able to persuade one competitor to waive their right-of-offer if Alpha’s price was attractive. From the entrepreneur’s perspective, several different criteria were used. Figure 6.5 illustrates the criteria in evidence in the Maine case.

**Figure 6.5 - Courting and Selection Considerations for Maine**

From the entrepreneur’s perspective, the selection of a strategic investment partnership with a large firm is one of the most challenging decisions. With the inclusion of a strategic investor, multiple, small shareholders are replaced by one large shareholder thus changing the autonomy of the entrepreneur. A wrong selection could also result in their brand being held hostage in a large-scale distribution system without recourse to an alternative. Hence, understanding the considerations facing the entrepreneur allows the SBV unit leader to thoughtfully and strategically position their Corporation during the courting phase for preferential advantage and
ultimate selection. Figure 6.4 illustrates some of the wide-ranging and inter-linked issues in the Alpha-Maine case elaborated upon by Goldman and Nalebuff (2013, p. 233-254):

- **Brand ambition and mission congruence** – The founder had to make an assessment as to whether Alpha would share the same goals and mission once included in their portfolio.

- **Reactions of existing investors** - In this case two large CPG corporations had already made minority investments in Maine. They were both competitors to each other and also competitors of Alpha, requiring deft maneuvering and persuasion from the entrepreneurs to relinquish their equity stakes. Additionally, certain shareholders perceived Alpha and Maine as diametrically opposite to each other raising concerns relative to safeguarding the brand mission (Alpha was perceived by some as a large corporation selling high calorie products that were contributing to obesity in the US market, while Maine was positioned as a disruptive small firm selling an organic health and wellness beverage).

- **Distributor dynamics** - Independent distributors typically play a key role in the early stages of moving a brand through the brand-building model. Once a large corporation such as Alpha invests in an emerging brand, the large firm typically transfers the brand from independent distributor networks to their own system to capture synergies and portfolio scale with retailers.

- **Operational priority** - Strategic alignment may appear to exist within Alpha at the senior levels, however, on a day-to-day operational basis, the large brands owned by Alpha may ‘squeeze out’ Maine in terms of key account programs and promotional calendars.

- **Cultural fit** – The day-to-day modus operandi of Maine as a small firm differed greatly from the routines and bureaucratic style of Alpha. Would Alpha be a good cultural fit for Maine and would it tolerate the needs and voice of an entrepreneurial firm within its own boundaries? The fact that Alpha had a dedicated SBV unit was a positive contributor toward Maine selecting Alpha, as it perceived this unit providing a buffer against the larger corporation and a unit where brand incubation could be continued within an entrepreneurially sympathetic environment.

- **Other large firm actions** – As Alpha and Maine formalized their investment relationship and as Alpha strengthened its strategic position within the tea category, what reactions could be expected from other large competitors including the existing shareholders?

- **Competitive bidding** – Should Maine entertain competitive bids from other strategic investors and what would Alpha’s stance be on participating or not in a bid scenario? In this case, Alpha had made it clear that they were not interested in participating in an auction and acquisition price war.

- **Founder role post investment** – Although the initial investment would only be a minority investment, how would Alpha treat the founder post investment? Would the founder still have an empowered CEO role or would they be repositioned as a symbolic head without executive decision-making authority?
• **IPO dream** – The alternative funding strategy contemplated by the founders was to take their firm public. At the time of the case a few other smaller brand firms had taken this route and initially seen explosive public valuations. The perceived ‘glamour’ and prestige of being publicly traded on the New York Stock Exchange was briefly entertained but discarded for fear of administrative and shareholder reporting requirements.

• **Family impact from partnering** – The families of both founders had been involved in the business (vacation jobs for the younger ones; marketing and package design decisions from spouses, etc.) and were emotionally invested in the mission of Maine. Founders had to consider whether it was worth trading this bond for the long-term benefit of the brand.

• **Industry acquisition benchmarks** – Expectations of enterprise value were shaped by publicly known revenue multiples that large firms had paid for similar entrepreneurial brand firms in the industry. Dependent on how the deal discussions with Alpha proceeded, Maine founders were influenced by these benchmarks and whether they perceived the Alpha offer as fair or not.

• **Strategic role within incumbent** – The founders were concerned that their brand needed to play a meaningful strategic role within the incumbent firm’s brand portfolio. The clear gap and need for a tea brand within Alpha’s tea portfolio strategy was a key reason Maine founders opted for Alpha versus other potential strategic partners who already had strong tea brands. Agency issues are surfaced here as large firms could entrap entrepreneurial brands within their distribution system and curtail their disruptive influence by neglecting or de-prioritizing the brand.

• **Financing options** – Several financing options were considered by Maine such as lines of credit from financial institutions, initial public offering as referenced above, in addition to investment from corporations. While the cost of borrowing was high given the uncertain nature of an entrepreneurial venture it came with greater operating autonomy. In the end, this was traded off against the strategic and financial benefits accruing to Maine from being related to a large corporation such as Alpha.

• **Personality fit** – While many weighty strategic and financial considerations clearly played a role in the courting and selection process, the human aspects of founder-to-manager relations were very important to Maine. This is where the personality types of the venture unit leaders (as representatives of Alpha) played a critical role in helping to create a human and emotional bond. Small gestures were well received by the founder such as taking an interest in his son’s baseball passion and offering to host both founder and son at a Boston Red Sox game. While seemingly trivial these gestures carried impact.

• **Consumer and retailer backlash** – Maine had built a strong reputation and market share leadership among sustainability-minded consumers and retailers. An association with Alpha in the minds of these constituents was not viewed positively and posed a risk to the brand’s continued success among these target audiences. In this case, the credibility of the founder played a critical role in shifting or dampening some of the
negativity from vocal minority groups. The founder personally called key retailers in advance of public notification of the deal with Alpha, wrote a blog outlining his rationale, and personally answered every email from disaffected consumers. His key message was that the only way to ‘democratize organics’ (his brand’s mission), was through leveraging the distribution power of a large firm. With Alpha’s investment, distribution and selling muscle, Maine increased distribution from 15,000 stores to over 75,000 stores and trebled revenue. The scaling of the brand’s distribution base fulfilled more than economic goals or health and wellness desires for the founders, it provided a communication proof-point to external audiences that the relationship had helped to ‘democratize organics’.

The preceding discussion demonstrates the complex and inter-woven nature of the courting and selection process from the standpoint of the entrepreneur. It is important for the venture unit to demonstrate awareness of these variables and manage them for success. The next section deals with the dimensions of the relationship once decisions have been made to pursue a partnership.

6.2.5 Relationship with Entrepreneur Brand ‘Maine’
Three core dimensions seemed to be involved in this phase: structuring and making the deal, managing the brand’s marketing across its emergent life-stages, and developing inter- and intra-organizational linkages to accelerate the venture’s growth and enhance its success rate.

a) Structuring and making the investment
A multiple of revenue was agreed upon for the initial investment of 40% equity that effectively determined the enterprise value of Maine. Alpha negotiated a call option to be able to purchase the remaining 60% three years later irrespective of the size of the business and at a pre-agreed multiple of revenue. The founding entrepreneurs of Maine were concerned however that should Alpha choose to forego their option to acquire, they would in essence be captive within a large firm distribution system with a disinterested 40% shareholder. They therefore negotiated an option to put the business to Alpha should Alpha not wish to proceed at the end of the 3-years.

A couple of key points emerge from this brief account. First, a pathway to ownership was negotiated by Alpha upfront and second the formula for computing enterprise value was pre-determined. These agreements ensured that Alpha had the option to integrate Maine into their brand portfolio at the end of the 3-year period, and also that rivals would not be able to ‘snatch’ Maine away at the end through a competitive bidding war during which time Alpha would have ‘sunk’ substantial resources and capabilities into Maine. These kinds of agreements were not evidenced in every case, thus raising complex strategic issues for the parent and the SBV unit (more to come). In addition to agreeing a financial deal, an operating agreement was also negotiated that guaranteed certain freedoms for the founders and roles of each party in the 3-year period.
b) Brand marketing across emergent life-stages

According to Alpha, helping shape a winning brand strategy together with the entrepreneur is key and involves having knowledge of stages of emerging brand growth so as to understand where an entrepreneurial venture fits and the marketing requirements of each brand life-cycle stage. Alpha had conducted an analysis that tracked revenue progression of 2,500 beverage brands over a five-year period. This allowed them to empirically detect revenue inflection points and success rates in the lifecycle for moderately successful, unsuccessful, and disruptive brands.

From this analysis, Alpha developed an emerging brand roadmap that portrayed the journey of a brand through four distinct phases (see Figure 6.6). The first being the ‘experimentation phase’, followed by a ‘proof of concept phase’, a ‘pain of growth phase’, and finally the ‘scale for growth phase’. According to Alpha’s analysis, the first phase typically has revenue in the $1-10 million range. In this phase the entrepreneur gathers a few friends and family to raise seed capital and launches their brand in a few stores. Many aspects of the marketing mix are experimented with in this phase in response to direct feedback from consumers, retailers, and distributors. In particular, the entrepreneur needs to develop the brand narrative that communicates and helps consumers understand the points of differentiation and uniqueness. The failure rate is very high however, and according to Alpha’s internal study 97% of new brands launched do not surpass the $10 million revenue threshold. Assuming success at experimentation, the next challenge is to achieve ‘proof of concept’ ($10-50 million revenue) among a few more markets and within a core target consumer group who become loyal users and advocates for the brand. In the ‘pain of growth phase’ ($50-150 million), business starts to get more complex, competition is intensifying, and team development, and financing issues become more pressing than before.

According to Alpha, the selection of the strategic investor is usually made before this phase since funding is needed to scale the business as more markets are entered and operating expenses expand. Should this phase be successfully navigated, the entrepreneur now focuses on building a powerful, scaled brand aiming to dominate their category and segment. This phase is termed ‘scale for growth phase’ with revenues ranging between $150 and $350 million. These stages helped the SBV unit to set investment criteria (e.g. only invest in phase 2 brands), and also helped in developing an understanding of the marketing mix strategies, tactics and metrics most suitable for each phase. This eventually led to the creation of a knowledge resource (a brand ‘playbook’), used to artfully market emerging brands across their stages of evolution, be they investments in entrepreneur brands, or internally developed intrapreneur brand ventures.
When Alpha made its minority equity investment in Maine, the brand was $23m of revenue and located in the ‘proof-of-concept’ phase according to their model. Knowing this, their relationship was driven to a large extent by the marketing and route-to-market choices appropriate to that phase, as well as organizational independence choices that empowered the entrepreneurial team to retain major operating decisions that impacted firm performance.

c) **Organizational linkages**

The importance of well-designed and managed organizational links to enable fruitful interaction and a mutually beneficial relationship with brand entrepreneurs cannot be overstated. Venturing arrangements differ from outright acquisition and require more dexterous relational architectures and skills since the partnership may evolve through progressive phases of minority to majority equity positions. Working together in a value-creating manner to support the entrepreneur’s business within legal parameters, brand portfolio and lifecycle considerations, and internal politics was a key skill evidenced in the case. Building intra-organizational support with functions, business units, and senior management were key to generating portfolio synergies.
and ensured the venture unit delivered on support commitments made to the entrepreneur while also achieving the corporation’s strategic objectives.

6.2.6 Venture Portfolio Management

a) Monitoring and investment decision-making

The primary mechanism for investment monitoring and governance occurred through membership of the Maine Board, of which Alpha had two of the five seats as a 40% shareholder. In this case, board membership from within Alpha was chosen from outside the venturing group but from within the North America operating unit for antitrust reasons. Members needed to be in non-direct operating job roles to avoid any risk of unduly influencing the Maine brand. The venturing unit agreed a parallel management review routine with the Maine entrepreneur that prefaced the Board meetings in an endeavour to ensure strategic and operational alignment as far as was practically and legally possible. Specific areas of support needed by Maine were formally requested by the entrepreneur to the Board of Maine (e.g., procurement, market research, distribution, and production), and these were then translated into individual arms length ‘alliance agreements’ for each support element. As previously mentioned, Alpha had negotiated a call option that expired after three years to acquire all the outstanding shares. This option was exercised by Alpha at the recommendation of the venturing unit in 2011. In this sense, the acquisition decision had to a large extent been pre-designed and premeditated upfront.

b) Assimilation and graduation

Even with the purchase, the business was maintained as a stand-alone entity based out of the founder’s hometown under a unique operating model that allowed for assimilation and autonomy, while enjoying the scale benefits of being part of Alpha.

"We've been engaged to [Alpha] for the past three years, and now we are getting married," the entrepreneur said..."When you're engaged to somebody, you're around them enough that you can gauge any bad habits. So we don't really expect any surprises, and we certainly have developed a good working relationship" (Washington Post, 2011).

One external observer noted that:

'simply acquiring and absorbing a sustainable brand threatens to destroy what made the brand successful in the first place – the personal connection with consumers and their values...[Alpha's] Venturing and Emerging Brands business unit is an innovative attempt to allow an acquired brand to retain its personality and a degree of independence while ensuring that the new business benefits from the parent company’s financial muscle and ultimately produces a healthy return-on-investment' (Rowe, 2011).

In 2013, a decision was made to graduate the Maine brand by end-2014 into the core category business unit responsible for all of Alpha’s tea businesses. The rationale being that the brand had successfully surpassed proof-of-concept and proof-of-scale hurdles and was ready for integration within the mainstream business. Continuing to maintain management and stewardship of the Maine brand within the Alpha venturing unit was also thought to distract the unit from its primary purpose of seeking future disruptive brands, thereby repeating the traps of near-term focus apparent in any mainstream business unit.
c) **Intrapreneurship**

The daily exposure to working with external brand ventures such as Maine was considered to be an important source of innovative thinking and entrepreneurial learning within the venturing unit. Commenting on the SBV relationship from the corporate investor’s perspective, the president of the SBV unit said:

“When we made the investment in [Maine], we did so because we saw that it had great potential to be a significant brand of the future. Three years after, the brand truly reflects where consumer demand is today and we are excited about being on the verge of still more growth...Beyond growth, having the unique vantage point of a minority investee and watching [Maine] has helped our company in many other ways, from encouraging [Alpha] to obtain organic certification at three of our facilities, to establishing a state of the art tea brewing and filtration system at a bottling plant. Additionally, it enabled us to participate with [Maine] in a number of sustainability initiatives on recycling. All of these efforts reflect why [Alpha] has chosen to invest in entrepreneurs like the team at [Maine] – they provide a source of innovative ideas and energy that enhance our own efforts” (Business Wire, 2011).

This spurred renewed attempts at internal brand incubation that subscribed to the principles and practices of an entrepreneurial new venture. Internal executives were invited to lead new brand ventures developed within Alpha with dedicated venture teams and a full use of external third party distributors and producers thus placing no reliance on legacy systems and internal resource allocation decisions. While not singularly attributable to the Maine investment relationship, the proximity to the external founders seemed to promote a greater measure of entrepreneurship within Alpha. In some of the other cases, this aspect of promoting corporate entrepreneurship as a consequence of venturing is also visible beyond activities such as brand introductions and will be captured in the across-case analysis.

6.2.7 **Within Case Analysis and Summary**

In this section, as with all the within case summaries, two topics will be covered:

- The major themes discovered in the case, and any coding or design implications for the SBV conceptual model, and
- A subjective assessment of the outcome of the SBV partnership.

6.2.7.1 **Major themes/code implications**

Several major themes can be extracted from the casework. These are briefly described below:

a) **Venturing sponsor and ombudsman**

While the skill of the venture leader in establishing a track record of success and navigating internal politics is clearly important here, the ability of top management to act as the sponsor and ombudsman with franchisees and other internal constituents was critical.

b) **Courting and selection**

The multi-faceted nature of this process step was aptly illustrated in this case and offers instructive learning to emerging venture groups relative to the time investment, skills, and complexity of working with entrepreneurs faced with a SBV decision.

c) **Entrepreneur is the brand**

Related to the above is the importance of picking powerful brand advocates in the entrepreneur themselves. This interweaving of brand mission and human personality
separates SBV somewhat from technology venturing and places added pressure on the venturing unit’s leadership to ensure they can work with a variety of entrepreneurial styles and assimilate the unique values of the brand before separating with the entrepreneur. In this case, the entrepreneur unusually chose to remain involved in the brand despite being acquired, thus allowing for a protracted period of knowledge transfer within the unit.

d) Venturing doctrine
The development of a specific knowledge resource (the brand building playbook) founded upon empirical analysis is an impressive contribution of this case. This greatly assisted the venturing group in managing the brands in a stage-appropriate manner, built intellectual credibility with external entrepreneurs and internal stakeholders, and contributed to thoughtful brand progression and eventual readiness for graduation. How practical this notion of conducting bespoke research and creating a model may be in other industries is not clear, but the benefits seemed to be persuasive. We find in only one other case, the Beta-Texas case, that a similar model had been used albeit the model was conceptually rather than empirically derived by the incumbent corporation.

e) Inter-connection of expansion strategies
The case write-up referred to the acquisition of an entrepreneurial brand called Idaho that was a major success for the venturing unit (see Section 6.2.1). This enhanced the reputation of the unit and led to a greater degree of trust in, and financing of, their proposals. This idea is later developed in Section 7.5.3 into a ‘rites of passage’ framework that illustrates how success at navigating proof-of-concept and proof-of-scale for external or internal ventures impacts the sustainability and credibility of venturing as a diversification strategy, and therefore also of the venturing unit itself. This also has implications for the SBV model but was not considered in the original design.

f) Inheriting brands - caretaking trap.
One of the developments in the life of Alpha’s venturing unit was the request to manage other small brands already housed within the corporation or collateral to an acquisition conducted elsewhere in the firm. These brands were either too small for the core business to focus on, were too alien to its core competence, or were troubled brands that had declining performance due to flawed brand positioning, under-investment, or lack of system belief in the category segment. The Alpha venturing unit was ‘coerced’ into adopting these businesses that later proved to be a mistake as the managerial effort required to revive these businesses was disproportionate to the small focused team inside the venturing unit, and more gravely, was a distraction from its strategic mission to identify and nurture next generation disruptive brands versus resurrect dying brands. Despite protestations from the venturing unit, the brands were adopted. After a few of these failed, senior management eventually accepted this as a mismatch of strategic intent. It was also deemed to be symbolic of reluctance on behalf of marketing management to make portfolio choices and
pruning decisions, preferring instead to bet on inter-unit transfers as a last-ditch means of brand revival.

g) *Founder-in-residence*

The presence of an entrepreneur working alongside corporate venturing executives introduced new thinking and a greater propensity to emulate entrepreneurial activity. With a portfolio of venture investments and therefore a portfolio of entrepreneur relationships at the disposal of the large corporation, opportunities exist for culture and strategy to be impacted in novel ways. We also note this aspect emerging in the Zeta-Vermont case where the notoriety and success of the entrepreneur led to the corporation using them to vet and recommend new external venture investments as well as oversee internal ventures.

h) *Resource nucleus for ventures*

As brand ventures are scaled within and under the auspices of the SBV unit, the ventures themselves have growing organizational teams and capabilities that could be leveraged by the unit across other external or internal ventures. In this case, the sales force of Maine was used across several other brands that needed a high-touch incubation approach to brand building. In particular, the Maine team had deep credibility in the natural foods channel where large corporations including Alpha typically struggled to penetrate but which were critical to connecting with influential consumers. Maine’s team was used to represent several brands in this channel offering significant strategic and financial synergies to Alpha.

Table 6.2 matches how the case evidence corresponds with the conceptual model. Several areas not anticipated in the SBV model also surfaced during the course of the case fieldwork.

**Table 6.2 – Case #1: Implications for Codes and Model**

<table>
<thead>
<tr>
<th>Codes</th>
<th>Meta Codes</th>
<th>Fine-Grained Codes</th>
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<tbody>
<tr>
<td>A. Antecedents</td>
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<tr>
<td>B. Program Design</td>
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<td>B2. Start/Structure</td>
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<td>B3. Governance</td>
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<td>C. Opportunity Identification</td>
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<td></td>
<td>C2. Ecosystem</td>
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<td></td>
<td>C3. Courting</td>
<td>Yes</td>
<td></td>
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<tr>
<td>D. Brand Entrepreneur Partnerships</td>
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<td></td>
<td>D2. Marketing</td>
<td>Yes</td>
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<td></td>
<td>D3. Org Linkage</td>
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<td></td>
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<td>E3. Intrapreneurial</td>
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<td>F. Outcomes</td>
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<td>Resource nucleus for ventures</td>
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6.2.7.2 Subjective assessment of outcome

The Alpha-Maine case is an example of a successful SBV strategy in action. To this day, Maine is still run as an independent entity under the stewardship of the Alpha venturing unit and is deemed to be a smart example of post-merger identity integration (Bouchiki and Kimberly 2012). To judge the effectiveness of the SBV partnership a subjective assessment is undertaken below based on low-medium-high level of strategic and financial value that was created for each party. In this case, both parties were judged to have achieved a high level of strategic and financial value (see Figure 6.7). The rationale for this win/win rating is that the large firm wanted to exercise their call option to acquire indicating the brand was desired and fulfilled a strategic role within the overall brand portfolio. For the entrepreneur the objective of finding a suitable strategic home for the brand in addition to a financial exit was accomplished. Furthermore, the fact that the founder remained motivated to stay in charge of the venture post acquisition communicates satisfaction with the partnership and a belief that the brand’s mission would continue to be advanced under the stewardship of the large firm.

Figure 6.7 – Subjective Rating of Case #1 SBV Partnership Outcome

This concludes the Alpha-Maine case study analysis. We now turn to the second case enacted within the same Alpha venturing unit, but with a different brand venture and entrepreneur.
6.3 Case #2: Alpha and Entrepreneur Brand ‘California’

6.3.1 Introduction
As previously mentioned, the antecedents and program design elements of Alpha Corporation were covered in section 6.2 and will not be recapitulated here. The case analysis starts with the opportunity identification that led to picking and courting a coconut water brand called ‘California’.

6.3.2 Opportunity Identification

a) Strategic exploration
The SBV unit had noted a growing interest in the coconut water category among certain consumer segments inclined toward exercise and a need for ‘on-the-go’ beverages that met wellness needs. Coconut water was an all-natural isotonic offering consumers a natural way to hydrate without ingesting the sugar or calories of commercially produced sports drinks. The compromise was that the product did not taste as sweet as a commercial sport drink and therefore was polarizing for consumers. Although the underlying product science was unsubstantiated in a clinical sense, there were a lot of beliefs, folklore and customs that gave the product an aura of scientific superiority (e.g., in developing countries where medical solutions are lacking, coconut water is used as an intravenous solution for severely dehydrated patients). The product was also believed to hydrate faster than plain water giving it a functional point of difference. Although the category was showing explosive growth, it was growth off a small base and the SBV unit wasn’t sure if this was a fad or a genuine new trend that could prove disruptive to the industry. After several years of sustained growth and the category beginning to appear in mainstream grocery channels, the SBV unit decided it didn’t want to be left out of a potential new growth category and that Alpha had a brand portfolio gap that needed to be filled. These quotations capture the opportunity identification thought process well:

“You know we kept an eye on it for a couple of years and it was a question of is this an ingredient fad or is this something bigger and you know you never really know for sure, but at some point we got to the place where it didn’t seem like growth was slowing down. And then we started seeing that coconut water was expanding outside into mainstream and at that point we said you know it’s kind of time. It’s time for us to make a bet and that’s why we chose to make a bet in a category at the time”. [A1]

“Within [Alpha] it was appealing because it gave us – you know it was a whole new space that we weren’t playing in and so it allowed us to kind of find new sources of growth. We may have had slight pulling from maybe teas or waters or other sports drinks but I think it brought in a lot of new consumers as well. So it was minimal cannibalistic to our existing portfolio. And the third thing is that it’s just an example of disruption…And we did not want to get caught not playing there”. [A2]

Once the category had been identified as a category worth investing in, the next decision revolved around which brand and which entrepreneur to partner with. This is discussed in the next section.
b) Picking and courting brands

In 2009, there were three major brands in the coconut water category each fairly similar in size and representing roughly 85% of total category purchases. Brand A (California) had $5.5 million in net revenue, Brand B had $6.5 million, and Brand C had $6 million in revenue. The courting process involved meeting all three founders and their entrepreneurial teams:

“First of all we talked to all three, we had relationships with all three and it really came down to which brand did we feel had the most breadth in terms of where the brand itself could go as well as who did we think we could work best with from a management style, management team standpoint. And that’s something we look at in every investment. You know do we have the right capabilities in what we’re investing in for them to continue to grow?” [A1]

After a protracted period of courting a decision was made to partner and invest in the California brand led by entrepreneur Micah:

“Well it takes a long time. It took us probably a year-and-a-half of discussion, meetings at the trade shows that I referenced, phone calls, talking to the advisors from [California]. It wasn’t just him – [Micah] at [California] that we had to get to know. We had to get to know his wife, we had to get to know his advisors, we had to get to know his other investors, so it was a long process of building that relationship and it was getting him comfortable with the belief that partnering with us was the best way for him to grow this brand. He had elaborated a vision of a legacy he wanted to leave and I think that he felt leaving that legacy in our hands was going to help them be more successful than any other partner we could choose”. [A2]

Again, we see the courting and selection process involving multiple stakeholders including even family members and trusted friends. Each of these had significant influence over the founder and the Alpha venture team needed to match team members with each stakeholder to ensure the best possible fit.

“But we chose [California] primarily because of the brand and the founder. Relative to the others it just seemed like it had the longest runway and the most seasoned founder. The founder was a person who had both big company and small company experience, had international experience, came in and presented a very strategic plan, long term focus, really got how you build a brand starting with a small group of loyal consumers, go deep first, then expand wide versus another brand we looked at the time was [Brand B] which the founder we talked to didn’t seem as experienced, seasoned. He was all about get it everywhere. Wherever I can get it, I want to get it and it was just two different approaches. So we chose [California] because of those reasons”. [A1]

This quotation contributes an interesting insight that later emerged as a theme during case analysis. As previously mentioned in Case #1, the Alpha Venture team had developed a brand-building model informed by empirical data (Figure 6.5). That model inspired a ‘doctrine’ of how emerging entrepreneurial brands should be built. The brand building doctrine not only informed the marketing aspects of the relationship but also the way the team viewed brand and entrepreneur selection. The approach to brand building communicated by the California founder in the courting phase, cohered with the Venture unit’s own internal model and became a major factor in the selection (i.e. starting in a niche community and gradually building a deep connection with consumers market by market). We will see in Section 6.3.3 still further applications of the model in the SBV process. The manner, in which the entrepreneurial team would set about building the brand, appears to have been a key consideration.

“we believed that the management team at [California] had the most focus and had the most vision for how they were going to take this brand to the next level. They very clearly articulated a start with the core consumer of the yoga community and then in concentric circles from there expanding to really hard core athletes, broader athletes and then mainstream consumers that were looking for health and wellness”. [A2]
From the perspective of the entrepreneur firm, their decision to select Alpha as the preferred corporate investor seemed to be influenced by the presence of a dedicated venture unit that would remain with them and partner with them throughout the brand’s journey to scale.

“But the reason [we] chose [Alpha] was that because they had a group or a portal that [we] felt was going to be very, very specific to [our] needs. So, when [we] had an issue or someone is going to provide the right level of focus on a developing company and what happens in most companies that have these partner investments, it’s an investment that someone in M&A looks at three, four, five times a year. They provide very little operational expertise to the business and they are very much on their own beyond the money whereas having a group like the venturing group and providing kind of a level of customer service they thought was going to be a value add”. [A4]

Additionally, the California entrepreneur perceived certain risks of partnering with Alpha that revolved around capping of financial upside and external signaling effects. For instance, when agreeing to deal terms with Alpha who wanted a pathway to ownership and where purchase formulas were agreed in advance, the entrepreneur was placing a ceiling on the enterprise value of California at a stage of imperfect information about the true potential of the business. In a venture capital or private equity financed model for instance, no enterprise exit value would be calculated based on a pre-agreed formula. The exit value is left undetermined to cater for the possibility that financial upside can be significant. Hence, partnering with Alpha corporation theoretically left money on the table. The counter-argument however was that the risk of failure is significantly reduced by partnering with a large corporation, and hence a ‘discount’ in potential value for California shareholders is appropriate. Furthermore, once California selects Alpha as investor and partner, they are signaling to the market (including other potential strategic investors) that the long-term home for that brand business has been decided. Extricating the brand from the partnership would not only be difficult to do (due to entanglement of distribution and systems), but may also diminish enterprise value for the venture since the brand will either be perceived as tarnished (something must be wrong?), or other large corporations may have placed their bets elsewhere reducing the prospects of a corporate strategic home and financial exit. These points are well encapsulated in the below comment on risks:

“the one that comes to mind is they are capping their exit. If they have a belief in, making it up, that when they do a deal with a big strategic investor and they lock in that you’re going to be a 3 million dollars company and that’s what your valuation is going to be at a certain point. If before the deal they had dreams it could be 300 million, it could be a billion, it could be 100 million, they’ve taken some of that range off the table and they’ve locked that in. The second piece is they’ve communicated to the rest of the world that they’ve really found kind of a potential long-term home that really if it doesn’t work out, I’m not quite sure in these scenarios if that big obvious investor left the company or sold their shares, would the company be worth as much as the day before it sold? And that’s problematic. I don’t think that the entrepreneurs think that way, but it seems to be problematic that if everything does not work out as planned, both sides will destroy value if there’s an exit later”. [A4]

6.3.3 Relationship with Entrepreneur Brand ‘California’

a) Structuring and making the investment (deal)
Unlike the Alpha-Maine case study where a minority stake was followed by outright acquisition after a pre-negotiated period, this case study contained a multi-staged investment approach influenced by the various phases of brand building outlined in the venture unit’s own marketing model.
Commenting on this, executives described it as follows: "The [California] deal is a multi-stage approach... it’s multiple stages before you go from minority owner to outright owner and they’re all based on predetermined sales dates and sales targets. But the timing could be very, very different. And it was a very elegant deal the way it was put together and it made a lot of sense but it’s been very challenging." [A4]

When the fieldwork was being conducted, the brand was on the cusp of $75 million in revenue and hence Alpha was faced with exercising its option to purchase additional equity and increase their stake to 75% (see Table 6.3 for description of staged deal model).

### Table 6.3 – Staged Investment Approach between Alpha and California

<table>
<thead>
<tr>
<th>Initial Investment</th>
<th>1st Call Option</th>
<th>2nd Call Option</th>
<th>3rd Call Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Net Revenue ($m)</td>
<td>20%</td>
<td>53%</td>
<td>75%</td>
</tr>
<tr>
<td>Alpha equity stake</td>
<td>$6</td>
<td>$35</td>
<td>$75</td>
</tr>
</tbody>
</table>

The rationale for the staged investment approach was explained as follows: "Real quickly - on [Maine] the way it was is that was a two-step process that was time-based. We took a minority stake with the opportunity to acquire the brand outright on a second step based on three years of progression of time. With [California] we made a choice to say, okay the time-based is interesting but it leads to some strange dynamics where in the last year of that three-year period [Maine] was trying to drive revenue up kind of at the expense of potentially long term sustainability and short term profit because it was structured with the [Maine] deal it was a revenue based buyout. They were only incentivized to get that last year’s revenues as high as possible. We wanted to avoid that with [California]. So we said, look it’s whenever they hit a revenue trigger as opposed to a time-based trigger. So that was one fundamental difference from [Maine]. The second was that we decided we were going to take a multistep process. So we actually was going to do four full steps where we would start at 20%, go to 50%, 51%, then 75%, then 100%. And our rationale for that was twofold. One is that we wanted to kind of more closely map against the phases of growth that we had built in our model of what we thought most brands would go through. What are the revenue levels that they go through as they expand and that was 35 million of sales, 75 million of sales and 150 million of sales. Each one of those revenue targets being reflective of a major milestone. That’s 75 million in sales. That’s typically when you set in a national launch in a bottling system. So we wanted to more closely mirror that. And then the second vector of why we structured with those four steps is that that’s what it took to get the deal done. There was certainly an element of what [Micah’s] kind of key figure, the dollars that he needed and at less than four steps to get the same kind of multiples that we wanted on revenue we had to add another step in there. So again nothing is every perfect. You design as much as you want but since these were all negotiations we’ve got to be mindful of the give and take"[A2]

The Head of Strategy for the unit added a few other nuances to the rationale: "The logic behind the triggers that I just laid out is basically that at each of those triggers we felt the relationship between California and the [Alpha] Company, SBV, changed. So really from where they were at the time of our initial investment to about 35 million most of the heavy lifting work was being done on their own and we were providing consultancy advice and strategic support, etc. But it wasn’t until they got to about 35 million where we then brought in some additional capabilities, beginning to test the brand, pilot the brand in some markets from a distribution standpoint, helping in the supply chain side a bit more. 75 million became a point where that’s kind of where we thought we would be fully integrated into the [Alpha] distribution system and of course 150 was where we would have the opportunity to buy the remaining 100%. So it was kind of a 25%, 50%, 75%, 100% sort of investment model". [A1]

Governance of the relationship was based on two key agreements: the legal deal documents themselves plus a separate operating agreement that would inform inter-firm collaboration.

Commenting on this, executives described it as follows:

"So in the deal structure we had a set of governance rights where either board seats that we would have or decision making that we’d be able to influence. As we increased our stake in the company we got more board seats and we had more authority over decisions. Again not as perfect as I think we’ve now learned. We probably needed to add even more decision-making and more specificity to both time and dollar amounts of decisions. But again the trade off being that you don’t want to necessarily overly govern this thing because you’re trying to invest in entrepreneur mindset of doing things differently than we would have. The second
thing is that we had a set of legal documents outside of the deal structure that were around what we call alliance projects. So as we got into doing certain market research or got into participating in certain procurement activities or assigning key resources to them, we had to execute what we call these alliance agreements to show that they were pro-competitive. The concern from our legal entity, our legal counsel is that by partnering with some of these brands that maybe looked as competitive, we could be in violation of antitrust. So we had to indicate that these types of partnership activities were certainly not to exclude any other competitors in the marketplace. So, basic governance rights and then also collaboration efforts. [A2]

In terms of risk from the entrepreneur perspective, the entrepreneur did not negotiate a put option as was done in the Alpha-Maine case. This potentially left the entrepreneur without a confirmed exit.

"probably bigger risk is that we had a call option on the brand but he had no put option. So when he signed the deal he was effectively signing away his brand for its future without any guarantee that he would get a payout. His only comfort was knowing that he had to drive the brand and if it hit success then he would succeed too and we would participate in the buyout. So there was no guarantee, but there were no guarantees on our side either. We were making a bet on a brand that was only at 6 million dollars in sales, and who knew, if coconut water was going to explode? But we were putting dollars and resources behind it. And so again it’s inherent to the strategy that you’ve got to be making some leaps of faith and place some bets". [A2]

When probed as to whether there were any elements embedded in the deal agreements that later became impediments to collaboration and/or strategic management of the firm, the following areas were surfaced:

**Payout metric**

"Yeah, fundamentally the structure of the payout. So we underestimate the power of a single metric on behaviours. So no different than [Maine] having revenue as a metric and calculating the purchase price, we faced the same thing with [California]. And so while we got rid of kind of maybe short-term expense on that revenue metric, we certainly got a mindset of driving everything towards how do I get the most from that revenue. And it’s funny and looking back on it now and that single identification of the calculation of a purchase price causes so many behaviours". [A2]

**Exclusion of international revenue**

"One is that the primary competitor for this company in the coconut water category has built a third of its business outside of the U.S. I’ve never read the deal but the deal that this company has with [Alpha], there’s very little personal value creation for the employees and the founder for business outside of the U.S. and that can be debated but that’s kind of the common belief". [A4]

**Staged investment triggers**

"in concept the way we designed the deal was really neat. And looking back on it, I think the problem with it is it’s just too long. It’s too many steps. So with every step comes a lot of administrative work. And anytime you’re doing that in a high growth business you’re taking your eye off what’s more important, which is growing the business. You’re competing. And so we designed into this three more investments and all the stuff that goes with those investments and fortunately or unfortunately I mean for us we kind of treat each one as a new investment and it’s the same due diligence and legal work and negotiation and it’s almost overwhelming for a small entrepreneurial company. And I just don’t think that’s sustainable. So in hindsight we would do that differently. There would be less steps and in fact we still have two steps to go and it would be nice if we could consolidate those two steps into one, I mean in part for that reason". [A1]

**Treatment of debt**

"I think that because we had embedded into the purchase price the amount of debt as a deduction from the overall meant that every time he had to borrow more money or get more cash in the business it took money out of his overall payout. So for the first couple of years the business was reluctant to make the appropriate amount of investments into the brand building. And even today that exists to a certain extent. I mean you want them to be mindful of using resources the best way they can but you don’t want them to do it in such a way that it deteriorates the health of the brand and the business. So having the overall purchase price both from a single metric of calculation and then also the deductions that may happen from that from borrowing really need to be thought out". [A2]

**Funding flexibility**

"The second piece is the ability to raise money outside of the current structure challenges short and long term thinking. The business for it to be competitive from a marketing standpoint, needs more investment and the founder and its shareholders, founders of proxy for its non-[Alpha] shareholders do not feel there’s an economic benefit to making some of those investments because it either dilutes them or they take on more
debt which then comes off of the final purchase price, both of which create kind of perils for the business in the short term”. [A4]

This last point provides an insight into the potential advantages and disadvantages of different sources of financing, more specifically, a corporate investor versus private equity or venture capital financing. California’s largest competitor, Nevada, did not have a corporate strategic investor but was instead financed through a private equity firm and a series of independent investors.

“They, [Nevada], partner with the third largest non-alcoholic beverage company for distribution and the rest is coming from private equity and equity firms and basically what their pattern has been, every 24 to 36 months they have gone out and raised more money to invest in their business to grow. And the thinking is from a banker that came to our office a couple of weeks ago is that basically for every – that the [Nevada] model is every dollar invested that is a dollar in say revenue is a good dollar investment because it’s worth 2.3 or some multiple of that”. [A4]

b) Brand marketing across life-stages

Given the California case and the Maine case are related to the same SBV unit inside Alpha, very similar principles to brand marketing across life-stages were applied to both. A description of the model and approach outlined in Section 6.2.5(b) will hence not be repeated. However, a few remarks about marketing collaboration between the venture unit and California have been captured below.

“So through the board governance structure and then through the monthly operating routines that we have increasingly, [the SBV] has as we’ve increased our ownership interest have had influence into the decisions. This has been one of the issues with the [California] brand and [Micah] specifically though. [Micah] makes the decisions at the end of the day from a marketing perspective...He takes input, and can be influenced by [Alpha]...”[A1]

“The California team primarily makes most of the decisions about the marketing and operations of the business. Clearly they recognize that we’ve got some expertise and knowledge but no different than a little kid and his parents influence. Sometimes they had to figure it out on their own and show that they’re independent before they’re going to come back and seek the knowledge and experience of their older brother or parent. And so we’ve seen that. When everything was going well the [California] team thought that they were making the best decisions in the world and they knew better than us when things were struggling and I think they started to recognize well I guess we don’t know everything; let’s ask for some help. And you’ve got to find models that encourage that collaboration all the way along. We want these teams, these entrepreneurs to teach us as well. I’m not saying that it all comes from our knowledge but I’m saying that it’s got to be that partnership and collaboration. There’s a healthy tension that needs to exist but it can’t be ignored”. [A2]

In terms of specific examples of where the Alpha venturing unit impacted actual marketing decisions more directly, one interviewee summarized it this way:

“[I think back to the point of expanding the brand to more mainstream I think that we’ve made it in the latest six months, pushed it to be a little bit more friendly, a little bit more broader appeal. You know showing marketing materials with people doing 200 mile bike races or yoga poses that only the most nimble of people could do limited its interest for people. It felt like it was too ambitious for a lot of the consumers. So we’re pushing them to get into that category of play where more people feel like it’s approachable. Additionally, I think that we’re recognizing that the taste profile needs to evolve and while in the early days keeping it to taste exactly like a coconut water may have made sense for the influence in consumers, the general palate of the U.S. consumer is sweeter, not quite as unique as maybe a coconut water taste would be. So pushing them to get to more mainstream taste profile is also important and they are starting that process”. [A2]

c) Organizational linkages

One of the key premises in an SBV relationship is that the entrepreneur brand will receive support, advice, and expertise from the large firm. Typically, responsibility for procuring intra-organizational support and building and activating the internal support network lies with the SBV unit. Obtaining support from operating functions within the large company can be challenging
and requires continual educating within the larger firm in relation to the venturing mission. In this particular case, interviewees seemed to think that while difficult at times they had found a way to make this work.

“I think we’ve evolved and it is becoming easier to understand but I’d still rate it as difficult and difficult first and foremost more from a capacity standpoint. The fact of the matter is we’re an organization that is built based on our core business and the size of the core business and the work required to run our core business. All of these little things that we add are small in size but require sometimes even disproportionately more work than a big brand. And yet the rest of our cross-functional support organizations haven’t necessarily added a lot of extra resources to take on that work. It becomes particularly challenging in an environment where we may be more sensitive to cost, there’s cost pressures, etc. So I’d say the first thing that makes it difficult is just lack of resource. It’s not hard to capture the imagination of another function. R&D is a great example. The resources in R&D love to support the [SBV unit] brands because what they see is their work getting commercialized real time in the marketplace and it’s very rewarding. So emotionally it’s very rewarding. That being said the organization is still similar in size and workers prioritize based on the opportunity primarily in the current year, not so much 3 to 5 years from now which is really where a lot of the [SBV] opportunities lie”. [A1]

“What we’re doing is incredibly exciting for the organization. I mean you go to any meeting within [Alpha] and say you’ve worked in the [SBV] group and people are like wow that’s so cool, you’re doing some really interesting things and love to learn more about it. So there’s an immense desire to want to get engaged in the work we do. But then there’s the practical realities of do we have the capabilities and the bandwidth to do so. No different than when we started, the business feels pressure to evolve and find sources of growth but based on a tradition of sparkling beverages we’re always going to fall back to our core capabilities and our core strengths. And so as much as people want to help and they know that they’ve got to make sure that the core business is successful first. So we’re constantly telling the story of what we’re doing, how we’re going to do it and the importance of it. And we pull the same decks out in presentations that we gave six years ago probably every six months because there’s just a constant reinforcement of what we’re doing and everybody buys into it but they lose sight of it along the way because of the monthly, quarterly, annual pressures that we feel as a large public company. So we’re always begging, borrowing, stealing resources where we can.

Re-educating people, getting people reinforced on why the risk and the reward makes sense, so it’s hard work. And it takes a lot out of the team I think who is feeling like you get some momentum and then the core business comes back in and overshadows it. Case in point with [Alpha] again on the bottlers, the bottlers very excited about taking on coconut water – exciting, new, differentiated category with great profit margin. But it’s hard to do. And they’re feeling the pressure of the core business and so they lose sight on the new stuff. [A2]

Several areas of inter-organizational linkages were evident in the case. In terms of specific areas where resources, advice, and expertise were used, the following examples were uncovered:

**Distribution:**

“Well if I think back to some of the things that [Micah] was wanting early on from a distribution standpoint [California] is now effective this year nationally distributed through the [Alpha] DSD network so it’s on our trucks. It’s in our national plans, goes through our national planning process and therefore becomes part of what are [Alpha’s] sales organizations responsible for selling, of course supported by the [California’s] sales employees themselves. So distribution is a big element of it. [A1]

“We certainly unlocked access to initially the [chilled] distribution system, kind of starting small and then more broadly into the big [DSD] trucks in select markets and then for a national launch this year. So slow, steady evolution into more and more. And that’s had some good success. It certainly has broadened their reach. There are still some execution challenges on some of that but we think we’ll get through that. [A2]

**Manufacturing:**

“Increasingly we’ve become involved in helping on the manufacturing side. [California] is a low acid product which brings some manufacturing complexity that exists particularly in the U.S. There’s not a lot of capacity for it and in fact that has caused some issues with [California] running out of product and shorting customers and so we’ve stepped in and been involved in finding some incremental capacity and then also partnering them with another entity that we’ve invested in as an avenue to increase our own capability and low acid aseptic manufacturing and producing sensitive beverages. So that’s another example of where we’ve helped. [A1]

“On operations it’s interesting – about 2½ years ago we offered to help them create a more – a much simpler supply chain through what we called kitting. And [Alpha] has a model of concentrating syrups and beverage bases and selling that concentrated version to the bottlers then put it into packages and add other ingredients in the right mix. We had actually proposed to [California] that they create a very similar model and they were concerned about that. So they said it was too early in the process. They said they weren’t quite ready to give us the right forecasting and now I think fast forward 2½ years later they’re saying we need to get that as soon as possible. So they may have been right. It was a little early in the process but it’s back to that
whole mentality of they needed to figure that out themselves. And it’s unfortunate that now it took them so long to figure that out”. [A2]

Marketing:

“I referenced a new marketing campaign and just rethinking the positioning of the brand in general and so our marketing leadership within [the SBV unit] is playing a lead role in leading [Mica] and the team in that development”. [A1]

Product and packaging development:

“Product development, we’ve helped a lot. One of the most successful products in the [California] line is [California] Chocolate and it is a product in terms of an idea that [California] themselves came up with. In terms of the formulation what they came with and we’re ready to launch was just not commercially feasible. And so our R&D people came in and sort of saved that launch and developed a formula that was commercializable…In the future primary packaging will be a big benefit because one of the plans is to convert from an HDPE bottle which again we don’t buy a lot of to PET which is where we will save significant dollars. [A1]

Route-to-market, general and human resources:

“I’d say we have a commercial route to market, finance, marketing, supply chain. So all those are I’d say heavy. Very structured, very, very engaged. I mean there’s either routines or processes for those. HR too, and I only say this because I have not experience it, because it’s not a [SBV] challenge. It’s more that I just don’t know if it’s every day. HR just what I’ve learned in these little companies – HR doesn’t sit on a leadership team which is not good, so it’s just we don’t talk about it as much. But really I should add HR as part of that. But clearly, daily or every other day route to marketing and finance, they’re just, we have a huge connection”. [A4]

A few intriguing features are worth noting before concluding this section. The first is working across venture investments to seek synergies (e.g. low acid aseptic manufacturing). Not only does the venture unit need to deal with intra-organizational issues or issues within the dyad, but also in orchestrating triadic networks (activities between several firms).

“This is another big learning that I think we’re having, is when we started [the Alpha SBV unit] it was very much each brand has a fully dedicated sales, marketing, operations team. And the learning from the past had been that as these – at [Alpha] we portfolio manage our brands but we have a very large portfolio. And so some of the smaller brands fall to the bottom of the focus. So we kind of said let’s keep them all separate. But as we’ve evolved and learned, we’re starting to recognize that there’s kind of a happy medium and that you can have a portfolio approach up to a certain degree. You can’t have 50 brands in a portfolio but 4 or 5 brands managed by the same sales team still gives you the passion, the knowledge and the expertise that you need to make them successful. There’s no need to have 50 people on one brand, 4 teams of 50 people each on one brand when you could have 100 people managing all 4. So yes, we’re starting to look at some models where we can create some synergies between sales, create some synergies potential between manufacturing. We alluded to earlier the dairy company and [California] being able to use low asset aseptic manufacturing and I think now we’re going to start to explore more how we use it in common back office. So that’s the system to do payables and receivables, that’s the system to do financials and again no need to have everybody have their own team. There is some cost effectiveness that could be leveraged better”. [A2]

Second, the decisions of the entrepreneurial venture may not always be the most efficient or effective for firm performance. The SBV unit is only in an influencing role and does not usually have the right to impose decisions on the entrepreneur firm. This can not only be frustrating requiring a certain managerial temperament among SBV executives, but also economically deleterious since the parent corporation through its equity stake suffers negative impacts to its income statement based on the decisions of the entrepreneurial venture. There appeared to be both science and art to how this issue was managed by members of the venture unit:

“Well the science is the structure of the deal. I mean it’s what decision-making rights and what parameters do you have the way that we all work. The art is I think the ability to really keep a finger on the pulse and make decisions at the right time in the right place. It’s different for every brand, it’s different for every category and for every entrepreneur but there needs to be models that allow you to move quickly when the time and occasion arise. And that may be a strategy shift. That may be an investment model. What I mean by that is adding more capital to the business. That may be transitioning certain controls of the brand over from the entrepreneur at the right time. There’s no easy answer but at the heart of it, what I think we’ve learned is that
that this would happen and was part of the strategy. Although this brand had not yet been graduated to a core business unit, the expectation was eventual ownership. This is illustrated as follows:

6.3.4 Venture Portfolio Management

a) Monitoring and investment decision-making

The ongoing monitoring of the investment was enabled through formal board representation as well as through regular operating routines between the venture unit and the entrepreneurial venture team.

“So we have an independent board, so we have [Alpha] representatives and third party independent representatives sitting on a board. The board is sort of, the company is governed by the board of directors. We do have majority share now. And we have an operating agreement that governs what decisions must be approved by the board versus those that can be just approved by [Micah] and the senior management team. In addition, similar to what we do with [Maine], we have a monthly operating routine where the results of the business and the needs of the business are discussed and reviewed and that is with the [Alpha SBV unit] only.” [A1]

b) Assimilation and graduation

One feature of the case is the movement of executives from Alpha and its venturing unit into the entrepreneurial firm. This was done in order to help build linkages and common process understanding between the two firms and also to assimilate brand culture as a prelude to eventual ownership. This is illustrated as follows:

“It’s something we’ve done quite a bit more this year. That’s an example I think of flipping the switch. So we’ve got two executives embedded at [California] right now: one in finance and one in sales. I think that as you start to envision how the management team will transition over time we wanted to make sure that we had some awareness within the company but people probably would want to stay on once [Alpha] owned it. And additionally if it’s people not only that have the functional capability but have the capability to step up and do even more. One of the learnings that we’ve had are around these venturing models is that while we want to graduate them to the core business, there needs to be a period of time where we do the integration into [Alpha] in such a way that we’re creating a very stable and healthy business. We’ve got the luxury of doing that that maybe a traditional M&A model wouldn’t and so keeping some people transitions in place becomes very important. So with the example specifically on the sales executive at [California], he’s a former [Alpha] employee, long term employee of [Alpha], understands how we operate, understands our objectives and missions but also has a great appreciation for our entrepreneurial environment. So it was a great fit to put him in as that transition – so that one, he can learn some of the things while it’s not within [Alpha] but then two, be prepared that once it is, it would help the transition all the way.” [A2]

Although this brand had not yet been graduated to a core business unit, the expectation was that this would happen and was part of the strategy.

“So it’s always been our mission and our principal to leverage what we’re best at which is helping these brands grow from small to medium. In some cases maybe too big. But we’re as a team not staffed to manage, nor do we have all of the core capabilities that are required to manage billion dollar brands. So we will most likely transition all of these brands to the core business. The key is time – is when that happens and back to it’s no different than having your finger on the pulse of knowing when you flip a switch for more investment or new models and we need to know when that happens effectively for the brands. It could be a financial metric, it could be a brand health metric, it could be a distribution metric. It could be a combination of all three of those. And so we just need to know when is the right time and the brand is stable and still growing that it can be managed within a larger portfolio.” [A2]

“When we started this opportunity two or three years ago we had an idea that brands would graduate somewhere between 350 and 500 million dollars, that’s not an exact number. We probably have moved to a place that it depends on the category, the bottler situation, the health of the business, the portfolio interaction of other brands that [Alpha] owns to figure out if it should graduate or not. The only brands that we’ve graduated was [Idaho] and [Virginia] and it happened in the first 24 months to 36 months of [the SBV] and the rest of the brands have continued to grow and stay under the tutelage but engagement within [Alpha’s SBV].” [A4]

“I think in [California’s] case, as I mentioned before, I think [Micah] himself recognizes that the value he adds is short lived and so both from the perspective of he’ll add less value as well as he doesn’t really have the desire to continue leading it and for that reason – for both those reasons we would see him phasing out. What we’ll continue to be managing run by [Alpha’s SBV unit] I think for the short term that still makes sense. I think
ensuring the right focus and prioritization is given to [California] while it’s still relatively young and still less than 100 million dollars so explosive growth but it’s still relatively small compared to our core business. But ultimately it is something that is best managed in our core business unit in one of the business units. The question is what’s the right timing. And that should be dictated on when is the brand healthy enough and the momentum strong enough and is scaled enough that it naturally draws the interest and attention of the core business”. [A1]

At least two components considered critical to graduation was the retention of the entrepreneurial spirit of the brand venture and the ongoing role, if any, that the founding entrepreneur may have.

Entrepreneurial spirit
I personally believe it’s all within the brand. It’s all about the processes, the brand identity, what it stands for. The entrepreneurial spirit was inherent in two places. One is the processes of how they develop these brands but two, it’s in the personality of the brand itself, is that [Maine] and [California] to a certain extent, will always be about these guys came from nothing and made it big. And so the playfulness, the integrity of the ingredients I think is all reflected in that entrepreneurial spirit. That’s not to say that we won’t still try to infuse it in some other manner in the way that the brands do their marketing efforts and so forth but I’m hopeful that it’s always going to be part of the brand spirit. [A2]

Brand founder
I mean I think it depends. I mean it depends on matching up what the needs of the business are with the capability of the entrepreneur. I don’t think that we need to keep them in many of these cases but there’s still certain capabilities that we have that we would want to leverage in different ways. For example with [Maine], given their focus on health and sustainability and environmental, why are we not tapping into that knowledge for other brands? With [California] it seemed the knowledge of the procurement and how the category may be developed elsewhere internationally, maybe there’s a possibility to leverage some of that. To be determined. But I don’t think in the U.S. once the brand gets established that the entrepreneur is always going to be needed to run it. [A2]

“We started the word graduation; it was really when we were handing it over to the bottling system. What’s interesting today is that for instance [California], 90% of its business in the next 24 months will be actually in the bottling system but it theoretically could still reside within [Alpha’s] SBV. So when I now use the word graduation I’m assuming that the brand management moves to one of the portfolio groups within [Alpha]. And I don’t have an easy answer for that. I do believe once a brand gets to the point where it actually becomes a portfolio challenge on how it manages versus other brands that need to sit within a category team. But when it’s unique and distinct – use dairy for example – if it doesn’t have a lot of category interaction we don’t have any expertise in another part of the company, that brand might go quite some time well beyond my hurdles that I identify and still not quote unquote graduate”. [A4]

Metrics
“We had had a couple years under our belt, we had learned how entrepreneurs were working. We understood the models much better. We learned from our past mistakes on innovation. And so thought we owed it to ourselves to test could we do it, meaning that could we incorporate all of these learnings but also leverage a system that is built for scale and leverage the new models that we were creating. Additionally it was a simple financial matter in it is that while the acquisitions maybe slightly less risky they do require capital. And so back to our economic profit issue that I talked about earlier, we could do internally developed brands without having to deploy quite as much of a capital investment. It may require some and to build up some manufacturing or some new packaging but it certainly was minimal compared to the acquisition cost. So leveraging the knowledge, leveraging the key financial metrics, we said let’s try some of our own. My personal bias is I think we’re glad we did because it demonstrated to the rest of the organization again how hard it is to do internal developed brands. But it also had a good message externally was that we were able to show the entrepreneurs that we were investing in we had done this too and that we weren’t just simply investing in them to try to get everything that they learned but that we could speak the same language on the same experiences. We knew how difficult it was to find new distributors. We knew how difficult it was to manage certain marketed models. And so it allowed us to have a much more realistic conversation with these entrepreneurs about what it took. I hope we’ll come back to it. I mean I don’t think we’re done doing the
6.3.5 Within Case Summary
In this section, two topics will be covered:
- The major themes, coding or design implications for the conceptual model.
- A subjective assessment of the SBV partnership outcome.

6.3.5.1 Major themes, codes and implications
This is an interesting case in at least one major respect - the question of whether to partner with a large corporation versus accepting private equity financing. This is a common, tough decision facing every brand entrepreneur. In the Alpha-Maine case we noted the strong results emanating from a large-small firm SBV partnership. In this case, the venture also grew successfully and met internal revenue and financial targets. However, the competitive intensity of the category was under-estimated in all the internal projections. Here we observe a private equity backed entrepreneurial brand Neva, able to significantly out-spend its two key rivals both tethered to large firms and reap significant share gains despite a similar starting position. It seems that a venture investment can be considered a financial success but not necessarily a strategic success. Estimated revenues obtained from data at Alpha are contained in Table 6.4 below.

<table>
<thead>
<tr>
<th>Brand</th>
<th>2009</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand A (California)</td>
<td>$5.5</td>
<td>$63.0</td>
</tr>
<tr>
<td>Brand B (Nevada)</td>
<td>$6.5</td>
<td>$200.0</td>
</tr>
<tr>
<td>Brand C</td>
<td>$6.0</td>
<td>$45.0</td>
</tr>
</tbody>
</table>

Source: Alpha Company internal documentation

In addition to the above observation, several key learnings were elicited from the case when probing interviewees. These are discussed below:

a) Complex deal structure
A key learning seemed to revolve around the complexity of the deal structure. Albeit that the deal structure was conceptually intriguing as it matched the brand building model, it created a lot of implementation complexity.

“You left the tough questions for the end. Well, first I think is more awareness of the models. But I think that could only come with trial and error. So how we structure the buyouts. I think it’s very clear that we will never do a four-step process again; that’s too difficult. So the awareness of the models and what works both internally and externally is one.” [A2]

b) Asset leverage
Another area highlighted was the need to accelerate synergies and asset leverage from the large firm.
c) Across venture portfolio synergies

Related to the above is the pursuit of smart synergy between and across the venture portfolio. The Alpha venture unit also orchestrated activities between disparate entrepreneur firms to enhance performance and efficiency based on a blueprint that charted the progression of a venture brand from initial investment through to ultimate ownership by Alpha.

“[Alpha’s SBV unit] created a blueprint that looks at the critical functions of the business from call it infrastructure support, sales and commercial and marketing. And I say that in order that basically in the early season of an investment of a company that the things the consumer and customer don’t see, we probably can find ways to save money through investing the business and we’re doing that already. The second piece is sales. Where we’re calling on the same customers that [Alpha] calls on for other [Alpha investment] brands are calling on, can we do that together in unique markets where that makes sense? Yes, so with [California] we’ve done it in New York City. We have one consolidated sales force that started in the last 60 days. The natural channel we have one consolidated sales force calling on a customer that’s not owned by [California]. And what that supported us is the ability to either invest in people or marketing in other parts of the U.S. because we don’t have to fund that.” [A2]

d) Flexible operating models

Given changes in competitive dynamics and other factors, a more flexible operating model between the SBV unit and the venture investment was also seen to be an area for improvement.

“we need to have the flexibility to flip that switch or increase to investment or more resources as the opportunity arises. And sitting in a business unit makes that difficult. My thinking is that we have to have some kind of hybird which is we can’t be vision, we can’t be all corporate oriented, but we also don’t want to have the pendulum swing all the other way so that we’re only operation oriented. And there needs to be some kind of middle ground that allows us to tap into both the awareness of strategy at the operations and the capabilities at operations but the power of longer term thinking and access to more flexible budgets and capital on the corporate side. I don’t know exactly how that looks yet but I’d like to see us change that”. [A2]

e) Broader corporate entrepreneurial impact

It also seemed that the impact of the venturing unit stretched beyond stimulating intrapreneurship to a broader impact on the corporation also being slightly more entrepreneurial. The conceptual model should acknowledge this prospect for greater strategic entrepreneurial impact from venturing. For instance when probed about whether a broader impact had been stimulated, the following was elicited:

“Well I mean definitely more entrepreneurial. I think that there have been teams such as ours that have popped up in various parts of the world – you know China and Europe and there’s other groups that have been discussed…Because people are seeing that there’s more effective ways to manage the broad mandate of innovation. Investments, internal and while there may be more new brands that get launched in the United States, the practical reality is consumers all over the world are still looking for new things. And so tapping into a model that allows you to be cost effective and resource effective way, identify and build those new sources and growth, it would be foolish not to do it. In terms of processes…I don’t think it’s just brands. We’ve also tapped into a recognition that there’s technologies, there’s adjacent businesses, that all come from entrepreneurs. I mean Silicon Valley or parts of Israel where all these new technologies have been developed are big opportunities not just from brands but for the rest of our business as well. So in addition to SBV-like organizations around the world, we’ve now started to see pseudo SBV-like organizations looking for different types of investments – ingredients, technologies, entertainment. I think that [Alpha] has done a deal a company called Spotify and I think that’s – I wonder if that would have happened if SBV didn’t exist. It was an idea let’s invest in a smaller up and coming music technology play and get some equity for it and have a new partner. So there’s value not only on the financials but on the ecosystem that applies to a lot of other parts of the business”.[A2]
The importance of the venture unit being linked to the business versus a support function housed within corporate was emphasized by one interviewee:

“It was at attempt to do through M&A, the M&A function at corporate, really what VEB is doing right now. And I think in hindsight of course it’s easy to say why it didn’t work but truly it was probably – it was a good decision for the space. It was a bad decision probably on the brand and how you work with the brand. What we’ve learned in VEB is first of all being part of an operating unit and connected to an operating unit and having some commercial experience is really important to help a brand succeed. We know that 97% of the brands that are launched never make it to 10 million dollars. And so what we can bring commercially can increase those odds significantly. So I think that’s one thing, I think the other thing is just looking back that was a very complicated deal structure that had some unintended consequences. Also the management team of that particular business wasn’t as suited as maybe some of their competitors to run the business. So wrong management team, wrong deal structure, located and embedded in the wrong group kind of would be the three reasons I would say it failed”. [A1]

f) Inappropriate use of SBV unit
Another interesting learning surfaced in the fieldwork was how investments can get imported to the SBV unit from outside the unit. The example is cited of an investment in an external entrepreneur brand called “Montana” by the corporate M&A department. After making the investment, Alpha’s SBV unit was asked to manage it on their behalf, as they had no access to operational resources within corporate headquarters. One interviewee described it this way:

“So it preceded us a little bit. As much as we like to think we’re the smartest guys around in this space, there were a few other people within the company who had identified the need to start playing in these emerging brands. So the M&As and Acquisitions team in [Alpha] had identified somebody in their organization who would go to some of the same trade shows we attend today who would work with some of the VC groups that we talk to today and they had identified that the Acai space was a big opportunity, growing very fast, leveraged the health and wellness need that consumers were demanding, leveraged the idea of the goodness of fruits and vegetables. So they struck a deal on their own just months before the SBV team was created. And a similar model where they invested for a minority stake with an opportunity to increase the stake over time. But what that team probably didn’t have was the advantage of us having really explored some of the other basic criteria that were important in our checklist. So one was the management team which I illustrated earlier, and the ability to leverage their insights but know that you could collaborate with them just didn’t exist very effectively with [Montana]. The other thing is that the M&A team hadn’t done as much research that we’ve now done, is that where to play, while there was an apparent explosion of interest in Acai, it wasn’t broad enough in its approach. It was an ingredient of play it was not a brand play. And so [Montana] didn’t really have a lot of ways to kind of create that architecture and one on one connection with consumers that gave them any real competitive advantage. And then the third thing that they struggled with is that investment model. There was a bit of a misalignment. The way that the interest would increase was if our distribution network took on more of the brand. So the entrepreneur was in some regards disincentivized from expanding distribution with the [Alpha] system because that would mean he would have lost money on a buyout…There was an actual discount on the purchase price for any volume that went through the [Alpha] system.

So our SBV unit got involved, tried to manage to the best we could but those three things started to make the brand unravel. The management team just we couldn’t collaborate with them, he was kind of off doing his own thing, didn’t really see any value to the strategic connection with [Alpha]. All he really wanted was distribution. He started running the business in an odd way and not taking advantage of the opportunities of distribution that would provide for expansion and the brand just didn’t connect with consumers as much. So after about a year-and-a-half of engagement under the SBV umbrella we decided to exit. We were fortunate enough that we probably made that decision early enough that we didn’t take a bath. We still made some money on the investment. But if we had waited much longer it would have unraveled completely and that is now what has happened. The buyer of the brand was another strategic and after owning it for two years they shut down the business”. [A2]
In summary, all dimensions of the conceptual model were in evidence in Case #2 with two additional dimensions becoming apparent. The first was the embedding of large firm executives within the entrepreneurial firm as a prelude to exercising further equity options or an outright acquisition. This was done in order to assist in the assimilation of the core elements of the brand ethos and culture as well as to accelerate the transfer of synergies and benefits between the two firms. This can be viewed, as a simple extension of the ‘organizational linkages’ code, but for now will be captured as a separate potential code item. The second new area surfaced in the empirical stage was the unintended negative impact of complex deal structures. In this instance, the deal was designed to replicate the marketing model for an emerging brand. While conceptually interesting, over-complex deals can hinder the effective relationship building and outcomes between SBV partners and merits a call-out in the model design as indicated in Table 6.5 below.

Table 6.5 – Case #2: Implications for Codes and Model

<table>
<thead>
<tr>
<th>Codes</th>
<th>Meta Codes</th>
<th>Fine-Grained Codes</th>
<th>Case 2 Alpha/California</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Antecedents</td>
<td>Yes</td>
<td>B1. Objectives</td>
<td>Yes</td>
</tr>
<tr>
<td>B. Program Design</td>
<td>B2. Strat/Structure</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>C. Opportunity Identification</td>
<td>C1. Exploration</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>D. Brand Entrepreneur Partnerships</td>
<td>D1. Invest</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>E. Venture Portfolio Management</td>
<td>E1. Monitor/Option</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>F. Outcomes</td>
<td>Success</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6.3.5.2 Subjective assessment of outcome

The logic underlying the assessment in Figure 6.8, was that although the large firm had accomplished significant growth from participation in the venture and the business was performing ahead of valuation targets, the meager share performance meant that the large firm still had a long and probably costly business development journey ahead of them to achieve share leadership. However, for the entrepreneur, the business was on-target and importantly was most likely going to be acquired by the large firm thus enabling an attractive financial exit for the founder and shareholders. The strategic and financial benefits were deemed to skew more towards the entrepreneur than to the large firm in this case.
This brings to a close the analysis of Case #2 between Alpha Corporation and the entrepreneurial brand firm, called California. As a brief post-script, Alpha accelerated the call option in agreement with the other shareholders and founder and purchased 100% of California. This was done in order to expedite portfolio synergies, inject capital, and take control over the marketing decisions of the brand.
6.4 Case #3: Beta and Entrepreneur Brand ‘Texas’

6.4.1 Introduction
Beta operates within the U.S. alcoholic beverage industry. Beta is home to multiple well-known, consumer-preferred brands. Beta’s SBV unit was established in 2010 and plays an active part in Beta’s overall portfolio strategy. The SBV unit operates as a distinct business unit reporting to the chief executive with direct responsibility for a profit and loss statement. The unit has been active across several growth strategies including acquisition of entrepreneur-founded firms, internal brand venture launches, minority investment in external entrepreneur brands, and importation of premium international beer brands.

The SBV unit contributes a high single-digits share of U.S. business revenues and mid double-digit share of U.S. operating income. Based on financials, this makes the Beta SBV unit the largest SBV unit of all those studied in this dissertation. Given its scale, the unit was required to play a strong role within the Beta business portfolio in terms of helping to achieve short-term financial goals as well as Beta’s long-term strategic growth ambitions.

At the time of the fieldwork, the unit was primarily comprised of previously acquired entrepreneurial companies and internally developed brands, as well as one minority investment in an external entrepreneurial brand called Texas. Six interviews were conducted with Beta senior executives including the chief executive officer of Beta and the chief executive of the SBV unit during the month of March 2013.

6.4.2 Antecedents
The SBV unit was formed in direct response to significant changes taking place in the industry as well as important internal factors. Given static industry growth, low barriers to entry in the industry and relatively attractive margins, entrepreneurial activity in premium-priced segments of the industry became very pronounced driving proliferation of consumer tastes, choice, and complexity. Figure 6.9, sourced from an internal Beta strategy document, illustrates the strong historical growth (+10.5% compound annual growth between 2007-2011) and projected growth (+8.3% compound annual growth between 2012-2016) in craft beer. As we learn later this was being driven by entrepreneurs. Domestic super premium beers and imports had more modest growth, while the cider segment showed the highest growth rates, a segment also heavily influenced by entrepreneurs.
The four primary antecedents are summarized visually in Figure 6.10 and discussed below.

**Figure 6.10 – Antecedents of SBV in Beta Corporation**

a) **Fragmenting consumer tastes**

Consumer needs and taste preferences were changing in the industry driving fragmentation and complexity for manufacturers and retailers. The head of public affairs put it this way:

“I think it was primarily a realization that consumer tastes in beer were fragmenting significantly and rapidly and that our traditional big brand kind of centric model was maybe not quick or flexible enough to react to those changes in the marketplace. And that to a certain extent that there was a – and you’ll hear this a little bit – all of our view of [the SBV unit] is evolving as we speak. But there was also a recognition or belief that there are some real cultural differences in the Craft beer space versus in the for lack of a better term – big beer space. And that’s a much greater focus on the intrinsics of the product, a little bit more fun and even frivolity in how you think about brands and you think about culture in the organization. But the root causes is consumer fragmentation, taste fragmentation and how do you set yourself up to address a generation or more of consumers who appear to have much broader and less deep-seated beverage choices in their portfolio than ever before”. [B2]
These changes in consumer consumption habits were one of the factors leading to the creation of the SBV unit, as indicated below by its head:

“[The consumer is being driven towards fragmentation and experimentation and more intense flavors and you know that’s not going to change. The hope was that coming out of the recession that our core drinker which is hurt the most by the recession which is predominantly the blue and the grey collar world, you know once they’ve got income coming back in and jobs and everything is roy again it well life will be good. But you know even as we’re seeing this sort of weird recovery, I think that everybody now really recognizes the fact that the consumer is moving in a different direction…So the idea of creating a business within a business that could focus on the smaller brands and basically look and learn and understand the dynamics of the industry or the growth part of the industry was the key objective”. [B1]

b) Disruptive entrepreneur brands

As can be seen from Figure 6.9, the industry was experiencing significant growth in the craft beer segment. This disruptive development, was being primarily driven by autonomous and local entrepreneurs, founding craft beer brands. Beta’s CEO explained it this way:

“There’s a movement and the Craft Beer phenomenon – remember there’s over 3,000 Craft brewers now. More than a couple a day. So it has to be one of the fastest fragmenting package goods in the history of package business – it has to be. You can’t imagine such a thing happening in detergents or paper goods or pharmaceuticals. The barriers to entry which used to exist in beer because this movement came out of home brewing simultaneously with the technology that allowed small batches to be developed with good quality, so that there was a manufacturing, a brewing infrastructure that was built for home brewers that just didn’t exist 20 years ago. So there are a couple of phenomena that allowed this movement to occur. But I call it a movement rather than an industrial aging process because it’s fundamentally the U.S.’s adoption of what you’ve seen in Europe for quite a long time, a preference for products from people in your community that have personality and that you may actually know or know of who are a little quirky. And a movement that is anti-establishment. This is the equivalent of the Sundance Film Festival of Indi Film Makers and local farmers. So this is a broad, broad vocal movement, a broad movement for identity, a broad anti-industrialization movement and it’s also the next stage of hyper-branding. Not unlike nonalcoholic beverages, beer for sure is a brand you wear and when you go into a bar you’re essentially saying this says some cue about, who I am, and maybe a conversation starter”:

So this movement is not unlike the wine movement; this allows someone to introduce you at every dinner to a new beer and by introducing you to a new beer that you haven’t drunk before, to get the benefits of having introduced them. I mean it’s almost marketing turned on its head. If you go into the top bars here in [City X] there are probably 250 that if you have actually heard of the beer, they don’t want. And they don’t talk about it but the truth of the matter is it also eliminates pricing pressure. No one knows what it costs. And so you’ll see in beer a huge acceleration of pricing in the on premise. You go into these tap panels and if you go behind the bar and look at the tap panels and ask them open your drawers you’ll see the storage areas, they’ll have another hundred tap panels. They just swap them in and out. Now that will settle somewhere. But this is a Craft movement when these legs are social.

Totally different than the business model that we grew up in building big brands with national advertising and lots of events and sponsorship. And it was pretty clear that the folks who were making Craft Beer and drinking Craft Beer didn’t like our model, didn’t identify with it. So the desire to create [the SBV unit] was really to hire people from that industry who represented our closest Craft beers – [Crescent] and [Victory] – both which are breweries in their own right which were small and could identify with them and penetrate this Craft movement and understand it. So it’s very interesting that evolution”. [B3]

c) Top managers, and declining core brand growth

The head of the SBV unit described how new top management and the reality facing them of a declining core brand business, contributed to the formation of an SBV unit focused on new and next as follows:

“The industry as a total beer industry – was relatively static. Actually I think it was declining a little bit in volume, probably growing just slightly on a revenue basis because everybody just kept pushing pricing. And really the only part of the industry that had any vitality was the specialty segment, predominantly the Craft business…So you’ve got Craft growth and you’ve got basically an industry that’s declining slightly and you have a business model that is over-reliant on the premium light business. So I mean that really was the key driver. [A] and [B] pulled me aside and said we have to basically build a model within a model to be able to address the Craft business…I think we finally determined that the premium light segment is not going to see any kind of massive rebound by the consumer. [B1]

With the core business under pressure, there was not only the need for the core business to be supremely focused on growth and rejuvenation strategies but also top management felt it
strategically important for Beta to create a separate entity that would focus on new brands and categories without diluting the core business focus. This is borne out in the interviews:

“I also think if you look at our structure just from the pure GM model structure you know our main goal for [Beta] is to sell [Beta Light] and [Ramp Light]. That’s what keeps the lights on. It’s our bread and butter. If you don’t do that we don’t live, we won’t be in existence. So we can’t ask the main organization to take their eye off the ball too much on selling those brands because what happens when you do that is the whole thing comes crumbling down. So if we truly want to grow in above premium I think you know there was a reason for me creating a separate but connected organization that was able to focus a little bit better on how we could get ahead”. [B4]

6.4.3 Program Design

In this section the objective and strategic role of the SBV unit is described followed by strategies, the location and structure of the unit, and governance factors.

a) Objective and strategic role of SBV unit

It became readily apparent that significant recent effort had been undertaken within the SBV unit to understand the strategic role of corporate venturing within a branded products context. Not only was this necessary given the size of the unit’s financial contribution to Beta overall, but also in order to gauge the need for the right balance of external versus internal growth strategies. To this end, the Beta SBV unit had commissioned a benchmarking study that examined other large-scale CPG corporations in order to assess the role that organic versus acquired growth had played. Figure 6.11 below is an extract from this internal document. What is interesting is the significant amount of growth sourced through acquisition for the benchmark CPGs, but also the implied bias in the quotation selected, that internal incubation of new brands was difficult and best left to external entrepreneurs. The researcher surmises this was used as evidence to advocate for a more intensive external investment posture through acquisition or SBV minority-type investments in entrepreneur brands.

Figure 6.9 – Benchmarking Organic vs. Acquired Growth in Large CPG Firms

*Source: Extract from Beta Benchmarking Presentation, 2013*
The strategic role of the SBV unit was described in this manner by Beta’s CEO:

“So the desire to create [the SBV unit] was really to hire people from that industry who represented our closest Craft beers – [Crescent] and [Victory] – both which are breweries in their own right which were small and could identify with them and penetrate this Craft movement and understand it. So it’s very interesting that evolution. They started by saying we’re the anti-[Beta] which really create an upset because they were – and the words you’ll understand – they said they are different, better and special. And so it created cultural issues. What we’re actually trying to do is how do we have a totally different front end with a model where none of these guys have sport coats and have tattoos and earrings and they can go into a bar and drink with the bartender and they kind of have different rules because that’s what the rules of the Craft industry are”.

The head of marketing for the SBV unit saw the strategic role in commercial terms:

“Well I would be remiss if I didn’t say its strategic role was to deliver share and profit growth in the above premium segment; that’s what we exist for truly. I mean we’re a business at the end of the day, so the kind of fluffier stuff of being a learning lab and everything I think is nice, but it’s idealistic because at the end of the day we are there as an entity to help [Beta] deliver growth in a segment that we see the future in”.

“As far as [the SBV unit] is concerned, we do have aggressive goals, but in order for [Beta] to reach the share growth that we need to get to or that we want to get to by 2015, it’s not going to be all sitting at [the SBV unit] unless we do some things differently – either bring in new brands, or you know grow through some sort of acquisition strategy, or we start incubating new products, new brands, which is what the innovation team is doing. So they will own a piece of that pie as well as [the SBV unit]”.

It appeared that the focus of the role had morphed away from external partnering and acquisition according to one senior executive, to making the existing emerging brand companies and brands the centerpiece of the unit’s action and contribution. It was described as follows:

“Yeah. Well I think it’s core role still is to facilitate and drive the migration of our portfolio to the higher end. We as a business are under-represented in the growth area of the industry now and we’re over-weighted in the economy segment and very dependent on mainstream premium lites. And I was a little hesitant because the tactics I think are changing a little bit. The strategy is the same. The strategy is we need to participate more at the high end. Early on I think that was more of an idea than okay so maybe we’re going to buy six little regional brewers, or there’s going to be a lot of M&A associated with this. I think where we are now is more the way to get there is to focus primarily on growing the [Crescent] Brewing Company and growing the [Victory] Brewing Company, as the first order of business and [Durban] Cider Company. Those three pillars is the first order of business. Will we sell import brands, yes, will we continue to grow [Italia] and things like that, yes, but the main focus is on the two historic Craft breweries, and then you know I don’t think we’ve ruled out more partnerships like [Texas], but I don’t think that they are at the top of the list; that’s my feeling right now”.

During the fieldwork, the researcher could detect a misalignment concerning the strategic role of the unit some members. For instance, the unit’s head of strategy viewed the unit as having moved off its original purpose of finding small external or internal brands and through careful incubation and nurture over time bringing them to proof of concept. The pressures of the core business were it seems forcing the unit to shift its emphasis towards gaining scale quicker and working on already scaled brands as opposed to expending resources on still more and smaller brands.

“I’d say it’s to probably steward scale brands within Craft. We’re not interested in small, we’re interested in big”.

The head of the unit defended the change in focus as a survival tactic given prevailing priorities and challenges facing the core business.

“Well I think for the sake of survival in the context of a BCG business transformation project, it was probably the wisest thing to do and the best place to focus right now”.
His defense pointed to real issues that argued against a pure venturing philosophy being followed at this point in time.

“So [X] is absolutely right in regards to the long-term seeding of ideas that probably won’t pay out till most of the top 200 leaders are retired. The problem is that right now the company doesn’t have the patience, the appetite, or the funding ability to do a lot of small things. And you know [the CEO], God love him, but last year he said, ‘will you stop bringing me mice nuts! Don’t bring me disposable brands; that’s not what we want’.” [B1]

Furthermore, distributors were positioning the large firms as suppliers of mainstream beers and not as preferred suppliers in craft despite the large firms having large craft businesses of their own. Distributors were in effect partnering with entrepreneurial players in the high growth segments such as craft, and de-positioning large firms as volume and cash generators not as innovators.

“The exercise we did with our distributors back in February, they see that the growth in the industry and this part of the business, yet they say – stick to what you’re good at and that’s mainstream premium whites, below premium…

So the ability to do small longer-term stuff right now, it’s just not the appetite of what the company wants. I get it. We need to get 3 to 400,000 barrels on everything we throw out there that’s new. So from an ideology standpoint, [X] is absolutely 100% correct. From a practical standpoint in the current environment he’s absolutely wrong…” [B1]

That being said, even for the head of the unit, there were clearly concerns about whether ongoing support would be forthcoming from other key leaders.

“And I actually feel we’re at an inflection point that we risk the long-term unless I can really clearly identify the incremental value that this unit brings. I mean in my gut, in my heart and in my brain it’s the right thing to do. I’ve got to do a better job of identifying where we can create extra value because right now my boss believes and supports it but the rest of the SLT, particularly the commercial side – those guys haven’t really bought into it, they really haven’t”. [B1]

His belief was that the core business relative to competitors, had lost some of the finer skills around selling and execution of brands, and that one way to continue demonstrating value back to the core business and hence elevate the perceived value of the SBV unit, was to provide a selling capability that other brands could leverage.

“So I actually think what I’m building is an arm that can do small stuff a lot better and hopefully building on the capabilities that can be transferred to other parts of the big organization down the road. Because I think we’re going to need it to compete. I mean it’s really a game of on the street, in the face of the distributors to really get their attention and focus and adding value in the ways that they see other suppliers adding value”. [B1]

The differences in alignment were not only driven by differences in the perceived role the SBV unit should play, but also in the marketing approach that should be used to building a business. For instance, the SBV head was focused on building not only individual product-brands, but also a corporate or house brand idea called a ‘brewing company’ for each family of brands. The implicit organizational implication of this philosophy being, that craft beer businesses are best nurtured within the SBV unit since the core business was organized by brand and would not respect the house brand brewing strategy instead looking piecemeal at individual products and brands. This, in the researcher’s opinion, further served to add to the rift between the SBV unit and the core business regarding the role and value of having a separate SBV unit. Referring to the core business as the “big house”, the SBV head expressed it this way:

“Moving it to the big house basically means you’re approaching it from a strategic point of view where it’s a brand and not as the flagship of a Craft brewery. And that’s what to be quite honest with you I’m fighting very, very aggressively to maintain. Because I really do think it’s important. I mean [Summer Fun] is going to be a
big business; it’s going to top out this year over half-a-million barrels. We put national advertising behind it. On the upper Midwest it’s been a good size entry-level Craft brewery. Outside of the upper Midwest it’s never gotten any traction. [Summer Fun] is the sharp tip on the spear giving us traction, but the immediate default to the big sales organization is it’s all about [Summer Fun] as a brand. Whereas for me, it’s all about [Summer Fun] as the entry point to really create a much deeper level of awareness and trial against the [Victory] Brewing Company. That’s a fundamental core strategic point of difference in regards to how I look at it versus the way [others] look at it”. [B1]

b) Strategies of the SBV unit

The strategies of the unit encompassed several notions:

- Building existing craft brewery companies and associated brands to scale
- Providing a disciplined focus within Beta on new growth areas and new brands, including acquisition and minority investments where feasible.

The fieldwork surfaced an interesting example of a strategy turf battle between the SBV unit and an innovation group nested within the core business that complicated the work of the SBV unit. This case of marketing rivalry is found in the write-up in Section 6.4.3 (d). Subsequent to this incident, important work was completed internally to differentiate the strategies of the SBV unit from those of the innovation group. This is portrayed in Table 6.6.

Table 6.6 – Beta Role Sort and Two-Pronged Approach

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Innovation Unit</strong></td>
<td>• Scale</td>
</tr>
<tr>
<td>New Platforms, Emerging Segments:</td>
<td>• Mass Market</td>
</tr>
<tr>
<td>• Brand A</td>
<td>• Fast, Broad, Deep</td>
</tr>
<tr>
<td>• Brand B</td>
<td>• Heavy Marketing Investment</td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Line Extensions on Existing Brands</td>
<td></td>
</tr>
</tbody>
</table>

| **SBV Unit**                              | • Journey Flow Segmentation|
| Build Craft Breweries:                    | • C/B/E on Explore/Experiment|
| • Brewing Co. X                          | • Mass Marketing support on Flagship Brands|
| • Brewing Co. Y                          |                            |
| • Company Z                              |                            |
| Disciplined focus on future growth engines: |                            |
| • Import Brand G                         |                            |
| • Brand H                                |                            |
| • Brand J                                |                            |

Source: Beta SBV Unit Strategy Update Discussion Document (edited), Feb. 25, 2013 (pg. 8)

The innovation unit was tasked with adding new growth engines to the business through new platforms for existing brands, entering new segments with existing brands, and line extensions of existing brands. This group would follow traditional mass-marketing models building rapid scale with broad distribution geographic coverage and heavy marketing investments. The SBV unit was tasked with building their existing craft breweries as well as future growth engines such as import, internally developed new brands, or external brands. The marketing models used
here were two-fold: where decent scale already existed, a similar mass-marketing model would be followed to the core business. However, for newer, emerging businesses, a more segmented, and staged-marketing model would be followed to move consumers’ from entry-level craft beers to deeper immersion in premium craft consumption using what was described as a ‘journey flow segmentation’ model (described in Section 6.4.5 b). Despite this role-sort exercise and despite a statement from the CEO, there still seemed to be lingering confusion as to whether the Beta SBV unit would or should make external investments. For example, the chief executive still viewed SBV investments as a desirable option should pricing fall within the right economic range:

“And therefore we found that we’ll take minority positions if we can get a path to ownership right now. Craft breweries are fully, fully valued and so they want us to pay outrageous sums”. [B3]

On the other hand, others wondered whether this was still the strategy. For example, when asked if the minority investment in Texas would ultimately be followed by outright acquisition, one response was:

“I believe that full ownership is still our long-term objective there. What’s not as clear to me as it once was is, why? Because there was once this idea of having five or six little regional breweries and if we’re not going to do that, now I’m not actually clear why we necessarily want to own [Texas] outright. Although who knows, it does look like a cool brand and a brand with some legs”. [B2]

With significant pressure on the core business, less slack resources available, and transformation projects underway with external consultants, there seemed to be a periodic need for the SBV unit to clarify and justify its purpose and strategies.

c) Location and structure of the SBV unit

The SBV unit was designated as a distinct business division (with its own income statement), located within the U.S. operating subsidiary of a global corporation. The head of the unit enjoyed a direct reporting line to the CEO of the Beta U.S. subsidiary. The head of the unit had several general managers reporting to them running each of the brewing businesses (inclusive of manufacturing facilities) they had acquired, or that had been transferred into the unit at its formation. A series of functional leaders (e.g., marketing, human resources, finance) were also direct reports to the head with some resources co-shared with other parts of the core business. To a large extent, the unit was self-sustaining and even had its own sales force that supported brands not represented by the mainstream sales and key accounts organization. The unit had a dedicated floor within the mainstream business premises with its own branding and identity system, and a bar that the unit used to socialize with distributors, entrepreneurs, and other external constituents.

d) Governance factors

Governance of the SBV unit was enacted in a similar way to other divisions and business units within Beta. No separate board had been setup to monitor the SBV unit’s activities. Strategic and program stewardship took place within the normal course of running the business through a direct reporting line to the [B3], coupled with its head being a peer member of the senior leadership team (SLT) and associated SLT routines. One executive described it as follows:
Some changes in governance and incentive payments were necessary as the role of the unit solidified away from an experimental unit to a fully-fledged operating unit with important volume and profit deliverables being depended upon by the core business. This is illustrated somewhat in the quote below:

"I think people originally thought [the SBV] was set up to be the laboratory – you know the lab where you can play and do stuff and you’re not really held accountable. Well that doesn’t work when you’re supposed to deliver volume and profit to the larger organization. So we had to sort of change how people were measured and tracked"; [B4]

However, it was when the researcher explored the topic of governance with Beta’s CEO, that a fascinating account emerged that pivoted back to questions of strategic role, and the manner in which leaders of SBV units impact the tone and culture of their unit and the interplay with other functions. It also provided a fascinating case of internal rivalry. This illustrates the interwoven nature of SBV that needs to be captured in the conceptual model. An activity or dimension does not necessarily happen in isolation of other dimensions, but a dynamic interplay can occur between them. A large portion of the interview is laid out in the passages below since the phenomenon would lose granularity should it be editorialized. To facilitate ease of readership, the narrative is truncated under several themes:

**Style of SBV leader**

"I'm afraid it's been messier than I thought it would be. We set it up separate because we wanted it to be, but I asked him to have HR, his human resources person, finance person, have a dotted line into the functions heads so that the standards didn’t have to be recreated and the wheel didn’t have to be reinvented. But the whole ethos of the group, the energy of the group was to be different, totally. And there was an attitude of, I don’t want to do that; I don’t want to have these financial policies; I don’t want to have these HR policies. And I'll have to say our functional people weren’t as empathetic as they should have been, and [the SBV unit] was more arrogant than I thought they would be. And hence there was a division, where the larger organization felt insulted by [the SBV unit] doing things blatantly to say we’re different than you, rather than – you know how in marketing you go is, is not. They should have said what they are, but they spent all their time saying what they are not and so the perception was that they threw rocks. So the governance model, it was [the SBV leader] and me. The only person [he] needed to get approval for was me. And [he] used that effectively. But what we did and really what I didn’t really recognize and I should have recognized better, is that I didn’t socialize every one of those decisions because as it penetrated down through the organization, it got read as quite different and then [he] was lazy – well actually he meant for it to be, purposefully, yeah".

**Strategic marketing philosophy**

"They were out pursuing lots of acquisitions and when they couldn't get them at the prices they kind of started floundering a little bit and we said guys, if we activity base cost all these incremental tiny beers you're pursuing you'll hemorrhage cash; you must sell [Crescent] and [Victory] and [Legion], you must grow these brands. Well that's a big brand kind of job. Yeah. But we want to do all this other stuff. Yes. But you can only do that if you demonstrate growth because the utility of a [Crescent] graffiti series, which is an outrageously eclectic beer, the only utility of it is to demonstrate creativity from the brew house such that you can sell your core. And that the aggregate from the brew house is seen to be interesting and customers say wonder what
they're coming up with next and they're curious to see your offering every season. Well they hadn't really
gotten clear about that".

Performance against business plan

“And they were coming to me with all these tiny little launches, which I approved of because I wanted them to
be – I just said you have to make your numbers. Well they missed their numbers quite dramatically. The
strategic folks on my team said, you are being ridiculously indulgent. They're not making their numbers,
they're doing all these clever things that they're losing money on, they're coming into your office talking about
how people love them, they're getting nice press from the Craft community, but the Company is not going to
get its bonus”.

Complexity cost of SBV model

“The next thing that was really interesting is, simultaneously with this, our manufacturing person who of
course – he came from the food business – [He] arrived and looked at the rapidly increasing complexity that I
was allowing to be introduced into the business and he's saying: ‘I don’t think you know what you’re doing in
terms of cost. Because we do standard cost once a year and I don’t think cost allocation process is right’. He
had done some work… and he said, ‘you way underestimate the cost of complexity. I remember when I
interviewed him in this room and he said I think the cost of complexity is ten times greater than you’re costing.
So sure enough, we didn’t do activity based cost and it cost us 20 million dollars to do activity based costing
on our brands. So we did a process called square root costing. I don't know the intricacies of it but it is a
shorthand, much better than most standard costing, not as good as activity based costing. So it takes these
little brands that we’re charging 250 dollars a barrel for. We charged for instance 120 for [Beta] Light, so over
twice, love it for our net revenue. We think they’re costing us about a hundred dollars a barrel – 260 it’s
costing us. And I said, ‘if this costing is real, you can play but before we launch we must see the line of sight
on how you’re going to get these brands to break even’”.

Marketing rivalry

So [Marketing EVP] says really, I’m going to show you [SBV leader], I’m going to show them. And he
launches this beer called [Clutch]. Now [Clutch] was one of those beers that [the SBV unit] had voted on at
these Craft Beer dinners. They decided not to launch it. The beers were entered at the World Beer Cup and at
the Great American Beer Festival. They won two golds. [The SBV leader] for whatever reason didn’t jump on
it. [The Marketing EVP] said great; I got it, I’m going to launch it as a mass brand and I’m going to put 30
million dollars of marketing behind it, and I’m going to call it an entry-level Craft at the 120 price index, all our
Craft beers are the 160, 180. I’m going to make it a 120 as these guys trade up from [Beta] Light; I’m going to
give it a step function, I’m going to make it mass, and all the regular guys are going to drink it. And he did, and
he launched it, and I approved it, and I let the tension go and all God’s children were [upset], I mean so
[upset]. So [the SBV leader] said you can’t do that in our beer, this is going to be a create, build and expand –
this was going to be my baby – I was going to burn it over 12 years. Well it’s working so far. It’s working so
far. We launched it 3 months ago. So it’s still in the repeat. But it put real pressure for us to talk about, ‘what’s
the marketing model’? ...I mean we had a lot of late nights where people were barking about this. And I had to
get clear on the model myself”.

This concludes the discussion on program design. We now turn to a review of the opportunity
identification process of strategic brand venturing deployed by the unit.

6.4.4 Opportunity identification

Three elements of opportunity identification will be enumerated upon: strategic exploration
activities of the SBV unit, participation in the entrepreneurial ecosystem, and the screening and
courting of brands.

a) Strategic exploration

Industry context provided an interesting nuance that impacted how a large firm would conduct
SBV not found in the other cases. Small entrepreneurial craft brands had built an image in the
marketplace as being higher quality, more thoughtful and artisanal products, founded by
accessible yet iconoclastic entrepreneurs who told intriguing, if not at times, quirky brand
narratives about how and why their brands were founded. They had partially accomplished
through using an industry association, the Craft Brewers Association (CBA), as their
mouthpiece for denigrating large manufacturers of beer and drawing attention to their mass
production and impersonal mass-marketing practices. This made the exploration and the
courting process more complex perhaps than in other industries and is another potential
distinction between brand-based and technology-based venturing. We see this illustrated in the following quote:

“So it started off in the world of Craft: Miller, Coors, Bud, anybody big essentially is fairly satanic. And I get it. Part of it is – you know I refer to it as elevation by denigration. What is so good about us – we’re not them. And so we walked around and part of our strategy was gosh we have these abilities we can apply to our own brands, we can put muscles on the mouse. So let’s go out and make friends and have a fairly blank piece of paper about what those relationships might be but we have value to add, they have this thing that we can’t seem to do or do well which is credible, local based understanding of the consumer. But nobody wanted to talk to us and I wouldn’t have wanted to talk to us”. [B5]

b) Ecosystem participation

With the exception of a phase in time where Beta specifically set out to build relational bridges with craft beer entrepreneurs, there seemed to be very limited participation in the broader entrepreneurial ecosystem of independent distributors, contract packers, venture capital firms, or dedicated sales and marketing industry support agencies. Beta had a preference for leveraging its own assets and capabilities to accomplish its venturing unit goals versus leveraging and partnering with the broader ecosystem.

c) Screening, courting and selecting brands

Building credibility within the entrepreneurial community was tough considering the corporate reputation and profile of large organizations was perceived as being diametrically opposed to all things ‘craft’ and ‘local’ by that community. Instead the community perceived them as standing for industrialized consumer products that were mass-produced without any artisanal skill or ‘soul’. Making the first investment was therefore deemed to be critical in order to build a connection with the entrepreneur community, but also to signal intent within Alpha corporation that the strategy of the SBV unit was being legitimimized and embarked upon. As the SBV unit leader noted, “but we were just so desperate to get one on the books” when questioned as to why the investment was made without a path to ownership being agreed upfront. The specific brand venture invested in was a craft beer brand called “Texas”. The investment originally came through offering Texas a loan to enable them to fund new growth and buy out non-strategic shareholders. This loan was later converted into equity tantamount to a near 25% share of the company. When questioned as to why Texas selected Beta as a strategic partner, the response seemed to hinge in large measure on the experience and credibility of the executives within the SBV unit and the ‘soft sell’ approach they used. For example:

“My perception is that you know that they found [Vincent] very credible. I mean the thing about him is he comes with several decades of experience in the industry and frankly a good bit of it at the high end...So I get the sense that they saw someone who had personal credibility, had experience that they could benefit from, had a mandate from his company to do some things”. [B2]

“So these guys were really cool. They didn’t have any exit strategy. They were making as much beer as they could. They would never have talked to me because I would have scared them. [The SBV leader] has really solved – he’s been in the business 35 years, used to work for two or three different brewers – has deep respect for these cultures and we brought [Victory] who has the [Victory] family name that’s sixth generation now. They go around to these Craft brewers and just chat with them about their business – what’s working, what’s not working. They go around knowing that at some point it’s probably smart for these brewers to speak to us because we can be an exit strategy for them. And these guys are not intimidating; they just talk about their beer...And they talk beer in a way that I’m not able to talk beer. I mean they’ll get in the brewery and the fermenter and talk to them about how the fermenter works. I get in there, I’ve got about 6 seconds and I’m out of gas. And this is the next stage of my education quite clearly, really. So they come in a nonthreatening way, talking to them about how they can expand and this is a brewer that was under threat from [Iowa] which you know and they said we make great beer, better than [Iowa] but gosh they’re so much better capitalized. And
we said well how about if we just give you a loan and we’ll help you – you teach us some things and we’ll teach you some things and it started like that. It was a little open ended”. [B3]

After the Texas investment, the SBV unit developed a formal set of parameters against which to screen potential brand investment targets.

“but we’ve learned a lot over the last 3 years and our screens are a lot more sophisticated and a lot more demanding than what we had in place three years ago…” [B1]

Some of the screens included factors such as:

- Business health in their core market
- Strong geographic overlap with Beta’s distributor network
- Interest in a partnership with Beta
- Cultural assimilation yet retention of entrepreneurial ethos
- Financial parameters (e.g., multiple of revenue per barrel; multiple of operating income; etc)
- Pathway to ownership over time (missing in the Texas case)

The last parameter was a major oversight during the time of the Texas deal and would be corrected going forwards. Nevertheless, there were still learning and external relations benefits that were being derived from the SBV partnership despite that flaw in the deal structure as elucidated by the head of the SBV unit:

“We added one parameter after the [Texas] deal and that was, no deals without some sort of contractual line-of-sight to full majority ownership. It doesn’t have to be tomorrow, it doesn’t have to be five years, but basically we did the [Texas] thing open-ended. And we did it because we just needed to get training wheels. And we needed to get learning. And we needed to get credibility that we could do it. And that relationship has paid off really well for us because they’re still in the BA13 and whenever the articles come out from the BA on the big guys being Craft fakes, you know the guy who runs [Texas] writes his little letter on his blog and says you know these guys are pretty cool; they make unbelievable beers and they have helped us immensely and they’re not majority owners”. [B1]

6.4.5 Relationship with Entrepreneur Brand ‘Texas’

Three elements of the relationship are elaborated upon in this section: structuring and making the investment, brand marketing, and organizational linkages.

a) Structuring and making the investment (deal)

The route to taking an equity stake is an interesting one in this case. Initially, the arrangement started as a loan that was later converted into equity.

“[Texas] was roughly only a 2½ million dollar investment...And the way we actually ended up starting the relationship is they had negotiated themselves an extremely bad deal with their investors, and the investors actually took a call option where they weren’t going to put any more money in and literally they either had to be bought out or – they just put these guys in a place where literally they could have taken over the company. So we built the initial relationship, they called me up and they said can you help us out? And what we actually did is we did a six-month, interest-free, no-payment loan to basically buy them out, buy their investors out and take control or literally give them back 100% control of their company. The investors had about a third of it. And then about 8-10 months later we converted the note into equity and actually took ownership of what amounted to be about 24.6% of the company which allowed them to stay in the Brewer’s Association, the small brewers, the Craft Association, and basically gave us operating input” [B1]

13 BA is one of several acronyms used for the Craft Brewers Association
The importance of making their first SBV investment as a means of building external credibility that they would be a sensitive and capable partner to entrepreneurs, as well as internally legitimizing their strategy was clearly evident in the fieldwork. A few quotations are reproduced below to illustrate this:

“When we presented it to Leo on a phone call – I remember it well – he said okay guys, if you’re lucky you’re going to get one a year. So is this the one? If you only get one is this the one you would want? And my answer was absolutely not”.

Really? [Researcher]

“Absolutely not. But this isn’t the pearl but this might be the speck of sand that helps us create the pearl. So we have to start somewhere. And so it’s a little thing but this may be the enabler but we have to be really careful about how we do it so let’s not put out a press release saying we loaned money to Terrapin. Let them talk. All we’re doing is we’re here to help, let’s help. And any story is theirs. We helped them craft what their story was but it all came through them, worked really well, people were going huh, that’s pretty cool, ‘I wonder what the strings are’ and those guys are going ‘there are no strings’.” [B5]

“Yes. And you know that was sort of getting our foot in the door and establishing credibility and it’s been wonderful…But we were just so desperate to get one on the books and these guys they can be big…” [B1]

Although an equity stake had been accomplished and the unit’s SBV strategy had kicked off, they were either unable to, or they omitted to negotiate any further downstream equity call rights or negotiate a pathway to acquire. This would make matters more complex later on as a new negotiation would need to be entered into and Texas could entertain interest from other shareholders thus potentially creating a bidding contest. Another dimension probed in the interviews was whether consumers of the Texas brand had a negative reaction to the partnership with a large firm. In this instance, it appeared that this was a non-issue by and large:

“As we scour blogs and you know the forums and stuff, you’ve got both. You’ve got people that are going I will never, ever drink it again and oh that sounds kind of cool, now it’s Spike and John, you can buy kegs. So it appeared to be very little and it didn’t last very long”. [B5]

“You know we were actually very well prepared for it…So he went up and did a little internal communications document for them…It was a non-event. Because we presented the facts and the facts are that they are completely in control of your company still, right, and we don’t intend to change the brands…So I think that the geeks care. I think that generally speaking consumers are going to judge a product by what it’s delivering. [B2]

b) Brand marketing across life-stages

Similar to the Alpha cases where a brand building model was employed to nurture brands from early stages to scale, Beta Corporation’s model entailed three phases of building long-term success for ‘premium brands’: create, build, expand (Figure 6.12 below). The intent of the unit was to use this model on internal brand incubations as well as apply it to the Texas investment and any others that may follow.
Although this was the espoused marketing model for building new brands in Beta, there was also some skepticism about its continued relevance in the current environment and within the context of a large firm’s operations:

"the idea behind create, build, expand is that you would take a brand and you would incubate it in a very select group of markets or a market or a section of the market. And then you would show success there and you would grow over time to expand and then eventually you would be kind of expansion mode, national expansion mode. I think in an ideal state that sounds very great and generally speaking we would love to follow a model like that. But what I’ve learned over the last 10 years is there’s a lot of pressure that comes with being part of a larger brewer. I think if you’re a smaller brewer maybe you could follow a model like that because a lot of times you’re capacity constrained or you’re resource constrained so you can’t physically supply two other places so you’re forced to follow a model like that. For us, when you deal with big customers like Wal-Mart or Safeway or Publix or whoever, you can’t just say, well I’m not going to give this to you; in fact in some places it’s illegal. So you kind of have to play nice. If Safeway hears about a product and they say well you’re putting us in this market; I want it in this market and you say no, well you’d better be prepared to give them either something else or have some other ‘make good’ that’s going to make it easy because it’s so competitive today for ad space and for display space and for just share of mind for that retailer. You don’t really want to tell them to just shove off, right. At least we wouldn’t as a company because we have too much to lose. Because we have lots of businesses that rely on that. So a create, build, expand model – is a little bit idyllic I think in this market, plus when you have a distribution network - some of our distributors are very powerful. If you give a product to one distributor and then somebody else calls you and says well no I need to have it or I’m not going to do this and it does happen sometimes and so then you end up giving the product to somebody that you maybe didn’t want them to have it in the first place. So you asked me if we have a model. I think our model has shifted a lot over the last year so if I think back to the way [Crescent] was built it was actually – it followed a create, build, expand model. But I think today, and in today’s environment, that may not be quite as possible". [B4]

Closely coupled with the above model (Figure 6.12) was a second model for how to move consumers through progressively deeper experiences and adoption of craft brands within one brewing company. This model was called the ‘Journey Flow Segmentation” model (Figure 6.13) that assigned portfolio roles across a family of brands to ensure representation in each segment (e.g., trade-in; invitation; exploration; and experimentation). Unlike the one above, this model seemed to have fairly broad support among executives. It was briefly explained as follows:

"And one of the things that I felt was really critical was as we learned more about what was going on is you’ve got these models out there that are Craft beer models, where all of these even big and small players within Craft have a flagship and they build around that flagship. And we’ve done a fairly I think robust segmentation."
We’ve come with three main consumer buckets: invitational and exploration and experimentation, which is predominantly driven by flavor intensity but also recognition, and awareness, and pricing. So for example you know, sitting in invitational Craft is [Crescent] Belgian Light. It is the entry point; it is the safe place where a migrating premium light drinker will come but even a pretty good entry point for people turning 21 just getting into their first beer experience. Then you’ve got exploration. It just moves up pretty much the flavor intensity. And then at the top end you’ve got what we call experimentation. And this is — those are brands and breweries that sit in those brands.” [B1]

Figure 6.13 – Journey Flow Segmentation as a Driver of Craft Adoption

Despite being conceptually rich in terms of marketing models, Beta was not able to leverage these in the Texas partnership as will be seen later in Section 6.4.6. due to the nature of the deal negotiated.

c) Organizational linkages

In light of some recent misalignments, Beta’s SBV unit was mindful of the need to build intra-organizational linkages to ensure alignment and connectivity occurred. Table 6.7 below is an extract from an internal strategy document that itemizes some of the commitments planned and included a series of strategy-level, process-level, and team-level routines and initiatives.
In terms of leveraging Beta organizational linkages and resources to help support the Texas investment, there were certain legal restrictions specific to the industry that inhibited Beta from supporting Texas in the sales arena. Until majority ownership was achieved, they were technically classified as competitors and the larger Beta key account sales organization could not be leveraged in terms of incorporating Texas within pricing and promotional calendars with retailers.

“I mean one of the things that’s really difficult is that, legally our organization, when we’re a minority player in this type of a joint venture or minority ownership, if we’re a minority player we can’t sell the product. We can’t touch the pricing. I mean because of all the State regulations. So the reality is that anything below 50%, it really is incubation and seed the relationship. We’ve supported them with training and we basically co-signed on financing for expansions and things like that, but the reality in the beer business is that these incubation models, if they’re below 50% then technically it is an anti-trust issue, which gets a little funky”. [B1]

Furthermore, even on the marketing front, there appeared to be no transfer of brand building expertise, market research, or synergies across other marketing mix variables.

“We have no involvement. I wouldn’t even know who to call. I know a couple of their names...The understanding is, I think, that it was set up that they would run totally separately and they didn’t want it. That’s the way I think the contract was set up”. [B4]

However, in certain areas support was offered that helped reduce cost and provide engineering expertise for expansion decisions.

“We have helped them, again nothing commercially, so we don’t walk into distributors or retail and sell but for instance they come to our distributor conference and they present and they taste the beers in front of all those distributors and that’s access to distributors they wouldn’t usually get. We’ve called our glass company and said hey we’d really like you to help these guys out a bit. We’re certainly willing to buy glass and sell it to them but it would be great if you would just sell it to them directly...so we’ve helped them reduce material costs. We’ve had our engineers down there. And we haven’t reduced them to our costs, but we’ve been able to leverage scale and relationship to well beyond what Craft is on big stuff. We haven’t gotten into freight yet but on bottles particularly involved. You just go down the pecking order and go, ‘let’s start with those’. And then we’ve had – they’re doing some capacity expansions on significant stuff. So they’re okay in what they do, but we had our engineers fly down and look around and go over their plans and go yeah you might want to think about this. So we believe there’s a whole lot more we could bring especially commercially. But yes, I think it’s been really good for them from a cost basis”. [B5]
6.4.6 Venture Portfolio Management

Three elements of venture portfolio management are covered in the text below: how the investment was monitored and any decisions taken, assimilation and graduation of the brand, and evidence of intrapreneurship resulting from the SBV partnership and the SBV units activities in general.

a) Monitoring and investment decision-making

Beta had negotiated one board seat out of five in total plus one non-voting seat as part of their governance of the investment in Texas.

“We have one seat on their board and we have the ability to veto annual plan and capital spending and things like that, but they still pretty much control the business”.

“…we have one voting and one non-voting”[B1]

Executives from within the SBV unit were appointed to both board seats. In other situations observed by the researcher and even evidenced in cases examined in this project, having executives from other parts of the business helps reduce any conflict, be it relational or legal, as well as helps to broaden the engagement of other senior management in the SBV unit’s strategies. In terms of investment decision-making, no agreement had yet been reached on whether to fully acquire Texas, increase equity, or exit the investment. However, it seemed that conversations had at least been initiated:

“Now with [Texas] though, we are looking at working with them to try to bring them over the majority ownership level”: [B1]

b) Assimilation and graduation

The Texas brand was at too early a stage in the SBV partnership to gauge whether it would be graduated into the core business once it had acquired and scaled. Given the relatively hands-off approach to the investment thus far, the assimilation of the brand was also a purely speculative point. However, the principle of graduating brands out of the SBV unit into the core was explored in the interviews since the SBV unit already had other brands within their portfolio. It seemed that the idea of graduation had been envisioned when conceiving the unit, but that the idea lacked precision and precedent. It also raised the concern that should the largest brand graduate, it would significantly de-scale the SBV unit and possibly trigger questions as to the unit’s reason for being. This was how the topic was addressed in one instance:

“I think the intent has always been that brands would graduate. But I don’t think we’ve been real specific about when… I mean part of that is just a difficult structural issue because unless you have one or two big enough brands, then you kind of look at it and say wow, this thing really is kind of a flea on an ant’s ass you know. I mean we’re getting near to two million barrels. That’s a pretty big brand…I mean it feels to me like in many ways it’s getting sold through the mainstream sales organization already. I think it would be hard to say, It seems like if we were being really rigid, we’d probably be having that kind of discussion already because it’s getting close to two million barrels. If we turned on national TV you know we’re actively selling it into big chain restaurants. I mean it just doesn’t seem to be much of a discovery brand anymore – kind of in full-on expand mode”: [B2]

c) Intrapreneurship

In the context of the SBV unit’s total portfolio, Texas served as a part of their external in-sourcing strategy. However, the dominant focus of the SBV unit lay with its larger acquisition
brands and internal brand ventures. Not a lot of synergy initiatives were being worked on between the respective businesses and the principal corporate entrepreneurial contribution from the SBV unit lay in re-educating the core on beer artisanship. For example, one executive opined on it this way:

“Yeah, I mean partly as a result of [the SBV unit] and in the programs that helped drive around beer merchant training and beer appreciation, like I’m going to get out and learn how to brew in a couple of weeks in a location downstairs. They have these ‘Brewers Unleashed’ events up in the pub. I think the biggest impact would be that generally speaking I believe our employees are more interested and articulate about beer itself than they have been. So if one of the things is to try to get people more passionate about the intrinsics of the products we sell, I think that’s been a plus. On the broader sense of entrepreneurial spirit, I’m not really too sure about that one. I think that, you know frankly we still struggle a little bit with you know where innovation occurs. There was an innovation team in [the SBV unit]; I think there still may be. But that idea more recently has been let’s have the innovations team come up with the concepts and the ideas and then based on the proposition, we can decide whether it’s [the SBV unit] or mainstream marketing. But people saying, ‘why do we do all of this process X when we’ve learned we can live without it at [the SBV unit]?’ I’m not seeing that yet really”. [B2]

6.4.5 Within Case Summary

In this section, two topics will be covered:
- The major themes emerging from the case and coding or design implications.
- A subjective assessment of the SBV partnership outcome.

6.4.5.1 Major themes/codes implications

a) Dominant operational orientation spawns missed strategic opportunity?

The relative size of the unit and its contribution to Beta’s growth goals makes this case a little different from most of the other cases. Its sheer size meant that a significant focus of the unit was on operational performance and the delivery of annual revenue and profit growth plans and budgets versus strategic exploration. The strategic exploration customarily and even originally intended for the unit was often put on hold as the competitive battles raged in the core business. It nevertheless illustrates the ongoing need of such SBV units to pivot with the ebbs and flows of the corporations’ strategic and operational pressures. The original intent of taking five to six minority equity stakes in promising regional craft beer brands was temporarily put on hold as the business channeled cash and capital to bolster flagging core business performance. The SBV unit therefore flexed between various modes of strategic venturing such as acquisition, internally developed new brand launches, and brand extensions from existing businesses within the SBV brand portfolio. Furthermore, and in lieu of the uncertainties and lengthy time horizons associated with minority investments, the SBV unit did instead succeed with making an acquisition of an entrepreneur brand enabling it to move more rapidly forward taking advantage of synergy opportunities and gaining earlier control of marketing and growth strategy levers.

As the researcher reviewed the data from the interviews, it seemed that the industry was likely to face consolidation in the future, that the large number of small craft brewers would at some point contract, or give rise to a smaller number of larger winners. This industry forecast seemed wholly commensurate with the original strategic mandate given to the SBV unit of picking the
most promising local craft brewers that may at some point become successful regional players and making investments in them or acquiring them.

"I think that there’s going to be a shakeout but probably not as big as some people think there’s going to be, I guess if I had to look five years from now I would say I think there’s going to be five or six regional slash national players... so I think it will shake out where there are four or five... I just don’t know how many – you have to believe that at some point the retailers are going to look at it and say ‘wow, this is a lot of space in my store and it’s high margin stuff but it’s got to turn’. It’s not like wine; it can’t sit there on your shelf forever. It goes bad you know. So I think there’s going to be some shakeout. A brewery opened every day last year you know. At some point you just have to look at that and say you know all of those guys won’t make it, there’s no way. Just the basic odds of small business success will tell you that two out of three or something is going to fail, right". [B2]

The researcher wondered whether the departure from the original strategy was premature and whether this would prove to be an opportunity lost as consolidation took hold and strong regional brands emerged. It further illustrates the pressure on SBV units to flex with the needs of the parent organization and how this may be exacerbated when the SBV unit is being relied upon as a significant volume and profit contributor. In other words, the risk is, the SBV unit becomes more like the parent organization instead of maintaining its expeditionary focus on new streams of growth. Finally, with even the largest craft beer competitor, Boston Beer Market, recently forming an SBV-like unit it seemed incumbent upon Beta to sharpen the strategic role and external orientation of its SBV unit to remain ahead of the curve.

"Interestingly enough, Boston Beer Company, Sam Adams, father of all Craft has its own [SBV] kind of thing called I want to say ‘Innovation and Alchemy’ – it’s not those – alchemy is in the name. I can find that out. That might be interesting for you to look at a little bit. So even within the small, the biggest of the smalls is already looking for ways to access innovation and disruption". [B2]

b) Internal rivalry issues

This is an interesting case because of the internal competition that was beginning to be evidenced between the core business and the SBV unit. This principally arose due to a lack of strategic alignment on the role and guardrails of the venture unit. The core business launched a new brand idea originally waived by the venture unit, adopting many of the emerging brand marketing principles originally pioneered and espoused by the same venture unit. Internal competition was allowed to unfold that led to sub-optimal resource utilization and questionable feelings between organizational members. Commenting on the internal competition, the chief executive of the venture unit mused:

"I think it really was the result of lack of strategic clarity in regards to what [the venture unit’s] role and purpose was..."[B1]

Another executive demurred on the confusion driven by launching multiple offerings that competed with each other:

"I think we can do a better job of defining what [the SBV unit] is and is not going to do in terms of creating and launching new brands. I think we’ve done this recently, but we hadn’t done it up front and I think it caused a lot of confusion and frankly multiple offerings in the same category. So I referenced [Clutch] and [Legion], so they both play at Trade-in, they both launched in the last year. We probably shouldn’t have done both. It doesn’t matter which one you would have chosen; we just shouldn’t have done both. But we didn’t have the guardrails set aside for how to prevent that from happening. And I don’t know that they are even there today. I think it’s better but I think it needs to be even tighter". [B4]
c) Oscillation in strategic role

The misalignments between certain key leaders about the true strategic purpose of the SBV unit seemed to be a periodic theme throughout the interviews. While several steps had been taken to sharpen the boundary lines between the role of the innovation group and the role of the SBV unit, it seemed to the researcher that this topic would not readily dissipate as resources were finite, the core business was under pressure, the abrasive style of the SBV leader, and the high financial expectations of entrepreneurial brands, would ensure that the debate continued for some time. The SBV head expressed his conviction that an SBV unit was the right thing for a large firm like Beta to have, but he equally conceded that with the priorities and pressures facing the core business it would be understandable should Beta disband the SBV strategy until a more opportune time.

"Now in my heart of hearts it's the first time ever that [Beta] actually has a future platform and these things always blow up because there's not enough patience and it's more in short-term cycles. And so you'll never change my point of view in regards to this is the absolute right strategy, but in the face of what we're dealing with now is your time to blow it up and to put a bullet in it. And you know we went around the room and to a man basically everybody said no, we're in, we're in, we're in. But I'm not sure how much everybody was in…"

"So I mean what's been built and what we have is absolutely the right thing if you assume that the Craft world is going to continue to evolve and thrive. We've got a platform now; we've got learning. We understand how to buy things and how to move them in. We still don't have the back room infrastructure but we will. So I mean everything is positioned perfectly because there will be a big regional consolidation in the Craft world. But it just boils down to everything else you have to deal with and I've never seen this model be successful inside of a big company. I mean it is totally against the odds every single day…"[B1]

An interesting angle on the value of an SBV unit surfaced during one interview was that of favourable external analyst perceptions of Beta Corporation emanating from activities of the SBV unit. Given the positive views held externally, Beta should certainly weigh this intangible strategic value in its deliberations about the continued role and viability of the SBV unit. To illustrate:

"I think the analysts and investor community has seen [the SBV unit] very positively and they see it as a specific response to a competitive need to grow at the high end. Were they head over heels about [Texas] or [Durban] specifically? They're not really big enough to be material at this point. I think that they think that - I think they thought [Durban] was a really good bet because it's the premium player in a rapidly growing space. [Texas] they probably look at and say probably some interesting experimentation; you can get there and can you bring some efficiency to that business that might create a model to do more of those kind of M&A projects. So investors I think - net positive and strongly positive I would say. I do think the Craft community as a whole and again it's kind of hard to define them as a whole, thinks about us fairly well and believes that what we're doing there is credible. I think most in the Craft community would think that. And we've gotten more positive comment than I expected at times from the beer aficionados…"[B2]

Table 6.8 matches how the case evidence corresponds with the conceptual model. While most of the elements were being enacted in Beta and in the Beta-Texas partnership there were a few areas where some qualifications must be made. For example, due to the way the deal was negotiated, the use of marketing models and commercial support was severely limited. Also, the life-cycle of the case was not yet advanced enough to evidence steps taken towards assimilation and graduation of an externally acquired brand, nor was the intrapreneurial dimension witnessed. The two areas that emerged from the case that merit separate coding is the impact and implication of trying to jointly pursue management of smaller brands with external SBV investments. The pressures of delivering short-term results pushed the SBV unit to veer away from advancing its SBV investments. However, being solely a SBV investor may be a luxury few units can afford to enjoy. SBV units may need to manage some scaled
businesses in order to be seen as a significant contributor to overall company performance, and justify a seat at the senior executive table.

Table 6.8 – Case #3: Implications for Codes and Model

<table>
<thead>
<tr>
<th>Codes</th>
<th>Fine-Grained Codes</th>
<th>Case 3 Beta/Texas</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Antecedents</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>B. Program Design</td>
<td>B1. Objectives</td>
<td>Yes</td>
</tr>
<tr>
<td>B2. Strat/Structure</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>B3. Governance</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>C. Opportunity Identification</td>
<td>C1. Exploration</td>
<td>Yes</td>
</tr>
<tr>
<td>C2. Ecosystem</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>C3. Courting</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>D. Brand Entrepreneur Partnerships</td>
<td>D1. Invest</td>
<td>Yes</td>
</tr>
<tr>
<td>D2. Marketing</td>
<td>Yes; not used</td>
<td></td>
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<tr>
<td>D3. Org Linkage</td>
<td>Yes; Partial</td>
<td></td>
</tr>
<tr>
<td>E. Venture Portfolio Management</td>
<td>E1. Monitor/Option</td>
<td>Yes</td>
</tr>
<tr>
<td>E2. Graduation</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>E3. Intrapreneural</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>F. Outcomes</td>
<td>Core business</td>
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The second area meriting attention as a code variable is the importance of the SBV unit leader. The human resource and leadership style dimension of the SBV conceptual model is under-represented and yet as evidenced in this case, can have a substantial impact on how the rest of the corporation supports the strategies of the SBV unit or not. Additionally, the experience and credibility of the leader with external entrepreneurs is also an important factor in attracting partnership interest and executing deals. This aspect should be reflected in the revised model.

6.4.5.2 Subjective assessment of outcomes

Several of the interviewees were asked at the end of interviews how they would rate the progress and contribution of the SBV unit thus far on a 10-point scale, with 10 being ‘unbelievable’, and a 1 being ‘disaster’. A divergent rating ensued, suggesting that while the unit should not be disbanded, it had plenty of scope for improvement, and in particular, its strategic role needed clarity and alignment across senior management levels. Typical scores and quotes were:

"I'd probably give it a six. A five, or a six. I don't think we should pack it up but I think we must have some more clarity; we need to do some more work. [B4]."

"I'm at a 3. So what I believe, I believe [the SBV unit], the brand name, should continue to exist but we've refigured our strategy to be about scale and I get it...[but] I don't understand what [the SBV unit] does". [B5]

"I think I'd give it a 7 or an 8 in terms of increasing our understanding of the Craft space in particular. I’d give it a little lower marks on the import piece to be honest with you. On the Craft I think we understand it better; I think we have a better selling story around Craft. And I think the results for our two leading Craft brands have been strong...So I'd give us high marks on the capabilities we’ve developed. I’d give us good solid marks on delivering volume and profit. But I think we are at a little bit of a strategic crossroads; I think we're on a different course than the one we originally set". [B2]

"But generally speaking I think people see [the SBV unit] as something differentiating for the company as a whole and a bold statement about where we want to take the company for the future". [B2]
With this as general context for the SBV unit, the researcher assessed the specific partnership between Beta and Texas as 'medium' value for the entrepreneur and 'low' value for the large firm (see Figure 6.14). The principle rationale being that the entrepreneurial venture would probably not have survived under its previous ownership and capital structure according to the interviewees. The fresh investment and association with Beta enabled Texas to re-finance, access some expertise, and leverage potential scale and scope benefits of Beta. However, the uncertainty and nascent nature of Beta's commitment to SBV meant that future strategic and financial value may be harder to accrue and hence the 'medium' rating. On the other hand, the investment for Beta has no pre-negotiated end-point that would allow it to ultimately acquire Texas and strengthen their brand portfolio thus impairing the value that may be created downstream.

“So we’re in the process of discussing with them can we retrofit a pathway to ownership onto this deal in a way that they’re comfortable. Probably unlikely. But otherwise it’s very difficult to unwind this thing”. [B5]

So, when coupling all this with the uncertainty surrounding making future SBV-like investments in other entrepreneurial craft brands, the credibility of Beta as a serious corporate venturing organization is expected to dissipate making this investment more like a one-time opportunistic tactic than a long-term, strategic cornerstone of Beta’s growth model. Therefore, the value attributable to Beta derived from the partnership is estimated to be ‘low’ at this juncture.

![Figure 6.14 – Subjective Rating of Case #3 SBV Partnership Outcome](image)

This concludes the analysis of the Beta-Texas case study. The next case study involves a pet food brand entrepreneur and a large CPG firm.
6.5 Case #4: Gamma and Entrepreneur Brand ‘Florida’

6.5.1 Introduction
Gamma Corporation operates as a U.S. pet care subsidiary within a large consumer products firm that is home to multiple well-known brands. Several incarnations of corporate venturing related activity could be traced in Gamma over a 15-year timeframe, such as a ‘Competitive Intelligence Group’, a ‘New Products & Business Development Group’ (NPBD), and a ‘New Ventures Group’ (NVG). Gamma’s venturing unit was established in 2001 and played an active role in Gamma’s overall growth strategy.

The NVG unit (hereinafter referred to as the SBV unit), operated primarily as a business development and innovation function. The unit had been active across several growth strategies including acquisition of entrepreneur-founded firms, internal brand incubation launches, and minority investment in external entrepreneur technologies and services. This case refers to one external investment in a pet resort venture, called Florida that took place during the SBV unit’s existence, but which failed to deliver on its stated promise.

The timing of the fieldwork was fortuitous in the sense that it was able to occur a few months prior to the departure (early retirement) of the executive responsible for advocating the investment, and the one that had also led the SBV unit [G3] over an extended period. Hence, the researcher was able to capture important context and learning pertinent to the case. In addition to substantial internal documentation shared by Gamma for the case, the other two executives interviewed included, Gamma’s chief financial officer (CFO), Fenton Richards, who had represented the investment on the board of Florida, as well as, Randy Wojo ([G1]), who was familiar with the investment and would replace the outgoing executive in a re-purposed venturing / business development unit. Consistent with the format of other case write-ups, the next section outlines the antecedents related to SBV inside Gamma.

6.5.2 Antecedents
The three core antecedents of SBV activity inside Gamma were: a growing impact of entrepreneurship (both brand owners and independent retailers) on the industry, a renewed focus on driving sustainable top-line growth and innovation, and an enterprising chief executive officer who saw the need for external innovation (see Figure 6.15).
Figure 6.15 – Antecedents of SBV in Gamma Corporation

- Growing Entrepreneurial Impact (a)
- Focus on Sustainable Growth & Innovation (b)
- Enterpriseing Top Management (c)
- Formation of SBV Unit

a) Growing entrepreneurial impact – brand owners and retailers

One of the factors that had changed significantly over the last decade according to interviewees was the advent and success of entrepreneurial brands in the pet food industry.

“If we define our industry as dog food and cat food and treats. So it could be bigger. But the role of the entrepreneur is huge in this regard because there is a channel we call the ‘pet special channel’, which is tailor-made for the entrepreneur. So the entrepreneur has changed the face of our industry in the last 20 years probably as much as any major consumer goods industry ever. I mean I think about the world you live in just for comparison and it’s fascinating to think as you consider all the small beverages and way that the sodas has evolved into all types of different beverages, we too have faced tremendous new product competitive growth in the pet specialty channel from independent entrepreneurs”. [G3]

Closely related to the growth of entrepreneurial product activity was the emergent role of certain influential trade channels, such as Independent Buying Accounts (IBA)14 in helping entrepreneurial brands to flourish. This notion is similar to the role played by the natural food channel (e.g. Whole Foods Market) in helping entrepreneurial food and beverage brands to incubate and is referred to in some of the other cases. One interviewee illustrated this development well:

“There is a lot of entrepreneurial activity. Barriers to entry within pet approach zero. You and I could within the next six months launch a pet food. There are a couple of reasons for that. One, there is a very robust and healthy co-manufacturing capability well defined, high quality and coupled with that are a lot of very high quality distribution channels. So there are a lot of really good pet distributors. But what really makes it fly is pet is one of the few places in retail in the U.S. where Mom and Pop stores still flourish. What we define as pet specialties, so that’s Petco, PetSmart and all the Mom and Pops, that’s 30 to 40% of sales. And of that what we would refer to as the IBAs or the Mom and Pops independent buying accounts are probably a third of that. So it’s meaningful…

The death of the IBA has been predicted ever since Petco, PetSmart really launched and it hasn’t happened. And there’s a couple of reasons for that. The biggest is the entrepreneurial activity you’re referring to. So there are 20, 30 brands that are sold exclusively in that channel. So many of them are not even sold at Petco, PetSmart; they are sold exclusively in this IBA channel. So it is a distributor driven model, almost all of these brands are co-manufactured and what they do is they provide a higher margin to the retailer than you would typically see in our business. They provide a very nice return to the distributor. Most of them start – regional – and as they gain some momentum the distributors start pushing them and they gain additional distribution. Most of these are – a 50 million dollar brand in this arena is really large. Most of them are single-digit to low double-digit kind of brands.

And then some of them have made for example – some of the larger players in this space have made the jump into a Petco, PetSmart, so that would be a Wellness. And then there are a couple – because these tend to be high end price points that facilitates the business model I just described. It also feeds the whole thing here – what makes this whole thing go is you walk into an independent pet shop, you’re an engaged owner,

14 Small independent pet store operators
you care about your pet. Here I am, I’m as engaged as you are. I gave up everything – I used to work for [large firm brand] and all I do is sell pet food. So I know what I’m talking about. And let me tell you, this pet food over here, you can’t get it at Wal-Mart; you can’t even get it at PetSmart. It’s a great story. Look, here’s the owner on the back of the bag telling you the story about how his dog got sick and he had developed this formula that he eventually is sharing with the world. You know so it’s a very story driven kind of thing. It’s a very premium price point and as such it’s a bit of a breeding ground for these brands to then make the jump into a Petco, PetSmart. Frankly many times when they make that jump they lose volume through the IBAs because they’re no longer recommending it…If you were buying that brand they won’t tell you not to buy it anymore, but if you’re new walking in they’re going to steer you to the new brand”. [G1]

b) Focus on sustainable growth and innovation
An internal factor leading to the formation of SBV was the realization that internal innovation endeavours had been disappointing in terms of contribution to growth. Senior management set about changing that through a greater focus on internal and external innovation activities that would drive sustainable growth.

“One is, and primarily, it was this notion of growth. When we looked at our portfolio and we looked at the level of growth that we were achieving year in and year out and took that portfolio and we said at what percent of that portfolio is being generated by new things, we were disappointed and concerned. In other words, to put a number on it, before we were acquired we started this exercise and you know we were at a 4 or 5 billion dollar company barely, and less than 10% of our revenue was coming from new products. We hadn’t had a new product, a large new product introduction since [Chewy] and that was generating it. But the pipeline, was very, very thin. So what we set out to was to build over the course of two or three years as part of the business development group and set into place a course of action and some organizational components that would allow us to have the hope that we would touch in excess of 25%. So flash forward now to last year and we are now sitting at an 8 billion dollar revs and in excess of 20% of those revenues projected in 2013 are absolutely considered products that have been touched by renovation innovation. So we’ve gone from well north, well south of 10%, it was closer to 5% over the last 5, 6 years, the last decade, to tripling that as a result of this. So it was a desire for sustainable growth”. [G3]

c) Enterprising top management
Another catalyst that led to involvement in venturing was the enterprising nature of the President of Gamma, called Brian Thomas. This top manager understood the critical contribution of the core business but felt there was a ceiling to its growth, that entrepreneurs were emerging with disruptive ideas (e.g. pet specialties), and that new businesses were needed whether created internally, or discovered externally. It was during this individual’s tenure that the SBV unit was established.

“a president and chief executive named [Brian Thomas], who I reported to for those many years was insightful enough to know that his branded marketing teams could get him so far but then he needed to have people looking outside that small world which we call brands. Just tell me about the tsunamis coming or tell me about opportunities before they hit. You know we got hit by a specially surprise. We were convinced we never wanted to do that again. So to answer your question business development in quotes, that is a group of us that were not branded, were not financed, were a compilation of technical and professional skills — a small group of us that led that initiative with Marketing to develop this new products team and now the business development team, and now an M&A team, and now our venture teams”. [G3]

6.5.3 Program Design
In this section the objective and strategic role of the SBV unit is described followed by its strategies, location, structure, and governance factors.

a) Objective and strategic role of SBV unit
The objectives of the unit could be categorized into: 1) understanding emerging trends and brands in pet food plus potential technologies that may be disruptive to the industry; 2) exploring non-food pet care service opportunities. One executive expressed it in this way:

“I think it’s two-fold. Within the food realm, I think it is having insight and perspective, understanding, of emerging trends. So we’re seeing refrigerated pet food which is something that has 12-16 feet in-aisle in Australia. There’s nothing like that here in the U.S. So there’s a company, Fresh Pet, that’s been out there for between 5-8 years. They have gotten some penetration. Is that really going to tip into a mainstream thing or
not? Is it just purely a niche? We don't know. So doing this sort of venturing may be a way to get insight into what's going on there. Freeze-dried is very large in the industry right now. Dehydrated—theese are trends that are different forms carrying with them benefits and hurdles relative to the historic extruded Kibble. Because that's one of the really interesting things when we talked about all those other little brands. If I poured a bowl of 30 of those and put it on the table and poured dog chow and most of our brands and brought you in to look at them and then brought some of our experts and some of the other brand—other companies—most people couldn't tell you what was what without a sign. I mean they all look as small brown pellet looking things and the shades of brown vary slightly and the shapes vary slightly and the size varies slightly. But ultimately it's the story on bag and the story you're being told by a person that are driving people on one way or the other. So some of these technologies create differentiation. So is one of these a disruptive kind of innovation? We're not seeing it yet but the more insight we have into that the better off we're going to be.

If we look at non-food opportunities that's an area that I think is very intriguing for this company in that a) I think it increases our ability to influence consumers. I think it allows us the opportunity, if done properly, to better deliver on our core mission as a company which is a better life for pets and people and really helping push your pet our passion kind of idea which is one of our tag lines. So I think it offers opportunity there. It also creates a different revenue stream and profit stream for the company. A lot of our formulations and brands and businesses, we use a lot of corn and a lot of soy. So we are tied fairly tightly to some of those commodity movements and the drought of last year was not a lot of fun. So to be clear, we're never going to be—we're always going to be a food company that does other stuff. We're never going to be an 'other stuff company' that does food. I think we all understand and get that, but if you could create a meaningful business or collection of businesses that creates a balanced kind of portfolio”.

b) Strategies of the SBV unit

The SBV unit was primarily focused on disruptive technologies and brands, and non-food adjacencies such as insurance, veterinary services, and resorts through strategies such as: alliances, licensing, direct minority investments, and small-scale acquisition. Relationships with VC firms were also established to enhance deal flow access and participate in investments. Interestingly, the corporate parent had a substantial corporate venturing group focused on technology and brands, but no interaction or utilization of this corporate group was practiced by Gamma’s U.S. subsidiary nor was interaction encouraged by the corporate parent which must have contributed to a sub-optimal outcome overall for the corporation. This is illustrated somewhat in the following insightful comment:

“They did not want any input. And if I could do it again, I would have gone up the line, over and down, and made sure that we were collaborating. We had no visibility into their portfolio. I was on their committees but had very little to do with it. And here’s the irony. They got into it because they loved what a few of us had done with [VC firm A] and [VC firm B] here in the United States. Isn’t that the irony? Anytime that you give a bureaucrat money and a process he doesn’t need any help from guys like me. I look at that and I just see opportunity lost. I can’t tell you what we could have done with one-tenth of that amount of money. I think it will go down in history as probably one of the largest, most ridiculously poorly used and utilized corporate venture funds in the history of corporate ventures”. [G3]

At a minimum, an opportunity certainly seems to have been lost to channel or expedite Gamma’s U.S. investment ideas through this already approved and active corporate venture capital fund. When the researcher probed whether this idea had been explored, the answer was:

“Unfortunately [Gamma] has not—and I’ll take credit for this too as I reflect on it. We did not, and they did not make it easy to hook on to that wagon…They hired an external managing partner. He didn’t want to deal with any of the operating units, including ours, that’s not unique”. [G3]

When the CFO was questioned on the same point and whether this was a vehicle they could invest through, there did seem to be an agreement that this was an unleveraged opportunity and one that could potentially be explored in the future. However, having said that, it seemed that given the extended period over which nothing had been done about collaborating around this, it left the researcher in some doubt as to whether any new lines of action would really be taken.
“Yeah. But that’s actually the vehicle that we may invest through. It allows us to do something that – well, because it’s kind of sanctioned from our parent company. So it’s easier than asking for another whole thing that they’re not going to have their thumb on. It’s better for me to convince them, that they should invest; promise that I’ll pay attention to it and everything will be okay, as opposed to why don’t you just give me 10 million bucks…Or even if I was willing to fund it on my own, they probably would like it better if I convinced them to do it”. [G2]

The new head of the re-purposed ‘venturing’ or business development group also had this opportunity in their sight, but again it seemed to the researcher that there were issues of organizational culture and politics, or perhaps even tax reasons, not discoverable in the fieldwork that made the interaction between local operating subsidiaries and the global corporate venture capital unit more complicated and inaccessible than would logically be the case. The new head commented as follows:

“[Globo Fund] is something that exists but is not well known in [Gamma]. [Hans] does his thing down in [Country X]. It’s a very large fund but it is not a very active fund. So it is not something that at least to the best of my knowledge there’s tons of opportunity for. Now on my check list to do in the next several months is I want to get over to [HQ] and better understand [Globo Fund]…And as part of that pitch kind of what our vision is for some of the things we’re trying to do and so that’s why I haven’t done it yet is I want to get our story pulled together and aligned here so that when we go forward we can say and here’s what we’re thinking about doing. How can we all work together?” [G1]

When asked if this could be a vehicle through which Gamma U.S. could make investments, he replied:

Absolutely. And [Hans] may say you know what, I’ve been dying for somebody to go invest some of this money for me. So we can do that”. [G1]

c) Location and structure of the SBV unit

It is worth noting from Section 6.5.2c, that at the time of the case, the venturing leader [G3] reported directly to the CEO and President (see Section 6.5.2c) albeit with dual reporting lines to other key functions, such as marketing and finance. This would have signaled the importance of new business development and venturing to the broader organization, but also enabled more rapid decision-making and sponsorship for deals and new business models. We will observe later in the case commentary, that once the President was retired and replaced, the SBV unit was de-emphasized with the reporting lines and mandate changed accordingly.

“Certainly when we started we had a dotted line into the marketing people. X was one of them but we had several at the time. But the primary hard line reporting relationship was not into finance although that was a dotted line as well. It was into the president of the company. And I’m not sure there was a whole lot of thought to that other than we didn’t want finance dictating what we were going to do for a living and what strategic elements would be critical. We didn’t want marketing because that was who is watching the hen house. So it made sense. And we had a CEO15 who had a bit of a passion for this and was easily talked into just having our small little team report directly to him”. [G3]

d) Governance factors

During the timing of the Gamma-Florida case, the primary governance mechanism was direct access and authority of the president’s office with input from the CFO and CMO. This helped to expedite decision making as noted already. Once the new president was installed, the unit’s reporting line was shifted from the president to the CFO’s office although with input still coming.

15 This reference to the ‘CEO’ [pseudonym Brian Thomas] may be misleading for readers as the individual was both President and CEO until Gamma was acquired. Thereafter, the individual remained as President but a new CEO was appointed. Pertinent to the narrative is that Brian Thomas retired at a certain point and was replaced by a Shane Jordan. This proved to be a defining moment for the SBV.
from the president when needed. The CMO would also be involved since the new focus of the unit was helping to identify opportunities for the marketing and innovation teams. From the content of the response below however, it seemed that these matters were still being decided upon.

“...I think that would largely – it certainly would come from the president and CFO. I think the chief marketing officer would likely be part of that. And whether or not from a true governance standpoint those are probably the key stakeholders…” [G1]

When asked if the corporate HQ would now be involved in the re-purposed unit, the new unit head responded with a certain reticence albeit uncertainty as to whether this would be imposed:

“Don’t know. My gut would be if ideally we would try and structure this in a way that is self-contained. Whether or not that’s palatable to corporate I don’t know. I think our intent would be for the speed and all that sort of stuff. I think as something developed if it got to the stage where we were actually willing to say okay we’ve been watching this one for five years; we’re going to buy it, that’s when corporate would get involved. And I think there would likely be a reporting of some sort just as part of a broader here’s what’s going on in the venturing portfolio. But I would see it more as a reporting functionality as opposed to a day-to-day. My concern is they are just so far removed as to make it difficult to make that function well. They may or may not see it that way”.

6.5.4 Opportunity Identification
Three elements of opportunity identification will be enumerated upon: strategic exploration activities of the SBV unit, participation in the ecosystem, and picking and courting brands.

a) Strategic exploration
The primary source of external exploration and deals occurred through attending conferences, being the marketplace, conducting desk research, and through their limited partnership in a VC fund. One executive explained it as follows:

“So there certainly are a couple of conferences, Global PET and Super Zoo, where at least for the U.S. based folks, there are a couple of very solid conferences to work from. Pet because of its quote ‘recession resistance’, it wasn’t fully resistant, but certainly weathered the recent economic downturn better than many categories. It continues to grow, it’s got a nice margin pool, it’s large, there are no barriers to entry, there are lots of VC’s poking around.

So there are quite a number of venture capitalists who absolutely are open to the idea of pet and so I think that network would be one that would be necessary. And we certainly, as I mentioned, we’re an LP in a fund – that may be something we would be willing to do other places, probably not, but it might be an opportunity for us to go in with a VC as a lead perhaps where we’re a minority. But I think the VC arena is one that absolutely would be necessary just because of the volume of activity there. Internally we spend a lot of time evaluating opportunities, doing competitive work, so clearly there’s internal effort, particularly within that innovation team that would help drive some of our level of interest as the sales guys see something new on the shelf they’re going to radio that back in and so that may kick off an exercise. I think those would be the three primary buckets that would drive deal identification or opportunity identification and then evaluating those...”[G1]

b) Ecosystem participation
This topic did not emerge explicitly in the fieldwork although it would seem a logical inference that the SBV unit participated in some form within the ecosystem through its VC fund involvements and general relationships with entrepreneurs. No further insights could be described under this topic.

c) Picking and courting brands
The selection of the entrepreneur brand was a mixture of strategic motive coupled with serendipity, as aptly described by the former SBV leader:

“So in the late 90s after we identified the need for a business development type of activity we started to look at adjacencies and we created a series of strategies and opportunities that said here if you will was horizon
one, two and three of opportunities that were close to the core, further the core and so on and so forth. And then set about to put numbers against those opportunities. So we knew – when we look at the pet care industry, we knew where dollars were being spent. We had done analysis on where profit pools were and there were a couple of barriers that caught our eye. One of those barriers was in the boarding and grooming and kenneling operations. We knew that it was a highly fragmented operation at the time. We knew that – we weren’t sure how much profit was there but we knew from work that we had done in 1999 as we started to roll forward with this adjacency work that there was the potential for hundreds of millions of dollars and the opportunity to franchise or build or own these operations. We actually engaged McKinsey to just do a quick study for us to confirm what we were seeing. That was completed in the end of 1999. On a vacation, and they told us about some east coast operations that we weren’t enamored with, so we let it drop. On a vacation driving to Denver to ski with my family I stopped in [X City] and as we were driving along the freeways of all things I saw a [Florida] resort. I pulled off the freeway, went in and introduced myself. Two months later I was meeting with the owner, [Laurie Hoatson]. And that’s how we got started. So it was an informed bit of – and now [Fenton] would say, thank you [Brendan] for ruining my first few years here by putting me on the board. But that’s how that started. It was strategic and yet there was a bit of luck in there as well”. [G3]

What was interesting to learn was that the courting relationship was maintained without any investment commitment or agreement for nearly five years. During this time Gamma was acquired by a larger corporation, yet the links were kept despite significant internal change within Gamma. The entrepreneur remained interested in a relationship with Gamma despite the prolonged courting, because of a perceived common interest in strategically partnering with veterinarians (a cornerstone of Florida’s business model). When questioned as to why the brand entrepreneur held a prolonged interest in a potential relationship with Gamma, one interviewee described it this way:

“Well, so I happened to touch base with [Laurie Hoatson], and just two seconds on [Laurie]. [Laurie] was and is a very wealthy and successful entrepreneur within animal health having started several companies in the animal health area and now running and having just sold [Boca Research], the largest private label manufacture. He has been dedicated to the veterinarian industry for 50 years. He viewed this opportunity as a way to put a job in place for his two daughters, but also as a way to give back to the veterinary community. And where I’m going with that is because he was so committed to the vet, so were we, right. For us it was a way not only to participate in a rapidly growing, potentially profitable kennel business, but to connect the veterinarian to that growth in a way that was just mind boggling – that was really speaking to us. So the reason he was interested – he was either going to have to get funding from banks to go to the veterinarians but to have an industry player behind him to say to veterinarians look this idea has water. We’re in two, opening a third. I met [Laurie] when he had just opened the [X] operation, the second operation in [Y City] and was looking to open up one more in [Z] just to get a feel for that because he sought summer vacation there or winter. And when we came along and he met us, he liked us. He’s a very personable guy; he won’t do a deal unless he likes you and the rest is history. We’re a nice strategic partner and when we had the money he was interested to take it.” [G3]

The opportunity re-emerged for a deal once the acquisition of Gamma had settled, the new CEO had been installed, and the venture unit had started to gather momentum with adjacent business opportunities. The story unfolds in this way:

“We had gone back and forth and I wrote a note to [Laurie] in June of 2001 indicating that we would not invest in his organization. We were concerned about employee count; we were concerned about dog and cat liabilities, lots of unknowns. The company was very skittish and so I had unfortunately to write a note and said, hey because of the pending acquisition it just wasn’t going to work now. Now flash forward to 2001 to another research study that we completed to 2005 when our group was really hitting its stride in terms of adjacencies and we convinced the big co that it might be worth looking at. It was a new day, we were comfortable with one another and believe it or not I had kept that relationship with [Laurie] going all this time, called him up and said are you still interested and by now he had opened up 9 accounts. By now we had some really solid data and it made some of our concerns back in 2001 less fearful. So armed with this new data and during that time [Laurie] had said – had started to realize you know it’s going to take about $400,000 working capital plus a little over a million dollars of land and building expense to get these rascals going and I want to get going. And he had looked at uniform franchising offers circular and so he put those two fold together and he was in that process when we came back to try to find ways to expand. And then we went forward with the deal with [Fenton] and I think [Art] joined on maybe late right before that deal was inked I think, maybe it was after it was inked actually and we did the stock purchase agreement. Now what we requested and that’s a little bit of history on how we got there. But like all deals, and you probably found this too, you know you just don’t call the guys up and say hey I want to take 25% of your business – are you in for that? And this is a classic example of a relationship that had then started and worked over the space of about 4½ years”. [G3]
6.5.5 Relationship with Entrepreneur Brand ‘Florida’

Three elements pertinent to the relationship will be covered in this section using the framework of the conceptual model: structuring and making the investment, brand marketing across life-stages, and inter- and intra-organizational linkages.

a) Structuring and making the investment (deal)

The investment objective for Gamma can be summarized as generating meaningful commercial and imagery value for Gamma by partnering with a premier provider of boarding and day care, Florida Resorts, Inc. The key deliverables were considered to include a strengthening of relationships with veterinarians by becoming a co-investor and business partner; expanding of Gamma’s business through increased sales to participating veterinarians; and increased market share and presence of Gamma brands with key consumer segments. To accomplish these objectives, Gamma would initially invest $3.5 million in a series of three installments with options to increase ownership of Florida to 24% equity. An estimated return on investment of 57% was considered to accrue from this SBV investment and Gamma intended over time to be able to fully acquire Florida and not remain a partial owner. Some elements of the deal and its rationale as a strategic exploration opportunity was explained as:

“We don’t like to be part owners of anything. So we viewed this investment as just that, as an opportunity to pilot this idea, commit 3 ½ million dollars but only pay a million and something, six million or eight million, I can’t remember which one first. I think we actually forked out a million eight and have you got the terms in front of you? Yep – $1.85. We plunked that originally and then we had some options to purchase another 1.6. That’s how it went. And so for a very small amount of money we got firsthand knowledge of a rather large chain that had a model that we were intrigued by and, to answer your question, had this worked, had the margins worked, had the veterinarians signed up, we would have bought the whole business. That was never our intent to be a minority shareholder in this business long-term. That’s not the way we work. But it was a phenomenally effective and low cost – we weren’t distracting the organization. I didn’t have to hire 12 FTEs like I did with the [XYZ] business. This was a business for a couple million bucks we could watch, we could be in on the board, we could learn a lot and determine whether or not this was going to be an effective investment long term”. [G3]

When asked whether an option to purchase 100% of Florida at a later stage had been pre-negotiated, the interviewee replied:

“As you can see from the doc, the most that we negotiated was the right to take up to 25% so we had an option – that was enough. There was no doubt though for you in your thought that between [Laurie] and I, [Laurie] absolutely knew that if this worked, [Brendan Trent] and [Gamma] was going to be swooping down”. [G3]

As with any external investment, a business rationale needs to be prepared and sold within the corporation. Based on internal documents provided by Gamma, the business case prepared by the SBV unit appeared sound from both a financial and a marketing standpoint. A few extracts pertinent to the financial business case are inserted below (Figure 6.16) showing a strong projected internal rate of return (IRR) of 57%. Furthermore it was argued, the way the option had been structured would enable Gamma to purchase a stake in an entity with an enterprise value of $118 million for the price of a $28 million company (see Figure 6.17).
In terms of marketing, the business rationale also seemed to be reasonably attractive for Gamma to invest based upon Gamma’s consumer insights. For instance:

"Now what’s interesting about that question is that we’re a research company, not unlike yourselves. And when we did research on this…I know that we did in 2002 we did some consumer research around [Florida]. Anyway, what we learned was [Florida] was attracting indexing almost 100 to 200% on our target audience. So we knew and we talked to experts and providers and nutritionists, these segments of the pet owning households that we are really interested in, [Florida] was over-indexing. That was the good news. The bad news is those same consumers could care less. They were nearly ambivalent as to whether there was a [Gamma logo] on [Florida] pet resorts, or whether there wasn’t. So that was a bit of a concern. So it wasn’t an obvious lay up that we would brand this thing every which way [with Gamma]." [G3]

In terms of potential concerns from the entrepreneur’s standpoint, the major areas were a fear of undue influence and any negative impact from an association with a large firm such as Gamma.

"I think they were worried about how much oversight we would provide. I think they were worried about the fact, even though we only had a board seat, I think they were worried that we would dictate how and what they did. I think they were worried about the checkerboard alienating people who didn’t serve [Gamma]. Their products sold in that kennel skewed highly to [a competitor brand]. I think – well after they got to know us I don’t think they were worried about our management style quite honestly. But I think they were mostly
excited. I think after they got to know us they were worried that we weren’t going to do anything to help them and in fact we didn’t really. [G3]

This brings us to a discussion of the support offered by Gamma to Florida in areas such as marketing and other business functions.

b) Brand marketing across life-stages

While no formal emerging brand model existed to guide the SBV team in their management of the brand venture, certain elements germane to such a model were deployed in an endeavour to help accelerate the growth of Florida.

“And so what we did is for each of their stores we provided new store opening funds, we provided direct mail campaigns, we provided huge discounts on pet food if they had it. We redesigned their logo, we put together some advertising, we redid their brochures. We did everything in our power to try to make them look as professional and yet not lose their image. So yeah, I can just tell you we spent a lot of money outside of the deal structure trying to get that little business going out of sort of our discretionary budgets we call PFMA”. [G3]

Unlike other cases studied, this entrepreneur was not iconoclastic or marketing driven per se and welcomed the contribution from Gamma in this topic.

“Oh I think they absolutely embraced it. They were thrilled to have it. Now a few times they would say, now this is still our company and we want this silly dog and cat. We tried to talk them into a different type of logo treatment. They would have none of it. Things like that but we tried to make it work and we put our best and brightest marketing and agency folks on the business. I assigned one of the best marketers that I’ve ever worked with to shadow them and to be a part of that organization”. [G3]

c) Organizational linkages

As in most successful SBV partnerships, the incumbent large firm typically builds strong inter-organizational support linkages across a variety of support functions. When this aspect was probed with interviewees, the following answer was provided:

“What we did early on - quite honestly marketing wasn’t the problem. What we got better at – what we probably gave them most, and I guess it partly was me and [Brendan] and [Randy] for a short period of time was really a thought process because we were the ones that said look, just build them to suit every one of these and we just don’t know anything about site selection or we don’t have the data. So we went out and surfed and found a couple of people, some partners on site selection and actually the last 3 or 4 of these were in a lot better place than the first 3 that we inherited when we got there. So, we did give them expertise and that was certainly something that was seen on both sides as a way of non cash currency that we could ultimately over time get into the pricing”. [G2]

When asked whether Gamma found it easy to leverage their existing competencies and experiences in helping to grow Florida, it emerged that the skill match and knowledge base were not very compatible in reality.

“I’ll tell you, it also showed thought that because of the nature of the business that it was highly capital intensive but it was low cost labor that was almost like a hotel. We knew less about it. You know we were able to give less than that than if we were to have bought a WEB MD for pets, right. We’ve got all these scientists, we’ve got all this, we’ve got things that we could have given so from the standpoint of why am I looking at different things going forward is because you know we helped them with some marketing materials and some other stuff in store and other stuff but there wasn’t that match…” [G2]

6.5.6 Venture Portfolio Management

a) Monitoring and investment decision-making

Gamma’s investment in Florida was monitored through their CFO having a board seat. As matters progressed it became apparent that the hurdle rates for pre-agreed pictures of success were not being met. For example, a key indicator was the number of pet resorts that would be
operational within a specified time period. They had agreed a target of nine resorts but missed the deadline. An extension period was proposed by Florida, but Gamma decided to exit as the economics of the business were less attractive than expected and some of the key business model assumptions were not holding up. The CFO specifically highlighted three key factors that led to their decision to exit. First of all, the capital needs of the business were greater than expected and although they tried to reduce the capital burden through lease arrangements it still didn’t change the fundamental economics:

“So I started nosing around and what are we going to do about the capital. We thought about leasing buildings, getting financing and this was 2006, 7, 8, 9. [Interviewer: ‘Not a good time’]. It got worse every day, right. So we got 3 or 4 of them leased out through some corporate, but it was just a change in the structure of the financing. It really wasn’t an arbitrageable, leverageable thing. It was just that it became more pay as you go and shift a little bit of risk to the back end on the risk of nonperformance.” [G2]

Second, the reluctance of the new generation of vets to co-invest in the venture became apparent yet their participation was a key assumption of the whole venture model.

“And then we discovered that – it soon became clear to me that it was a fundamental problem that most of the vets graduating from school were women and really wanted to almost like a medical practice where they didn’t want to be their own independent doc right; they wanted to join a clinic and work one weekend a month, 9 to 6 or whatever. And so they really weren’t interested in becoming partners in this. And so yeah, the economics got tougher but also it just wasn’t the right field of usage”. [G2]

Third, a major retail customer of Gamma’s moved into the pet resort sector raising concerns of suddenly becoming a competitor to an important core customer over an adjacent and yet unproven business venture. The researcher discovered that Gamma had previously experienced something similar in another area of business where the retailer had expressed anger at Gamma’s encroachment into their core business. When this reared its head again, senior management were understandably concerned about repeating the same pattern.

“So we were getting struck by the first two ideas we had weren’t really great, and then PetSmart decided and you know that’s our second largest customer…PetSmart did not call us because we were never successful enough but it was no doubt that it would have come at one of the meetings”.

“I think it’s interesting about how obvious our structural problem was, was that the reason they wanted to get into it initially is a) service, training and grooming and it was a big business that didn’t take up a lot of space. This was going to take up space but they had 165 stores that they could try this in where they had gotten out of saddles, blankets, horse feed, bridals…So that nonproductive space they could use immediately…It was a perfect amount – so it truly was free. And it worked and at scale and geographically testable and all the things you want…So that was kind of like strike three…” [G2]

The decision to exit was communicated at a board meeting and described as:

“And so we hit another tranche where they needed to get 9 billion in sales and so they got 5 or 6 and we needed to get 9 and they missed it by about 6 or 8 months. And so I said at the board meeting – they were saying do you want a delay and I said no I’m not going to delay. Look guys let’s be clear, this is not working. So the last thing in the world I’m going to do is give you another million and-a-half dollars, right. You missed the deadline, the deadline is up. If we were close, yeah, we could talk about it. But look I’m not going to do this, you’ve got no more money, let’s think about it a different way. And so that was really kind of the beginning of the end because they actually thought that ultimately I’d buy this thing and for him and the rest of the directors and the shareholders…

But ultimately it ended up in – you know we filed for bankruptcy about a year ago. As I told [Randy], once we filed for bankruptcy I kind of forgot about it. I was an investor, and once in a while I would get an order from the courts you know – procedure – but I wrote it off, it’s gone. So you know for us it’s been good. I don’t think about it as negative – 5 million bucks – we’ve learned a lot about a lot of things”. [G2]
b) Assimilation and graduation
The investment in the Florida brand never reached the stage where these matters were even contemplated inside Gamma and hence no further commentary is provided.

c) Intrapreneurship
Although the SBV unit had previously been involved in supporting several internal innovation projects and contributed to a generally more entrepreneurial set of activities (see Section 6.5.7.1), the failure of the Florida investment curtailed any new intrapreneural projects from being spawned. Ultimately the SBV unit was repositioned and the responsible executive removed and then retired.

6.5.7 Within Case Summary
In this section, two topics will be covered:
- The major themes from the case and coding implications for the model.
- A subjective assessment of the SBV partnership outcome.

6.5.7.1 Major themes/codes and implications
a) Lessons from the 'rise and fall' of Venturing
Given this was the only failed venture among the seven cases analyzed, it was deemed appropriate to take advantage of any SBV lessons learned from an interview with the founding, and soon to be retiring SBV leader of Gamma. A few exploratory questions were asked.

Impact of failure
When asked if the failed investment in Florida precipitated a re-think of venturing inside Gamma, the interviewee described it as having had a ‘chilling effect’ and one that ultimately led to a shift away from making minority equity investments. Here is the verbatim response:

"Well that's a really good question. Six months ago I would have answered that question this way. That actually did nothing more than to reinforce why we did this which was we spent a couple million bucks, we watched a company and now we had an X in a very important potential growth area. In other words we're not going there. I think [Fenton] would say to you – I mean it's still a big market, it's still growing. It has started to grow again. But I think from our experience here we can safely say that this is an area not to go. And I think when you think about growth and business development and activities like ours, there is huge benefit in taking a big organization and not trailing a whole honking organization down a path of rat holes. Here's my analogy I use all the time. When the pioneers were heading west, you know think Lewis & Clark but it's more than Lewis & Clark but think Lewis & Clark. They had guys out riding horseback and doing long day trips and week trips. They would come back to the main party and say we found a way to go this way, which avoids cliffs, rivers and rough terrain. Now we've been all over that but we found a route.

I think when I think of business development, business development executives can't be afraid of finding the cliffs, of finding the danger zones, of spending some money and some maybe some personal expense, right. We're going to lose some guys out there. It was about 3 ½ years. We're going to lose some guys. But what the company gains is a clear path to what might be potential growth opportunities. This is such an example. It did not hurt us. We just recalibrated and we said we're going to go after services, we're going to go after licensing, we're going to continue to pursue X, Y and Z activities and we did. In fact for a small group and not a lot of money it's actually a good thing. There were too many opportunities we could pursue and this answered that one. That was the intro we gave six months ago.

The answer I would give today is I think now in hindsight it did have a chilling effect and it moved the organization as I look at it from my catbird seat to I'm not really interested in small investments. That's not what we do, it takes a lot of energy from the lawyer, it takes a lot of energy from [Corporate HQ]. As I started this conversation we are not an external driven company. Since that time we have made three investments in startups and other things; they've been hard pressed to be successful, the company doesn't get behind them. You know we are a company who likes to make dog food in our plants, cat food and treats. And anything else is a very difficult sell. And guys like me take hits for that. So in addition to knowing where we're not going to
investments, what would you have done differently? Would you have changed anything, or would you have run the play exactly the same? This elicited the following insights:

"That's a real tough one because let me just say maybe it's the inherent optimist and it's the corporate entrepreneur that's in all of us, but I don't regret anything that we did because everything that we did -- everything that we did was, a) vetted as much as you can vet it by a consumer goods company with consumers; b) it was talked about all the way up the line -- you know we didn't do anything clandestine. Well, [Randy] and I have done a few things clandestine but that's on the side! Ninety percent of what we did was shared at least with the CFO and the president. In other words we had the senior backing. And third, every one of those things had a rationale and a strategic reason for being and did not drain the resources. To put this in perspective in my 16 years of investing I think the total, including [ABV], which was my first foray into 'oopsies' land of collaboration, less than 15 million dollars over a 16 year period. I mean I'm telling you that's all in. And what we learned and what we were able to touch and what we brought to the table far exceeds that. In fact I was saying to [Randy Wojc] the other day, I said [Randy], do you realize that over the last 16 years the work that this little group has touched with new products and outside venturing and R&D alliances and acquisitions contributes now 15% of our total income -- 15% would not be here. I know that seems odd. But no, I mean so do I have regrets? Heck no. I mean most of the trees we planted are growing.

I will be the first guy to tell you I'm batting a little less than 500 right now, but not much. Now that sounds like a cocky corporate entrepreneur who gets asked the question what would you change -- nothing, I think that if I put on reality glasses and looked seriously in the mirror I would say that there were times when I personally pushed projects along in my spirit of persistence that I wish I would have rallied a few more troops. I mean most of the projects that have 'failed' have failed because I could not find a way even with senior management support and I'm talking two or three guys at the top, but that doesn't count. What I learned was it doesn't count because without marketing and without sales support you're not going to be successful.

Without a large engine really getting behind you, despite having dollars and a CEO that says yeah go man, go, it doesn't work. And whether that's a product that puts flea food into a dog food, which was a phenomenal idea we had FDA approval to do it, but I ran into a plant guy and I couldn't overcome that. And whether it was to do a pet insurance product, I ran into some people who thought insurance was the stupidest thing and instead of trying to create a wider company consensus, I took my power that I had from the president and rammed it down a few people's throat under the guise that I was going to operate independently in San Antonio and you didn't need to worry about me. Well the lesson is, and I can keep going, is you can't do it -- business development can work on the exterior and the adjacent side of the organization, but to be successful long term you've got to have conduits back that are solid and I would do that differently. I really would, even if it caused me to wait six months longer to get people to buy-in I would wait the six month period believe it or not. That's hard for an entrepreneur to say. I feel like you're a psychologist. Thanks for letting me vent". [G3]

Change in top management approach

The advent of a new president also resulted in a change of course where venturing moved from a key component of the growth strategy and an item on the former president's personal agenda, to something that 'remains intriguing'.

"So one of the things I think we've struggled with a little bit in the venturing world is, while intellectually people do get that it's higher risk and lower probability of success, they still want success. Ultimately we're really, really good at line extensions. We're really good. We're even pretty dang good at new brands in a carefully defined space. You know dry extruded, wet retorted pet foods. We're really good at that. And so while intellectually they get it, it's still well, what do you mean it's going to take 3 years? You've got to constantly re-circule and say, 'remember guys, this is different'.

Unfortunately I think [Shane Jordan] who is the new president came in a year-and-a-quarter ago basically, is open to ideas but is very different than the former president who kind of always had one of these kinds of things going on. So it's a little different approach but it is something that remains intriguing to us and definitely something that we're focused on." [G1]

Learning from experience

The interviewee was then asked: ‘Knowing now what you didn’t know when you started these investments, what would you have done differently? Would you have changed anything, or would you have run the play exactly the same? This elicited the following insights:

"That's a real tough one because let me just say maybe it's the inherent optimist and it's the corporate entrepreneur that's in all of us, but I don't regret anything that we did because everything that we did --

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Skill development from venturing jobs

The respondent was also asked whether their time in corporate venturing roles had enabled new and valued skills to be developed that perhaps would not have been developed in mainstream corporate jobs. To this, the executive replied:

“So I could tell you right now, that even though I was a finance guy, I never took a marketing class, but came into a marketing company, that I would not be as good a finance guy, because you don’t – look, M&A only happens when you do M&A. And so at the risk of sounding silly, leading those processes. Two - the ability to negotiate and understand the art of a deal at the risk of a cliché…would never have happened. You can learn about it, you can talk about it, but until you look [Laurie Hoatson] in the eye over a four-year period and take the hits, overcome their objections, it will never happen. I mean I will tell you that those things as a result – I’m a very thin guy but those muscles are pretty big. The other one that has come up huge for me that I never thought of when I joined a company like this was strategic. By being a business development guy it forces you, whether you get the title or not and it forces you to act like a corporate exec and put on your big picture hat and look out a long-term and figure out where you’re going to spend your money, your excess reserves. Isn’t that exactly what a CEO does? If they do that wrong too many times they will lose their job. And so where a company spends excess funds to grow their business is perhaps the most important thing you can learn and as a business development guy I feel like I’ve learned – to answer your question – how to do that thoughtfully by trial and error”. [G3]

The stifling effect of corporate culture

Another factor that always made venturing a tough strategy to execute inside Gamma was the stringent financial protocols used for external investments. Although the corporate culture was decentralized in a day-to-day operational sense, merger and acquisition activity was highly centralized back into the corporate HQ. This was corroborated across most interviewees:

“So I think we would like to investigate and develop the capability to make early stage minority investments and we’re trying to figure out how to do that. Ultimately to do that effectively from our side [Gamma] is a very operating wise, a very decentralized company. From a mergers and acquisitions capital use standpoint we are incredibly centralized. So anything in the M&A world, regardless of dollar amount requires approval through [HQ], through the CEO at a minimum and as you get big enough it requires board approval. For a true corporate venturing where we’re going to take a minority investment for half-a-million dollars, that structure just is not going to work. I mean it takes too long, it’s slow, it’s cumbersome. Whether it’s a 500 million dollar acquisition or half-a-million it’s the same process. It’s the exact same process. And it’s the exact same scrutiny and that fundamentally just will not work. It’s not fast enough, it’s not flexible enough…” [G3]

“To go outside and to spend even a small amount… a million dollars requires significant approval and notes and oversight. And so there’s a lot of effort to go outside”. [G3]

b) Flawed business model assumptions

One of the key assumptions in the Florida business model was that veterinarians would be interested in being equity owners in a venture that built pet resorts. This later proved to be a flawed assumption. Laurie Hoatson believed that veterinarians would be highly motivated to be part of the business model, and as part of the deal’s design, he was personally responsible for enticing them to become a part of the venture. Gamma believed this assumption initially because of the reputation of Laurie with the veterinarian community and the evidence of their engagement in the first few resorts that had posted successful results. Laurie ultimately failed to deliver on this imperative because veterinarians underwent significant changes in outlook and changes in gender composition during the advent of the partnership.

“When I was negotiating those terms the veterinarian component of this was so important that if [Laurie] failed to get veterinarians, and I think the minimum I put in was 10 – I can’t remember. But if after a certain period of time Wes and his team, and he had a small corporate staff there headquartered in [X city] that if they could get veterinarians to come on board then we have the right to step away or put right. In other words they would have to buy the stock back. We never exercised that right of course and I would say this is one of the many areas where they did not execute it. Veterinarians are a tough breed and they did not just fall over themselves to invest 10 to 20,000 dollars, you know the 15 to 20 of them to get to that $400,000 working capital that was required”. [G3]
“So we were looking for ways to make inroads into something we weren’t very good at so we were willing to open eyes to new ideas and found this entrepreneur who was going to do this anyway…Pet hotels or pet boarding businesses. He saw through vets the vets were kind of tired of doing boarding. Old male vets were starting to approach retirement and interestingly enough vet schools now are graduating about 85% women. Yeah, so that dynamic was something that we missed in our ideas because we thought these old guys would want to kind of outsource their boarding and get into an equity – these are going to be 50% owned by the corporation and 50% owned on limited partnerships from the vets. And so they would get the referrals and the earnings flows from these things and wouldn’t have to clean up the cages every morning and stuff. It sounds like a beautiful thing, right?” [G2]

c) Inappropriate venture leadership

A second mistake was the appointment of inappropriate leaders to run Florida instead of the venture benefiting directly from the passion and experience of the founder (as in all the other cases studied). The first leader was a professional manager hired externally to the venture:

“Well I think number one [Laurie] bless his heart, hired named [Ben Rutherford] to be president and I think we both know having worked with so many startup companies – I know I sit on so many little boards and I’ve been on a limited partner for so long that if you get the right president you could put the right guy in a terrible business and you’ll have a better chance of success than a mediocre guy on an awful business concept. [Ben Rutherford] on paper had all of the skill sets. He had been the president of Pet Smart, he was a negotiator, before that he worked at Lowe’s and helped build those stores out so he knew real estate – he knew Pet Smart real estate, right. He’s the perfect guy we’re trying to do a real estate play. This is a real estate investment. This is exactly what you need. Well, the guy was a terror and he was absolutely terrible. And that set them back a year. Now if you stay with me that puts you right at 2007. [Store A] got hit with a bond with the recession turned to depression and I’m going to tell you something, it’s a little bit of bad luck and a little bit of bad hire. And so by the middle of 2008, just 2 ½ years into it, we had overcome the management but walked square into a recession where people were not spending the kind of money going to this. [Store A], their flagship store that was generating tremendous returns, we were really pleased with what was happening. In fact we had grand plans beyond that, just went out of business. They were in the heart of one of the worst suburban recessions anywhere in the country. [G3]

After the failure of Ben, Laurie appointed his daughter Pam to run the company introducing family idiosyncrasies and entanglement issues that were difficult for a public corporation to intervene on.

“In addition to [Ben], you know when you have a family business, there was a family conflict that I don’t to this day understand, and this is where it gets really scary, right. [Pam] and her father had a falling out. I really don’t know what it is. In fact I think it has nothing to do with the business. I think there was a child out of wedlock and [Laurie] is a very conservative guy. I don’t know what but you get the idea. And I think when she left the business she took a bit of heart and soul with her. So what I’m talking about is sort of – we got involved in family dynamics, poor management and an economy that didn’t happen” [G3]

d) Adjacencies are hard to do

The core competencies that underlie being a branded pet food manufacturer were not easily transferable to being successful in an adjacent service business. There were three characteristics of the adjacency that didn’t suit the core business that Gamma had built over generations:

i) It competed for capital in an already capital-intensive corporation
ii) It required a different employee skill set (low versus high)
iii) It needed a means to build scale that wasn’t synergistic with how Gamma knew how to scale brands

The CFO put it succinctly:

“I think that although we’ve got a low cost of capital we’ve got a lot of capital needs. We’re a fairly capital intensive business. So if we’re going to get into a tangential business it’s better to be low capital. So the capital intensity of that business was one thing. The other thing is when you think about it, it’s like a hotel business, right. It’s a whole different skill set. It’s a retail skill set, lots of low skilled, low paid labor and I hate that. I found out exactly how much my boss hates it. I mean he likes building brands and intellectual property and high sales per employee and all of those things. So we learned that we don’t want to be in what I’d call barber shops and when you think about it there was – other than PetSmart, most kennels or boarding places are very, very local. That’s why I call them barber shops because there’s really very few national chains for barber shops. It’s a very local business and…Hard to scale. Hard to scale a national chain. You need a
e) Misuse of venturing groups

One of the points raised in the fieldwork was the tendency for large firms to ‘misuse’ their corporate venturing units by assigning projects or people that are not core to the mission of the unit, but because the unit seems to offer a convenient ‘home’ for the project or person. This may take place while the unit is still building its internal credibility and is usually due to a misconception as to the unit’s mission and intended strategic contribution. One executive described it this way:

“I think that may be one of the hardest parts of having this job is creating credibility and not becoming the dumping ground for marketers who don’t want to be marketers anymore, or finance guys who can’t do finance and becoming this backwater organization that always seems to be looking at long-term stupid stuff that nobody knows what you do. And it’s real easy to be at the butt end of the joke.” [G3]

Table 6.9 below itemizes how each of the components of the conceptual model were addressed or not addressed based on case material evidence. In general, most components of the model could be verified through the case except in instances where failure of the SBV partnership precluded further evidence being produced – for example, graduation and assimilation of the brand, and further intrapreneurial project activity being spawned as a result of the investment. One component uniquely highlighted by this case was the strategic and human resource related risks of venturing per se, but especially it seemed venturing pertaining to adjacent versus core businesses. Corporate cultures moderated by top management can either give permission for entrepreneurial activity to occur with its attendant risks, or it can serve to stifle it by over-managing it or having a very low tolerance for exploration, risk-taking and failure. This is considered to be an important consideration for the enhancement of the conceptual model and was called out as an emergent code in Table 6.9.

Table 6.9 – Case #4: Implications for Codes and Model

<table>
<thead>
<tr>
<th>Codes</th>
<th>Meta Codes</th>
<th>Fine-Grained Codes</th>
<th>Case 4 Gamma/Florida</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Antecedents</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>B. Program Design</td>
<td></td>
<td></td>
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<tr>
<td>B1. Objectives</td>
<td>Yes</td>
<td></td>
<td></td>
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<tr>
<td>B2. Strat/Structure</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B3. Governance</td>
<td>Yes</td>
<td></td>
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<tr>
<td>C. Opportunity Identification</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>C1. Exploration</td>
<td>Yes</td>
<td></td>
<td></td>
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<tr>
<td>C2. Ecosystem</td>
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<td></td>
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<tr>
<td>C3. Courting</td>
<td>Yes</td>
<td></td>
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<tr>
<td>D. Brand Entrepreneur Partnerships</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>D1. Invest</td>
<td>Yes</td>
<td></td>
<td></td>
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<tr>
<td>D2. Marketing</td>
<td>No</td>
<td></td>
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<tr>
<td>D3. Orig Linkage</td>
<td>Yes</td>
<td></td>
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<tr>
<td>E. Venture Portfolio Management</td>
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<tr>
<td>E1. Monitor/Option</td>
<td>Yes</td>
<td></td>
<td></td>
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<tr>
<td>E2. Graduation</td>
<td>No</td>
<td></td>
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<tr>
<td>E3. Intrapreneurial</td>
<td>No</td>
<td></td>
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<tr>
<td>F. Outcomes</td>
<td></td>
<td>Re-purpose</td>
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<tr>
<td>G. Emergent Codes</td>
<td></td>
<td>Strategic and human resource risk</td>
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</tbody>
</table>

We see some of these cultural points brought out in the following excerpt from the fieldwork:

“I don’t know what your experience is but I often use the phrase that large corporations are built to protect the status quo and then anything like us, like you or me, either have to be completely insulated like you have in your ventures group which is a standalone and you just operate independently and you get your money and
you’re like a private equity or VC group. You then protect it. That is your protection against the white blood cells of the [Big Firm A], or the [Big Firm B], that will come after you. When you do what we do and you don’t get that insulation the mother ship will kill you. In other words, when we started up our insurance, our licensing, our wellness plans, everything that I can tell you that hasn’t worked and there has been a lot that hasn’t worked – and that’s what people remember. So they remember.

We were placed not in an entrepreneurial environment; we had to overcome the bureaucracy and act like a big company. In other words our little – here’s a stupid little example. But our little pet insurance company wasn’t a year old – it wasn’t a year old and it was audited, not once, but twice. Now who does that? Right? Who comes in and provides that level of oversight to a startup company, taking weeks and days and thousands of dollars and distraction. We have attorneys who treat us not like startups, but like we should be every bit as buttoned up, every bit as risk free as the big co’s. We have R&D people and the list goes on. So the good news is you get a brand name and you get money. The bad news is you get all the infrastructure and all the white blood cells that exist in a big company that tries to stomp out anything that’s not the same as the other”. [G3]

The final section provides a subjective assessment of the strategic and financial outcomes of the SBV partnership.

6.5.7.2 Subjective assessment of outcome

The partnership between Gamma and Florida did not prove to be a success and it ultimately led to Gamma withholding further funding, declining options to purchase further equity, and exiting the investment. Florida remained operational for a period after the withdrawal of Gamma, but never achieved the scale and promise of the original concept retrenching instead to a smaller number of resort locations and ultimately filing for bankruptcy. While this specific outcome merits a low rating on both axes for both entities (see Figure 6.18), this does not imply that the accomplishments of the venturing unit over the many years of its existence were also a failure. It appeared that several strategic contributions were indeed made from the venturing unit.

Nevertheless, the failure with Florida plus the struggle with some technology investments, which when coupled with the arrival of a new chief executive, eventually culminated in the demise of the original SBV unit and the early retirement of its 15 year veteran and founding executive. Burgelman (1983b) also observed this instability and personal risk component in a study of corporate venturing:

“There seems to be an inherent discontinuity in the transition from entrepreneurial to institutional existence, as well as possible asymmetry in the distribution of costs and benefits that may underlie the myth of the entrepreneur as tragic hero in the large corporation”. (p. 241).

Figure 6.18 – Subjective Rating of Case #4 SBV Partnership Outcome
6.6  Case #5: Delta and Entrepreneur Brand ‘Oregon’

6.6.1  Introduction
Delta is a large multi-billion dollar food corporation. As part of its diversification and growth strategy it established Alaska Foods in 1999 as a bespoke division focused on natural and organic foods. The division was formed through the acquisition of two entrepreneurial brand ventures, called Indiana and Maryland, together totaling $60 million in revenue. Subsequent to this, two further small entrepreneurial brands were acquired and added to the division - Delaware in 2006 ($20 million revenue) and Wisconsin in 2011 ($30 million revenue). Delta was able to leverage its distribution strength to effectively scale these brands, its research and development capability to extend the brands into Delta core categories, and its marketing competence to build brand equity by increasing expenditures in digital marketing, driving recipe usage and connecting target consumers to product and nutrition information. However, innovative entrepreneurial brands were becoming harder to acquire outright as entrepreneurs wished to exit at much higher levels of revenue and as Delta’s competitors were pursuing investments in the same promising entrepreneurial brands thereby escalating bid values. A different strategic option was thus needed to compliment acquisition. This case study examines a new development in Delta's growth strategy of pursuing a SBV investment in addition to acquisition through the formation of Delta Ventures in 2009. At the time of research, Delta Ventures had completed one investment in an emerging brand and four investments in emerging technology firms. Further, an internal brand incubation and investment group was also formed, called Disruptors that had a somewhat similar mandate to Delta Ventures. The case describes the issues facing Delta in 2013 as it wrestled with the endogenous factors related to the organization and implementation of strategic brand venturing. As with the other case studies, the discussion commences with the antecedents.

6.6.2  Antecedents
Both internal and external antecedents will be covered in this section (Figure 6.19 below) starting with two external factors.

a)  Emergence of disruptive entrepreneurs
One of the external antecedents was the rise and startling success of several entrepreneurial brands. As a consequence, Delta executives felt the need to not only monitor these emerging brands more closely than before, but also to potentially make investments in some of the more promising early-stage brand ventures.

“I would say there have been some milestone entrepreneurs and brands who have disrupted categories, primarily Chobani, Kind Bars – I’m having a hard time thinking of all of them, but basically there have been some really big companies that have emerged. And really came out of nowhere and built huge businesses really quickly. I think the organization looked at that and said let’s not miss one of those companies again, and therefore I would say over the last three years, the last two years in particular, the organization’s interest in emerging brands has significantly increased to the point where many division presidents are keen to monitor emerging brands in the categories that they work in and maybe even go a step further to say they would like to structure deals with them”. [D2]
The strategic value of partnering with external brand entrepreneurs was seen to be building inside Delta as described succinctly here by one respondent:

"And I actually think it’s the bridge for the future because they struggle to go up, we struggle to start small and if we can figure out how to get the entrepreneurial company to work more strategically with large companies, and my bias is Delta, is that that’s where the power is because what we’re great at is proof of scale, what they're great at is proof of concept and really the magic is figuring out these strategic partnerships in the middle. And we want it to be a financial win for the entrepreneur and a financial win for us but in theory we should be getting advantaged terms because we’re de-risking a lot for them and if we can get to them early enough they see the value in partnering with us earlier and they are happy to take it and it’s still a big win for them." [D1]

Figure 6.19 – Antecedents of SBV in Delta Corporation

b) Lowering industry barriers to entry

Interviewees extensively commented on the ease, and the disruptive effect with which entrepreneurs were entering multiple product segments where Delta’s brands competed. An excerpt from one interview is recorded below related to a particularly powerful entrepreneurial brand disruption called ‘Aegean’. A few observations are noted at the conclusion of the excerpt.

“I think one of the big issues that we as a company have faced over the last three or four years is in our yogurt business where you had a small little company called [Aegean] that nobody thought was really going to go anywhere because this Greek yogurt, people really didn’t like the taste of it and it looked like it was this fringe, nichey thing that these folks were doing in upstate New York and boom, all of a sudden - now I think it’s projected to be like 50% of the yogurt category which is a 2 billion dollar category. I mean it’s almost unfathomable how quick. Like some of these little innovations, that on the surface looked like they weren’t going anywhere have suddenly taken over and then that had a huge impact on us because yogurt being one of our very large businesses here and we just thought we were out of the game for awhile and it’s actually taking us a long time to actually get back in it. And we are making moves in that direction, but I think as a company we all looked at that [Aegean] example and said you know we don’t want [Aegean] to happen to us on any of the rest of the businesses that we’re working in, and in this case of snacks.

I mean well the two businesses that I manage on our fruit business and then our contemporary salty snacks is what we call our savory business, it is so easy for people to get in the game. All you need is a product idea and a co-packer and you can get in the game in these categories you know cause you've got retailers that are willing to put you on the shelf and that’s the other thing that’s a little skewed in favour of the entrepreneurs and you were saying what advantages do they have. In addition to the fact that they can actually see trends and perhaps spot them faster many times because they personally are participating and their personal needs aren’t met and so they go in search of a need and then they kind of find it. But what’s amazing is with the retailers the latitude that retailers will give them to prove out and that you don’t get as a large company. When we come as [Delta] we’re expected to turn from day one and in many cases, like some retailers are making decisions on whether they are going to keep our new items three to six months into the launch, and if you’re not turning you’re out versus kind of the little tiny popcorn company that the retailer happens to put you on the shelf and invest a little bit in you and your turns don’t nearly justify the shelf space that you get, but the retailer might hang in there with you because they like your back story, they think that you’re offering variety for their consumer, for whatever the reason.
So, I think entrepreneurs have an advantage in that slow, model and build, that ability for consumers to come in and sort of discover the brand on their own and then let it grow organically and get it to grow into those really local back stories that people love to have. Those are obviously very difficult for a large company to do – we have tried. We’ve tried to do the slow and build model and we say that internally we don’t have the patience for that. Maybe – I mean I think there’s part of that that’s true but again I also think a lot of it is retailers don’t have the patience for that. That’s not what they expect from [Delta]. They expect us to go big and they expect it to happen right from the very beginning”. [D1]

An interesting point made by the above executive was the differentiated treatment towards entrepreneurial brands versus large company brands provided by retailers. Small brands were nurtured over time and merited disproportionate shelf space at the expense of large brands despite sub-par sales velocity rates per stock keeping unit that would normally be applied to large company brand launches. This favourable treatment and the widespread availability of third-party contract manufacturers and distributors were lowering the barriers to entry in the food industry and facilitating entrepreneurial activity. This raises an interesting conundrum for the large company – emulate or participate? One option was to emulate these entrepreneurial-type approaches using dedicated, empowered brand intrapreneurs that benefit from large company resources and expertise. As previously mentioned in Chapter 2, the researcher had identified brand intrapreneurship together with minority investments and new business models as strategic growth options for large corporations. We also observed elements of this in the Alpha Corporation case studies. In parallel, or in place of, does the large company participate in SBV by picking the best of these emerging entrepreneurial brands and investing in them at the right stage after they have proven themselves and benefited from some of the latitudes granted by supportive retailers looking to add choice and innovation for their shoppers? This is the view of the author and the basis for this dissertation project.

As stated, the success of external entrepreneurs at brand innovation was also forcing Delta to reconsider how it competed. This was culturally challenging because of legacy competencies built by Delta at new category creation. Many of its existing businesses were pioneered by Delta before other large firm rivals. Despite this, its ability at building new business under new competitive dynamics was being challenged by ‘never heard of before’ entrepreneurial players. Some of these original capabilities (e.g. research and development expertise) had become core rigidities making it harder for the company to adjust its culture and belief structure about innovation, a finding also uncovered by Leonard-Barton (1992) in her study of new product development within large corporations. As one executive noted:

“There’s a quote on the wall in our building somewhere by some former executive…You know ‘our R&D leads and then we follow’, which is again really kind of how historically how [Delta] has been built. We did it on the back of these patent protected ideas. We built whole categories. My food snacks category was started by [Delta]. The grain business was started by [Fresh Bars, Delta]. I mean so we’ve built these categories and it was tough for competitors to get in because they didn’t have the same processing capabilities that we did. But again as we’ve opened up our doors and we’re now using a lot more co-packers for our new product innovation, a lot more than say we would have in the past. We use it to see: ‘is this an idea that even works?’ And then if it works, we’ll figure out how to optimize the manufacturing and bring it in house but it’s a whole different model for us. But it’s much less protectable kind of from an IP perspective. Like all of a sudden now you’re dealing with co-packers to have formulas that maybe some of you own, some you don’t. You’re trying to build a brand, our scope and scale of our sales and distribution, our ability to market is what we’re hoping makes a little bit of a difference, but it’s a whole different ballgame today than it was before. And so I think it causes us and forces us to have to look at the smaller players in just a very different way than we did before and how do we get involved with them, how do we let them do the proof of concept and then we actually kind of help them get to the next level. You know that I think is what we’re trying to figure out now. [D1]"
c) Struggling core brands

In terms of internal antecedents, the battle for growth among existing Delta core brands and intrigue among Delta executives with entrepreneurship and novel ways of marketing and building brands contributed to a heightened interest in SBV. When asked about drivers of interest, one interviewee replied:

“I would say some of our existing brands struggling. Perhaps there’s an opportunity to look to some of these new brands to be the brands of the future”.

“Yeah I would say when people do meet these companies they become enchanted with the entrepreneurial dust. It’s the excitement of being an entrepreneur and the decision making and for veterans, 10, 15, 20 year veterans of the company, they find that very intriguing and so they want to be close to these entrepreneurs and take a little bit of that dust and apply it to their own businesses. And I also think it’s incredibly energizing for them to see these people so close to the consumer and so close to the store. They are the consumer oftentimes the entrepreneurs are the consumer. And I’m not sure that’s always true, you know a big company rotates in multiple divisions; you can’t be the consumer for every business that you run”. [D2]

Competing against a broader view of accessing external innovation was a need to focus on the core business in light of recent public market pressures and indifferent results from acquisitions.

“We bought [Zapata] which is a big business down in Brazil and then we bought half of the [Probi] business globally. And those two businesses were quite a bit of money. And so because we were investing in businesses we weren’t actually able to deliver a return to our shareholders; our EPS wasn’t where it has historically been and we got dinged for that. So, one of the reasons why [Delta’s] stock price – I think we’ve appreciated 20% in the last two or three months alone and the stock price has been just on a tear. Part of it is the Warren Buffet acquisition of Heinz. You know part of it also is just our own announcement that we’re getting back to our basics and we’re recommitting to the fundamentals of our business and we publicly stated that we’re taking a bit of a break on M&A. That causes a lot of us within the company to be like huh, well what does that mean for a lot of the different things that we’re doing…

It’s kind of that double-edged sword so those of us internally have been wondering well, wait a minute. We were working on some things we’re looking at this stuff. What does this mean, how long is this going to go. But it’s just interesting that there seems to be a little bit of a tradeoff – M&A stuff versus the EPS fold – you know all the things that you kind of have to weigh as a public company especially one like ours where people – it’s a lot of institutional investors that are buying our stock that are relying on a particular dividend, that are looking at a particular set of returns that they’re used to us delivering. So we have to just be careful about the overall Delta model and I think there’s a feeling that we may be tilted a little bit more to the M&A than maybe where we should be moving forward. And so now we’re course correcting a little bit and it will be interesting to see kind of how we get back on that”. [D1]

However, when probed as to whether SBV investments (minority stakes) would be curtailed, these seemed to be treated as a different class of investment opportunity versus completing further large-scale acquisitions. Specifically, undertaking more SBV investments were even considered to be desirable, but that Delta still hadn’t figured out the right approach and diagnosed the critical success factors.

“The minority investment? No. The minority investments I think are considered differently. Yeah, it’s interesting – the minority investments though you know we would love to do more than what we’re doing. I think the issue that we’ve had on the minority side is more finding the right target because what I think we’ve figured out there is, there’s a little bit of a recipe for success there…[interruption]…I think there’s been a little bit of a critical success factor that we’ve kind of found with some of these minority investments which is for us at least you’ve got to find people that not only want and need the money, that obviously you’re bringing to the table through the minority investment, but also folks that are interested in getting close to [Delta] and taking advantage of the expertise that we would have to provide. And so we’ve run into a couple of instances where people are happy to take the money but they don’t want us to be part of their business and that’s not as interesting to us as being able to come in as a true minority partner and be able to offer expertise and resources and to learn with and from the company and also frankly for us to be able to evaluate them so that we can decide is this an acquisition target for us”. [D1]

d) Decentralized structure and empowerment

One characteristic of the Delta corporate culture seemed to be a decentralized ethos and structure. Operating divisions were given a high degree of autonomy and this meant that appertaining to SBV, activities were being initiated in a disparate manner. As the fieldwork
progressed it became clear that several organizational units were involved with entrepreneurial brands as well as conducting internal brand innovation. No clear strategic choreography was taking place, and units were to a large extent conducting activity without an over-arching set of guidelines leading to a sub-optimal approach overall to SBV in the writer’s view. The key organizational units involved in related SBV activity seemed to be:

- *Delta Ventures*, the corporate venturing unit;
- *Disruptors Division*, a division recently formed to develop innovation and access external brand innovation;
- *Innovate Division*, one specific division interested in SBV led by an innovatively-minded president; and
- *Alaska Foods Division* a bespoke division managing a portfolio of fully acquired natural and organic entrepreneurial food brands.

In the section that follows, the overlapping strategic roles of the units involved in venturing will be commented upon.

### 6.6.3 Program Design

**a) Objective and strategic role of SBV unit(s)**

The strategic purpose of two organizational units most pertinent to SBV, are described below:

**Delta Ventures**

The strategic role of Delta Ventures was formally stated on their corporate website as:

> "[Delta] Ventures is focused on investing primarily in emerging food brands. It also evaluates food technology and digital media investments. [Delta] Ventures was created to accelerate the pace of innovation at [Delta] and to build strategic capabilities through partnerships with institutional venture capital funds and direct equity investments in start-up companies.

Delta Ventures Corporate website

When the executive involved within Delta Ventures was asked whether the strategic role of the Ventures group was well understood and subscribed to by the organization at large, the answer was a clear and interesting ‘no’. In trying to ‘peel the onion’ further and delve into why that was the perception, it seemed that inadequate senior sponsorship and constant turnover of senior executives was hampering the accelerated and broader adoption of a venturing mandate.

> "Well you know it’s had multiple leaders. I’ve only been at [Delta] five years, four of which I’ve been doing this job. I’ve had seven managers, so that sheer lack of continuity I think at the senior level creates a disconnect.

And then lastly, I would say I’m very junior. If you have this role where I’m doing the work that I do, I love it, yes, I don’t want it to go anywhere, but I think it’s a job when I look at peers it’s often taken up by people like yourself that have big teams, or at a minimum senior directors who have been at the company and run businesses and this was just my little idea that it really started from being more organized around the existing investments that the company was making so that we were acting with the most integrity when we were working with these entrepreneurs. Both my parents were entrepreneurs and I just put myself in the shoes of, well if a big company is working with them, how would I want them treated. And I just felt like there was an opportunity to create more of just a simple process around it, that’s all and a little bit more specification as well, having come from investment banking. And so that’s why I put this in place and it has really grown to something that I do manage most relationships with the companies between kind of 1 and 25 million dollars in sales in the U.S. that could be potential acquisition targets for us in the future or investment targets. And I think that we’re at a turning point where people are acknowledging that when they want to meet a company we have a relationship or that company starts hitting their radar from a competitive standpoint, we have a relationship. And I do think it’s very low profile though and it’s a little bit intentional. We don’t have a ton of successes; I don’t have a ton of successes to talk about yet. And I also think its part of our culture.” [D2]"
The frequent changes in leadership oversight presented the SBV leader with the challenge of constantly selling and re-selling the vision for venturing. The tactics employed by the Delta Ventures executive in accomplishing this were queried, yielding the following response:

“I think the compelling aspect, I think it was taking them to these companies and showing them. It wasn’t telling them at all. I said I’m not going to create another deck for you on why this is a great idea. Come to Silicon Valley with me and we’ll go up and down Sand Hill Road and meet all the venture capital funds and I did that with the head of R&D, and our chief technology officer, and head of marketing. And they were like ‘oh, this is amazing’. These people are insanely smart; these companies are incredible. And then I threw a party in San Francisco called the ‘Future of Food’ and I invited all these food entrepreneurs and people who were just doing innovative things from taking pictures of the food you eat at restaurants and it was awesome. And I think they were all like ‘wow, this is great’. And so I think that word traveled and then I think my most recent tool is I bring in a lot of great emerging brand entrepreneurs and the division presidents are canceling meetings and coming in on vacation days. And they hate the media and every time they fly down to these places with me, these random cities in Alabama to meet these entrepreneurs. And I think that is what has kept my managers throughout this process keen to let me run with this and keep it going”. [D2]

Disruptors Division

The strategic role and goals of Disruptors was described as:

**Purpose:**
“We will create & incubate next generation businesses beyond the core”.

**Goals:**
- Create and enter new categories of business for Delta
- Incubate disruptive new businesses faster (3-4 years vs. 7-9 industry average)
- Improve success rates with more measured development approach (>22%)
- Ensure top tier ROI new business development investment for Delta

Source: Delta benchmarking presentation, 2013

One of the executives interviewed, commented on the role of Disruptors as uniquely spanning all the category and division businesses unlike the activities any individual division may embark upon on their own. While a correct observation, this cross-divisional perspective was also the remit of the Ventures group and seemed a little duplicative in effort.

“The charge there is just to get [Delta] involved in different businesses and to look for opportunities across categories that divisions aren’t focused on because the divisions are so focused on their categories”. [D1]

“So I think it’s helping [Delta] look into the future and start to look at things that have the potential to be disruptive to our industry, disruptive to our category and enable us the place that’s in high potential ways but with very low risks, so that we can start place bets so that we don’t get blinded in having to pay too much. I think it can work within our existing business model so I say we don’t want to have another [Aegean] happen in our industry. And so there is no reason that we shouldn’t be able to create it.

Now we still may get ‘Aegeaned’ – I mean it’s a verb here – but it can play both in categories we play with but I also think it’s about – I think the goal long term is about the value proposition that we play within the food industry and so we have both a business model piece and a category expansion piece. So I think the business model piece has the potential to really think about what is our value proposition in food and looking more strategically of not just being a packaged good item, but playing more holistically in how we can offer value to the – I will say that is not yet as well articulated at the chain but I think the little bets we’re placing are going to create the foundation to help us in format strategy”. [D1]

“I think it was the senior sponsor recognizing that a couple of the divisions just couldn’t innovate very quickly and they just wanted to do this one simple product idea and why can’t you just do that (inaudible) outside the typical structure and so they created the smaller group which was first in R&D actually. And so they brought a couple of marketers together and an R&D person and said all right, just go and try to figure out these concepts. And I think that grew over time and then the same senior executives said okay well let’s try to make this bigger and give them more resources and more people and see where it can go next and so that was started a while ago and so now they’ve just got all their people organized and now they’ve got strategies and hope it to be bigger and hope it can contribute – I mean we publicly stated that it should contribute 300 million dollars of revenue over 10 years”. [D2]
The lack of clear strategic orchestration across business units and departments meant that territorialism was evident and corporate interests weren’t always being optimized.

“The other big insight I would say is we get caught up in our divisional matrix and I think everybody taking a much bigger perspective is really helpful and makes things move a lot faster. I think we get kind of territorial and it doesn’t help.” [D2]

It seemed that not a lot of meaningful market action was being undertaken and that the group was still at the stage where lots of conceptual and strategic presentations were being made internally about the team’s mission and contribution. Lack of internal credibility for Disruptors seemed to emerge in the interviews as a complicating factor for attracting functional resources and support.

“The real matter is I think the team struggles getting real support from the functions that do this job on a daily basis because I don’t always know why frankly. I think we have to put our like constructive hats on and be constructive members of society and just get stuff done and not let kind of politics and people’s personalities get involved. But there is some of that for some reason and so I think they don’t get as much support as probably they’re just like logically due - which is unfortunate. So what I hope to see is that they can get some early stage wins to really prove themselves in the organization. So instead of like talking about it all the time, like we’re doing all these things just to actually do it and not do all the decks because I think that gets people all the functional support tired. It’s like another round of decks on ideas. It’s like let’s get working and cracking. So what you can write your piece on is you know I think it’s evolving. I think they want to; I think that they’re working to demonstrate that they should be able to use that one specific tool to grow to a 300 million dollar business”.

Interviewee preferring to remain anonymous.

Competition was developing between divisions and more importantly between divisions and the Disruptors group. Several drivers of this appeared to be:

- Divisions seemed to lack faith in Disruptors.
- Divisions perceived venturing as a hot career progression opportunity and constituted interesting new thinking and work.
- Divisions preferred to remain in charge of their strategic growth agenda and not rely on another part of the organization to deliver breakthrough innovation on their behalf.

*The [Disruptors] group is a little bit of a redheaded stepchild. It’s people who kind of like, we need to get you out of here and so we need somewhere to put you and you’re kind of entrepreneurial and you kind of like this kind of stuff, so we’ll put you in a group. That’s the perception internally. That’s probably one of the reasons why [they] struggle getting a whole bunch of support. If they were [inside a division] that would totally change. But they’re not. And so what people like these division presidents are doing are saying, ‘well I’ll build the same thing internally because I’ve got all the resources, I’ve got all the credibility, I’m running a 2 billion dollar business like I’ll do it myself, because I don’t want to be moved out of this. This is the sweet spot of how you get to the top in this division’.*

Interviewee preferring to remain anonymous

Yet, some interviewees thought a coordinated effort between all venturing related groups and operating divisions was to be welcomed and would improve the strategic effectiveness of the corporation.

“So, I would love a central venturing group to kind of help craft a strategy kind of like for [Delta] and somebody who would be working with the division to come up with the – so okay, in your category these should be the criteria’s and they would actually go back and work the Nielsen and all the different places where we go and get trends and then come back to us and okay, here are the companies that we think you should be looking at and then jointly we could go through the list and say alright we think this is a fit, this one isn’t, you know a little bit more support on that front.

I would love to see a more central role kind of in helping that. It’s almost like a consulting role back into the divisions to help the divisions figure it out. Because right now I feel like we’re kind of on our own on some of
this stuff. Like you go to talk to [X] and he’s like well what’s your list, and I think well I don’t have a list. It’s like we need a list. I’m like well how do I come up with a list? And everyone having to come up with their own list from scratch doesn’t feel very efficient to me”. [D1]

A decision was made by the researcher to focus primarily on the Delta Ventures unit as the locus of inquiry given its explicitly stated mission on their external corporate website corresponded more closely with notions of an SB unit detailed throughout the dissertation. Notwithstanding this circumscription, any disjointed effects of other organizational units on the ability of Delta to effectively execute this corporate venturing mandate were noted in the ensuing analysis.

b) Strategies of the SBV unit

The principle strategy of Delta Ventures is to find, screen, and make external investments in external packaged goods food brands that hold the potential to be disruptive and scaled businesses on behalf of the divisions. Delta Ventures then partners with the relevant business units to ensure the investment relationship is properly managed with appropriate governance and that downstream strategic options for Delta (acquire, exit, increase stake) are preserved and managed.

Focus areas

They describe their strategic focus as:

“We are looking for emerging packaged food brands that satisfy consumers’ health and wellness needs. Businesses need to have a unique, compelling and authentic brand, sales of at least $3 million in the U.S., and a great tasting product”.

Delta Ventures Corporate website

One of the interviewees described their focus areas and process for arriving at these as follows:

“So many of the divisions have their long-term strategy. As a part of their long-term strategy there may or may not be a piece dedicated toward investment or acquisition activity, so the investment activity, what we do is say okay so what's our investment strategy here? Who are the companies that would fit the profile? So we look at size ranges and every division is different. You know some of the divisions are keen on much bigger companies others are looking at much smaller companies. So size is a big parameter I would say. So for example, [Disruptors] is interested in companies all the way down to like 500,000 dollars in sales, super small companies. The snacks division is probably more interested in businesses with a minimum sales size of kind of $5 to 10 million for an investment. And then everybody is kind of anywhere in between. So that’s the first filter.

The second filter is kind of the categories that they strategically center of interest that they either can’t pursue with their own brands just because the brand can't stretch there, or because there's some big reason why they can’t, you know we don’t have the capabilities, we don’t know anything about the consumer, we don’t know anything about the space, whatever. So those are the spaces that we hunt in. Within that, I help them focus on specific categories so Corporate Strategy will do a lot of work around saying okay so you said – let’s just say snacks is an interest – in which specific category of snacks and then is there a consumer that you’re going after, or is it a channel based strategy? And then corporate strategy kind of helps me narrow that down and then we end up with essentially a list of targets if you will - an early and narrow list of companies. In addition, so that’s kind of the bottoms-up analysis or maybe that’s top-down.

But then in addition I’m looking at independent of what the divisions actually want, I’m looking at company performance to see who are the rock stars, forget about what the divisions want. And then I bring those rock stars – I develop a relationship with those rock stars on my own outside of the division, kind of blessing that if you will. And a lot of times those rock stars end up on somebody’s list. I’ve learned that lesson, not to ignore the rock stars. That’s kind of the process, pretty traditional, that methodical process to come up with a list of companies”. [D2]

Service not operating role

Unlike Case #1, #2, and #3 where the investments made by the SBV units were directly stewarded within the SBV unit itself, or where internal brand ventures were developed and
launched, this SBV unit only focused on external investment and provided a service role on behalf of existing core business units. Put another way, this SBV unit did not have operating profit and loss responsibility for the SBV investments and incubations.

Partnering with venture capital funds
Interestingly, and again, unlike the first three cases above, this SBV unit was however engaged with private equity (PE) and venture capital (VC) funds as a complimentary strategy to making direct investments. Delta’s relations with these external firms preceded (and perhaps even emboldened) their direct investment in Oregon and appeared to be used as a source of deal flow, venture learning, and a channel for building relationships directly with entrepreneurs and founders. Some of these investments were made in innovative new technology ventures as opposed to brand ventures. Their participation in one venture capital fund had been quite fruitful and provided the source and option for a pre-emptive acquisition of two brand ventures, Wisconsin and Treats that were integrated into the Alaska Foods division.

“So we have four limited partner investments in consumer product private equity and venture capital funds. One of them is called [Ramsgate Capital] which is based in Boston. In 1999 one of our senior executives partnered with [two Fortune 500 firms] and a couple of other wealthy individuals to create 100 million dollar fund that would go after health and wellness focused on consumer products, primarily food and beverage. And they made a number of investments over the last ten years, started the second fund, and made another subsequent investment. I sit on the advisory board for fund one where we obviously have the largest position and found that over time a couple of their portfolio companies primarily [Wisconsin] and [Treats] were performing incredibly well and built relationships with the entrepreneurs through the relationship I had with the fund. And during annual meetings and quarterly meetings I got to know those entrepreneurs and they seemed amenable to getting introduced to more executives at [Delta] - which I facilitated those introductions. And we decided to preemptively buy those companies outside of a traditional auction process and integrated them both, over the last two years”. [D2]

When probed as to whether more investments in VC or PE funds should occur, one Delta Ventures executive considered this as an essential, albeit not sole element of any aggressive venturing strategic mandate.

“It depends on how aggressive we want to be. If we want to be incredibly aggressive then I actually think we need a [Ramsgate]. We need to cut checks, big checks to private equity funds and then have governing roles with these private equity funds to watch these companies. In addition we need to be doing it ourselves directly. Am I concerned that if we do it ourselves we lose deals with these venture capital funds? Absolutely. But it’s a meritocracy and we win the deal because the entrepreneur thinks it makes a lot of sense so it doesn’t bother me. If we don’t want to be that aggressive and we just want to hang out and watch these companies on our own then I don’t think we should have this strategy going forward because we can build great relationships with these entrepreneurs and do maybe one deal a year and it will be great. But if we want to really do this right and do this in a big way, I think these relationships with these funds is absolutely critical. In addition, they have ‘all the scoop’ on what everybody pays for everything. Phenomenal data”. [D2]

c) Location and structure of SBV unit
The organization chart for Delta is portrayed in Figure 6.20 with the key organizational units referenced in this case highlighted in grey, i.e.: Innovate Division, Alaska Foods, Disruptors, and Delta Ventures. As operating divisions, Innovate Division and Alaska Foods reported directly to an executive vice president (EVP) for U.S. Retail, who in turn reported directly to the CEO. Disruptors reported directly into an EVP responsible for strategy, growth and marketing innovation that in turn reported directly to the CEO. The SBV unit was not located within an operating division but located within the mergers and acquisitions function that in turn reported into the chief financial officer. The diagram helps illustrate some of the challenges facing the
Delta Ventures unit in terms of its organizational power-base relative to other units. We see this aspect mentioned by the interviewee:

"I would say I’m very junior. If you have this role where I’m doing the work that I do, I love it, yes, I don’t want it to go anywhere, but I think it’s a job when I look at peers it’s often taken up by people like yourself that have big teams, or at a minimum senior directors who have been at the company and run businesses and this was just my little idea…”[D2]

Considering these challenges and the relatively junior level of the executive in charge, it is nevertheless commendable what impact they had in terms of engaging the organization concerning the external realities of disruptive entrepreneur brands. The chart also hints at the dispersed nature of the venturing and innovation effort, which when coupled with the lack of a single senior level executive sponsor, made a coherent SBV strategy somewhat difficult to architect and implement.

**Figure 6.20 – Delta Organization Structure**

Source: Delta 2013 corporate presentation (adapted with pseudonyms)

d) Governance

Delta Ventures reported in to the Mergers and Acquisitions (M&A) department, that in turn, was part of the responsibility and oversight of the Chief Financial Officer (CFO). In addition to the financial disciplines and return on investment (ROI) metrics typical of a finance function, Delta Ventures was also subject to assessments of value add from the operating divisions given its organizational matrix nature.

"You know I would say it’s really changed. So yes, [Delta] is a very matrix organization, so you’re not really successful in a bubble. So everybody that I share ideas with from the division directors who opine on ideas that I bring forward to the chief technology officer who sees any technology that I bring in, they are all opining on my performance, on how well I’m doing, the quality of the ideas that I’m bringing in, how well I facilitate all of that, my ideas around the deal structure, all of that they have a say in". [D2]
6.6.4 Opportunity Identification

Three elements of opportunity identification will be enumerated upon: strategic exploration activities of the SBV unit, participation in the ecosystem, and picking and courting brands.

a) Strategic exploration

Given overlap of commentary with the manner in which Delta engaged with the entrepreneurial ecosystem, duplicative coverage is avoided and deferred to the section immediately following.

b) Ecosystem participation

The interest in ecosystem participation was fairly pronounced inside Delta even though they had only made one minority investment. Executives envisaged using the ecosystem advantages to support internal as well as external affiliated brands. To illustrate:

"the ecosystem we look at as how do you make yourself play bigger than you really are. And so the traditional [Delta] system is you have the resources to do it all yourself but the idea of an ecosystem in my mind is that it creates the flexibility to move between opportunity space to opportunity space without having to build all those resources in. I personally believe we haven’t done it as well as we could in the sense that I think ideally we could create this ecosystem so if my team wasn’t 12 people and it was 6 to 8 people, so we’d still have a little bit of our old division mentality that’s kind of is still within the framework of how we are but I have a fairly broad portfolio in the sense of different product platforms and categories. So as I think about the ecosystem it’s how do we play bigger across the whole ecosystem and that could be in development so we have a pool of development firms that we think could help us when we’re trying to develop products that we don’t have to do it all ourselves. And so that could be either for a project we’re developing internally or we find a company that they have a gap because they haven’t created the ecosystem. We can bring them into the ecosystem. It’s in the marketing system in the sense that when we are looking to think about commercializing these things at [Delta] we have our own big marketing function organization that helps tap into these great contracts when we’re doing sampling and things like that, but creating little mini ecosystems of companies that can help us in this small world. We’re doing early stage transactional testing to actually get something into market and test it and work with the retailers to get it up on the shelf. That’s hard to do so we’ve found a couple of companies that are really good at working with the retailers to get it on shelf. They handle the logistics; they make sure the product is getting up there". [D1]

Delta was looking to develop partnerships across multiple members of the entrepreneurial ecosystem in order to support their strategy for growth and add capacity to their own resources, for example:

- Brand entrepreneurs to directly invest in.
- Venture capital and private equity firms for enhanced access to deal flow opportunities

“So what I did is I figured out all the private equity funds and venture capital funds that could potentially play in the space and my investment background in New York actually focused on consumer retail so I knew a lot of funds anyway. So we have a list of all of our prioritized funds and I see them all regularly. In addition, we have limited partner positions, I think four of them. So I’m on the advisory board for one of them and have a very close relationship. So that’s definitely been part of the eco system that’s been very valuable. In addition, I work with kind of the emerging brand boutique investment bank so those kind of small shops that help raise capital". [D2]

- Bespoke commercialization and sales agencies that take innovation projects to market on behalf of firms and conduct transactional testing inside retail outlets.

“They’re all good in different little things. None of them are perfect but they all add capacity to my team and they allow the flexibility of I don’t need them 100% of the time; I only need them when I have a project that’s at that stage”. [D1]

- Lawyers and consultants that specialized in supporting entrepreneurs or large firms and that help to broker partnerships between them.
Third party distributors focused on emerging brands.

Contract manufacturers offering specialized technology and shorter production runs for new products.

“And co-packers a little bit, so some of our own co-packers that we’ve got great relationships manufacture a number of these emerging brands that we really have built relationships with and so they’ve been helpful in that, but not to a great extent I would say”. [D2]

Other large firm corporate venture capital units and funds that may detect brand investment opportunities from an upstream ingredient or technology perspective and share these insights with friendly, non-competing CPG corporations.

“I would say the other ecosystem, our other corporate venture capital fund, so for example the Cario guys and the Syngenta folks or the DuPont people, they are seeing ideas and brands that are way too far upstream for them. Or they’ll see a company that’s got technology that’s thinking about also taking that product into retail. So they’ll be making those introductions for me a lot. That’s been a fruitful system”. [D2]

Retailers who had made their own SBV investments in entrepreneur brands that may be interested in co-investment from a traditional food manufacturer such as Delta, to enable a financial exit at some point.

“And so maybe I’ll partner with Safeway. You know we’ve had some conversations with them. Is there a way because for them again if they’re looking at a financial there might be a benefit because we become a viable exit strategy for some of these companies. So I think there’s benefit for creating an ecosystem of investment… the Safeway one is I think a really interesting one that I would invest in that one if it’s in categories that has strategic interest to us because I think it’s a benefit to them and it’s a benefit to us”. [D1]

This latter insight is interesting and has some implications for large firms seeking to pursue an SBV approach. If ecosystem members such as agencies, distributors, and even retailers (e.g. Safeway above) are also making equity investments in promising emerging brands this may complicate the deal process for the large firm. For instance, if the traditional buyer-seller relationship with a retailer on mainstream brands and categories is augmented with a co-investment relationship, does this cross over and interfere with the buyer-seller domain in any way? Although no evidence of this nature was forthcoming in the case, it can be speculated that large firms wanting to increase their equity in a co-invested brand, may for instance, be forced to:

- Compete with a ‘customer’ on financial deal terms and support being offered the small brand, or debates about the enterprise value at the exit stage; or
- Get entangled in shelf-space management issues if the retailer allocates more space for the emerging brand and reduces space for large firm brands in order to extract bargaining leverage of some sort.

It would be fair to assume that ecosystem members taking equity stakes in emerging brands, probably lowers the barriers to entry and enhances success rates for entrepreneurial brands thus placing even greater pressure on large firms to grow and innovate whichever strategic route they choose e.g., external innovation, open innovation, or internal sources of innovation and new brand creation. Another interesting observation was that retail chains introducing
private label products or their own store brands precipitated the easing of industry entry barriers. This move had created an infrastructure of multiple co-packers hitherto not present in the industry that in turn, generated surplus manufacturing capacity for both entrepreneurial start-ups and large firms alike. One interviewee hypothesized about this causality as follows:

“This is my hypothesis. What shifted really in the last 10 years? And that’s what they’re doing is they’re going into a co-packer industry that didn’t really exist 10 years ago and that was really fueled by retailers going into that. And it’s enabled us too because 10 years ago I would say 90% of what we produced and sold was something that we manufactured and sold. Now if you look at our portfolio I’m not going to know the split and this is probably confidential information but it’s probably 60% internal and 40% external. So, our portfolio mix...and so we’ve tapped into this industry to enable flexibility and reduce our barriers to entry because barriers to entry in the past were capital expenditures and things like that. So I believe that it was fueled by the retailers going into it. You create this little ecosystem and then all the small companies can tap into it. So I mean they’re all doing co-pack stuff”. [D1]

c) Picking and courting brands
The selection of Oregon came as a result of a general scouting process.

“You know somebody who was kind of scouting and said hey this is a really interesting company, had just started talks with the company and then the email went back out to [Alaska] and to Snacks to say are either of you interested in championing it. So this wasn’t one that was like on Snacks – I actually think they may have been on the [Alaska Foods] target list so maybe that’s how they ended up on the overall list to begin with. But they weren’t on our list. We hadn’t said to them go out and form a relationship with this company. So [the Delta Ventures] group, that team actually started conversations with the entrepreneurs. They were interested in talking to us further and then we were at the point where they needed a division sponsor.

At that point [Alaska Foods] was totally in the throws of buying [Wisconsin], so they did not have the bandwidth to take it on and we raised our hands and said we’d be happy to do it because we’re really interested in the equity and the entrepreneurship. But frankly, we also just wanted to see what this minority investment thing is all about. So there was also a little bit, at least in my mind in the beginning like let’s go for it, let’s see what they’re saying, let’s see how this thing works, let’s start getting experience here with a company that we may be interested in”. [D1]

From the entrepreneur’s perspective, Delta was chosen because of prior commercial relationships and entrepreneur endorsements.

“Well I think part of it is the founder of [Oregon] actually has worked with [Delta] in the past as I think one of our co-packers, so he had worked as a co-packer and just had a lot of respect for the company as a value for [Delta]. So this is just a very principled person who just really believes that if he works with [Delta] he’s working with people who have a lot of integrity and again has been built by his relationships with the company in the past and he was just really impressed I think maybe with some decisions we had made in the past about quality and just how we treated consumers and that kind of thing. So he already was predisposed to think that [Delta] was a really strong partner and in fact I think it was top of his list in terms of companies that he would want to partner with and talk to, so there is that. And it was just kind of a personal fit for him.

There are also actually as [the corporate venturing] group goes out into the world and into the Expos and all the different places where you meet with all the different entrepreneurs there is a lot of from what I understand good buzz about [Delta] coming from [Indiana] and [Delaware] and what I was just saying before about the way we’ve treated previous acquisitions of people feeling like hey that’s a good model and I would like to see my company have a model like that. So probably there is a little bit of that. In fact after we bought [Wisconsin] from what I understand, just the interest level in people talking to us just went that much higher. So now we don’t have trouble getting meetings with entrepreneurs. Not that we had trouble before but it’s much easier now because people feel a little bit like they’ve seen that we’re serious and how we operate in the space”. [D1]

When asked about the strategic role that Oregon would play within the snacks category portfolio:

“For us it would be – I think initially we were all like well we would want to be able to acquire some sort of IP if we go and talk to some of these smaller companies and then over time realize hmm, there’s really not IP out there to be had. So at the end of the day it’s really more about the brand and it’s about these management teams that kind of have been thinking that they bring to the business, so in this case with [Oregon] it would be more about that brand and do we believe that that is the brand that would complement our portfolio here, that would not be something that we could build ourselves or take one of our existing brands into some of that
space. And so those are some of the things that we’re evaluating as we continue to be with the company and we have quarterly board meetings which I find absolutely fascinating. And it’s a weird thing because I technically compete against [Oregon] like kind of in my day job. So we’ve talked openly kind of about what does that look like and what sort of a firewall do I have to have up in terms of – because I’m not looking at their ideas and trying to bring them back into my big company and have [Delta] execute them. So there’s a certain level of trust that they have to have. But I think their whole point is just hey we’re this small little company compared to you. Like we can learn a lot more from you and we’re not so worried about you stealing from us has kind of been the attitude. So they really haven’t been worried about that. I was more worried on their behalf of just wanting to tell them that this is how we’re going to try to keep the firewalls up, just so you know this is how we’re going to treat it internally.

You know this is a confidential investment that we’ve made. We don’t talk about this outside of the company. [Oregon] doesn’t talk about this so the associates with [Delta] is not supposed to be broadly known. And I’m not 100% sure why that is, but that was a decision that was made at the top of our organization and then within X’s group, so even within the company we’re not supposed to be talking about it broadly but again I’m not 100% sure why but we’re not. But those guys aren’t so worried about that. So the role that they would play for us is again to participate in this category. I mean frankly the categories that they’re competing in grows at 8%. It’s a three billion dollar category growing at 8% a year. And there are very few large categories like that that you can kind of get into. And to be able to compete and grow in a category like that in my opinion you need multiple brands. You can’t just have check [Lix]. You know that’s just what we kind of have today. So that’s kind of why we’re interested in looking at other brands, other pillars and just trying to see what else is out there”. [D1]

In terms of perceived risk for the entrepreneurial venture of taking an investment from a corporation, the main concern revolved around capping their upside financial potential through a pre-negotiated set of revenue multiples and time-period.

“| think they were curious to understand how their upside would be limited by working with us, so as their performance was so stellar if they began working with us and we passed on that call option, or we decided we just need to terminate the relationship for some reason, would that harm them in the future. And then also on the upside if you obviously have a call option to a specific multiple you know that’s all the return you’re going to get. Maybe that makes you happy and maybe that doesn’t and these guys did think that that was going to be good for them and they really [Bethany’s] expertise was just the kind of winning formula for them”. [D2]

6.6.5 Relationship with Entrepreneur Brand ‘Oregon’

Three elements pertinent to the relationship will be covered in this section: structuring and making the investment, brand marketing across life-stages, and inter- and intra-organizational linkages.

a) Structuring and making the investment

The deal structure seemed relatively straightforward with an initial minority investment at a time when Oregon was circa $13 million in revenues and a call option negotiated after a designated time-period\(^\text{16}\).

“So we found that company through the database work through Spins and Nielsen, they were just doing incredibly well. We reached out to them and began building a relationship over many months...And we got to know them really well and decided that we wanted to work with them and so we decided to take a 20% position in the business, put [Bethany], who you met on the board of the company. And then the vice president of M&A sits as a board observer on the company as kind of a backup...And then we took a call option on the business to acquire the company and attend board meetings and help facilitate introductions across the company”. [D2]

When asked about any supplementary operating agreements that may have been reached relative to what contributions and benefits Delta would bring, or what specific deliverables Oregon had been tasked with, it transpired that these agreements were more of a verbal nature

\(^\text{16}\) The exact time-period for the call option was not disclosed but it was conceded that it lay within a 3-5 year time-frame.
and that a financial injection coupled with a seasoned Delta executive on their board were the primary needs of the venture at that juncture.

“We did sort it out but it wasn’t in any agreement. So what we said was we’ll be providing strategic value and advice at first. So kind of get to know each other for the first year or so, really build the business from a strategic standpoint. Are you in the right skus, are you optimally staffed, things like that. And then when we thought is over time there could be agreements that we enter into, depending on what they need. But they were really kind of firing on all cylinders and really just need to hire people. They needed the money and they needed some big picture like how do I work with this customer and this customer together, so it was those types of questions we found that they were actually needing most. We felt like that’s a really good fit for our first brand of investment because it wasn’t that complicated actually”. [D2]

b) Brand marketing across life-stages

Unlike in cases 1 through 3 where an emerging brand marketing model existed that shaped the decisions and philosophy towards entrepreneurial ventures, no formalized model existed in this case.

“I would say I would probably learn more from them about how they market their small brands than what I can probably teach them. I mean because at the end of the day their budgets are like – I mean they’re like rounding errors on my budget – who knows what their entire annual spend is. So I feel like I’m learning from them in terms of how they are choosing to spend. Now having said that though, I can definitely help them you know because again as we think about like the social space, the digital space, you know all of that, [Delta] is getting into that in a really big way and we’ve got tools and learning that I can do so I just did what we call a social script. I just did a whole social script for [Oregon] using our resources here and at the last board meeting presented that back to them and then like hey, here’s what people in the digital space are saying about you, here’s how we would benchmark that against other things that we have seen, here’s what we see as your opportunities.

So we’re offering up opinions like that you know when we actually sit down and they thought it really helpful for them, the whole discussion. And I do think that’s a great use of how big company resources can do something for a small company. And then what I’ve been most impressed with just sitting on the board is the speed with which these guys can move. Oh my gosh. Like the things that they can do in between board meetings. So three months later – I mean it’s just like oh my gosh, it’s like wow! And I feel like there’s a lot of great learning for [Delta] in that. Just how quickly these guys can pivot and move on to kind of the next thing and then have it ready to go three months later is pretty impressive. So I think both sides are gaining a lot out of this experience”. [D1]

It seemed that entrepreneurial marketing was still in the process of being learned and that Delta did not yet have enough case studies of entrepreneurial brands they had invested in or tracked to build a specific doctrine on how to support these brands from a marketing standpoint across different stages of evolution.

“I think it’s different but I’m not sure I could – I don’t think we have enough case studies underway yet to really study what the exact nuances are. I can say from a perspective of meeting so many of these companies – I’ve probably met over 100 companies in the last year – you start to see what is working and what isn’t just anecdotally. For me it’s one of the filters that I use before I even decide to bring somebody in house and introduce them to everybody because people that don’t have a basic understanding of the importance of either if it’s a mission driven or a brand that’s really closely tied to authenticity and a genuine perspective. If they don’t have a basic understanding of how to connect with brand ambassadors and their consumers it makes me concerned. So I only have some basic fundamental filters that I use”. [D2]

When asked whether Delta had codified entrepreneurial marketing and pulled together a marketing playbook for emerging brands, the response was:

“Definitely not”. [D2]

c) Organizational linkages

Several inter-organizational support links were facilitated through the Delta executive representing shareholders on the Oregon board, for example:
- Access to consumer research for marketing mix modifications, and syndicated retail audit data for use in tracking market share and in developing category management stories with supermarkets
- Marketing expertise at brand positioning and visioning
- Manufacturing certification in international markets
- Legal and packaging label compliance management and insights relative to ingredient claims
- Research and development expertise

“Well, what we did was when I first sat down with him in their first board meeting I asked him for a list of all the things – their wish list in terms of what they would want from [Delta]; And then I took their wish list and came back here and worked with our legal area in terms of what can and can't we provide. Like for example one of the things that they would love to have access to is just data – Nielsen data on the categories that they compete against. They're usually mainly spin stuff because they're in the national organic channel. They would just love to have access to just the retail information. But unfortunately I'm finding that the way our contracts are written I'm not allowed to pass that data on because we don't have a majority interest in this company so therefore I can't give it to them. So that's actually been a little eye opening too in terms of – except that I would have thought it would have been a no brainer that I could pass along. I can't. But there's other things that I can do, like I can include their stuff in research that I do. You know like sort of as a quick easy little add on where they get information that they would never have gotten but that I can make available to them because I was already doing the study and by the way I can ask them questions about [Oregon] while I'm at it which is kind of one nice thing about having me being in the same category that they're in is that I have researched kind of going in the category and I can help them in that way.

We've also helped them with expertise. For example, one of the things they do a lot of co-packing in Europe and they were really struggling with how to get Kosher certification in some of the European facilities. So I hooked them up with a person within [Delta] who was a total expert on getting Kosher certification. And so that person can conceivably say okay here's how you go about it, here are the contacts – just cutting through some of the red tape. They do a lot of business in Canada and so sometimes they run into some regulatory issues there where they were unaware of a law or a labeling requirement and they find out later and it costs them a lot of time, energy and money to kind of go back and make changes. So one of the things we've talked about, I've made contact now with our Canadian people if they've got some questions. We can funnel these up to the Canadian people and basically it's trying to help them learn faster so that they don't have to kind of recreate the wheel if we already have a bit of a grooved process and it's really no skin off our nose to be able to provide it. And then I have to be careful too, because once we start going into the international area they're not sponsoring this investment, our U.S. people are, so then it's a little bit more hey do me a favour and kind of look at this. We have to be careful that it's not too many resources on the part of somebody else in terms of making a request. But this is how we've handled it. I was very intrigued by what you were talking about here at breakfast with contracts and with plastics. You were using as an example helping to get better rates because you're just lumping in the order as part of the [Alpha] order. I think that's really interesting. That has been something that I've even been thinking would it have been feasible. So I think there's still other opportunities for us to mine.

We've got our board meeting in July is going to be here in [X city] for the first time. We've done all of our other board meetings at their headquarters. And I'm setting up an entire day with all sorts of people within the company. Now that I understand their business I'm like okay these are their major issues. And I've set up time with people in legal to go over claims because one of the big things we find with entrepreneurs in our food space is that they are making all these claims on pack that we as a big company would never be able to make those claims because the standards are so high. And in fact sometimes when we buy companies we find that the claims that they were making are not ones which the [Delta] feels comfortable making. So we take them off and it looks to the whole world like [Delta] is now running the sanctity of the – in reality we're holding them to a much higher standard than they were holding themselves to because we care about that stuff. Once we're able to deliver that quality standard we'll get a better quality product. But it doesn't look to them like that of course initially. But I'm going to let them sit down and we're going to have them sitting down with our whole regulatory people and we're going to be talking about all the different claims that they make on their packages and it's not [Delta] doing the review of their legal approval, of their claims and it's not that at all. It's just hey if our businesses were making these claims these are the kinds of information that we would want to know, these are the kinds of conversations that we'd be having around risk, kind of with our businesses. So we're going to do that.

I'm going to have them meet with – there's a bunch of consumer insights just within the snacking world. I'm going to have the whole consumer insights group present all of those to them. We're going to do a whole thing on brand purpose, brand meaning and what does that look like, what documents do we use, you know Marketing 101 stuff that might help them figure out what is the [Oregon] Snack Foods Brand and where do you take it. I'm going to have them sit down with the category management people to have an opportunity to say here's how we see the category; here's the insights that we're seeing on the retail side you know to the extent that that's interesting to them and their sales people. So I'm just trying to set up meetings with them so that they will learn about – is there anything that we can teach them that they can then go back and decide. I mean they get to make all the decisions; we're a minority investor. So it's all about what they do with the
information that we give them. But providing them with access to the expertise that we have that is relevant to the problems that they have.

Like originally we were talking about setting them with a packaging R&D person to give them a perspective on some of the package structures that they have chosen – like here's some of the questions that we would have about your package structures and cost and ways to save and you know in the future I can definitely see sitting down and talking with them about productivity issues, although at this point I don't want them focused on that. I want them focused on growth and getting their top line out there. So those are the kinds of things". [D1]

Another area of expertise shared with Oregon was how to manage trade channel conflicts between say the natural channel retailers, like Whole Foods Market, and mass merchandisers, like Walmart supercenters.

"Oh, like another thing that we help them out with, like for example just channel conflict that arises. Like the difficulty of doing business with both Whole Foods and Walmart, very tricky. And so that's something that we have an expertise in. We've got people that have fought those channel wars and we have advice to offer on that. So when [Oregon] faces those kind of decisions, we can put them in contact with people who can help them talk about well here's the pros and the cons, the views and (inaudible) decision, but at least they can speak to people who have been there and who can help them looking at what might happen if you do this with Walmart; what might Whole Foods reactions to that be". [D1]

6.6.6 Venture Portfolio Management

a) Monitoring and investment decision-making

Monitoring of the investment principally took place through board membership, board observer rights, and administrative follow-up from the Delta Ventures group.

"we decided to take a 20% position in the business, put [Bethany], who you met on the board of the company. And then the vice president of M&A sits as a board observer on the company as kind of a backup...And I'm primarily right now, I'm managing the process of going through the board decks after the board meeting, was just last Thursday, and reading through is there anything that looks funny, is there anything that is inconsistent with what they said they were going to do, and then all the back-end around consolidating their earnings and all of that work as well". [D2]

Additionally, and beyond the formal board representation, the regular cross-functional interactions between both organizations also de facto served as an informal and extended due diligence evaluation. Delta’s investment was still at an early stage and they were not yet at the point where the call option to acquire had matured. Notwithstanding this, it seemed Delta were also undecided as to whether they would exercise this right and acquire Oregon. Asked why Delta hadn’t purchased Oregon outright instead of having an SBV arrangement, one Oregon board member replied:

"Yeah we talked about that too. Because it’s like if you know you want the company – heck buy them now and they’re a lot cheaper than if you help them to grow and then they are a lot more expensive two or three years down the line when you buy them. But the issue is that we’re not sure that we want to buy them, so the advantages are that we have an opportunity to – it's almost like a due diligence process if you will, its really an in-depth due diligence process. So rather than have to do all that stuff with arms length agreements and 12 weeks to discover or whatever it is, whatever normal time frame is, like we’ve got a lot of time to sit down and get to know these people to understand how they’re running it and so by the time we are making an acquisition decision I don't think we're going to be surprised by anything. I think if we actually were to buy them because all of the risks would, hopefully if we've done our job right, would be known, and we would have been able to talk about them and would have been factored into our decision as to whether or not we buy them in the first place. So there's that piece of it and then there's just the risk. Again, [Oregon] in particular is so small, their 13 million dollars is kind of like where they are so they're still kind of in the small realm. And it's a chance to see, can they get this thing over 20 million, can they get this to the next level? It's the proof of concept that you guys talk about". [D3]

The opportunity of being able to de-risk the investment through adopting an SBV arrangement, or defer making an expensive acquisition decision, is an important advantage over other growth
strategies such as outright acquisition that rely on due diligence processes to surface risks and issues. Information asymmetry is a key concern when acquiring entrepreneurial firms as the large firm doesn’t always have the opportunity to uncover the true health of the business even though due diligence activities may have been completed. Partnering over an extended time period with the business and gaining unique insights into their performance and their true managerial competence is much more likely via a SBV arrangement. This benefit is consistent with real options theory. SBV investments in potentially disruptive brands are tantamount to exploratory bets in ‘wild ideas’ (March, 2006) and in this sense can be interpreted via the lens of real options theory (Allen and Hevert, 2007). Real options confer the right but not the obligation to participate in a future strategic opportunity that may require greater investment (Dixit and Pindyck, 1994). It appeared that Delta had a clear negotiated mechanism to purchase Oregon should they wish to, unlike the situation in Case #3 where no call right had been agreed upon upfront.

b) Assimilation and graduation
There appeared to be no clear recipe for how businesses were treated once they were acquired by Delta. One interesting action taken was the creation of a bespoke division focused on emerging brand acquisitions, called Alaska Foods. This division was believed to be a good ‘landing’ spot for entrepreneurial brands and where the spirit and practices of the acquired entity could be preserved and gradually assimilated by the large firm. The founding entrepreneurs were also retained in creative ways by Delta as either ongoing general managers of the business, or as heads of innovation and public relations, or one founder even became a senior executive within Delta leading their sustainability department.

“But the things that we have done well that I think have really helped to fuel it is I want to say 8 or 9 years ago we had a new venture team that made the recommendation to buy [Alaska Foods] which is our [Indiana], our [Maryland] which was a very small business. And what we did right with that business is we didn’t try to bring it into a division within the [Delta] system. We created a separate organization to do it, but in the beginning, [Tom McKay] who was the owner of it continued to run it. And then we slowly brought pieces in and we brought it in and [Tom] continued to run it internally and he was a good bridge for the organization. Over time we brought in a [Delta] person to run it. It’s still a separate group today and [Tom] then became our chief sustainability officer and so he was still a bridge. And I will say that was probably a great instrumental thing for us as we think about acquisitions”. [D1]

However, a similar emerging brand [Treats] founded by an entrepreneur, was not placed within the Alaska Foods division but integrated within an existing mainstream division.

“So I think they’re all a little bit different. So I don’t think we have a systematic path and I don’t think we have a group that is systematically thinking how these groups should be integrated”. [D1]

Furthermore, when probed as to whether scaled brands would graduate from Alaska Foods into a mainstream division, one interviewee retorted:

“No. And I don’t think that’s the model. So like we don’t look at [Alaska] and think about it as the incubation place. And you stay there until you get to be a certain size and then you jump into another division. That’s not how we have historically thought of [Alaska]. Again, they stay separate because of the channels that they compete in; it’s just a different business model. Many times their marketing support is just different. [Alaska] has not got to do the big national TV media stuff that the rest of us do. So the marketing support model is different, supply chain is different because a lot of those, just with the whole GMO and organic and just some of the requirements that they have for their products are just different from the ones that the rest of us have. And then the consumer. The healthful foodie consumer is like 100% their focus over there is that consumer and so the idea is that there is synergy there and those businesses should stay together. So even though like
you say like bits and pieces of those businesses cross over into other categories, and the other thing about [Alaska] is their ability to go cross-category because it’s a division that’s more – has as the commonality, the consumer target, and the channels that they compete in and not a category. The idea also potentially is that you can take these brands and go cross-category with them in an easier way than you could in a division like mine which is focused on three categories – the green category, the salty category, and the fruit category. So if I say I want to take [Lix] into the frozen case say, you know for me to do that would be I would have to go meet with the frozen division and it would have to be a priority for the frozen division, or I wouldn’t have it, versus [Alaska] has all that within their division. So they can take these brands and go across multiple categories in a much easier way. So for all of those reasons I don’t foresee that [Alaska] isn’t that businesses go there from this size to this size and then they graduate out”. [D1]

c) Intrapreneurship

Although no intrapreneurial project had yet been borne out of Delta Ventures per se, several entrepreneurial experiments or explorations were underway in the broader Delta organization at the time of the case fieldwork, many of which had some type of an involvement with Delta Ventures. For example, the formation of Disruptors, the minority investment in Oregon, a special group focused on building external strategic relationships, called ‘External Partner Development’, and then interestingly, another version of Disruptors that was similar in mission, but housed inside a specific division only focused on that category, called the ‘Innovate Division’ mentioned in Section 6.6.3 (a). Here again we witness the dispersed effort of being venturesome and entrepreneurial within Delta, but without an over-arching strategy in place as each organizational unit seemingly acted out its empowerment to innovate and venture, or was spurred into action by observing the decisions of another unit.

“So I don’t think we have a systematic path and I don’t think we have a group that is systematically thinking how these groups should be integrated”. [D1]

It seemed the more probing that was done, the more these new units were being uncovered, as revealed below towards the end of one interview:

“So [Marcello] created a new group within his division called the ‘Category Expansion Team’ and this is run by a phenomenal director who has got a lot of great credibility who was given a team and some money to go and build like I don’t know what it is – I don’t know how much money but it’s like 5 new businesses and you can use outside brands and you can use inside brands. So it’s another version of [Disruptors], it’s just within the division and he just has to focus on Snacks. This idea is definitely spawning in the other divisions so I think other divisions are like well: ‘we should have that team because they can leverage everybody within the division all of our resources’. So this team is only a year old, so I’ve just started working with them on their external ideas”. [D2]

When questioned as to whether they would also be making external SBV type investments, the response was:

“Yes, so I’m potentially working with them on some investments right now”. [D2]

This brings to an end commentary on findings of the Delta-Oregon case study. The next section concludes with a case summary.

6.6.7 Within Case Summary

In this section, two topics will be covered: major themes emerging from the case and implications for the model; and a subjective assessment of the SBV partnership outcome.
6.6.7.1 Major themes/code implications

Two of the most pertinent have been selected for amplification.

a) Uncertain strategic validation of SBV

Delta was at an experimental stage with SBV at the time of case writing and somewhat undecided about whether this would become an integral part of their future growth and innovation strategy in the same way that acquisition and internal innovation had been historically. A certain reticence and lack of boldness in SBV is exemplified in the following quotation from an interviewee:

“It’s going to take a lot of courage…I see a lot of things in place. We have the interest. We have the targets. We have the relationships. We have the money. I’m not sure we have the courage to take the next step. And so I think courage is built from a little bit of trial and error which I think we’re getting…

[Delta] is called the fast follower. We don’t do anything first. We look at somebody else do it, and then we all jump on and try to do it better. And because that’s our corporate culture this is the first one. Somebody went first and John went first and so a lot of other presidents are looking at that and saying well that’s interesting. He did it first so now I’d do it you know. So I think it just takes time”. [D2]

While the need for courage was noted above, another executive felt that excitement in SBV activity was brewing and the strategic merits were increasingly being understood.

“I think the company is really excited about it. I think we would love to do more of these. The problem is finding the right targets as I was saying and the right candidates. Because the companies that we’ve acquired, like if I think about [Delaware] and [Wisconsin], I mean they’ve been in the $80 to $100 million in sales I think. Maybe [Delaware] wasn’t quite up there, [Delaware] might have been in the 50s. So they’ve been bigger than [Oregon]. So once again it’s an opportunity to get – I do think people recognize the need to go more upstream from a size perspective into how do you get to somebody – because by the time somebody is like in that 50 to 80, everyone is looking at them. It’s kind of like Pirate’s Booty is on the market right now. Everyone is looking at it. Everyone knows it’s out there. It’s 100 million in sales and we all know it. And then the premium goes way up for that because everyone knows it. So this is also an opportunity to buy fair. Like we’re not looking for a bargain basement price. We’re not looking to screw the entrepreneur but we want an opportunity to buy it at a fair price so that we can actually realize the savings and we don’t overpay. And so I think we would do more of these; we just haven’t necessarily run into – you know we do a lot of entrepreneurial meetings at least in the snacks division. And I know from just talking to [the VP M&A], he wishes that we had more of these. But it’s been finding the targets that’s been the difficulty”. [D1]

Another Delta executive endorsed the need to partner with brands in the external entrepreneurial community and introduced interesting notions of ‘proof of concept’ that entrepreneurs are better equipped at, and ‘proof of scale’ that large firms are better equipped at achieving. This idea is later applied across the other cases as a lead indicator for gauging SBV unit competence at navigating brands through both of these milestones.

“So this concept of minority investment is still fairly new. We’ve only made one. I think we’ve approached several and I think some of them haven’t worked…So I think it’s great that we’re doing it. I say we don’t stop it…And I actually think it’s the bridge for the future because, they struggle to grow up, we struggle to start small; and if we can figure out how to get the entrepreneurial company to work more strategically with large companies, and my bias is with [Delta], is that that’s where the power is, because what we’re great at is proof of scale. What they’re great at is proof of concept and really the magic is figuring out these strategic partnerships in the middle. And we want it to be a financial win for the entrepreneur and a financial win for us but in theory we should be getting advantaged terms because we’re de-risking a lot for them and if we can get to them early enough they see the value in partnering with us earlier and they are happy to take it and it’s still a big win for them. So I feel like financially it should be a win for both groups as well”. [D1]
Unlocking resident potential for a SBV capability

Although Delta had only made one SBV investment, the potential for this becoming a strong capability in the future seemed already resident within the firm in the assessment of the researcher. Many of the activities performed by Alaska Foods division for instance, of working with external founders, marketing small brands in thoughtful and tailored ways, building relationships with leading health and wellness minded consumers, leveraging large firm resources and scale benefits to accelerate small brand development, working across product categories, etc were all very relevant skills for a successful SBV unit. Alaska Foods was also used as an external public relations proof point and benchmark for how Delta collaborated with entrepreneurs and founders post acquisition. Introducing existing or potential new external entrepreneurs to the story unfolding within Alaska Foods, or facilitating direct access to team members, or founders still affiliated with Alaska Foods, helped to strengthen the competitive reasons why Delta could be, or already was, a large corporation with resident experience at large-small firm partnerships. For example, we see this notion of making introductions to former entrepreneurial founders illustrated below:

“And with the minority investments that I have, I have made those contacts available to my entrepreneurs for when they run into issues and say: ‘Well hey, if you want to talk to X or to Z or to some of these others I can set you up with some of those calls and we’ve been able to use the connections that way’. So all of them have remained very friendly with [Delta] and think very highly of [Delta] and have actually frankly been some of our best cheerleaders in terms of [Delta] being in – you know it’s a good company to have buy your company because of the way they treat the entrepreneurs after the purchase”. [D1]

Combining these skills and resources with the innovation remit and budgets of Disruptors division, and Delta Venture’s venturing investment expertise in technology firms, and ecosystem participation, would potentially make a powerful organizational unit similar to the unit described in Alpha Corporation. Externally accessed brands, or internal developed brands, that are incubated in this new unit could either be retained within the unit (as they presently are in Alaska Foods), or graduated after proof-of-scale into one of the mainstream divisions to benefit more directly from a larger pool of resources and mainstream category expertise. Furthermore, SBV experience and reputation could be built in one place inside Delta thereby ensuring more rapid learning transfer and assimilation of venturing practices, and a single point of interface with the external entrepreneurial community.

Table 6.10 below contains an assessment of the match between the a priori codes and evidence of these found codes within the case. Additionally, new emergent codes deemed to be relevant to a SBV model are also earmarked for subsequent refinement of a final SBV model. As can be seen, most of the a priori codes were verified in the case with partial assessments indicated reflective of the early stage nature of SBV activity, or the already oft mentioned lack of strategic clarity for SBV and the numerous organizational units exploring SBV. Two potential new codes emerged from the data: disparate venturing or no single locus of SBV activity, as well as, a lack of clear top management sponsorship that in turn may help sharpen the strategic role and contribution of SBV inside Delta.
Table 6.10 – Case #5: Implications for Codes and Model

<table>
<thead>
<tr>
<th>Codes</th>
<th>Fine-Grained Codes</th>
<th>Case 5 Delta/ Oregon</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Antecedents</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>B. Program Design</td>
<td>B1. Objectives</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>B2. Strat/Structure</td>
<td>Unclear</td>
</tr>
<tr>
<td></td>
<td>B3. Governance</td>
<td>Partial</td>
</tr>
<tr>
<td>C. Opportunity Identification</td>
<td>C1. Exploration</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>C2. Ecosystem</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>C3. Courting</td>
<td>Partial</td>
</tr>
<tr>
<td>D. Brand Entrepreneur Partnerships</td>
<td>D1. Invest</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>D2. Marketing</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>D3. Org Linkage</td>
<td>Partial</td>
</tr>
<tr>
<td>E. Venture Portfolio Management</td>
<td>E1. Monitor/Option</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>E2. Graduation</td>
<td>In process</td>
</tr>
<tr>
<td></td>
<td>E3. Intrapreneurial</td>
<td>Yes/No</td>
</tr>
<tr>
<td>F. Outcomes</td>
<td></td>
<td>Early stages</td>
</tr>
<tr>
<td>G. Emergent Codes</td>
<td></td>
<td>Disparate Venturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of senior sponsor</td>
</tr>
</tbody>
</table>

6.6.7.2 Subjective assessment of outcome
The case is poised at a relatively early stage in the development of the SBV partnership. It would therefore be premature to judge the success for either party at either extremes of the scale. Hence, the partnership is judged to be medium on both axes (see Figure 6.21). Some strategic and financial value for Oregon has already been created, through the investment plus the ancillary advice and support emanating from Delta executives, but not yet maximized given the formative nature of the partnership. For Delta, their reputation and capability at integrating previously acquired entrepreneurial brand ventures seemed well developed (for example in Alaska Foods division), and therefore Delta’s potential for value creation from SBV investments was evaluated to be reasonably solid. However, a clearer strategic position for venturing was needed and a stronger commitment to continue making SBV investments was not yet forthcoming from top management. These points augur against Delta obtaining a higher assessment than a medium outcome at this present time.

Figure 6.21 – Subjective Rating of Case #5 SBV Partnership Outcome

This concludes the discussion of the Delta-Oregon case study.
6.7 Case #6: Epsilon and Entrepreneur Brand ‘Georgia’

6.7.1 Introduction
Epsilon operates as an international food service corporation with total revenue well above $30 billion. Epsilon is a globally recognized brand ranked on the world’s most valuable brands list. Epsilon disbanded its SBV unit despite its clear financial success, due to disputes with franchisees over operational priorities and complexities caused by the venture investments in newer food service chains. The case is included due to the success and insights of the SBV unit and how such units can be disbanded for strategic reasons beyond their stellar financial performance. In many respects this is what researchers call a ‘deviant case’ (Ross, 1963; Bennett and Elman, 2006; Seawright and Gerring, 2008) since it contradicts the customary pathway to adopting corporate venturing. Typically, environmental factors and internal factors are ex ante the formation of a dedicated organizational unit that then executes a venturing investment strategy. In this case, the SBV unit was formed in 2004 ex post to figure out how to exit entrepreneurial brand investments already made, and in the process of doing so, to limit financial exposure and hopefully deliver a solid financial return. Despite its retrospective nature and reliance on public sources, company material, and a singular long interview with an elite businessman and former head [E1] of Epsilon Ventures for data gathering, the case is included in the dissertation. It is included in the belief that unique insights into SBV can be garnered from its extremeness of formation and dissolution, yet also since several aspects of managing the relationship and providing corporate support to the entrepreneur venture were more typical of other SBV cases selected. Unless otherwise indicated, all quotations stem from the former President of Epsilon Ventures. A chronology of key milestones in case #6 is portrayed in Table 6.11 below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>First Georgia store opened by founder</td>
</tr>
<tr>
<td>1998</td>
<td>Epsilon co-invests in Georgia with private equity (PE) firm for 38% minority stake</td>
</tr>
<tr>
<td>1998–2000</td>
<td>Epsilon business units and HQ make several minority investments in brand ventures globally</td>
</tr>
<tr>
<td>2001</td>
<td>PE firm exits. Epsilon increases equity to become 85% majority shareholder</td>
</tr>
<tr>
<td>2003 (mid)</td>
<td>Epsilon CEO makes strategic divestiture decision</td>
</tr>
<tr>
<td>2003 (late)</td>
<td>Epsilon CEO forms Epsilon Ventures</td>
</tr>
<tr>
<td>2006</td>
<td>Successful Georgia IPO</td>
</tr>
<tr>
<td>2007 (Jan)</td>
<td>Epsilon Ventures disbands</td>
</tr>
</tbody>
</table>

6.7.2 Antecedents
This section covers the antecedents (see Figure 6.22) to strategic brand venturing inside the Epsilon Corporation. The external context at the time preceding the formation of the SBV unit...
saw high levels of entrepreneurial activity in food service formats and concepts coupled with changing consumer tastes toward healthier convenience eating experiences (e.g. ‘fast casual’).

Figure 6.22 – Antecedents of SBV in Epsilon Corporation

Simultaneously, Epsilon’s core business was struggling, which when coupled with the decentralized culture operant within Epsilon Corporation, local business units and functions were given high degrees of strategic freedom to explore new avenues for growth. External investment decisions in entrepreneurial firms were permitted as each entity uniquely responded to perceptions of risk and opportunity facing their business. For example, the United Kingdom business unit bought a minority investment stake in a fast-growing new snacking chain. The corporate strategy group purchased an equity stake in ‘Georgia’ an emerging, ethnic restaurant concept. The menu management team purchased a pizza chain, and the CEO’s office and corporate counsel bought a quick service restaurant chain out of bankruptcy with the intention of securing the real estate and converting this for use in Epsilon’s core business. Furthermore, the corporate strategy group identified a new platform to drive traffic to Epsilon restaurants through automated retail that later became a DVD rental vending concept. After a while, senior management began to debate the best strategic course of action: grow by focusing on the core business, or grow through diversifying via venturing and acquisition. The former president of venturing at Epsilon put it this way:

“I found back then that there were sort of two basic schools of thought around corporate growth strategy. One was the Zook/Bain camp of ‘focus on the core’ and grow from there and be very focused on the core and don’t screw around with all these distracting activities. And [Epsilon] certainly were steeped in that school of thought. And then there was the Gary Hamel ‘bring Silicon Valley inside’ innovation culture that believed that you had to let flowers bloom, plant many seeds, and demonstrate a disciplined venture capital mindset in order to ultimately find your best growth vehicles. But what I found interesting about this journey was that I was tasked by the CEO to figure this out, you know, ‘what should we do?’ And we ultimately hired Gary Hamel and his group to help me figure this out. We simply needed to know what we didn’t know in order to decide what we were going to strategically pursue. And what I learned at [Epsilon] which I think is different than at many other companies, is that due to their franchised and decentralized culture the cost of distracting the core operation is higher than the potential value of a future, uncertain venture. The reason is that people are so interested in the next ‘shiny object’ and were more interested in running [Georgia’s] because that was the hot next new thing rather than remodeling their own restaurants and cleaning up their own business which was in desperate need of cleaning up”.

With these antecedents and triggers, a SBV unit was formed in 2004 with the following design.
6.7.3 Program Design

The journey to formation of a venturing unit passed through several stages of evolution (Figure 6.23). The first could be described as ‘autonomous decentralized strategic behaviour’ where individual operating units made local venture investments without any corporate strategy to enfold them. The second evolutionary step can be termed ‘induced strategic framing’ where attempts were made by the corporate strategy team to frame the prior investments within an overall strategic framework for external and internal communication. The third phase involved the formation of a dedicated venturing unit that oversaw the prior investments against a profitability and divestiture mandate. These phases are depicted below.

Figure 6.23 – Evolution of Venturing at Epsilon

![Diagram showing three phases of evolution: Autonomous Decentralized Strategic Behavior, Induced Corporate Strategic Framing, and Formalized Corporate Brand Venturing.]

Source: Created from Epsilon company documents and interview material

a) Objectives and strategic role of SBV unit

As previously mentioned, the mandate given to the unit by Epsilon’s CEO was to separate the entrepreneurial venture investments out of Epsilon and eventually sell them. The objective was clearly not to financially invest further in them, build them, and create value. The leader of the venturing unit was torn between what was strategically appropriate for Epsilon to do and what was financially attractive for Epsilon to do. In his words:

“This was a kind of interesting dilemma because I said to him [the CEO], I love these businesses, I think several of them could be really great businesses; I think they can add significant value to [Epsilon] but the distraction isn’t worth it. However, I don’t want to sell them now. That was the dilemma we faced because we had invested about 450 million dollars in total including a lot of losses and he just wanted to sell them. And he was the kind of a guy that says, once you concluded something strategically, just get on with it. But I felt a fiduciary responsibility to at least try to get our money back and perhaps also get some return. I believed by spinning them out, declaring a path to full exit, we could get the benefit of eliminating distraction to the core while at the same time capture short-term value by simply improving the results in the venture unit.”

The venture leader was given one year to turn the portfolio around from making losses to being profitable or profit neutral to Epsilon. This strict mandate had important implications for how the strategy and governance of the unit would be implemented and is commented on in ensuing sections.
b) Strategy of the unit

Given the above mandate, the strategies of the venturing unit became:

- Pruning the investment portfolio of poor ventures to curtail losses;
- Picking those investments where significant upside potential existed and providing those with non-monetary corporate resources and expertise to maximize value; and
- Managing an exit from the ventures when superior financial returns on the original investment could be attained for Epsilon.

Similar to some of the other case studies, the venture leader was empowered by the CEO to decide the timing and choices between certain elements of the strategy provided he remained within the basic decision corridor of needing to minimize distraction and exiting. Even though the key strategic decision was made to exit, several of the legacy SBV investments were ‘pet’ projects for senior executives and needed to be handled with political deftness. The importance of top management support for venturing still holds true even in this case of divestiture and will also be more fully discussed in Section 6.9.

c) Location, structure and leadership of the unit

Epsilon Ventures was located off-campus albeit structurally nested within the corporate center and not within an operating group. Importantly, it had a direct reporting line to the CEO to enable it to execute its strategic mandate. Epsilon Ventures was made accountable for all the venture investments and relationships worldwide even if they were located elsewhere and technically reported into operating units or other functions. Pivotal to executing against this was the choice of leader that would provide organizational legitimacy. This is reflected in the quote below:

“I mean Gerald’s best reason for picking me to help Epsilon strategically was that I was a [fast food] guy. I had grown up running restaurants. I had some strategic training. But ultimately I was one of them. In Epsilon culture you can’t be successful if you didn’t grow up in the restaurants. You need the credibility, the trust, and the network if you are going to be successful introducing or implementing any new ideas. There is immediate tissue rejection for McKinsey, BCG, and other more external driven ideas whether they are right or wrong. The fact that I was one of them - that gave me a sort of intimacy and immediate kind of credibility”.

d) Governance and process factors

The governance model was quite fluid reflecting the autonomous strategic behaviour of the organization at first, but once the venture unit was formed in response to an induced strategic decision to exit, it subscribed to a clearer more conventional form of governance.

“I think it went in different phases. In the birth phase of it as I indicated earlier on at the start of this conversation...it was not an orchestrated effort at all; it was just like haphazard and happened and different groups did it. And then I guess it reached some critical mass where there were a few years when it was like the alchemy stopped, when we really made it into a strategy. At that point it got some more visibility and during management meetings we did have presentations and there was a steering committee, EST, Executive Steering Team or whatever they’re called. It was basically the management team of the company which I belonged to. We used that as an advisory group and we had specific meetings for about a period of like a couple of years where we came to them around strategic choices that the enterprise could make”.

Ultimately governance for the unit lay directly with the CEO who provided the ‘air cover’ and support when unpopular, tough decisions became necessary to prune and liquidate the venture portfolio. Realizing the challenging mandate, the deadline to reach profitability within one year,
and the location of Epsilon Ventures as a corporate group, the venture leader negotiated a
critical ground rule with the CEO as described below:

“But I knew that I had to make decisions that many people inside of [Epsilon] would reject and resist. So I did
one thing that I’m really proud of. I said to [Alan]: If I am to be successful here, you have to promise me
something. And he said, what’s that? And I said, if I convince you of a decision that I want to make that you
agree with me. You have the right to disagree with me and I’ll have to convince you, but if I convince you and
you agree with me, when you and I sit alone and I give you all the logic for why I need to make the decision
and you agree with me, you have to go execute that position internally. I’m not going to run around and
convince the other people because I won’t have time. So you have to just make a call to the three people that
I will identify who are going to hate the decision and you will have to just tell them I have made the decision, I
support [Josiah], just support him…. It was a great call and I think there’s a learning there still in the corporate
ventures because you need the CEO behind you. And I think a lot of corporate venture groups struggle
because the internal politics is just running amuck”.

The value of this ground rule proved indispensable to executing the mandate with speed and
precision as the venture leader lost little time in making tough calls:

“All units were spending money almost like drunken sailors. All in the pursuit of chasing big growth targets.
The combined units were losing over $50m in EBITDA, which obviously was unacceptable and unsustainable.
We had to make some really radical decision if we were to turn that around quickly. The major ones included
closing down some brand expansions internationally. That was unpopular with local management teams but
was executed quickly with the strong support of (Alan). We also radically reduced the planned real estate
expansion in one of the brands that was just unrealistic to start with. By shutting down operations across 2
brands in several international markets as well as cutting down insane growth rate we quickly turned all units
in to positive EBITDA territory”.

In the end, most Epsilon executives were supportive of the decisions and respected the
amplified focus on core brand Epsilon. They viewed the pruning and exiting as collateral
damage they had to give up. Historic relations with the venture leader evidently proved to be an
important factor in judging the decisions to be commercially savvy and credible.

6.7.4 Opportunity Identification

a) Strategic exploration and ecosystem participation
Given that no fresh investments were made by Epsilon Ventures, these aspects of the SBV
model were not covered in the fieldwork.

b) Picking and courting brands
While similar to the above, in that no new brands were screened and courted by Epsilon
Ventures, the background rationale behind selecting Georgia for an SBV equity investment was
covered in the fieldwork, hence the brief excerpt below.

“Well I think they chose it for a couple of reasons. One, I think they fell in love with [Joel] because he’s just
brilliant and they saw in him the kind of entrepreneur, the kind of visionary, the kind of talent that it takes to
build a great business. And [Matthew’s] a smart guy and he has seen those guys before. He was part of
[Epsilon] in the early, early phase and he saw the operators and he saw the same kind of tenacity and
brilliance in [Joel]. So I think that was number one. Number two, I’m sure they loved the food and that it was
different and whether it rises to the level of the structure we can debate but it certainly was different. The
design, and the trade dress, and the food, and his commitment to quality in ingredients and his cooking
background from cooking school. I mean there were a lot of things they liked. And then I think just the
numbers that he had. I think the first time they met him they had 8 stores and they were all doing really well.
So I’m sure that influenced them. And it was a small investment; it wasn’t that big of a deal. So I think
[Matthew] signed him at the time; they just felt that this was cool. Let’s make an investment and see what
happens”.

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6.7.5 Relationship with Entrepreneur Brand 'Georgia'

a) Deal Structuring
Epsilon initially purchased a minority stake in Georgia in combination with a private equity (PE) firm that increased over time into a significant majority stake. However, the initial deal design did not have an increased stake in mind or exclusive rights, nor did Epsilon have ultimate ownership in mind. The investment was principally designed to help fuel growth in the venture and thus enable financial benefits to accrue to Epsilon at exit. The investment could thus be described as speculative and financial in nature rather than strategic.

"I think the intent was to grow it. And I don’t remember the shareholder agreements but I’m pretty sure that – I don’t think they had an exclusive right. I think it was one of these typical deals where the all the shareholders were pro-rata participating and the existing shareholders, [Joel] and his Dad and XYZ, they didn’t have enough funds to fund that growth so they didn’t participate which meant that [Epsilon] just kept increasing their share. And then [PE firm] wanted to get out so we then bought them out”.

Interestingly, the partnership with the PE firm seemed to have elements of serendipity and although Epsilon would benefit from sharing the risk and from expertise in pricing and market validation, this was speculated to have occurred more by happenstance than by strategic design.

"Maybe they needed somebody that had done this kind of venture before and they said why don’t you do it together and it just happened. But it was not – I mean I have come to respect – there are a lot of private equity or particularly venture guys that have that as a rule, meaning they don’t make any investment in anything unless they find at least one other investor liking the same terms. And they do it as a sort of discipline around like not getting too much in love with anything. So it’s about market validation, market testing. And it’s not an entirely bad idea. I’m pretty sure that this wasn’t the case with [Epsilon’s] investment at this stage. They didn’t have that as an intention. They didn’t have this policy saying before we make this investment we’ve got to find somebody else that likes it too. It was more a unique circumstance”.

The interviewee was asked whether the design had any structural components that impeded the relationship in any way:

"I think the deal was straightforward. The only thing that created friction every year was that we had to set valuations for the next capital infusion. And that was always very emotional. I guess in some way this is very normal and the founding team always have more belief in the value of their company than the people investing the capital. Or at least that is the starting positions. Over the years we found a process that worked and it got easier with each valuation. I have come to accept in almost all business dealings that when I have to pay more for something that I really want it probably means I have found fair value. As long as the seller gets less for that same asset as they want. That is the equilibrium I am seeking in most transactions. In this case I would hand it to them (Georgia) that they were more right than we were. They always delivered and they were worth every penny we argued over. But then again, they have outperformed every conceivable expectation anyone (except themselves) have had on their future performance”.

b) Marketing across the brand lifecycle
No specific doctrine or model of marketing for an emerging entrepreneurial business had been developed or was followed in the relationship between Epsilon and Georgia. Even though the entrepreneur reported to the board and Epsilon had a majority share, no marketing decision-making or mass media directives were forced upon the venture by Epsilon. Instead, an orientation toward entrepreneurial marketing approaches such as word-of-mouth, public relations, community events, and social media was encouraged.
“Never. I mean [Epsilon] never influenced the marketing decisions. It was very much made by [Joel] and his team. I mean I, as Chairman of the Board, or director, or lead director, I was a close partner of [Joel] and I had input. I had a say I guess at least in the dollars we spent. But I never really had to – they were great at it. There was just not much to add, quite frankly when they showed what they were going to do. They didn’t do much marketing which is what I loved about the brand. I mean I have my philosophy of marketing and it’s very different than most traditional marketers. I generally believe that marketing is just a tax you pay for being truly unremarkable. I just generally believe if you’re really remarkable you don’t need to do a lot of advertising. You need to do community engagement, some brand activations and you need to let your brand be visible and there’s some occasional billboards here and there and local activation stuff and some PR. But if you really have a great, great, great product delivered in an amazing way then the market takes care of marketing. Those are the kind of brand’s I want to build. Brands that just people are so excited about that they share with their friends and they tweet and they use social media and they refer. And [Georgia] was very much, even though way before social media was built, that way a sharing economy – have you heard about [Georgia]? It’s great, come here, I’ll show you. So they didn’t do – I mean they did like less than a percent of marketing I think for years”.

A veiled reference to pressure from Epsilon to change elements of the Georgia marketing mix (menu and pricing) is found in Brand (2006), but dismissed in the interview by the entrepreneur as follows: “They probably did give me grief…we wouldn’t do [coffee or cookies] better than anyone else. And I don’t want anything to be part of [Georgia] that wouldn’t be the very best”.

c) Organizational linkages

Even though the mandate was to divest at the appropriate time, Epsilon Ventures played an active role in leveraging Epsilon non-monetary resources to support Georgia, and thereby help drive value creation. The support wasn’t altruistic but commercially driven since any economic value created would be captured by Epsilon at the time of exit in proportion to their equity stake. Support areas included:

- **Real-estate** location identification using sophisticated geo-mapping technologies perfected by Epsilon for their own business. This helped Georgia in identifying the right new store locations based on demographic trends.

- **Supply chain** productivity improvements through introduction of Epsilon distributors to Georgia enabling lower distribution costs, greater network flexibility, and chilled distribution quality.

- **Procurement** advantages through allowing Georgia to purchase foods, ingredients and beverages using the purchasing scale and pricing of the Epsilon Corporation. This benefit was significant and drove several points of margin improvement for Georgia.

- **Human resources** and talent injection whereby up to 13 managers were seconded to Georgia at one point. Interesting human resource issues had to be managed such as repatriation, employer identification, and regretted employee losses. For instance, some managers switched immediately to become Georgia employees, some switched after a years trial period, but only a few were repatriated.
Some of the above benefit areas were explained as follows by the interviewee:

“Yeah, so I think supply chain and real estate were probably the two most important areas – where both through people but also through activity. You know [Epsilon] had developed – and this is easy for me because the real estate group reported to me. [Epsilon] has developed over the years a pretty significant core competence around real estate, and also has some pretty profound technologies around geo-mapping so they can like take the whole country and say which is the intersection where this and this demographic is and they can plot then the average volume of an [Epsilon] and they can say here are fishing ponds as we later called them. Here are the hundred sites that you could target – these are the hundred intersections in these three states we should go target next. So that kind of activity and that kind of analytic we helped them with. So there was a couple of people in the [Epsilon']s real estate group that were very helpful. If you ask the [Epsilon] people today, oh that was instrumental to [Georgia].”

“We also introduced Georgia to many of our suppliers and relationships. In several cases they were able to tag on to Epsilon pricing which in some specific cases probably was the most valuable thing we ever contributed beyond people and capital”.

Interestingly, even in the granting of synergy and scale benefits to Georgia did the franchisee issue rear its head, probably contributing to the eventual Epsilon decision to exit the SBV relationship due to misalignments with its core business partners.

“[Epsilon] put [Georgia] in touch with our distributors and the distributors distributed for [Georgia] for years and this was the kind of distraction that happened. When an operator was in their local town they saw a [Epsilon] truck at a [Georgia] offloading stuff they just went through the roof. And they called me and they called the CEO and complained about it. So eventually distributors had to have [Georgia] trucks and now I think they’re out of almost all – but it took a long time because they didn’t have to. I remember in the separation agreement when we took it public, they had carve outs for some of this but they could still use the [Epsilon] distributors, because they’re not technically [Epsilon] distributors, they’re third parties…But they had to get out of that. That was the early days. They had to use their own trucks. They couldn’t use [Epsilon] trucks. But that was a pretty disproportionately valuable thing that [Georgia] did in the early days when we built the chain and you didn’t have to worry about it – it was pretty cost efficient and so they got distribution. We got the supply chain. But this was also another example of the cost of integration and the fact that synergies are always more difficult to extract than what bankers and analysts put down on paper. It probably is the main factor behind why so many acquisitions and mergers fail. Culture gets in the way”.

6.7.6 Venture Portfolio Management

a) Monitoring and investment decision-making

Epsilon had secured board seats at early stages of the investment that increased in number and rights as Epsilon increased its stake to become an 85% majority shareholder with a private equity firm owning another 10%. Epsilon had three of the seven board seats with Epsilon being able to hold the chairperson seat and casting vote. The venture unit leader was the chairperson. A relational governance style was practiced by the venture unit leader in that the casting vote was never used to exercise control or power. Most of the tough conversations were held outside of the boardroom and in-person. The logic being that the venture unit leader wanted the entrepreneur to continue to believe that they ran the business and were empowered to do so even if their personal equity stake had been diluted to only 5% by Epsilon.

“We had plenty of difficult conversations but it never got to a vote…[Joel] operated like he owned this business and he still does. He is the real owner even if he owned 5% of it and I think that’s what you want in a leader. You want all your leaders to operate like they really own the whole business. You never want them to feel like I only own 5% and [Epsilon] own the rest. That’s just not healthy”.

This seemed to pay dividends in that the business prospered and the bureaucracy so often attendant with a large corporate investor was kept at bay allowing the original entrepreneurial spirit and culture to thrive unabated. Personal routines were also practiced between the founder
and the venture unit leader typically through traveling to markets together and visiting lots of stores. This would usually amount to a few days a month in-person time in addition to regular phone calls.

b) Assimilation, synergies and graduation

This aspect of the SBV model was not relevant given the exit mandate. Limited sharing of best practice between venture portfolio companies was arranged by the SBV unit. Most synergy efforts were confined to real estate matters. No back-office integration steps were taken since the goal was to sell the ventures and Epsilon wanted to avoid disentanglement costs. Philosophically though, an orientation against seeking synergies was unearthed in the fieldwork that may have prevailed had the mandate not been to divest. The CEO of Epsilon was invoked to illustrate this point:

“There’s always corporate center people that would come to the CEO…and say listen this is ridiculous. We have like an innovation lab in all six corners of the world and they spend like 20 million dollars each. That’s like 120 million dollars. We could do this for 40 million dollars in [HQ] and save a bunch of money. And this is just an example. But his instinct was almost always to say, yes, that is true, mathematically you are correct. But the quality of your 40 million dollars would be so much inferior because you’re farther away from the market, you don’t understand the culture, you’re going to work on the wrong things and once you have a solution even though if it’s really great you can’t sell it to those markets because it wasn’t the best. And it’s not worth it.”

c) Intrapreneurship

Although no new businesses were created within Epsilon as a consequence of embarking upon SBV, it appeared as if the advent of the group and its activities did create opportunities for entrepreneurial skill development across its employee base. The interviewee remarked as follows:

“In one project that ultimately was very successful we recruited forty intrapreneurs from around the world…and the goal would be to come back to their old job or their new job and have really acquired some new skills and valuable new perspectives and insights. And all of them came back. And we tracked them a few years later and all of them have gotten several promotions. It was really successful. In fact in some cases it was too successful that people ultimately left when they returned since they felt that their “old” job weren’t ready for their new way of doing things. So we had to deal with that too. But many of them are still there and many of them – some of them got big jobs elsewhere. It was successful. They really learned some skills around how do I identify trends, how do you develop prototypes…”

This concludes the analysis of the interview based on the conceptual model. A within case summary now follows.

6.7.7 Within Case Summary

In this section, two topics will be covered: the major themes and codes emerging from the case; and a subjective assessment of the SBV partnership outcome.

6.7.7.1 Major themes/code implications

Three major themes standout from this case study: a SBV unit is established to divest not to invest in new ventures; the strategic savvy and political skills of the venture leader; and financial success is insufficient to trump strategic considerations.
a) Divest not invest: a case in deviant SBV

The unusual mandate given to the venture leader and unit is a key feature of this case. Not only are such units established to create new growth options, but it seems such units can also be effective organizational constructs of divestiture. The manner in which this process was managed and the astonishing outcomes that were achieved make this case both extraordinary in nature and outcome and argues in favour of an adjustment to the established doctrines of corporate venturing.

b) Strategic, political, and relational capability of the venture leader

We see several interesting dimensions of this at work in this case study:

I. Access to top management. The venture leader needs to be able to get an audience the CEO or the most senior leadership of the company to explain their strategy, cut across the interminable bureaucracy on occasion, get strategic decisions, obtain political support and air-cover, etc. In this case, the venture leader reported to the CEO that made this a lot easier than most. Access however is not to be abused and exploited. We see this illustrated in the Beta case discussed earlier. Example of getting support:

“And I said if I convince you of a decision that I want to make that you agree with me. You have the right to disagree with me and I’ll have to convince you, but if I convince you and you agree with me, when you and I sit alone and I give you all the logic for why I need to make the decision and you agree with me, you have to go execute that position internally. I’m not going to run around and convince the other people because I won’t have time. So you have to just make a call to the three people that I will identify who are going to hate the decision and you will have to just tell them I have made the decision, I support [Josiah], just support him”.

II. Peer credibility. The venture leader by nature of their role is involved in activities that push the boundaries and strategies of the firm through either their investments or through decisions that impact projects or businesses run by peers or other senior leaders. When these challenges to corporate or divisional strategy come, existing leadership will judge the veracity of the challenge by associating it with the idea champion, in this case the venture leader. They will be assessing whether the challenge is intellectual or consultancy based or whether it is grounded in an authentic appreciation of core business operating realities. In this case, the fact that the venture leader had a prior proven track-record running businesses within the core, made the venture leader’s change management advocacy more credible and palatable. Example of peer credibility:

“I mean [Gerald’s] best reason for picking me to help Epsilon strategically was that I was a [fast food] guy. I had grown up running restaurants, I had some strategic training. But ultimately I was one of them. In Epsilon culture you can’t be successful if you didn’t grow up in the restaurants. You need the credibility, the trust and the network if you are going to be successful introducing or implementing any new ideas. There is immediate tissue rejection for McKinsey, BCG and other more externally driven ideas whether they are right or wrong. The fact that I was one of them - that gave me a sort of intimacy and immediate kind of credibility”.

III. Entrepreneur credibility and effectiveness. As the primary external facing executive courting and interfacing with brand entrepreneurs, the venture leader must be able to build a trust-based and credible partnership with the entrepreneur. While social
chemistry is an important part of this, there also needs to be commercial substance and value-add that the venture leader brings to the relationship. Entrepreneurs have chosen to partner with a large firm and they need to feel that their choice has paid-off by having an executive who can maneuver around the politics of the large firm, get support for the venture, persuade senior management on critical matters and help to accelerate growth of the brand leading ultimately to an exit for the entrepreneur. The size of the exit payment is obviously a key factor for the founder and a SBV venture leader can potentially make a material difference to the financial payout being larger or smaller. Credibility, integrity and effectiveness are therefore key attributes. Example of delivering value by getting internal alignment:

"He looked miserable and I said in my first meeting – I said you can’t open this many restaurants, that’s ridiculous and he looked at me and he got really angry and he said to me this is not my idea, this is your idea. And I said no it wasn’t my idea. It was [Epsilon’s] idea. Okay. So I’m [Epsilon], what do you want? And he said to me you can never get that done back home. This was like mandates from the CEO. And I said well it’s a new day [Joel]. Tell me how many stores and I promise I will get that done. And he looked at me like with disbelief and we agreed on like 72 or 82 or 69, I can’t remember. But I looked at him and I said I’ll let you know tomorrow. And you know I flew home and I went to [Alan’s] office, it was new, and I said [Alan], my man needs to make money. He said I want to make this decision, I’m not going to open this many and he loved it. Not only did he not like it, he loved it because somebody stood for him. So I just told [Joel] and I said okay ‘done’! And I think that helped our partnership a lot – I mean we became really good friends and built a relationship built on trust from there on”.

IV. Relational diversity and adaptability. Building on the above point is the requirement for the venture leader to be able to flex and architect unique relationship approaches with each entrepreneur within the unit’s investment portfolio. Each entrepreneur requires different treatment based on their individual ambitions, orientations toward trust-based relations, personal confidence, and personality profiles and quirks. Clearly, not all entrepreneurs are created equal. The venture unit leader needs to be able to interact and influence entrepreneurs across a spectrum of Myers-Briggs psychological types. Example of flexible partnering style:

"We have plenty of difficult conversations but it never got to a vote. And [Joel] operated – and I think this is actually a key leadership learning regardless of anything I think. [Joel] operated like he owned this business and he still does. He is the real owner even if he owned 5% of it and I think that’s what you want in a leader. You want all your leaders to operate like they really own the whole business. You never want them to feel like I only own 5% and [Alpha] own the rest. That’s just not healthy. And I think the corporation, or the venture arm, or the corporate venture group, our job is to make them feel that way and help them feel that way and behave in a way that supports that feeling”.

c) New skills built

The exposure to entrepreneurs and to venture thinking and practice seemed to enhance the managerial skill-base for executives. This theme is more richly developed in other case studies but was also evident in this instance. Not all executives are interested in career paths that involve assignments in venturing teams. However, a sojourn through a venturing unit seems to offer positive experiences for some managers. Ironically, this may present retention challenges for certain large firms who not able to forge a corporate entrepreneurial culture and create jobs that promote empowerment, intelligent risk taking, ‘scrappy’ competitive market behaviour, and managerial proactivity.
d) Strategy trumps financial success

The financial attractiveness of an investment or business may under normal circumstances trigger a re-evaluation of the strategy or decision that lead to this investment being made in the first instance in order to uncover potential sources of competitive advantage in the said strategy. In this case, the decision to divest was resolutely held to despite exceptional financial success in venturing. This makes the case unusual even though bottom-line performance is what drives most corporations decision-making processes.

Table 6.12 matches how the case evidence corresponds with the conceptual model. Three elements emerged from the analysis that merit adjustment to the conceptual model. First, where corporations are involved in franchise structures, these franchisees can have a significant impact on growth strategies pursued by the parent corporation. In this case, the franchisees were distracted by the SBV investments causing concern for the parent that overall strategic renewal of the core business would be put at risk. Second, we witness significant expertise from the venture leader in managing the internal and external politics of the unit throughout an unusual brief to exit. The credibility and savvy of the venture leader in executing strategy and making tough decisions against the grain were highlighted in this case and the role of the individual leader must be called out beyond just strategy and structural dimensions. Third, the case challenges the espoused view that SBV units are established in order to capture learning, expand exploratory growth options, and contribute to the strategic health of the corporation. While it can be debated that Epsilon venture did add to the financial health of the corporation because of the highly successful IPO, it was actually set-up as a divestiture unit and not a growth unit. This makes it a deviant case of SBV and the first of its kind that can be traced in the literature. This broadens the range of objectives for establishing a SBV unit and is a justified inclusion and amendment to the conceptual model as portrayed in Table 6.12 below.

Table 6.12 – Case #6: Implications for Codes and Model

<table>
<thead>
<tr>
<th>Codes</th>
<th>Meta Codes</th>
<th>Fine-Grained Codes</th>
<th>Case 6 Epsilon/Georgia</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Antecedents</td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>B. Program Design</td>
<td>B1. Objectives</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B2. Structure</td>
<td>Yes</td>
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<td></td>
<td>B3. Governance</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>C. Opportunity Identification</td>
<td>C1. Exploration</td>
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<tr>
<td></td>
<td>C2. Ecosystem</td>
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<td></td>
<td>C3. Courting</td>
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<td></td>
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<td>D. Brand Entrepreneur Partnerships</td>
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<td></td>
<td>D2. Marketing</td>
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<tr>
<td></td>
<td>D3. Org Linkage</td>
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<td></td>
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<tr>
<td>E. Venture Portfolio Management</td>
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<td></td>
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<tr>
<td></td>
<td>E2. Graduation</td>
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<td></td>
<td>E3. Intrapreneural</td>
<td>No</td>
<td></td>
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<tr>
<td>F. Outcomes</td>
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<td>Dissolution</td>
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| G. Emergent Codes | Franchisee issues |
| | Venture leader |
| | SBV for divestiture |
6.7.7.3 Subjective assessment of outcome
This case is a good example of SBV as both the large firm and the entrepreneurial venture accomplished significant strategic, financial and commercial gains from the relationship. Despite the large firm wanting to terminate the investment and the venturing organizational unit, the results of the venture were so stellar that it merits a high ranking in terms of value creation for the large firm. For the entrepreneur, significant scaling benefits and knowledge benefits were derived during the SBV partnership while it lasted. This ultimately enabled the brand venture to have a very successful IPO thus regaining its independence and identity from corporate influence. The case is thus ranked at the high level for both Epsilon and Georgia in Figure 6.24 below.

Figure 6.24 – Subjective Rating of Case #6 SBV Partnership Outcome
6.8 Case #7: Zeta and Entrepreneur Brand ‘Vermont’

6.8.1 Introduction
This case study involves one of the longest known and more successful SBV partnerships spanning a 12-year period. There are two important nuances and caveats to this case however that potentially impact methodological rigor and interpretation, and as such need to be highlighted upfront. First, the SBV partnership was initiated and maintained without a dedicated SBV unit (the only example of this among the 7 cases examined). The partnership was initiated from corporate HQ under the direction of its CEO. Once consummated, the entrepreneurial venture reported into a geographic operating unit. However, given direct sponsorship and involvement of Zeta’s CEO, the venture was afforded structural and political protection and benefits that will become evident in the ensuing sections. On the one hand, this introduces the interesting notion of ‘equifinality’17 in that there may be alternative ways of conducting SBV activity and still arriving at a successful outcome. On the other hand, it does stretch the unit of analysis variable applied in all other cases. Second, unlike the other 6 cases that involved interviews with large firm executives, this case involves interviews with an entrepreneur. Access to Zeta executives was not possible and as such data was supplemented by public company information obtained from websites and documents for both the large firm and the entrepreneurial venture. Given the notoriety of the case, academic documentary evidence encapsulating both viewpoints was accessed and incorporated. According to Yin (2009) documentary evidence has the advantage of being stable, unobtrusive, exact, and wide-ranging. Additionally, it can accommodate a longer time span with multiple events and settings. Given some of the cases’ special qualities mentioned earlier and the benefits of analyzing the SBV relationship from an elite entrepreneur’s perspective (see Ostrander, 1993; Littig 2009), the case was included in the corpus of dissertation fieldwork. A discussion of the case now follows.

Unless otherwise stated, all quotations emanate from two interviews with the brand entrepreneur, Harold Green, or [Z1].

6.8.2 Antecedents
From the perspective of the entrepreneurial venture, antecedents comprised both internal and external factors.

Internal
"On the internal side, I had actually close to 300 shareholders, individual shareholders and I needed to get them an exit, and as we were crossing the roughly I’m going to call it 75 million dollar mark with obviously rapid growth and rapid growth ahead, we saw that we were – we felt that we could get a good exit value for folks who wanted to get out and at the same time that would also allow me to be more focused on the business, because I was spending an awful lot of time just managing shareholders".

External
"On the other side, we were starting to clash with the big guys, particularly with Zebra and Zeta. Our presence in the supermarket was not only fortifying in the Northeast but we were starting to get a lot of National interest. And I think my feeling was that you know not unlike your world, the beverage world, it wasn’t so much that we ...

17 First espoused by Ludwig von Bertalanffy (1972) the founder of General Systems Theory that the same end state may be achieved via many different paths or trajectories. This was later applied by Doty et al. (1993) in positing that there may be mutliple, equally effective, organizational forms.
needed their distribution channels as is more I think black and white in the beverage world, but we needed to have a little bit more clout, a little bit more kind of category management credibility. Because to go bashing up against both of the leaders was – meant that I just had sort of too many enemies. And also you know whenever we had something that was successful they would try a little foray against us, either one way or the other. And then the other related point to this is that I knew that we were going to have to get to a different level industrially quicker than we had afforded in the prior twenty years. So I felt that an alliance could help us to kind of skip that learning curve or expedite it or shorten it or something, lessen the slope”.

The entrepreneur was also influenced by exogenous developments in a related industry that ultimately led him to enter a SBV arrangement versus another strategic option such as an initial public offering (IPO) to raise capital and access greater resources.

“So what happened is, I began in ’97, I started with my Board, we had an actual committee. I can’t remember what it was called, but to actually look at going public. And then somewhere in there, the Ben & Jerry’s deal with Unilever took place and that’s when my eyes opened up to the downsides of going public. And a very big motivation for me was to be more focused on the business and I didn’t really see taking the company public as helping with that”.

“You know here I was watching the Ben & Jerry’s – I had seen the Ben & Jerry’s acquisition take place kind of overnight and it was a freaky thing and I was concerned about governance, I was concerned about how many manufacturing decisions, investment decisions would be made”.

From the Zeta perspective, it seemed that an entrepreneurially minded CEO was the key catalyst for pursuing smaller, high growth external brand ventures coupled with a collaborative culture that had the maturity and savvy to partner with external firms. Finally, the growth in external entrepreneur brands and their potential for industry disruption was another antecedent – see Figure 6.25.

**Figure 6.25 – Antecedents of SBV in Zeta Corporation**

From the Zeta perspective, it seemed that an entrepreneurially minded CEO was the key catalyst for pursuing smaller, high growth external brand ventures coupled with a collaborative culture that had the maturity and savvy to partner with external firms. Finally, the growth in external entrepreneur brands and their potential for industry disruption was another antecedent – see Figure 6.25.

6.8.3 Program Design

Given no dedicated SBV unit was formed by Zeta to execute the investment in Vermont, commentary in this section is significantly curtailed. However, the opinion of the entrepreneur was sought as to whether Zeta would have benefited from having a dedicated SBV unit.

“Well there weren’t that many of us at that time. I’m not sure. I think it would have been kind of a tiny group. But I do think of VEB as a very, very clever solution. I think the idea of your having all of the – I mean we do it anyways as entrepreneurs – get together with our colleagues. You know I had 40 CEOs of organic
companies together for two hours at Anaheim doing what you guys do and I do think the one plus one always equals three if you get the right combination. But I don’t think it’s the only way to do it”.

6.8.4 Opportunity identification

Similar to the comment in Section 6.8.3, no SBV unit was established to undertake strategic exploration and ecosystem creation activities, nor were any Zeta executives interviewed to explore these matters. The case material however did provide insight into the courting and selection process on both sides and will be described in the sub-section below.

a) Courting and picking brands and suitors

The entrepreneur experienced several different pitches from bankers and corporations and met multiple executives from Zeta as part of the courting and evaluation process. One of the factors that drove a wide search for the right strategic partner was the unusual nature of the deal relationship that was being sought by the entrepreneur (i.e. a SBV-type arrangement) while bankers and corporations were more accustomed to outright acquisitions. Harold Green recounts this as follows:

“Well we had a very funny conversation which is material to your study here which is – they said to me well [Harold], what’s your dream? And I said well my dream is that I’d like to sell – you know get all these shareholders a great exit. There were lots of transactions going on, lots of natural foods companies were going through these deals and we knew what the multiples were, we knew they were good. So I said, my fantasy is to get a great exit for my folks, but to retain control even though you know my exiting shareholders would make up around 70 or 75% of the company. And they laughed; they said that was pretty funny. They said it’s not possible but they would love to help us try. And that was a different reaction than every other banker…”

“So, we engaged Lazard to begin this pursuit but again a little bit cautiously because we didn’t think that they would actually be successful in getting us the kind of hybridized deal that we sought. And in fact the first forays were shoring up our doubts. Zeta, the head of M&A came in, and made just kind of a ridiculous valuation offer and also just sort of rattled their sabers and said look we’ll just take control at this price. And I don’t even know if I responded to be honest, it was so kind of off the radar. But that conversation also led me to realize that none of these guys really understood our business or our model. The organic niche was rapidly emerging but it confused all of them. And so we stepped up our relationship with Lazard by really increasing their training. We built a book and we began talking to a lot of companies… But most definitely did not respond to [Zeta], which I think sort of shocked them. So [Zeta] about six months later realized that there was a process going on that they weren’t part of…and they asked for more serious conversations and that’s when we really began talking. And of course in those six months we had gone from $75 million to, I don’t know $85 continuing our very rapid growth”.

However, it was the strategic direction of the CEO that ultimately brought closure to the process.

“But it wasn’t until [Roland Fitch], the chairman, CEO kind of got involved here that the ice began to break and this thing began to move. And what I later learned – I didn’t know at the time – was that [Roland] had instructed [A] who was [B’s] boss, the head of M&A, to just get the job done whatever it took. That he recognized that [Vermont] represented – for a company that was trying to be both you know all about health and children but also all about kind of 21st Century commerce, he just realized, more than anything he didn’t want [Zebra] to own us”.

A defining moment in the courting and selection process occurred when the dialogue shifted from bankers or M&A executives meeting Harold Green to direct engagement from Zeta’s CEO, Roland Fitch. Green puts it this way:

“So first I flew over, I met [Roland] for the very first time…We have become quite close friends. I stayed at his apartment and we skied together and he’s been at my house and so on. But it was a very engaging and exciting discussion. He was really sharing his vision of how organic fits in, and his vision for [Zeta] and he was
really authentically – I mean he was telling me look we need you more than you need us...I mean he was very refreshingly transparent and honest”.

“Anyways, I was charmed by them you know…”

Despite the charm and personal nature of the relationship that ensued between the two chief executives, there were still legitimate concerns about the external impact of such a relationship on consumers and retailers involved with Vermont.

“Well one of them which you know very well is the fear that this would tarnish [Vermont’s] reputation in the market with the consumer and with the trade, that it was going to cause a lot of inflation in our trade spending. You know we had sort of gotten away with murder, like all other little companies do but also this sense that the consumer would see us as having kind of capitulated and gotten swallowed. So we really worked hard to set up kind of Chinese walls...You know the business of the majority control was very important. I needed to be able to say that to the press, to consumers, to the trade with a straight face, that when I sat across the desk from the buyer at Stop-N-Shop I was saying no. It was really me still, it wasn’t [Zeta].

Another concern was that, we needed to retain our independent sales force even though we both recognized that there were lots of synergies possible. And again as I mentioned the sort of category management approach is something that had eluded us cause we were clearly just a niche. Nevertheless we needed to be sure that we were the ones speaking for us with the trade and doing our negotiations. We were also concerned that their – you know I’ve always described [Vermont] as a kind of a ‘federation of niches’. You know we had a lot of little things that added up to by then a hundred million dollar brand. Little product lines, little segments...So you know that kind of thing gave me concerns that they would be unsympathetic to the need for us to have these kind of niches. But you know again the structure of our deal ultimately solved those worries”.

In concluding, the prospect of adding high growth, on-trend brands to a corporate portfolio is an attractive proposition for large firms. Similarly, the resource chest of the large firm is highly desirable for a small company. This was no different in this case but complicated by the social and environmental mission of the entrepreneurial venture that could have been at odds with its corporate suitor. Commentators described it this way:

“The prospect of such robust growth is of course appealing, but managers who seek another company’s green assets should be mindful of two considerations: Culture clash and strategic fit. Any merger or acquisition can stumble when company cultures collide. In green acquisitions that have idealistic, iconoclastic founders and countercultural workforces, the problem is exacerbated. Consider [Zeta’s] takeover of [Vermont]. When shareholders forced [Vermont’s] founder, [Harold Green], to sell, he spent two years compiling a list of conditions—including rules about worker protection and environmental restrictions on business operations—to ensure that the company’s social mission would be preserved. It took another two years to close the deal”. (Unruh and Ettenson, 2010, p. 97).

This leads into the nature and structure of the deal and the relationship that was struck between the two companies.

6.8.5 Relationship with Entrepreneur Brand ‘Vermont’

Three elements of the relationship are elaborated upon in this section: structuring and making the investment, brand marketing, and organizational linkages.

a) Structuring and making investments

The deal structure was quite unique between the two entities and one of the earliest known SBV-type arrangements. After a 2-year negotiation period, an initial 40% minority equity stake was purchased by Zeta in 2001 from selling shareholders. The entrepreneur and employees retained 20% of the equity while the remaining 40% equity was placed in escrow for a 2-year trial period.
At the end of the 2-year period (late 2003), should Zeta comply with a list of pre-negotiated conditions and synergies, they could exercise a call option and purchase the remaining 40% shareholding. In the event that Zeta did not meet all the conditions, they would be stuck at a 40% equity interest. In the provisional 2-year period, the existing shareholders received interest on their equity being held in escrow.

Vermont did not receive any capital infusion from Zeta during either the first or the second phases, with Zeta only purchasing stock from selling shareholders. In addition to the traditional financial components of the deal structure the retention of an important social mission component was also negotiated by Harold Green. For instance, Vermont’s existing environmental commitment program in which 10% of prior year’s profits were donated to environmental causes was retained and accepted by Zeta.

Zeta also negotiated a call option on the final 20% equity stake exercisable in 2016, or should the entrepreneur at any stage cease being the Vermont CEO. During this 15-year timeframe managerial and executive rights would remain with the entrepreneur as CEO (despite Zeta owning a majority share) unless the business missed either one of its top-line or its bottom-line targets during any consecutive 2-year period. At the time of completing the fieldwork, Zeta had increased ownership to 85% with Harold Green and other employees owning the remaining 15%. Harold Green described elements of the deal in this way:

"we would have them initially buy 40% of the company. And the other 40% would be put into escrow...And then the escrowed amount would earn interest. I want to say at the time – it sounds too unbelievable to be true in this economy but I think it was 10%. So they would accrue interest over that value over the two years, so that if [Zeta] successfully executed a variety -- we had a ten-point kind of punch list that they had to work their way through in those two years or by the time two years were done. If they did it, then our board would acknowledge that it was done and the stuff would come out of escrow and the shareholders would get their money. And if they didn't, then [Zeta] would be stuck at a 40% position. That was the thinking”.

Some of the conditions that were established for the 2-year call period required Zeta providing Vermont with access to certain commercial benefits. These conditions were also important tests of the veracity of the relationship.

"But we had them do a variety of strategic things that were real sacrifices on their part but also real meaningful improvements to our kind of commercial prospects”.

Examples of items that appeared on the agreed checklist were inter alia:

**Inclusion in market research contracts**

"they had a relationship with IRI where they were buying data at a far lower price than us. They needed to include us in their contract”.

**Inclusion in exclusive customer contracts**

"they needed to get us into an exclusive that they had at the time with Marriott”.
Access to expert suppliers

“They needed to provide us with access to engineering and equipment suppliers to help us as we were starting to design the next phase of our manufacturing at their prices, with their technical assistance. So it was a way of my garnering those strengths without having to pay for them.”

The case also highlights the challenges of dealing with entrepreneurial fears over being ‘controlled’ by large firms in light of seemingly legitimate accounting and legal considerations when a large firm owns a controlling majority stake. A creative solution was found to the challenge of management control and consolidation of financial statements triggered by the move from a minority (40% equity) to a majority shareholding (80% equity) once the 2-year period lapsed.

“But then we had a very interesting moment, which was that, we got around to this issue of control. They told me that PWC was willing to, despite their agreement from the beginning that I would retain control, they told me that their objective would be by the end of year 2 to consolidate us into their numbers and they couldn’t consolidate us without having control as defined by GAP. And because I was suspicious and skeptical and doubting I actually thought this was some kind of you know, coercion, some sort of manipulation by them and their accountant – I don’t whether this has to be done. And of course as an entrepreneur I always would ask why or why not. And we actually couldn’t solve it and I actually literally left the table after all that time and all that work. And I remember leaving a meeting in New York saying well that’s a deal breaker. We’ve come a long way but I can’t put you guys in control of this company; you’ll destroy it. And so [X] we thought about it and again the guy is really smart. He came up with this brilliant though elegantly simple idea, which is that they would elect three directors, and I would elect two, but one of their three, would be me. And suddenly there it was. Now I had the guarantee of 3/5 and of course from PWCs point of view they were electing the majority!”

When probed about whether there were any deal design elements that later proved to be impediments to the relationship or the ability to grow the business, Green responded with:

“There is one. They had three vetoes that we granted them, the minority board members. They seemed to me to be very reasonable. One was I couldn’t do any acquisitions without their approval. That made sense to me. The second was that I couldn’t enter any new lines of business without their approval. And the third and the one that I regret is that I couldn’t do any Capex over a million dollars without their approval. And you have to understand at that moment in time we had never spent a million dollars on anything. But I didn’t know and they knew perfectly well that I would never again spend under a million dollars for anything”.

“And so that need to get their buy-in and approval has cost us a lot of time and effort and we’ve had to deal with a lot of things including frankly impeding – I won’t say reducing but impeding our manufacturing flexibility. Because we had to kind of get their industrial people to buy off on things and some of those little niches became very difficult to make and now as I sit here in 2013 you know we’re being assaulted by niches. You know Greek was of course one that became a killer, but there’s all these little players just as you’re starting to see you know around the [SBV] world. I mean strange little things that were like [Vermont] must have been to them like fleas and suddenly take a big bite out of our sales space. And we don’t have quite as much flexibility to adapt. In fact we have to take on a lot more co-packing than I would have liked as a result”.

An interesting feature of the overall negotiation process was the multiple agreements beyond just the financial deal structure that were deemed necessary: the agreed financial deal structure; an operating performance agreement; a shareholder agreement; an employment agreement; and a management put-call agreement. It also highlights the time-consuming nature of the process and the importance of patience on both sides to get through all these elements and not rush the deal just to close. Harold Green elaborated on some of these elements as follows:

“By the way, I forgot – this is all awhile ago so I forgot a huge part of the delay. A big, big part was my own deal because I was going to retain this 20% ownership and then how I would be able to exit and not just me, it was my management and I, [Vermont] employees. And ultimately we struck a deal where it went out 16 years. Or fifteen years to 2016. But then it seemed like forever you know…”
“There was a shareholder agreement for me, there was an employment agreement and then there was what we called a put-call agreement in which the terms of how I would or any of my management would buy or sell stock. And also I negotiated a reserve to attract future management, thank God. That was one of the smart things I did because I needed the whole thing since then and you know 13 years. And we have revised that agreement multiple times over the years since because circumstances have changed. For example, I stopped being CEO; I became Chairman. Originally it was written that they would have a call on my shares the day I stopped being CEO, but now it’s the day I stop being a chairman. And we’ve made numerous other modifications. You know my employment agreement - there were certain boards that I was on. You know we had to deal with the question since one of them recently wanted me in their family was to take advantage of my knowledge of other companies and my access to other deals. For example, I brought, as you know, I got [Zeta] to be a shareholder in [Maine], but I was also a shareholder in [Maine], and we needed to kind of clear how that was going to work. So that whole business of my role was probably – I bet you that was four to six months of delay right there. Like I said there was a lot to think about”.

Also, the operating performance agreement was quite unique and extended over a very long period of time indicating the need for great flexibility on behalf of the suitor to accommodate the entrepreneurs desire to remain in charge of the venture.

“Yeah, we had an understanding that they would not have a call on my shares unless we failed to perform. And of course if I engaged – if I was found guilty of a felony, all of that. But also we had this idea of two consecutive years of missing our agreed upon targets. And we had to agree on the targets. That was part of our negotiation. And that was interesting because we had to go out 15 years. So what we did was we did basis points formula for top and bottom line. And the idea here was we suddenly realized gee, what if we miss one year because of a one-off calamity. And it wouldn’t be possible to get back on the original plan, so we had to come up with a formula for the second year in the case of a first year calamity. So it ended up being basis points growth. Again these things are easy to not throw off in a sentence but every single sentence took days or weeks to negotiate”.

b) Brand marketing across life-stages

No life-stage marketing model was deployed by Zeta in the SBV partnership. However, commonly held beliefs between Zeta and Vermont about entrepreneurial marketing were discernible to the researcher. This material is discussed below as it coheres with the original intent of the SBV conceptual model to examine brand marketing based upon differing contexts (i.e. is marketing for entrepreneurial brand ventures simply a replica of traditional mass-market brand management template or is it handled in a tailored and thoughtful way pertinent to its stage of evolution?). The material also pushed the researcher to broaden the scope of this component of the SBV conceptual model beyond the strictures of life-stage marketing to a broader entrepreneurial marketing construct. This point is given further treatment later on in Chapter 7. Returning to the marketing approach, a few quotations from respective parties are used to illustrate the thinking appropriate to an emerging brand. For example, the CEO of Zeta Roland Fitch was quoted as saying to the brand entrepreneur:

“We have wonderful people, I’m proud of them, and they do a great job at what they do, but your business approach is so different, they won’t understand it. And you need to preserve your magic, your spontaneity.” (Austin and Leonard, 2008, p. 80).

The brand entrepreneur described their approach to business building as follows:

“This is a model of actually investing in the product, not cheapening it, which leaves you with a smaller gross margin. That means you don’t have money for advertising. So it’s exactly the opposite of the typical consumer goods product model, where you just make your products as cheap as you can and then just blast away with marketing, and hopefully, eventually, from awareness to trial, you build loyalty.” (Austin and Leonard, 2008, p. 80).

Furthermore, the integration of a social and environmental mission in their marketing communication was a key part of how the brand was being built and how it attracted a devoted following.
"When it comes to communicating with our consumers, we come from a really different place than [Zeta]. We don’t spend intensively to try to get big growth bursts; instead we try to continuously build and reinforce loyalty. We concentrate on creating and building emotional connections by addressing issues of concern to people, not just being an anonymous company that’s pretending that we’re not in Iraq or pretending that we love our president or whatever it is. We're obviously openly political and overtly engaged with social issues. And that’s pretty foreign to them.” (Austin and Leonard, 2008, p. 80).

Again, the Zeta CEO’s response on how to market to organic consumers was:

"With a lot of advertising? By sponsoring an American football game? No. Never. Never. You have to understand the planet; you have to understand the community. And more and more our marketing is community marketing.” (Austin and Leonard, 2008, p. 83-4)

Finally, Harold Green had some interesting perspectives on SBV partnerships and the importance of instinct over analytics in explaining differences between marketing within entrepreneurial ventures compared with more classical marketing done inside large corporations.

"I think one of the real challenges that – there’s challenges for both parties in these deals obviously, but I think one of the really big challenges for the big guys is to recognize that innovation – that these entrepreneur ventures are really hurdled incubators or innovation in a way that they can’t be. They can try to be but there’s just a combination of wit and chemistry and imagination and you know all of those factors that add up to making an entrepreneurial case but are very, very hard to mimic and so I have seen some of these large company guys with their kind of reductionist, very analytic behaviour depending heavily on consumer insights and coming up with exactly the wrong conclusion for us. So even though they have rationally derived and the little guy has to have defenses up against that but the big guy has to be - really a little bit of a hubris is necessary’.

However, when deeper probing took place, certain shortcomings were discerned concerning the role and intuition of the entrepreneur in making marketing decisions. This may have implications for assimilation and succession and is elaborated upon in Section 6.8.6(b).

c) Organizational linkages

The key linkages between the two entities derived from board representation of Zeta executives on the Vermont board, and dual reporting lines into the head of the Zeta North American business as well as the Zeta global category leader. Minimal direct engagement by Zeta executives or direction provided by Zeta functional executives seemed evident. This finding may be disputed by Zeta executives however but could not be verified. According to Harold Green:

"the [Zeta] CEO is on the [Vermont] Board so that’s one point. There are no [Zeta] people in our company but – well, let me say it differently. We do have some expats in different functions, very specific people who we have identified. But that’s our choice; it’s not theirs. And they are [Zeta] people; they go through their 3-year cycle and then they’re out. And that’s a little hard for us. And frankly you spend a lot more money on expats too and that’s hard for us. But we are doing some interesting things now where we’re synergizing on some functions like logistics and planning and IS [information systems], where we are co-investing in the same infrastructure and sharing. So we’re doing something called [Fox] IS. All of our IS people went to work for a new company called [Fox] IS. It happens to be based at [Vermont] so from a vantage point nothing changed. You still walked down with your broken computer and the same person was fixing it but they do have a different business card. But [Zeta] is of course more comfortable with their own breed coming in, but they also recognized that you know you can’t put a [Zeta] CEO in there for 3 years like you would assign someone to Canada or Czech Republic. That the person who we’re hiring is somebody who they know has to be in there for 7-8 years”.

When questioned about linkages between marketing functions of the two entities it became clear that this discipline was a closely guarded one and again it highlighted the potential
difficulties that may emerge downstream in understanding the brand once the entrepreneur had moved on.

“We really haven’t had any synergies on marketing...and I was always effective as the Chief Marketing Officer in the same way that [XXX] pretty much wears that hat”.

A clear benefit from collaboration in the area of packaging was noted however.

“[Zeta] definitely enabled us to afford probably our most significant packaging advance. We had always been the leader in reducing weights in packaging. Source reduction as you know is more important than recycling for sure. But we, with [Zeta], were able to jointly develop the world’s first PLA, Polylactic Acid resin, for form-seal packaging. This is partly because [Zeta] owned a company called [Zeltex] which does form fill and seal technology, apparently because their engineers were really crucial to that joint venture and partly because again [Zeta’s] involvement was an incentive to the supplier I think to throw everything they had, because they saw the potential that this was not just for [Vermont’s] sales; it was for really a global company – a global company and the customer. So I don’t know that for a fact but I have to believe that that was a motivator for them”.

Although many positives were detected in the SBV partnership, deeper probing also surfaced the potential for some inter-organizational rivalries.

“Oh yeah. It’s been a very evolving relationship. You know honestly – so in the 11 years since I did this deal, I’ve been through three [North America CEOs] and probably five VPs of Sales. And it has been an adjustment every time and you know my wisdom about this now in hindsight is that you can’t legislate away those kinds of problems; it really ultimately comes down to the personality. And to be even more blunt about it, you know while Stonyfield was enjoying double-digit growth all those years and Danone wasn’t and frankly Stonyfield was also enjoying – we were meeting our profit targets, I feel there was rivalry from Danone, that they would say all the words of wanting to be our partners but there wasn’t a real motivation there. And it was always a ‘we and them’ and we were always sort of added to the agenda but not really in the agenda and never planned”.

“I think at the heart of the conflict between the sort of corporate approach and the entrepreneurial approach is a basic question of trust. Do the words mean what they say or do they mean something else, and what else is going on and the sort of game playing that is normal in a competitive corporate environment that is simply intolerable in a more closely held entrepreneurial environment. And I think we at Stonyfield, I can say this for sure, felt that there was not ever a real sincerity there. And it was always a ‘we and them’ and we were always sort of added to the agenda but not really in the agenda and never planned”.

The importance of collaborative personalities is highlighted above. Furthermore, as seen below, personality seems to ultimately trump perceived structural or strategic misalignments. Recent experience with certain key executives was interpreted very positively by the entrepreneur.

“But I will say quickly in the last year their current leadership has changed that completely. I just had a very, very successful, maybe our most successful ever – a joint call on a major customer earlier this week. With [Zeta] sitting there right with me and me sitting there right with [Zeta] and I have to say it’s wonderful and I think in part it’s because they’re now enjoying incredible success. I don’t think any of that sort of nasty, edginess or jealousy or whatever, but also there’s a real sense that we need each other, that there’s a symbiotic relationship. And it’s not just words or theories; it’s really palpable and you see it in the actions, and that’s a big part of this”.

“So I do think that takes time but I also think it takes the right personalities and we clearly got them now. [Zeta’s] current sales VP has demonstrated beyond any shadow of a doubt his personal passion for what [Vermont] stands for and his intolerance of anything less than us being treated as near equals, as near equals as I think we could ever be”.

6.8.6 Venture Portfolio Management

Three elements of venture portfolio management are covered in the text below: how the investment was monitored and any decisions taken, assimilation and graduation of the brand, and evidence of intrapreneurship resulting from the SBV partnership.
**a) Monitoring and investment decision-making**

As previously mentioned, specific conditions were negotiated that if met, led to Zeta purchasing a greater equity interest. Both parties monitored these conditions during the 2-year dating period and consensus was reached that the conditions had been met by Zeta triggering the increase from a 40% to an 80% stake. Similarly, the performance-based conditions for Harold Green to remain in charge as chief executive were also continuously monitored by Zeta through their representation on Vermont's board. Annual business planning routines and line reporting relationships were also part of the monitoring and governance but all these took place in the shadow of a known political reality that the two chief executives had a personal relationship and that the investment had been strongly sponsored by the Zeta CEO.

"Well we agreed to annually set budgets together with the minimum guidelines that we had negotiated at the beginning. And that I would report directly up to the worldwide dairy head. But he also – they also knew that I ultimately reported to [Roland], that [Roland] had a personal interest in this deal. Now over time that became more formalized. As individuals who I had now been colleagues with for years matriculated into the worldwide head of dairy role, it just one by one by one became more convenient for them to have me kind of be what they call a CBU, a Country Business Unit. The awkward part though that has always been there – there are two CBUs in the U.S. – there’s [Zeta North America] and there’s [Vermont] with very different margin structures and again I'm not telling you anything you haven't experienced here. And so again it's been a very iterative experience. On the one hand they hold their [Zeta] U.S. head responsible for all numbers for North America. On the other hand, we don’t take marching orders from him…"

"But in the last few years it has made more sense to cooperate and find synergies and starting about five years ago we began to – actually – being synergistic with our sales efforts, with our distribution efforts. You know supply chain and marketing of course will always be totally distinct. And actually to my pleasant surprise, my move out of the CEO role into the Chair role, which one of the reasons I had a lot of trepidation about it was that I didn't want this to be an opportunity for them to get their tentacles in deeper. But to my pleasant surprise, the [Zeta] North America CEO and I have become closer and have a better working relationship since that began. He and I are now in constant contact, very aligned, and particularly during a difficult year when ultimately it didn't work out with my successor, he and I having a strong relationship has been a critical move”.

**b) Graduation and assimilation**

Although these two concepts are related they will be treated separately below based on interview probing and the answers that were forthcoming.

**Regarding graduation:**

At the time of the fieldwork, the entrepreneurial venture was still treated as an autonomous business unit with no apparent designs to graduate it or integrate it within the core business. This situation could well change once the involvement of the brand entrepreneur ceases and/or when Zeta acquires the outstanding shares. This seemed to be the view of the brand entrepreneur too when probed about the question of integration.

"I think I expect that it will happen someday. Of course after 2016 if they call my shares – they don’t have to by the way – then that will be an interesting thing to watch. But I never anticipated that I would be here when that happened.

"That’s why we'll see if they call my shares because I think that there are times when I’m a total pain in the ass for them you know. But I think that in the net they would probably still tell you that I’m a net contributor. But I’m right now working with them on a really far reaching, almost like a science fiction, too amazing to be true product development that you know they are laughing because they took somebody kind of as insane as me to see this, but they're right there with me and their imagination has been piqued”.

**Regarding assimilation:**

Although it is plausible that through involvement of Zeta executives on the board of Vermont and through other joint business activities, that the brand ethos and soul was being assimilated
by Zeta management in preparation for ultimate 100% ownership. However, the prolonged involvement of the brand entrepreneur, the dependence on him for strategic marketing direction, and the fierce independent spirit exemplified by and bestowed upon the brand entrepreneur may prove to be a hindrance to the successful assimilation of the brand once acquired. The reason for making this assertion was the insight gleaned that even within Vermont, few employees had mastered the true nuances of the brand since marketing and branding decisions were typically deferred to the brand entrepreneur. Furthermore, as Harold Green moved from being CEO to Chairman of Vermont, his initial successor appointment had not succeeded due to a failure to operate entrepreneurially and understand the brand. The following quote concedes these points by means of an excellent, albeit lengthy illustration:

“So I guess my ramble is meant to say to you that, I learned this year in my successor here at [Vermont] did not work out. And I learned in that process that actually the DNA was not as deep as I thought it was. And so the good news is that I’m getting kind of a ‘do over’ right now; I’m getting a chance to – it wasn’t something I wanted to have happen, but I’ve gotten a chance to be back involved and frankly I’m a whole lot more conscientious now and a lot more aware of the need to mentor and teach and share – not just the conclusion of my thinking but the why. And I’m working more closely right this minute with the marketing leadership than I ever worked when I was there because when I was there I was just the boss. And they just did what I said. And often there wasn’t the time to explain why. I just said look, this is my call. And now I need to do it because I’m not there on a day to day basis, but I also need to do it because I recognize that when that moment that you just described does come where I stop, you know this is my fighting chance to have this voice be heard. And I just want you to understand just how literally I’m explaining this.

I was back for a review of 6 copy lines – concepts that were going to put before consumers, a test the following week and I hated all of it. This was back in February. And on the spot I did what entrepreneurs do. I wrote a new seventh one. You know all six of us had been like months and months of work and refining. And I sat there and literally, no exaggeration in three minutes I wrote a concept. Well, lo and behold, my concept blew all the others away; we got over 90% with that. Everyone was in shock including the researchers cause they watched me write it and it was like, why are we paying the agencies, you know. That was one of the questions my team asked and it’s a good question. And so it was great.

Obviously it was a vindicating moment for me but it was also great for them to see that there really is something that the entrepreneur not just represents but really understands about the brand and that’s got to be preserved. So that was great because it created motivation on their part. In the awkwardness of the year with my successor, as everyone was trying to figure out ‘life without daddy’, I had less say. And now they’re paying close attention and now I actually think I have a fighting chance to be able at some point to say to you yeah the answer is yes, the DNA is there. And last point I would make quickly – you can probably already predict this but you can also rest assured that I’m being a hell of a lot more careful about the choice of my successor. I mean I’m getting that do over also and we have appointed – it’s not public yet. I can’t tell you who, but we have identified who it’s going to be and it’s somebody who I can tell you I was much more thorough about and I am 100% certain that they’re in sync because the short answer is, and summary punch point is we’re not there yet. No, the DNA is not there but I now think we have a fighting chance because now I’ve got I think a person in there who really wants that to happen”.

c) Intrapreneurship

A core idea explored in the other cases was the extent to which involvement in an external brand venturing strategy stimulated any broader venturing mandate or corporate entrepreneurship activity by the SBV unit. In this instance, although no SBV unit existed, Zeta relied heavily on the Vermont entrepreneur to advise them on additional external investments as well as internal brand incubations. This is how the entrepreneur explained his involvement:

“While I was CEO, I steered [Zeta] into some investments including [Maine] for example. I steered them into becoming the minority for something we created called [Vermont Europe], the minority owner in, an Irish organic firm, which I essentially am the chair of. And we now own a healthy chunk of [Vermont Europe] which is again majority owned by [Zeta]. And then I steered them into the launch of two new brands, one of which we ended up not pursuing, but one is going extremely well in France right now. And then I’m working on some pretty innovative packaging and other ventures where – what’s confusing is that I’m a bit of a free agent. I’m the Chairman of [Vermont] so I’m an advisor to [Zeta]. And then I’m also an investor or partner in some of these ventures that I’m learning about. For example, right this second an acquisition is nearing completion with a company that I advise. And they observe the Chinese walls. I have not influenced the [Zeta] acquiring side at all. I have not been a part of the M&A process. I don’t even know the specific terms, but I have
The employment of the entrepreneur as a ‘substitute SBV unit’ was further evidenced by the reporting relationships and empowerment bestowed upon Harold Green by Zeta. For example, when asked “Whom do these new ventures report to?” Green replied:

“Yeah. So, [Savoureux]– I’m the president of [Vermont] Europe. So [Savoureux] reports to me but there’s a dotted line to the head of [Zeta] France. So for example this morning, we’ve been finalizing our revised targets for the year for [Savoureux] and that was a kind of an elegant, sort of effort to get agreement between the head of [Zeta] France and me. And the CEO of [Savoureux] had to sort of go back and forth. So that’s an example. In the case of Glenesque, the one that we are a venture partner in, I’m on the board. I have personally recruited the [Zeta] board members. I have had to replace [Zeta] members routinely so I’m definitely the umbilical cord between the two. But I have now got a really great, excellent board members from [Zeta] which has really made my life so much easier. So we have three board seats. I’ve been the constant. We’ve been in this company for about 7 years. I bet I’ve had – I probably can’t count, but I bet I’ve had 7 people rotate through those two seats. But these two have now been on the board for a couple of years and it’s great. Stability goes a long way. It’s a precious and often elusive quality inside these big firms with a lot of movement going on”.

The entrepreneur’s choice of words and selection duties convey a sense of being empowered to almost act as a de facto corporate venturing executive of Zeta. When exploring the notion of whether the SBV partnership with Vermont had influenced Zeta to become more entrepreneurial or to change in an important way as a result, Harold Green responded in the affirmative:

“For sure. Particularly in the social mission. Their plans to microenterprise fund; they’ve launched climate carbon reduction funds. They’ve launched initiatives in the packaging area. You know [Vermont] in many cases has been their kind of model or laboratory for a lot of new packaging innovations. They have been really influenced by us and emboldened by us. And in some cases they have gone further than we could have gone just in the researches that they have had”.

Again, the veracity of these claims could not be verified directly with Zeta executives. However, through triangulating with supporting documentary evidence found in published material, these claims seemed to be trustworthy. For example:

1. [Vermont] was able to convince [Zeta] to address local stakeholder needs surrounding one of their production plants by installing pollution preventing production techniques, even though they were more costly (Austin and Leonard, 2008).
2. [Vermont’s] innovations have been disseminated into [Zeta], and the company has adopted a substantial amount of the socially responsible practices of the acquired social enterprise (Wickert and Vaccaro, 2012).
3. [Zeta] adopted the procedures how [Vermont] managed its supplier and local community relations, in order to enhance their own CSR-agenda (Mirvis, 2008).
4. Austin and Leonard (2008, p. 92) concluded that [Zeta] and [Vermont] “…shared the same vision…and that’s the reason why it’s working”.

Given the protracted and successful nature of the SBV partnership and the elite profile of Harold Green among the U.S. entrepreneurial community, an opinion was sought as to whether more large corporations should embark upon SBV type arrangements with entrepreneurial brand ventures. Harold Green’s response was:

“I do. I do. As a matter of fact, if I could do it all over again I would change a few things with [Zeta] to create – with my deal I mean – to create an even more fertile incubating environment. You know this really is where you get innovation, where you get to test things and you can be much faster moving. And you can – I mean we have been slowed down in our launch processes because of legal and other considerations that have not necessarily been positive.”
And you know [Roland] will stand in front of the whole auditorium of [Zeta] management and scream for the kinds of things that are – scream is an exaggeration – but call for the kinds of things that we do every day. And they don’t get lost because people are smart, in fact people that are extremely smart; they get lost because it’s the nature of a large entity that you have to be more defensive than you need to be when you’re little. You have more to lose, more people coming at you. And I think preserving that independence and the kind of purity of the entrepreneurial incubator is something that I think we’ve done.

Our deal is kind of a model for many but it could be improved upon for sure…You know…the same way I look at [Vermont] and many of the brands whose boards I’m on, is that we know all about little companies coming up in the rear view mirror – we were one – we are one. And because of that we need to stay fast and agile and flexible. You know the best defense is a great offense. And I think that big companies need to understand that they can impede that offense, even unconsciously”.

6.8.7 Within Case Summary
In this section, two topics will be covered: The major themes emerging from the case and implications for the model; and a subjective assessment of the SBV partnership outcome.

6.8.7.1 Major themes/code implications
Four major themes emanate from this case study – the notion of equifinality whereby the presence of SBV activity and success is not tied to the presence of a formal SBV organizational unit; the necessity of multiple agreements governing the relationship beyond just the financial deal agreement; the prolonged nature of the SBV partnership and reliance on the entrepreneur for marketing decisions; and the spawning of fresh investment activity and corporate entrepreneurship through leveraging an external entrepreneur to act on behalf of the large firm.

a) Equifinality
The presence of SBV activity within a large firm without a dedicated SBV unit is a key feature of this case and raises the potential that successful SBV outcomes can be reached through different routes. The question here is whether this recipe can be generalized across other situations or not. Admittedly, personalities can trump structure as noted by Livesay (1989). In this case however, the special closeness and sponsorship of Zeta’s CEO behind the SBV investment in Vermont and the CEO’s tenure are material success factors to the successful outworking and sustaining nature of the partnership. This component may be difficult to replicate in other situations and given this is the only occurrence of this within the 7 cases examined it was not deemed an adequate enough basis to adjust the conceptual model.

b) Multiple deal agreements
As outlined the presence of multiple agreements seemed to be a necessary ingredient to creating a SBV partnership (i.e. the agreed financial deal structure; an operating performance agreement; a shareholder agreement; an employment agreement; and a management put-call agreement). This provides a deeper texture to this process element than most VC and CVC literatures refer to. For instance, in a well-cited paper on the venture capital process, Tyebjee and Bruno (1984) only refer to this as deal structuring defined as establishing the price of the deal, specifying the equity stake taken by the VC firm, and detailing any covenants limiting investor risk. Similarly, from a CVC perspective Poser (2003) and Yates and Roberts (1991), approach this element purely from a financial standpoint like the VC’s. Reflecting this embellishment to the conceptual model is deemed appropriate.
c) **Prolonged reliance on entrepreneur**

An interesting aspect of the case seemed to be the unusual and very extended period of the SBV partnership (15 years). Such a model of prolonged reliance and empowerment of the founding entrepreneur may potentially cause issues with brand assimilation and hence risk future growth. This was evidenced in the case. In their study of global alcoholic brands, da Silva Lopes and Casson (2007) found that in the interest of global brand health and growth, that there was a point at which the value-add of the founding entrepreneurs began to wane and that more professional brand marketing approaches were needed that were more typically found within large corporations.

“We have shown that once a brand has been successfully created and built up by the original entrepreneurs who had the ideas and the willingness to take risks, it is more likely to continue to flourish when it is turned over to professional managers…” (da Silva Lopes and Casson, 2007, p. 679).

d) **Venture spawning and corporate entrepreneurship**

The success of the SBV partnership between Zeta and Vermont and credibility of the founder seemed to provide a foundational basis for enrolling the entrepreneur in new strategic exploration activities. Harold Green was empowered by Zeta to act in a sense as a corporate venturing executive making investments in other entrepreneurial brand ventures on behalf of Zeta and launching new internal brand ventures in diverse national markets. Additionally, Zeta learned certain practices from Vermont and imbibed a spirit of entrepreneurship from the partnership that seemed to stimulate a greater level of corporate entrepreneurial activity inside Zeta.

Table 6.13 matches how the case evidence corresponds with the conceptual model. As previously noted, no formal SBV unit existed hence several program design elements of the model do not apply, and if they did, it was on an informal basis. Opportunity identification did not appear to be a formalized process as part of a deliberate SBV strategy and no evidence could be found of Zeta being part of, or nurturing, an entrepreneurial ecosystem. The courting process was extensively covered in the case as well as the investment process. However, as previously mentioned this element needs to be embellished to encompass other agreements that detail the operating guardrails and reflect an understanding between the investor and the remaining entrepreneur on decision rights, as well as, any specific shareholder and employment agreements.

Based on the case material, an enlarged view of the marketing dimension seemed necessary encompassing more than just a staged life-cycle approach to brand building. This finding is in line with some of the other cases too and as such the marketing life-stage element of the conceptual model should be enlarged and re-titled as an entrepreneurial marketing dimension. Several inter-organizational linkages were evident in the case although less strongly so than in other cases where more synergies were pursued with Vermont largely left to operate as an autonomous business unit.
Table 6.13 – Case #7: Implications for Codes and Model

<table>
<thead>
<tr>
<th>Codes</th>
<th>Fine-Grained Codes</th>
<th>Case / Zeta/ Vermont</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Antecedents</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>B. Program Design</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B1. Objectives</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>B2. Strat/Structure</td>
<td>Informal</td>
<td></td>
</tr>
<tr>
<td>B3. Governance</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>C. Opportunity Identification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C1. Exploration</td>
<td>Informal</td>
<td></td>
</tr>
<tr>
<td>C2. Ecosystem</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>C3. Courting</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>D. Brand Entrepreneur Partnerships</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D1. Invest</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>D2. Marketing stage</td>
<td>Enlarged</td>
<td></td>
</tr>
<tr>
<td>D3. Org Linkage</td>
<td>Partial</td>
<td></td>
</tr>
<tr>
<td>E. Venture Portfolio Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E1. Monitor/Option</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>E2. Graduation</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>E3. Intrapreneural</td>
<td>Yes +</td>
<td></td>
</tr>
<tr>
<td>F. Outcomes</td>
<td>Success</td>
<td></td>
</tr>
<tr>
<td>G. Emergent Codes</td>
<td>Venture spawning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operating agreement</td>
<td></td>
</tr>
</tbody>
</table>

Monitoring and investment decision-making was evidenced in the case supported by several governance measures. No indication of integrating and graduating SBV businesses into the core business were evident since no SBV unit existed. Also, the manner in which Vermont was treated did not seem to convey a strong program around assimilation nor plans for integration. Finally, the richness of the intrapreneurship dimension of the conceptual model was an interesting finding. In this case, the entrepreneur instead of an SBV unit was empowered to perform this role by advising Zeta on several new investments and spawning new internal ventures. Several examples were also surfaced of a heightened corporate entrepreneurial posture inside Zeta indicating the strategic and financial value potential emanating from SBV arrangements. The intrapreneurship component within the conceptual model may be too narrow and could be broadened to encompass corporate venturing in line with the commonly held understanding of the domain found in literature (Corbett et al. 2013; Kuratko and Audretsch 2013), namely:

- Corporate venturing involves bringing new businesses (or brands) to the corporation via corporate venture capital (CVC), co-operative ventures with external parties, intrapreneurship, or internally generated corporate ventures.

6.8.7.2 Subjective assessment of outcome

Since inception of the SBV partnership Vermont’s revenue grew from $72 million to $350 million. Additionally, several collaborative new brand ventures were started within Vermont, and in Canada, Ireland, and France. Zeta was able to achieve significant market share growth in a strategically important category and country for them as well as in a specialized and influential retail channel where they had minimal competence. The following statements extracted from Vermont’s company website aptly spells out the assessment of the partnership:

"In conceiving this partnership, [Vermont] and [Zeta] carefully crafted an arrangement that balances both companies’ goals of generating strong financial results and returns, with their strong commitments to environmental responsibility. [Vermont] achieved a favourable liquidity exit for its investors and a strong growth partner for the future. [Zeta] entered the US natural and organic products segment by partnering with..."
one of its strongest, most successful and best-known firms…The [Vermont/Zeta] partnership is an excellent model for enabling emerging values-driven firms to gain in strength and stature, while remaining loyal to the growing base of consumers who seek organic and natural products…

This has been a win-win-win-win for [Vermont’s] customers, shareholders, employees, and for [Zeta]. Our customers can be assured that the folks who have consistently delivered the highest quality organic and natural yogurts for 21-years will continue promoting healthy food, healthy people and a healthy planet well into the future. Our shareholders have been well rewarded for their support over these past decades and can rest assured that we will continue our health and environmental missions with greater enthusiasm than ever. Our employees can be secure that [Zeta] is committed to our independent and autonomous management and to continue as the family company they have helped to grow. And [Zeta] is enjoying a strong partner with an incredibly bright future.”

In the context of SBV partnerships within the CPG industry, this deal (as represented in this case) was a forerunner for many SBV deals to follow with other actors hence setting the benchmark for a new strategic approach for CPG diversification.

“Our deal is kind of a model for many but it could be improved upon for sure”.

Consequently, the Zeta-Vermont SBV partnership is considered to have created high levels of strategic and financial value for both entities as depicted in Figure 6.26 below.
6.9 Conclusion
This draws to a close the discussion of each individual case study. The next chapter analyzes findings across the seven cases to identify common and divergent themes and draw conclusions about the components of the final conceptual model. In order to recap the outcomes encountered across the cases, Figure 6.27 portrays a composite of the subjective assessments ascribed to, and justified for, each case study.

Figure 6.27 – Summary of Subjective Ratings Across All Case Outcomes

Note: In all instances, the x-axis represents Value created for the Entrepreneur and the y-axis represents Value created for the Large Firm.

It should be noted that not all quadrants were covered through the case examples examined. What was not encountered was a case typically feared by entrepreneurs and described in agency theory as moral hazard (see Katila et al., 2008), where the brand or technology is either marginalized, emulated, or discarded post the investment for the benefit of the large corporation only. In this scenario, value for the entrepreneur would have been low (y-axis) and value for the large firm would have been either medium or high (x-axis) depending on the specifics.
CROSS-CASE ANALYSIS:
SEARCH FOR EXPLANATORY DEPTH

7.1 Introduction
Chapter 7 brings together what can be learned by moving from analyzing data within each case to analyzing data across all seven case studies. As Ayres et al. (2003, p. 875) notes: “moving between across- and within-case comparisons facilitates the process of intuiting. Intuiting is the critical reflection on and identification of themes as they are found in the accounts of multiple respondents”. Critical reflection is not straightforward in qualitative research however. Unlike quantitative research, the ‘burden of inference’ according to O'Dwyer (2004) falls on the researcher versus on a statistical methodology that converts and computes inputs into outputs thereby absolving the researcher somewhat from ‘errors of inference’. Nowhere is this more pronounced than when contemplating cross-case analysis. Stake (2005) describes individual cases as examples of a phenomenon that are categorically bound together. Assertions and explanations of that phenomenon can more readily be made with a more holistic perspective when cases are analyzed across each other according to Stake (2005). Cross-case analysis also serves to mobilize knowledge from individual cases to produce new knowledge, provoke imagination, refine concepts, generate models, and provide opportunities to learn (Khan and VanWynsberghe, 2008). Furthermore, according to Yin (2009), it supports validity, reliability, and transferability. While there is no valid nomothetic project in the social sciences and one certainly cannot generalize from a sample of seven case studies in a statistical sense, analytical generalizations (Yin, 2003) can be proffered together with important themes and issues pertinent to any large firm wishing to implement SBV. Several cross-case analysis approaches and techniques have been proposed in literature. In terms of approaches, Ragin (1997; 1999) for example, explains two approaches to analysis in variable-oriented (why cases vary?) and case-oriented (ways cases are alike?). The challenge with the former being that fair comparisons are difficult to make across social phenomena, such as a case study, since too many factors are embedded in each case to be disentangled. Conditional ‘generalizations’ may be achievable with the latter approach if similar outcomes are found and cases can be construed as exemplars of the same phenomenon. In terms of techniques, Miles and Huberman
(1984) list more than 20 case analysis techniques across data reduction, data display, and conclusion-drawing/verification phases of the process. Khan and VanWynsberghe (2008) provide a synopsis of techniques for each of the variable and case-oriented approaches. One of the most common techniques is simply creating a series of matrices that facilitate “a quick analysis down rows and across columns to see what jumps out” (Miles and Huberman, 1994, p. 242). The similarities or differences across cases are however not of as much importance as obtaining a deeper understanding of the shared phenomena of interest that can be discovered through the cases. Aggregate impressions (Stake, 1995), themes and patterns are more easily discernible through matrix analysis. Miles and Huberman (1984) argue in favour of an ecumenical, yet transparent, handcrafted blend of procedures building on the 'intellectual craftsmanship' thesis of Mills (1959). Leavy (1994) also argues that each researcher is involved in a ‘craft’ when analyzing case-based qualitative research. Given the philosophical stance adopted for this dissertation, a nuanced approach to cross-case analysis was deemed appropriate borrowing from certain variable and case-oriented techniques but also entailing a more explicit link between analysis, realism, and identification of theory. As such, this researcher’s craft-based approach is delineated in Section 7.4. A series of questions were held uppermost while performing the cross-case analysis. These were derived from a framework proposed by Whetten (1989) in ascertaining elements and components of theory identification. These questions are listed below:

- **What?** Activities, factors, and variables describing the phenomenon. In other words, what are SBV units/firms doing or not doing to drive high levels of SBV outcomes?
- **How?** Relationships, patterns, and mechanisms. In other words, how are SBV units/firms doing it?
- **Why?** Underlying dynamics of activities/factors and their relations (assumptions, explanations, reasons, purpose). In other words, why are SBV units/firms doing it this way, and within what context?
- **Who?** Actors, organizations, units involved. In other words, who is doing it, and with whom, and when?

In the sections that follow, the researcher endeavours to analyze the cross-case data using these questions as criteria when examining antecedents (what and why), while examining the incidence of *a priori* codes evidenced (what and who), and by examining the key themes that emerged (what, how, why, who, when). This was done in order to discern emergent codes and embellishments that could be incorporated in a final SBV model. The rest of this dissertation is organized as follows: Chapter 7 will therefore examine the themes and codes that emerged from the cross-case analysis. In Chapter 8, the final chapter, conclusions will be drawn about the SBV model informed by how the empirical data corroborated or adapted the *a priori* codes and also how it surfaced new *a posteriori* codes to enlarge and enrich the model. Implications for theory and management practice are also outlined in the final chapter. The discussion commences with cross-case analysis of antecedents.
7.2 Analysis of Antecedents

Table 7.1 contains a list of the antecedents identified in the fieldwork for all the cases. It should be noted that given the focus of this dissertation on corporate entrepreneurship, these represent antecedents from the perspective of the large firm and not from the perspective of the entrepreneurial firm. Also, since two case studies were sourced from one corporation, Alpha, the antecedents for establishing SBV held true irrespective of individual investment case studies.

<table>
<thead>
<tr>
<th>Meta Code</th>
<th>Cases 1 &amp; 2 Alpha</th>
<th>Case 3 Beta</th>
<th>Case 4 Gamma</th>
<th>Case 5 Delta</th>
<th>Case 6 Epsilon</th>
<th>Case 7 Zeta</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Antecedents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inability at Small Brand Integration</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Failure with Brand Acquisition</td>
<td>Fragmenting Consumer Tastes</td>
<td>Growing Entrepreneur Impact</td>
<td>Lower Barriers to Entry</td>
<td>Growth-Oriented CEO &amp; Decentralized Culture</td>
<td>Entrepreneurial CEO</td>
<td></td>
</tr>
<tr>
<td>Disruptive Entrepreneur Brands</td>
<td>Disruptive Entrepreneur Brands</td>
<td>Focus on Sustainable Growth &amp; Innovation</td>
<td>Decentralized Structure &amp; Empowerment</td>
<td>Lack of Strategic Clarity on Core</td>
<td>Collaborative Corporate Culture</td>
<td></td>
</tr>
<tr>
<td>Intra-System Dislocation</td>
<td>Declining Core Brands</td>
<td>Entrepreneuring Top Manager</td>
<td>Emerging &amp; Disruptive Entrepreneur Brands</td>
<td>Emerging Entrepreneur Brands</td>
<td>Emerging Entrepreneur Brands</td>
<td></td>
</tr>
<tr>
<td>Declining Core Brands</td>
<td>New Top Managers</td>
<td>Struggling Core Brands</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

While the number of cases represents a theoretical sample and not a statistical sample with its attendant limitations of generalization, the factors appear to be a mixture of endogenous and exogenous ones. In terms of endogenous factors, the inability to generate new brand innovation, or effectively manage smaller brand acquisitions was a key driver for Alpha. A struggling core brand business and hence a need to focus on generating sustainable growth featured prominently in case #3, #4, and #5. Another factor seemingly germane to the establishment of SBV was the entrepreneurial posture of the existing or newly appointed CEO or top management. Although not specifically called out in the Alpha case, it was also implicit since a dedicated SBV organizational unit was formed by a decision of Alpha's top management in response to these various factors. Furthermore, the role of corporate culture and capability is evidenced in either fermenting a conduciveness to strategic exploration external to firm boundaries, or to enable partnering with new entities once organizational ties had been formed via an investment.

Finally, a theme of a more strategic nature can be inferred from the case material as well. In the Epsilon case, the lack of clarity concerning their corporate growth strategy for the core business spurred experimentation in external new businesses diluting focus on the core. This in turn, created strategic misalignment with network partners as Epsilon's franchisees became more
enamored with the new businesses than with investing in their core business putting the core business at even further risk. In a related yet opposite sense, the franchisee bottlers in the Alpha instance were frustrated at the parent's lack of experimentation and were starting to make their own brand investments putting a core premise of the franchise model at risk whereby the parent (franchisor) owns the brands and leads innovation while the franchisee manages market execution. The most commonly occurring exogenous drivers were the disruptive effects of entrepreneurs innovating in the industry creating new brands and new categories. This seemed enabled in some instances (cases #3 and #5) by lower barriers to entry and changing consumer tastes. Arguably entrepreneurial activity presented the most cogent strategic threat to the large firms that needed to develop a strategic response in terms of internal innovation endeavours, or acquisition, or as this dissertation has posited, forging strategic brand venturing partnerships with these same disruptive entrepreneurs.

To conclude, several categories of antecedent can be deduced from the above:

- **Actors** (entrepreneurs; CEOs; top management);
- **Culture and capability** (decentralized and permissive; open to new ideas and external innovation; incapable of incubating new brands; or integrating small acquired brands);
- **Strategic-system factors** (franchisee misalignments; lack of strategic clarity concerning core business growth options);
- **Industry factors** (lower industry barriers to entry; entrepreneurial proclivity and intensity; changing consumer needs and preferences)

### 7.3 Synthesis of Codes by Cluster

Defining clusters of similar cases was also considered to be a meaningful way of organizing cross-case analysis beyond matters relating to antecedents. This is consistent with what can be described as ’conceptually-clustered matrices’ (Miles and Huberman (1984, p. 26), ‘bracketing’ (Denzin, 1989), or ‘typologies’ (George and Bennett, 2005) that might share commonalities but are not necessarily causal, mutually exclusive, or exhaustive. Using the strategic and financial outcomes subjectively ascribed to each of the seven cases and portrayed in Figure 7.1, a cross-case synthesis was conducted based on a cluster of cases denoting medium-to-high levels of strategic and financial value creation, as well as by way of contrast, those cases positioned in the lower-mid quadrants. A sub-set of four upper quadrant cases (case #’s 1, 2, 6, 7) were deemed to provide a proxy for “good practice” and were analyzed as an aggregated sub-sample to determine mechanisms and contextual factors that contributed to successful SBV investments.
To facilitate easy reference to these cases, evidence of a priori codes, and key themes discovered in each case were extracted from Sections 6.2.7; 6.3.5; 6.7.7; 6.8.7 and listed in Tables below. From this, a distillation of key learnings and emergent codes are made to confirm and/or adapt the SBV model. Similarly, a cross-case analysis process was followed through examining the three cases that fell within the lower-mid quadrants of performance (see Figure 7.2). In this instance, instead of a reprise of key observations across all dimensions, only those facets that offered accretive learning to the upper quadrant analysis were highlighted. Although this analysis is truncated, it nevertheless proved to be instructive in shaping the final SBV model.

To facilitate easy reference to these cases, evidence of a priori codes, and key themes were extracted from Sections 6.4.5; 6.5.7; 6.6.7 and can be found in Tables below. A brief caveat is appropriate with regard to the assignment of case #5 within the lower-mid quadrant versus upper-mid quadrant. The assessment in Section 6.6 and depicted in Figure 6.21 was that other SBV related organizational experiences existed in Delta albeit they were dispersed. This lead the author to rate the prospects for medium strategic and financial benefits to accrue for both parties predicated on a belief that senior management would see the value of leveraging these
on behalf of the investment in entrepreneur brand Oregon. However, from a strict case study ‘unit of analysis’ perspective, the case lacked direct empirical evidence that suggested it was a strong exemplar of SBV program activity. It was therefore the judgment of the researcher that for cross-case analysis purposes it belonged better in the lower-mid quadrant.

7.3.1 Evidence of A Priori Codes in Upper Quadrant Cases
This section summarizes whether the a priori codes that were part of the SBV conceptual model were evidenced in the empirical fieldwork. The fieldwork was not designed to ‘straight-jacket’ respondents into discussing only these codes, but the semi-structured nature of the interview process allowed for emergent codes to be identified as well. This will be discussed later on in Section 7.4 but for now, a review of whether the template codes were corroborated or not is an important part of the SBV model’s verification. Table 7.2 below lists the codes and the evidence pertaining to the four upper quadrant cases.

<table>
<thead>
<tr>
<th>Table 7.2 – Evidence of A Priori Codes in Upper Quadrant Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Evidence of A Priori Codes</strong></td>
</tr>
<tr>
<td><strong>Meta Codes</strong></td>
</tr>
<tr>
<td>A. Antecedents</td>
</tr>
<tr>
<td><strong>B. Program Design</strong></td>
</tr>
<tr>
<td>B1. Objectives</td>
</tr>
<tr>
<td>B2. Strat/Structure</td>
</tr>
<tr>
<td>B3. Governance</td>
</tr>
<tr>
<td><strong>C. Opportunity Identification</strong></td>
</tr>
<tr>
<td>C1. Exploration</td>
</tr>
<tr>
<td>C2. Ecosystem</td>
</tr>
<tr>
<td>C3. Courting</td>
</tr>
<tr>
<td><strong>D. Brand Entrepreneur Partnerships</strong></td>
</tr>
<tr>
<td>D1. Invest</td>
</tr>
<tr>
<td>D2. Marketing</td>
</tr>
<tr>
<td>D3. Org Linkages</td>
</tr>
<tr>
<td><strong>E. Venture Portfolio Management</strong></td>
</tr>
<tr>
<td>E1. Monitor/Option</td>
</tr>
<tr>
<td>E2. Graduation</td>
</tr>
<tr>
<td>E3. Intrapreneurship</td>
</tr>
<tr>
<td><strong>F. Outcomes</strong></td>
</tr>
</tbody>
</table>

Brief cross-case commentary against each element of the model now follows in order to discern support or modifications necessary for the SBV model.

a) Program design
In cases #1, #2, and #6 the activity of setting objectives for venturing was evident. In case #7 the interview data does not provide adequate insight into this dimension to be conclusive about it since the interview was conducted through the lens of the partnering entrepreneur and not directly from the perspective of the large firm.

Formal venturing strategies and dedicated organizational structures were also evidenced across three cases. As previously noted, case #7 provides an example of
equifinality, in the sense that SBV was enabled and generated a successful outcome but without a dedicated SBV unit in place. Instead, the SBV relationship was facilitated through informal inter-organizational ties and explicit empowerment of the entrepreneur legitimized through very strong endorsement from the Zeta CEO. The sustainability of such an approach is a matter of conjecture since the Zeta CEO has remained in role throughout the partnership lifespan the personal tie to the brand entrepreneur was visible and palpable inside the large firm. Without these unique features it is debatable whether such an informal construct would have sufficed or survived.

Finally, each case within this quadrant had semblances of a governance model that monitored and guided the investment, thus also verifying this as a component of the SBV model.

b) Opportunity identification
In the first two cases there appeared to be a clear connection between the SBV equity investment arising from a formal due diligence process around strategic exploration. This is less apparent in case #7 (again this data may have been masked from the researcher purely due to the specifics of the interviewee being interacted with). In case #6, the exploration was being undertaken by diverse operating units dispersed throughout the corporate structure as they sought bolt-on investment opportunities amidst an unclear strategy for the core business. The evidence of this opportunistic activity however wouldn’t qualify in the sense intended within the SBV model - ‘strategic’ exploration undertaken by a dedicated singular SBV unit to invest in promising new brands that compliment the portfolio growth strategy of the core business.

In terms of ecosystem participation and nurturing, this is more likely to occur as part of a formalized SBV strategy and structure and hence it is unsurprising that it was only evidenced in cases #1 and #2, but not in case #6 where the SBV unit was formed to divest investments, nor in case #7 where the SBV investment was initiated directly by the corporate center.

In case studies #1, #2, and #7 we see examples of the multi-dimensional nature of the courting ritual and partner selection process, whereas in case #6 this can only be implicitly assumed from the manner in which the investment was ultimately consummated. The notion of ‘courtship’ is not explicitly mentioned in CVC literature but can be found in the literature on joint ventures. Berg and Friedman (1980, p. 85-6) describe courtship as a costly and time-consuming process:

“Courtship begins when a specialized opportunity for cooperation is identified. During an initial period of up to several years, the firms cooperate on some activity without formalizing how the burdens or potential gains are to be shared. Courtship sometimes results in a child (the joint venture)”.  

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Similarly in a SBV context, courtship involves time-consuming relationship building but differs in the sense that unlike joint ventures this is a one-directional investment by unequal partners. The risk is greater for the entrepreneur who exchanges multiple shareholders for one whereas, for the large firm this may be just one of potentially multiple brand investment relationships. In case #7 we encountered evidence of extensive and careful screening and decoding of any signals from the corporate suitor that may have indicated a lack of an authentic strategic role for their brand once housed inside the corporate portfolio, or a dissonance with the brand’s unique social mission and culture. In case #1 the researcher uncovered rich insights into the multi-dimensional nature of the courting and selection process from the entrepreneur perspective that offer useful learning for the large firm too. The SBV units also seemed to accept that courtship might result in abandonment on either side without a return on effort. During the courtship an assessment was undertaken on both sides.

c) Brand entrepreneur partnerships
The activity of making a SBV investment decision was self-evident in all four cases. Each case had different deal designs. Some were time-based and others were criteria or performance based, but in all cases, the option to fully acquire the remaining shareholder equity was either pre-negotiated or progressively negotiated indicating a strategic intent on behalf of the parent corporation to potentially acquire the brands.

The SBV conceptual model posited that marketing interaction between the parent and the entrepreneurial brand should follow a doctrine or framework that recognizes emerging, disruptive brands journey through different stages en route to scale and hence require different marketing approaches to traditional mass-market brands. A comprehensive marketing model was found to be in use within case #1 and case #2. In the latter instance, the model even drove the design of the deal structure to approximate differing stages of brand development and link these stages with financial options to progressively increase the investor's equity stake. Although evidence of a similar concept was found in case #3 (discussed later), no such tool existed in cases #6 and #7. However, in case #7, it became apparent that limiting the marketing dimension of the model purely to a life-stage construct did not adequately represent the full spectrum of what entrepreneurial marketing comprised.

The intensity of inter- and intra-organizational linkages and synergies varied across the four cases from highly developed in cases #1 and #2 to more specific in cases #6 and #7. The intensity seemed to be moderated by the strategic intent and design of the parent and its SBV unit. For instance, in the first two cases, the intent was to ultimately acquire the brands and integrate them into their brand portfolios, whereas, the intent and design with case #6 was to divest and in case #7 to leave the entrepreneur venture
operating as a stand-alone entity, a condition originally negotiated by the entrepreneur in the deal.

d) Venture portfolio management

*Monitoring* mechanisms and routines appeared to be in place across all four upper quadrant cases in order to govern performance and evaluate whether the option right should be exercised to increase equity, or to acquire, or even to divest.

In terms of *assimilation and graduation* of brands, this was clearly an activity practiced and anticipated within Alpha. Not only were Maine and California on track for graduation, an earlier entrepreneurial brand investment not studied in this dissertation had been successfully nurtured through proof-of-scale by the SBV unit. This eventually led to the brand being graduated into the core business. This notion was not considered relevant by Epsilon (case #6) since the SBV unit was tasked with divesting the brand and had no need for a systematic approach to assimilation and graduation. Notwithstanding this, the venture leader performed a highly influential role in partnering with the brand entrepreneur as they sought to scale the brand and position it for a successful IPO. This partnership would not have been successful without the venture leader having the emotional intelligence and commercial savvy of learning and internalizing the exigencies of the brand’s ethos and soul. However, this learning transfer was not an institutionalized one for the benefit of the entire large firm but individualized in order to simply achieve the goal of exiting the investment.

In case #7, the assimilation of the entrepreneur brand by Zeta executives was constrained in the opinion of the researcher through a prolonged reliance on the brand entrepreneur. Even within the brand venture itself other employees were dependent on the founder for marketing guidance and decision-making. At the time of writing case #7, the notion of graduation to the core business was not in prospect since the entrepreneur was still engaged in the running of the brand venture. However, it was hinted at by the entrepreneur that should he depart, that graduation might be a path chosen by the corporate parent.

Finally, in terms of *intrapreneurial* activity being spawned by the SBV unit as a consequence of interaction with external entrepreneurs we observed some rich examples with the exception of Epsilon (case #6) where divestiture was mandated thus curtailing further SBV activity.

7.3.2 Evidence of *A Priori* Codes in Lower Quadrant Cases

The first observation gleaned from studying Table 7.3 is that similar to the upper quadrant cases, most dimensions (codes) of the model appeared to be practiced within the lower quadrant cases, suggesting that form and compliance with the model in isolation were no guarantors of SBV success. For example, of the 12 dimensions across the 3 cases making for
36 possible responses, 24 (67%) received a ‘yes’ assessment, 7 (19%) were not evidenced, and 5 (14%) were qualified or partially encountered in the case. Rather, the learning appears to be that other human factors and strategic factors and mechanisms were moderating or mediating success and needed to be uncovered. These will be discussed in the sections that follow.

Table 7.3 – Evidence of A Priori Codes in Lower Quadrant Cases

<table>
<thead>
<tr>
<th>Meta Codes</th>
<th>Fine-Grained Codes</th>
<th>Case 3 Beta/ Texas</th>
<th>Case 4 Gamma/ Florida</th>
<th>Case 5 Delta/ Oregon</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Antecedents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Program Design</td>
<td>B1. Objectives</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>B2. Strat/Structure</td>
<td>Yes</td>
<td>Yes</td>
<td>Unclear</td>
</tr>
<tr>
<td></td>
<td>B3. Governance</td>
<td>Yes</td>
<td>Yes</td>
<td>Partial</td>
</tr>
<tr>
<td>C. Opportunity Identification</td>
<td>C1. Exploration</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>C2. Ecosystem</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>C3. Courting</td>
<td>Yes</td>
<td>Yes</td>
<td>Partial</td>
</tr>
<tr>
<td>D. Brand Entrepreneur Partnerships</td>
<td>D1. Invest</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>D2. Marketing</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>D3. Org Linkage</td>
<td>Yes</td>
<td>Yes</td>
<td>Partial</td>
</tr>
<tr>
<td>E. Venture Portfolio Management</td>
<td>E1. Montor/Option</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>E2. Graduation</td>
<td>No</td>
<td>No</td>
<td>In process</td>
</tr>
<tr>
<td></td>
<td>E3. Intrapreneurship</td>
<td>No</td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>F. Outcomes</td>
<td></td>
<td>Core business dominant</td>
<td>Failed. Re-purpose venturing</td>
<td>Early stages</td>
</tr>
</tbody>
</table>

7.3.3 Conclusions from Code Analysis by Cluster

To conclude this analysis of a priori codes, it appeared that by and large the model and its core dimensions held true across the upper quadrant cases. For instance, of the 12 core activity dimensions across the 4 upper quadrant cases, a total of 48 answers or data points were possible. A ‘yes’ answer was ascribed to the codes 71% of the time, a ‘no’ answer in 8% of times, a ‘partial/qualified’ answer 17% of the time, and for 4% of times, the dimension was deemed to be ‘not applicable’. Although not all codes were evident in all cases, their presence in certain high performing SBV units as well as in lower quadrant cases augers against premature dismissal without more extensive studies being available.

A few slight modifications are suggested:

- **Corporate entrepreneurship instead of intrapreneurship.** Intrapreneurship as a term in the literature is used in diverse ways (Antoncic and Hisrich, 2001) but is most commonly ascribed to internal ventures being launched within large firms (Kanter and Richardson, 1991; Baduerahanian and Abetti, 1995). It is nevertheless one form of corporate entrepreneurship. The upper quadrant cases however suggest that SBV units or organizations involved in SBV-like programs can trigger a broader range of corporate entrepreneurial activity than purely internal new ventures. In case #7 we saw the entrepreneur acting as an internal venture capitalist for external investments as well as for internal incubations. This offers an interesting new dimension to the CVC literature.
where co-investment relationships with high-status VC firms have been shown to direct
top management attention to technological discontinuities and opportunities (Maula et al., 2013). This finding suggests a more complete picture of the impacts of multiple actors (e.g., elite entrepreneurs, distributors, retailers and not just VC firms) in social networks in which the incumbent is embedded would be beneficial. In case #6 we noted the influence on creativity and entrepreneurial skill development among executives that had served time in the venture unit and introduced these skills back into the core business. In case #1, we noted how the corporate culture had shifted in favour of a more innovative and entrepreneurial posture. As such, it is recommended that the dimension and code titled ‘foster intrapreneurship’ be enlarged and restated as ‘foster corporate entrepreneurship’.

- **Entrepreneurial marketing instead of life-stage marketing.** Life-stages should be broadened to encompass a broader dimension such as entrepreneurial marketing (Stokes, 2000; Morris et al., 2002) where the notion of brand soul and culture is respected, where the role of the entrepreneur in embodying the brand is understood, where creativity and spontaneity of approach is encouraged, and where the large firm can accommodate the venture brand’s social and environmental mission weaved into the entrepreneurial venture’s marketing strategy that may occasionally be at odds with the large firm. These notions do not displace but augment the strictures of a ‘phases of brand development’ construct and require an amendment to the SBV conceptual model.

- **Institute human resources framework.** It is clear from the data that SBV leaders played a key role in helping ventures progress through accessing internal resources and advice and also in the relational skills required in partnering with entrepreneurs. An SBV model that only mentioned structure and strategy without reference to appointing the right profile of leader, and that an absence of people leadership and career path considerations and risks would not be representative of the full scope of activities needed.

- **Exercise options and entrepreneur decision.** In addition to the parent and the SBV unit exercising the option to either increase equity stake or acquire the brand venture, the role of the founding entrepreneur also needs to be determined. In case #1, case #2, case #6, and case #7, it seems the corporation decided that the entrepreneur was a vital part of the overall brand culture and ethos being retained and even a catalyst in case #7 of stimulating corporate entrepreneurial endeavour. This activity/process step should be enlarged to encompass this dimension as well.

- **Manage exogenous constituents.** Apart from VC firms being characterized as exogenous stakeholders in CVC literature, there is an absence of research on a broader spectrum of players. This need to examine a broader set of external constituencies has been surfaced in a CVC literature review by Dushnitsky (2012). In
this research project, two additional constituents were evidenced: the reaction of ardent and loyal consumers (case #1; case #7); and the needs and role of third party distributors (case #2). The latter was clearly illustrated in the Snapple case (Deighton, 2002), but also highlighted as an important factor in the Alpha-California case study. Additionally, given the impact and profile of public firm investments on corporate reputation and image, investor relations with shareholders and buy or sell-side analysts could also perhaps receive future research attention. This was not surfaced in this dissertation however.

7.4 Emerging Themes by Cluster

While the purpose of the previous section (Section 7.3) was to check for evidence of \textit{a priori} codes within the corpus of fieldwork, the purpose of this section is to identify whether themes discovered in the cases also entail \textit{a posteriori} knowledge and therefore surface codes or contextual insights that merit amplification and adaptation of the SBV conceptual model. Specifically, the analysis confronted the empirical data with these questions:

- Which themes merit adding a new dimension or code to the model?
- Which themes refine / modify an existing code within the model?
- Which themes (if any) repudiate an existing code?

Furthermore, Bazeley and Richards (2000) suggest the researcher take into consideration questions such as these when probing for useful codes: \textit{What is interesting? Why is it interesting? Why am I interested in that?} The key emergent themes for upper quadrant cases and for lower quadrant cases that were summarized at the conclusion of each within-case analysis are restated below in Tables 7.4 and 7.5 respectively for ease of reference.

### Table 7.4 – Emerging Themes from Upper Quadrant Cases

<table>
<thead>
<tr>
<th>Emerging Themes</th>
<th>Case #1</th>
<th>Case #2</th>
<th>Case #6</th>
<th>Case #7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsor &amp; ombudsman</td>
<td>Complex deal structure drives behaviour</td>
<td>Venture unit formed to divest not invest</td>
<td>Venture Leader skill • Access to top • Peer credibility • Founder credibility • Relational dexterity</td>
<td>Equifinality</td>
</tr>
<tr>
<td>Courting &amp; selection</td>
<td>Asset leverage</td>
<td>New skills from stint in SBV</td>
<td>Entrepreneur is the brand but prolonged reliance problematic</td>
<td></td>
</tr>
<tr>
<td>Entrepreneur is the brand</td>
<td>Portfolio synergies</td>
<td>Strategy trumps results</td>
<td>Venture spawning and CE</td>
<td></td>
</tr>
<tr>
<td>Venturing doctrine</td>
<td>Flexible operating models</td>
<td>Franchisee / network issues</td>
<td>Visible CEO support</td>
<td></td>
</tr>
<tr>
<td>Inter-connection of growth strategies</td>
<td>Broader CE impact</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caretaking trap</td>
<td>Inappropriate use of SBV unit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder-in-residence</td>
<td>Embed large firm executives</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource nucleus</td>
<td>Rite of passage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rite of passage</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 7.5 – Themes Emerging from Lower Quadrant Cases

<table>
<thead>
<tr>
<th>Emerging Themes</th>
<th>Case #3</th>
<th>Case #4</th>
<th>Case #5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominant operating focus</td>
<td>Smothers strategic potential</td>
<td>Impact of failure on venturing mandate</td>
<td>Uncertain strategic validation</td>
</tr>
<tr>
<td>Internal rivalry</td>
<td>Change in top management impact</td>
<td>Unlocking resident potential</td>
<td></td>
</tr>
<tr>
<td>Oscillation in strategic mandate</td>
<td>Learning from experience</td>
<td>Disparate venturing activity</td>
<td></td>
</tr>
<tr>
<td>Venturing doctrine</td>
<td>Skill development from stint in SBV</td>
<td>Lack of senior sponsor</td>
<td></td>
</tr>
<tr>
<td>Poorly designed deal</td>
<td>Stifling corporate culture</td>
<td>Rite of passage</td>
<td></td>
</tr>
<tr>
<td>Polarizing leadership posture</td>
<td>Flawed business model assumptions</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inappropriate venture leadership</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adjacencies are hard to do</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Misuse of venturing groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Human resource risk from venturing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is not uncommon for qualitative researchers in the analysis phase to simply provide extensive lists of themes unearthed in the fieldwork. This practice of listing that typifies much case reporting is aptly referred to as, “garden path analysis” by Richards (1998, p. 324) since the themes are somewhat self-contained and unrelated to each other within and across cases. However, in this dissertation, deeper structures in the data needed to be sought in accordance with the chosen philosophical stance of realism. To restate, the essential purpose of realism is to facilitate a deeper understanding of the causal mechanisms and contexts necessary in producing an outcome from actions taken. Identifying mechanisms can have two sources: a priori and a posteriori. This is also commensurate with abduction as the chosen logic of reasoning applied in this dissertation. Ryan et al. (2012) note that: “Abductive logic assumes the researcher finds mechanisms from both sources; from theoretical pre-understanding and from surprises or unexplained aspects arising from the data” (p. 307). This is consistent with the several iterations of the SBV model formulated a priori as well as a posteriori in this dissertation.

To facilitate cross-case analysis, two stages of conceptualization were completed:

1) Each theme was aligned as best possible against one of Whetten’s (1989) core criteria for identifying and stratifying components of theory (the what, how, why, who questions).

2) Based on the above stratification procedure, the themes were grouped and interpreted within the espoused philosophical stance adopted for this dissertation, that of realism (Bhaskar, 1978). Realism can be illustrated using a simple diagram in Figure 7.3 derived from Robson (2002).
Pawson (2000) and Robson (2002) illustrates Realism using the example of gunpowder:

- **Gunpowder will explode**
- **When a flame is applied**
- **If its chemical composition is correct**
- **And if oxygen is present; and no rain is falling**

> Desired outcome
> Action
> Mechanism
> Appropriate context

Realism has been applied within a number of research fields, notably: economics (Fleetwood, 1999), geography (Yeung, 1997), organization (Tsang and Kwan, 1999), sociology (Sayer, 1997) information systems (Wynn and Williams, 2012), business relationship processes (Ryan et al., 2012) and importantly also management, marketing, and entrepreneurship: Blundel (2007), Easton (2010), Hunt (1989), Perry, et al. (1999), and Tsoukas (1989). The application of realism for the study of strategic brand venturing is illustrated with this analogy pivoting from the Robson (2002) example:

- **High levels of strategic and financial value will accrue**
- **When an investment is made in a disruptive entrepreneur brand**
- **If the key dimensions of the SBV partnership occur within a munificent venturing environment**

> Desired outcome
> Action
> Mechanism(s)
> Appropriate context

In this dissertation study, the action involved is tantamount to a large CPG firm undertaking an SBV investment in a promising entrepreneurial brand venture. The outcome is the attainment of high levels of strategic and financial value for both parties derived from the investment. However, under the premises of realism philosophy, causal mechanisms only facilitate accomplishment of desired outcomes if those mechanisms operate within appropriate contexts. The dimensions already evaluated as part of the SBV model, constitute many of the mechanisms involved in facilitating achievement of strategic and financial value. Given similar
levels of compliance with the core codes and dimensions of the model evidenced between upper and lower quadrant cases, the researcher sought to sharpen the articulation of these mechanisms and importantly, to describe the appropriate aspects of context at a deeper level. The emergent themes distilled from the cases provided the data for doing so. Before moving to the specifics of the analysis, it is worth noting that realism as a philosophy is not in competition with existing theories, methods and tools. Rather, it is open to practical application (Mingers, 2004) and provides a unifying direction for the combination of individual theories, methods, and tools. Fox (2009) illustrates this combinatory effect using a case study in information and communication technologies that was useful in visually framing the approach used for strategic brand venturing. Sayer (2000, p. 19) makes a similar point about the tolerance of realism in respect to diverse research methods: “Compared to positivism and interpretivism, critical realism endorses or is compatible with a relatively wide range of research methods, but it implies that the particular choices should depend on the nature of the object of study and what one wants to learn about it”. To accomplish the research objectives set for this dissertation, the philosophical framework of realism described above is combined with the work of Whetten (1989) on theory identification, and illustrated with an established analytical tool, the fishbone diagram (Ishikawa, 1983). Furthermore, the realist method is particularly pertinent a posteriori as the researcher “seeks to reconstruct causal structures and their properties on the basis of constant reflections and immanent critique...causal mechanisms are thus historical and contextual in their realization. The realist method must abstract a posteriori causal mechanisms and stipulate their contextual circumstances” (Yeung, 1997, p. 57). The manner in which a posteriori analysis, reflection, and abstraction was conducted is explained in Section 6.9.4.1 below. This detailed mapping approach below responds to a pragmatic call from Dubois and Gibbert (2010) for researchers to be more transparent in their research procedures by illustrating interplays between theory, method, and empirical phenomena in case studies.

7.4.1 Matching Themes with Theory Questions and Realism
Table 7.6 matches each theme or code [1] that emerged from each case [2] with a theory question [3] from Whetten (1988). Within the realism pattern espoused by Pawson and Tilley (1997) of Context > Mechanism > Outcome, questions of ‘what’ and ‘how’ were considered tantamount to mechanisms [4], while questions pertaining to ‘why’, ‘who’, and ‘when’, were considered to relate to context [4]. The final column indicates any implications for the final SBV conceptual model [5]. Hence, the flow of logic moves from the left column towards the right column. To illustrate, the theme of ‘sponsors and ombudsman’ [1] emerged from case #1 [2]. This relates to the section of the conceptual model called ‘Program Design’ relating to ‘governance model’. This theme represents an action or activity that firms should implement within the phenomenon of SBV. This equates to a ‘what are SBV units/firms doing question?’ [3], that corresponds to a mechanism within the realism framework [4]. The implication for the SBV model [5] is that the dimension described as ‘governance’ should be enlarged to cater for the need to appoint sponsors and ombudsman in order for the SBV program to be successful. Hence an adaptation to the model is required based on the emergent theme derived from the fieldwork. It should be noted that not all themes require adaptations to the SBV model. For
example, some themes simply reflect a code or dimension already resident within the model but were dominant features in the data gathering process and hence captured as a case theme. ‘Courting and selection’ for instance, was a dominant theme emerging from case #1, but simply corresponded with a code/dimension already designed in the SBV model. No further adaptations to the SBV model were therefore merited.

Table 7.6 - Matching Emergent Case Study Themes with Theory Identification
Criteria and Realism Philosophy

<table>
<thead>
<tr>
<th>Themes</th>
<th>Case</th>
<th>Theory Question?</th>
<th>Realism (C &gt; M &gt; O)</th>
<th>Implications for SBV Model?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Upper Quadrant Cases</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsor &amp; ombudsman</td>
<td>1</td>
<td>What</td>
<td>Mechanism</td>
<td>Enlarge governance notion</td>
</tr>
<tr>
<td>Courting &amp; selection</td>
<td>1</td>
<td>What</td>
<td>Mechanism</td>
<td>None; already there</td>
</tr>
<tr>
<td>Entrepreneur is the brand</td>
<td>1</td>
<td>Who; why</td>
<td>Context</td>
<td>Actor; add as HR context</td>
</tr>
<tr>
<td>Venturing doctrine</td>
<td>1</td>
<td>What; how</td>
<td>Mechanism</td>
<td>None; already there</td>
</tr>
<tr>
<td>Inter-connection of growth strategies</td>
<td>1</td>
<td>How</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Caretaking trap</td>
<td>1</td>
<td>Why; what</td>
<td>Context</td>
<td>Clarify in mission</td>
</tr>
<tr>
<td>Founder-in-residence</td>
<td>1</td>
<td>Who</td>
<td>Context</td>
<td>Actor; add as HR context</td>
</tr>
<tr>
<td>Resource nucleus</td>
<td>1</td>
<td>How</td>
<td>Context</td>
<td>No</td>
</tr>
<tr>
<td>Rite of passage</td>
<td>1</td>
<td>Why; how</td>
<td>Mechanism</td>
<td>Generative mechanism?</td>
</tr>
<tr>
<td>Complex deal structure drives behaviour</td>
<td>2</td>
<td>Why</td>
<td>Context</td>
<td>Add as both strategic and HR context</td>
</tr>
<tr>
<td>Asset leverage</td>
<td>2</td>
<td>What</td>
<td>Mechanism</td>
<td>None; part of synergies</td>
</tr>
<tr>
<td>Portfolio synergies</td>
<td>2</td>
<td>How</td>
<td>Mechanism</td>
<td>None; already there</td>
</tr>
<tr>
<td>Flexible operating models</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broader CE impact</td>
<td>2</td>
<td>What</td>
<td>Mechanism</td>
<td>Dealt with in 6.9.3.3</td>
</tr>
<tr>
<td>Inappropriate use of SBV unit</td>
<td>2</td>
<td>Why</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Embed large firm executives</td>
<td>2</td>
<td>What</td>
<td>Mechanism</td>
<td>Enrich assimilation code</td>
</tr>
<tr>
<td>Venture unit formed to divest not invest</td>
<td>6</td>
<td>What</td>
<td>Mechanism</td>
<td>Broaden scope of options for SBV objectives/strategy</td>
</tr>
<tr>
<td>Venture Leader skill</td>
<td>6</td>
<td>Who</td>
<td>Context</td>
<td></td>
</tr>
<tr>
<td>New skills from stint in SBV</td>
<td>6</td>
<td>N/A</td>
<td>N/A</td>
<td>An outcome from SBV</td>
</tr>
<tr>
<td>Strategy trumps results</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchisee / network issues</td>
<td>6</td>
<td>Why</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Multiple deal agreements</td>
<td>7</td>
<td>What</td>
<td>Mechanism</td>
<td>Enlarge</td>
</tr>
<tr>
<td>Entrepreneur is the brand but prolonged reliance problematic</td>
<td>7</td>
<td>Why</td>
<td>Context</td>
<td>Actor; add as HR context</td>
</tr>
<tr>
<td>Venture spawning and CE</td>
<td>7</td>
<td>What; how</td>
<td>Mechanism</td>
<td>Embellish CE dimension</td>
</tr>
<tr>
<td><strong>Lower Quadrant Cases</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominant operating focus smoothes strategic potential</td>
<td>3</td>
<td>Why</td>
<td>Context</td>
<td>Add as both strategic and political context</td>
</tr>
<tr>
<td>Internal rivalry</td>
<td>3</td>
<td>Why</td>
<td>Context</td>
<td>Add as political context</td>
</tr>
<tr>
<td>Oscillation in strategic mandate</td>
<td>3</td>
<td>How</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Venturing doctrine</td>
<td>3</td>
<td>What; how</td>
<td>Mechanism</td>
<td>None; already there</td>
</tr>
<tr>
<td>Poorly designed deal</td>
<td>3</td>
<td>Why</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Polarizing leadership posture</td>
<td>4</td>
<td>Why</td>
<td>Context</td>
<td>Add as leadership context</td>
</tr>
<tr>
<td>Impact of failure on venturing mandate</td>
<td>4</td>
<td>Why</td>
<td>Context</td>
<td>Add as political context</td>
</tr>
<tr>
<td>Change in top management impact</td>
<td>4</td>
<td>Why; who</td>
<td>Context</td>
<td>Add as organizational context</td>
</tr>
<tr>
<td>Learning from experience</td>
<td>4</td>
<td>N/A</td>
<td>N/A</td>
<td>An outcome from SBV</td>
</tr>
<tr>
<td>Skill development from stint in SBV</td>
<td>4</td>
<td>N/A</td>
<td>N/A</td>
<td>An outcome from SBV</td>
</tr>
<tr>
<td>Stifling corporate culture</td>
<td>4</td>
<td>Why</td>
<td>Context</td>
<td>Add as cultural context</td>
</tr>
<tr>
<td>Flawed business assumptions</td>
<td>4</td>
<td>Why</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Inappropriate venture leadership</td>
<td>4</td>
<td>Why; who</td>
<td>Context</td>
<td>Add as leadership context</td>
</tr>
<tr>
<td>Adjacencies are hard to do</td>
<td>4</td>
<td>Why</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Misuse of venturing groups</td>
<td>4</td>
<td>How</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Human resource risk from venturing</td>
<td>4</td>
<td>Why</td>
<td>Context</td>
<td>Add as HR context</td>
</tr>
<tr>
<td>Uncertain strategic validation</td>
<td>5</td>
<td>Why</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Unlocking resident potential</td>
<td>5</td>
<td>Why, who</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Disparate venturing activity</td>
<td>5</td>
<td>How</td>
<td>Context</td>
<td>Add as strategic context</td>
</tr>
<tr>
<td>Lack of senior sponsor</td>
<td>5</td>
<td>What; how</td>
<td>Mechanism</td>
<td>Governance and HR context</td>
</tr>
<tr>
<td>Rite of passage</td>
<td>5</td>
<td>How; Why</td>
<td>Mechanism</td>
<td>Generative mechanism?</td>
</tr>
</tbody>
</table>

Note:  C = Context; M = Mechanism; O = Outcome; HR = human resources
A few other points relative to Table 7.6 are worth noting before moving into the analysis of mechanisms and context. First, the researcher noted that despite the large number of emergent themes, these did not translate into a significant set of changes to the core dimensions of the model. At least two possible explanations can be offered for this: Either the *a priori* model was already a good representation of SBV thus not requiring substantial revision to the mechanisms; and/or knowing the codes would be cross checked with fieldwork data (as per Section 6.9.3), the researcher sub-consciously sought to tease out of the data themes that transcended mere code compliance, but suggested a novel insight, or trans-code observation, or contextual explanation (a kind of ‘higher-order’ conceptual filtering). In effect, the reality lies somewhere between these two explanations.

Another observation was that in a few instances, themes were not always easy to pigeonhole but seemed to correspond with more than one question, or with more than one context. For example, failure to *unlock resident potential* was both a ‘why’ and a ‘who’ question. It helped explain why the SBV unit in case #5 had not yet achieved higher levels of strategic and financial outcome as all the building blocks for successful SBV were evident in the firm but not capitalized upon. This theme also corresponds with a ‘who’ question as it pointed to a lack of strategic choreography and sub-optimal resource utilization across the firm by top management of the firm and not just by the SBV unit. In a further example, the theme *dominant operating focus smothers strategic potential* was considered to inform both strategic and political context. With the parent firm in case #3 experiencing flagging core brand performance, top management placed the SBV unit under pressure to drive short-term improvements in venturing performance. Venturing by its nature is not a short-term strategic bet but requires patience and nurturing over time to reach its full potential. The unintended consequence of this however added to the political context, as the SBV unit leader responded to this pressure by operating with a certain style that engendered friction and rivalry among the parent’s leadership team members. This suggested that interplays existed even between different contexts and hence needed to be reflected in the portrayal of the final model. Finally, in a few select instances a theme did not seem to neatly correspond with any of the theory questions but simply provided an expression of a benefit of SBV. For example, *new skill development* from engagement in SBV surfaced as themes in cases #4 and 6. This was seen to belong with an outcome of SBV and not directly with a mechanism or context element. With these preliminary observations behind us, an analysis of mechanisms and context follows.

### 7.4.2 Mechanisms

Taking the themes from Table 7.6 pertaining to ‘what’ and ‘how’ questions and merging these with the dimensions of the model already developed, a picture of generative mechanisms can be formed and is depicted using a fishbone diagram below in Figure 7.4 building upon the original revised SBV model as shown in Figure 4.6.
7.4.3 Context

Within the framework of realism, generative and causal mechanisms can only facilitate the successful achievement of desired outcomes when those mechanisms are operative within an appropriately munificent venturing context. Considering those themes pertaining to ‘why’, ‘who’ and ‘when’ questions from Table 7.6, it appeared that contextual factors could be further segmented into two basic contextual circumstances. This coheres with the notion of a “family of answers” (Pawson and Tilley, 1997) that covers “several contingent contexts to capture a single, external, and complex reality” (Sobh and Perry, 2006, p. 1203).

- Factors of a strategic nature within the parent, or between the parent firm and the SBV unit, or strategic organizational network issues beyond the direct activities of the SBV unit but factors that nevertheless impacted SBV outcomes;

- Factors of a political nature is a broad envelope concept appertaining to organizational dynamics, leadership, cultural, or human resources that moderate SBV outcomes e.g., primacy of actors, leadership or its absence, underlying political or cultural dynamics between actors or units, and personal career risk.

Before proceeding with an explication of each of these contextual factors, two important analytical choices made by the researcher need to be surfaced and are described below.
7.4.3.1 Analytical choices

First, while it is reasonable to assume that separate contextual elements may apply in regard to upper quadrant cases (successful outcomes) versus lower quadrant cases (less successful outcomes) and should therefore be distinguished as such in depicting the context > mechanism > outcome pattern, the researcher observed that some ‘negative’ themes were also evidenced in upper quadrant cases. For example, themes such as falling into a caretaking trap, complex deal structures driving behaviour, and inappropriate use of SBV units were evidenced in upper quadrant cases. At least two conclusions were drawn by the researcher:

- While pitfalls, traps, or derailers may be contextually present in successful cases, other deeper mechanisms may counterbalance, supersede or neutralize these to contribute towards a successful outcome.
- A complete model of SBV should at least call out the potential for pitfalls, traps, and derailers such that remedial actions can be designed as/when they surface, or pre-emptive provisions can be made as an integral part of the SBV process to manage their deleterious effect. The contextual factors portrayed in Figure 7.5 and 7.6, is thus a merged representation of both upper and lower case themes.

Second, some contextual themes appeared relevant to both strategic and political factors. For example, complex deal structure driving behaviour contained an element of strategic logic of designing a deal based upon a strategic marketing model (i.e. emerging brands move through various phases of growth and deal structure should mirror the dynamics of this journey). However, human behaviour follows deal structure and unintended consequences for the SBV partnership were triggered as the entrepreneur implemented non-strategic, short-term actions to accelerate revenue and achieve an early buy-out with little regard for brand health and consumer loyalty. As such, it was deemed empirically and conceptually appropriate that an interaction link between strategic and political contexts be portrayed in a final SBV model. Having surfaced and justified these two analytical choices, a portrayal of each context is now in order:

7.4.3.2 Strategic factors

Three broad groups of strategic context were categorized from the data:

a) Growth strategy and network interaction included factors such as broader inter-partner network issues (e.g., the harmful interaction effects of misaligned franchisees wishing to prioritize new innovative ventures versus maintaining focus on the core business evidenced in case #6), or the complexity and risk associated with pursuing venture strategies that involved new growth horizons or building business adjacencies (evidenced in case #4).

b) Strategic legitimacy entailed those themes that eroded the legitimacy of SBV unit strategy such as an instability of mandate for the SBV unit as operating pressures forced changes upon the SBV unit (case #3), or uncertain strategic validation of the SBV mission (case #5), or the failure to unlock corporate entrepreneurial potential
resident within certain subsidiaries of the large firm, or an absence of clear strategic choreography as multiple units acted independent of each other without top management clarifying strategic resource utilization behind venturing as a legitimate growth strategy (case #5). Case #3 is a good example where the strategic role of the SBV unit appeared to oscillate with the health of the core business. In good times the role was vindicated, in tougher times, strategic exploration components of the role were shelved and replaced with greater reliance and pressure on the unit to contribute short-term operating results.

c) **Venturing pitfalls** entailed operational themes that jeopardized SBV effectiveness such as poor deal design (case #3), flawed business case assumptions that impaired financial health (case #4), repeated infringements on the long-term SBV mandate as operating results in the core business deteriorated (case #3), or general misuse of the SBV unit (surfaced in case #1) for purposes other than strategic venturing whereby SBV units are erroneously given responsibilities to care for unhealthy brands and businesses purely because their sub-scale nature was mistakenly construed as synonymous with the small, emerging ventures characteristic of SBV units.

7.4.3.3 **Political factors**

Four broad groups of political context were categorized from the data and given the following titles:

a) **Primacy of actors** – it was evident from several cases that capable and enigmatic leaders were pivotal to the broader SBV context whether as entrepreneurs running ventures (case #1 and 6) or being retained to foster broader corporate entrepreneurship (case #7), or savvy SBV unit leaders interacting with founders (case #6) and internal
constituents, or top management leading and directing a mandate for new growth (case #7 and 1).

b) *Managing envy and rivalry* - This aspect was strongly evident in case #3 where the core business even overtly competed with the SBV unit by launching a new craft beer brand using emerging brand marketing techniques thus breaching into SBV turf. The arrogant leadership style emulated by the SBV unit leader also contributed to intensified rivalry and a complex negative political posture against the SBV unit within the firm. As previously noted, the leadership style of the SBV unit leader in case #3 was a moderating factor on the strategic clarity and political stability of the unit. Successful SBV would require a more overt management of internal rivalries to avert destructive outcomes.

c) *Political legitimacy* - The impact of venture failure (case #4) on corporate memory and culture to embark upon new growth and by definition riskier strategic options would clearly need to be reckoned with should any future SBV unit be established with a similar ‘growth’ mission. The impact of new leadership and resulting new philosophies of growth brought about a revision (and near dissolution) in the role of the SBV unit in case #4. Further, in case #5, the absence of strong strategic leadership allowed a dispersed venturing effort to mushroom across multiple quarters of the corporation. This in turn led to a sub-optimization of internal resource allocation as well as an under-leveraging of core competences present within one operating unit already well positioned and experienced in assimilating entrepreneur brands and partnering with external founders. This dispersion and lack of senior management direction impacted the SBV unit’s political legitimacy to act authoritatively and especially exacerbated by its lower reporting level within the organizational hierarchy. Other factors positively impacting political legitimacy were the ability of certain SBV units (cases #1, 2, 3, 6) to successfully discover and scale new external or internal ventures through successive stages of proof of concept and proof of scale. This aspect is elaborated on in more detail in Section 7.5.

d) *Managing derailers* - The human and career risk of participating in venturing groups was palpably felt in case #4 where the SBV unit leader was encouraged into early retirement following a failed venture investment. The deleterious behavioural effects of poor deal structures effects were referenced in Section 7.4.3.1. The prolonged reliance on an external entrepreneur (case #7) and its contrary impact on brand assimilation serves as another potential derailer that SBV would need to manage and can best be averted through embedding executives from the incumbent firm inside the venture at an early enough stage (case #2) to ensure brand ethos is proactively preserved but also assimilated in advance of graduation from the SBV unit into a core business unit.
7.5 Deeper Structures and Mechanisms

7.5.1 Introduction

In accordance with realism (Sayer, 1992) a search for deeper structures and mechanisms is also called for. However, the search for deeper structures within realism has no easy recipe for researchers. Bygstad and Munkvold (2011, p. 13) talk in terms of a ‘delicate balance between too generic and too contingent mechanisms; if a mechanism is too general it loses explanatory power, if it is too specific it becomes relevant only in the single context where it was identified’.

So how does one know whether such a balance has been struck? Bunge (2004, p. 201) warns the researcher that: “there is no method, let alone a logic for conjecturing mechanisms. True Pierce wrote about the ‘method of abduction’, but abduction is synonymous with ‘conjecturing’, and this – as Pierce himself warned – is an art, not a technique”. As a founder of realism, Bhaskar (1978, p. 47) declares that this search will depend on “a rare blending of intellectual, practico-technical, and perceptual skills”. As Pratt (1995, p. 67) points out: “a key sticking point in the practical application of critical realism is research methodology”, a point also underscored by Yeung (1997) that realist research resembles a philosophy in search of a method. Outhwaite (1987) suggests the researcher should simply postulate a mechanism, collect evidence for and against it, and then eliminate all possible alternatives. This advice was eschewed as too generic and somewhat addressed in the analyses of the prior sections. Whatever form of methodological craft is adopted, it appears from the literature that the process is neither linear or direct (Pratt, 1995), that some form of abduction (conceptualization and re-conceptualization) is key (Ryan et al., 2012), that the aim of the analysis is selectivity of relevant perceptions not comprehensiveness (Sobh and Perry, 2006) in order to identify a key mechanism with the strongest explanatory power (Sayer, 1992). Bygstad and Munkvold (2011) posit that the search for the mechanisms that are ‘recursive’ or have their own ‘momentum’ provide good clues.
Taking Sobh and Perry’s (2006) advice to heart on being selective, I returned to the events, structure and context of the upper-quadrant case cluster as the source of inspiration in order to identify the mechanism(s) with the strongest potential explanatory power. After further abductive reflection, I concluded that:

- Case #1 exemplified an authentic entrepreneur personifying and marketing a health and wellness brand that was studiously courted and selected by the SBV unit. Everything else seemed to pivot from this.
- Case #2 was about a high potential brand in a high potential category that was courted and selected by the SBV unit and that benefited from attachment to a large firm to achieve proof of scale. Although not fully observable in the interview data, secondary data for Alpha Corporation (case #1 and #2) pointed to a 7-year existence of the SBV unit with the same leadership team navigating and surviving numerous cycles in parent performance and consistently delivering results thus building political legitimacy in bricoleur fashion.
- Case #6 was about a commercially savvy SBV unit leader with strong political legitimacy and an ability to extract a stellar performance from the brand venture through a strong relationship with its innovative founder.
- Case #7 was about a large-firm CEO who selected a promising brand venture run by an elite entrepreneur, who was not only demonstrable in his support, but also in agreeing to an unusual empowerment scope for the entrepreneur.

All four cases illustrate a dexterous and artisanal partnership model that was put in place. Instead of imposing undue large firm strictures, these models enabled the entrepreneur to remain the creative marketer and nurturer of brand personality and culture while benefiting from being affiliated with a large, resource-rich corporation. These cases also stress the primacy of venture selection predicated upon patient and skillful courting rituals. There seemed to be no substitute for picking well. I conclude with the following necessary and sufficient factors:

| Great venture selection (brand + entrepreneur) informed by artful courting  
+ dexterous partnering models that nurtured brand soul  
+ emotionally intelligent collaborative SBV unit leaders  
+ successfully traversing challenges (rites of passage) to cultivate legitimacy  
+ (paving the way for) sustained access to large firm resources and support  
= SBV success. |

The key generative mechanisms with most powerful explanatory power seemed to be high quality courting and selection without which SBV would flounder either through poor venture selection (e.g. case # 4) leading to investment and reputational failure, or through the SBV failing to generate attractive and sufficient deal flow to consummate high potential transactions. Once a venture investment was made however, the ability of the SBV unit to scale it and to collaborate for results with external and internal constituencies was critical to building enduring strategic and political legitimacy (e.g. cases 1, 2, 6, 7). This latter aspect has been termed navigating rites of passage in SBV.
7.5.2 Courting and selection

Courting and selection corresponds to exploration while scaling and collaborating corresponds to exploitation, both of which speak to the ambidextrous capability that large firms need to be successful at SBV. Triangulating this across all the cases, we witness consistent and solid evidence of the courting and selection practice in the upper quadrant cases while conversely the appearance of it being impoverished in two lower quadrant cases. For example, in case #3, the investment in the Texas brand venture was expedient and tactical in an effort to jumpstart their SBV approach:

“but we were just so desperate to get one on the books”

CEO, SBV Unit (case #3)

In case #4, the brand venture turned out to be based upon a flawed business model and they ultimately filed for bankruptcy. The complexities of working in an adjacent business that required ongoing capital infusions exacerbated by poor venture management were highlighted in this case.

“So if we’re going to get into a tangential business it’s better to be low capital. So the capital intensity of that business was one thing. The other thing is when you think about it, it’s like a hotel business, right. It’s a whole different skill set. It’s a retail skill set, lots of low skilled, low paid labor and I hate that”

CFO, Gamma

Inadequate attention to the courting and selection process based on a more informed venture assessment could have possibly averted the decision to invest. In case #5, the picture is less clear partly influenced by the relative newness of the investment.

7.5.3 Navigating rite of passage

The experience of the various case corporations and their venture units resembles a rite of passage to some extent. The more experience and the more expertise the venture unit accumulates at traversing critical inflection points in the lifecycle of a new brand, so the ‘internal political and social status’ of the unit is altered. In this study, achieving ‘proof of concept’ and then ‘proof of scale’ marked key milestones for a brand. The propensity with which the venture unit was able to move brands through these, it seemed the more credible the venture unit became internally and the more likely additional investment funds were entrusted to it for continued activity. Not being able to ‘break through’ and get some of these milestones checked off, kept the venture unit suspended in a ‘the jury’s still out’ status.

For instance, Alpha’s venture unit had taken small external acquired brands, nurtured them to scale, and successfully graduated them into the core business. It had also developed expertise in navigating external brands to scale that started as minority equity investment (SBV) relationships, supported them through to outright acquisition, nurtured them through proof-of-scale, and ultimately graduated successful, high growth brands to the core business. Additionally, the same venture unit had worked on incubating internally developed new brands
and getting them to proof-of-concept, but with more moderate success thus far (25% success rate vs. typical venture capital investment success rate of 10%). None of these had achieved proof of scale yet.

**Beta’s venture unit** had overseen significant growth in stewarding a formerly acquired brand entrusted to the venture unit. The brand has achieved scale levels that would normally justify it being transferred into the core business, but this notion has not been formally decided upon inside Beta. The current feeling was that transferring the brand would de-scale the venture unit and perhaps even imperil it at a delicate stage in the overall corporate environment where the core business was struggling requiring every discretionary dollar to be channeled against fortifying the core, and thus new external investments appeared unlikely. The one external SBV investment already made was achieving modest success but given no pathway to ownership had been negotiated and the whole external investment strategy was under question, it seemed the venture unit’s immediate focus and legitimacy was predicated on continuing to deliver good results with their internal brands versus finding new disruptive external brands.

In the **Gamma** case study, the venturing unit had been in operation for several years under the sponsorship of an entrepreneurial CEO. The unit was making some progress with internal brand incubation projects but had experienced a failed external venture investment project. This, coupled with a change in the CEO, ultimately led to the termination of the venture unit leader and disbandment of the venturing unit. At the time of the fieldwork, this was all in transition, and a reassessment was underway as to the future structure for innovation and venturing.

The locus of venturing and innovation within **Delta** was dispersed across the corporation leading to an unclear picture of success. Internal incubation and external investments were being supported by the corporate venturing unit in terms of deal sourcing, due diligence, and transactional components of deal making. However, operational responsibility for the ventures did not lie within the venturing unit but within the operating business units. No examples of successful graduations could be identified given the early stage of venturing activity in Delta. Although the disparate nature of their efforts did not auger well for future SBV success, a standalone business unit did exist inside the corporation that operationally managed several former entrepreneurial brand ventures that had been fully acquired by Delta. Closer organizational and learning ties between this business unit and the corporate venturing unit could present a more stable platform for a serious venturing growth strategy.

The **Epsilon** venturing unit had overseen the very successful transition of several venture investments through the two milestones of proof of concept and proof of scale. Corporate strategic considerations however became super-ordinate to the success of the venturing unit or the individual ventures, leading to divestment. This was an unusual case worthy of inclusion in the corpus of this overall exploratory endeavour.
The Zeta case challenged the predominant belief that a venturing unit was needed in order to be successful at SBV. The initial external SBV investment was made without a venturing unit and notwithstanding this, became a significant strategic and financial success. The founding entrepreneur was retained to run the business for more than a decade but the entrepreneur’s knowledge of new business ventures was also exploited to discover, screen, and lead new SBV equity investments in international markets on behalf of Zeta. It would seem at first glance that such an approach offers an alternative to a formal SBV unit, but this was predicated on the very strong sponsorship of the CEO who had an unusually long tenure for a CEO of twelve years. In situations where CEOs transition, it would be less certain that SBV could be an institutionalized, repeatable success without a dedicated venturing unit.

7.5.4 Synopsis of Deeper Structures and Mechanisms
Following from the preceding sections and referring to Figure 7.7, it is posited that a successful and proactive courting and selection process leads to higher quality deal flow thus ensuring the parent creates the potential for competitive advantage relative to rivals who may have to settle for the less attractive external brand investment prospects. Higher quality deal flow in turn helps the SBV to build much needed political legitimacy demonstrating that the unit is capable of bringing disruptive brand ventures to the corporation. This paves the way for access to continued funding for further investments plus resources and expertise. These resources also strengthen the SBV unit’s ability to be successful and scale the investments thus contributing to a mutual reinforcement of strategic and political legitimacy. Continued ability to pick, scale, and navigate stakeholder needs contributes to enhanced success and longevity of the SBV program and mission. Externally this success builds reputational value for the incumbent firm thus leading to more external entrepreneurs wanting to potentially partner with the corporation given a strong and commercially savvy SBV unit exists within its walls.

Figure 7.7 – Generative Mechanisms with Greater Explanatory Power

Source: Author
7.6 Conclusion

Building upon the within-case analysis, and triangulating results across the case reports, a cross-case analysis was performed using codes and themes to validate, to modify, and to discard impressions regarding the initial SBV conceptual model that was used to conduct the research. In general, the model was regarded to be reasonably robust with a few changes being suggested not only to the core process dimensions of the model, but by incorporating some of the deeper structures (mechanisms and context elements) that surfaced through adopting a realism approach to the analytical phase. The final revised model is shown and discussed in the next chapter as well as a reprise of how the research objective and questions were addressed together with implications for future researchers and practitioners.
CONCLUSIONS

1. Introduction
2. Summary of final SBV model 3.0
3. Theoretical contributions
4. Managerial recommendations and implications
5. Delimitations and suggestions for future research
6. Concluding thoughts

8.1 Introduction
This dissertation highlighted the infrequently discussed role of the entrepreneur as founder of disruptive brands creating new categories often in a stealth-like manner. Recent corporate entrepreneurial response being pursued by Fortune 100 firms' renown for their branding prowess was examined in the dissertation called strategic brand venturing. Strategic brand venturing is a boundary-spanning activity whereby large firms access disruptive brands and entrepreneurial marketing know-how through a corporate entrepreneurship and venturing strategy of equity investments. Comparisons were made between technology-based venturing and brand venturing and a conceptual model was posited and successively refined through stages using abductive reasoning. The model was empirically tested and broadly corroborated using seven case studies in six large U.S. based subsidiaries of global CPG corporations.

This final chapter pulls together all the outcomes from the within-case and across-case analyses to depict a final SBV model (3.0) that contributes to theory development and that can provide the basis for future downstream empirical examination and adaptation. All three research objectives outlined in Section 1.2 have been met by the study: antecedents, process activities, context and dynamics. Finally, the chapter offers a few suggestions for future research as well as outlining some implications for practitioners.

8.2 Summary of Final SBV Model 3.0
Building on all the iterations and suggested amendments justified in Chapters 6 and 7, the final proposed SBV model 3.0 is outlined below in Table 8.1 and graphically portrayed in Figure 8.1.

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18 Portions of this Chapter were also published in Van Rensburg (2014a and 2014b) by Springer and Emerald respectively.
Table 8.1 – Final SBV Model 3.0

<table>
<thead>
<tr>
<th>Antecedents (internal &amp; external)</th>
<th>Design SBV Program</th>
<th>Identify Opportunities</th>
<th>Enact Partnering with Brand Entrepreneurs</th>
<th>Scale and Manage Venture Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBV Model 3.0</td>
<td></td>
<td></td>
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</tbody>
</table>

**Strategic Context**

- 1. Set & align objectives, role and charter
- 2. Agree venture unit strategy and structure
- 3. Create human resource framework
- 4. Institute governance model and sponsorship

- 5. Initiate strategic exploration
- 6. Participate in and nurture venturing ecosystem
- 7. Court and select brand winners
- 8. Structure agreements & deals

**Political Context**

- 9. Deploy entrepreneurial marketing approach
- 10. Activate intra-org support linkages
- 11. Manage exogenous constituencies
- 12. Monitor venture performance
- 13. Pursue cross-venture and inter-firm synergies
- 14. Exercise option & make entrepreneur decision
- 15. Assimilate and graduate brand to core
- 16. Foster corporate entrepreneurship

Source: Author

A total of 16 key activities or process building blocks of implementing SBV are itemized in the above table. In summary, the major changes versus the *a priori* 2.0 model, is as follows:

a) **Antecedents**

A series of internal and external antecedents were uncovered in the research as per the research objectives and clustered under four themes: antecedents relating to key actors, antecedents relating to culture and capability, antecedents germane to strategic and system matters, and antecedents of an industry nature.

b) **Design SBV Program**

- A clearer delineation of the SBV role and charter are called for in addition to simply stating its objectives.
- The creation of a human resources framework absent in the 2.0 version to reflect the importance of the leader, the actors, and career matters.
- A clarification of the need to identify not only a governance model but also the sponsors and ombudsman to help the SBV unit succeed.

c) **Identify Opportunities**

- Firms were generally not instrumental in creating a venturing ecosystem but participating in one already in existence. This clarification is made.
- It seemed more logical that opportunity identification was only consummated when a set of agreements and a financial deal had been structured and concluded. This subtlety was incorporated.

d) Enact Partnering with Brand Entrepreneurs
- A more holistic framework of deploying entrepreneurial marketing instead of only brand lifecycle marketing was found to be more representative.
- A new activity related to managing exogenous constituencies was included and considered to be a novel addition to VC and CVC models.
- Monitoring venture performance was repositioned into this section of the model as a necessary prelude to exercising options decisions.

e) Scale and Manage Venture Portfolio
- In addition to exercising the option to divest, acquire, or increase equity it seemed from the case material that a critical decision related to the ongoing role or otherwise of the founding brand entrepreneur. This complimentary decision was added.
- The broader notion of corporate entrepreneurship being fostered through the SBV program was evidenced instead of those with only an intrapreneurial scope.

f) Contextual Elements
- Two contexts were outlined – a strategic and political context that contained drivers and derailers of venturing activity. These were included in order to illustrate some of the key dynamics and challenges involved in managing SBV and delivered against the research objectives.

g) Value Creation
- To complete the model, the result and desired outcome of SBV program activity is the creation of both financial and strategic value. This was added.

The final SBV model 3.0 is also portrayed graphically below incorporating all these dimensions and their inter-connections.
8.3 Theoretical Contributions
Several areas of contribution are made in this study.

8.3.1 Insight into practice
In a detailed review of corporate venture capital literature, Maula (2007, p. 382; 387) comments that ‘there are surprisingly few published articles on how corporations actually implement corporate venture capital programs’ and ‘we still have very limited knowledge of the practices of corporations and the determinants of those practices’. Dushnitsky (2006, 2012) also highlights the need for case studies that shed light on the investment practices of corporate venture units. This dissertation makes a contribution towards bridging that literature gap through a practice-based model of CVC from the perspective of seven case studies within branded consumer products.

8.3.2 Insight into deeper structures and mechanisms
The use of multiple case studies coupled with a realist perspective enabled the surfacing of what may be otherwise unobservable, idiosyncratic effects of venturing strategy and performance. Godfrey and Hill (1995) urge researchers to consider using realism in tandem with qualitative methodologies to discover ‘unobservable constructs’ that may lie at the heart of influential theory. The importance of courting and selection, as well as the operational and political nous required to navigate rites of passage were surfaced in the cross-case analysis using a realist approach making a novel contribution to corporate entrepreneurship literature.
While literature is scarce on the courting aspect of selection, there is hardly any literature that could be traced on the how venturing units need to navigate rites of passage. This capability enables the SBV unit to build legitimacy, earn continued trust from the parent that then leads to availability of funds for downstream investments as well as resources to support the ventures.

8.3.3 Consumer product focus
To the researcher's knowledge, this is also the first empirical study that examines CVC outside of technology-based sectors. This addresses a gap outlined in Dushnitsky's (2012) literature review that most CVC research has focused on the telecommunications and biotechnology sectors, and that 'future work should investigate new sectors' (p. 199).

8.3.4 Distinctive features of SBV
The SBV model developed in this dissertation highlights unique exigencies of brand-based venturing from those already documented in technology-based corporate venturing and also from those described in venture capital investment practices. To this end, a set of associated propositions of the distinctives of SBV is posited in Figure 8.2 that depicts both direct effects and moderating effects and that mark a unique contribution to existing literature and theory. The diagram comprises (a) unique CPG antecedent conditions that may trigger the decision to engage in SBV partnership formation, (b) endogenous factors to the partnership that influence the outcome, (c) exogenous stakeholders in the entrepreneurial ecosystem that moderate effectiveness of the SBV partnership, and (d) value creation outcomes from the SBV partnership as the dependent variable.

a) Antecedents
Several external and internal antecedents common to any large firm corporate venturing program could be identified such as: competitive action, environmental munificence, heightened entrepreneur activity, failure at diversification efforts, changes in barriers to entry. However, a proposition dependent on the intelligence and skills required for managing brands and distribution channels, and unique to venturing with brands is posited instead (see da Silva Lopes and Casson, 2007):

\[ P1: \text{SBV is positively related to industries where entrepreneurial munificence is pronounced and innovation relies more on brand intangibles and marketing knowledge than on technology invention.} \]

For the entrepreneurial venture, the relative merits of venture capital, angel or debt financing, or partnering with corporations are regularly evaluated to grow the brand and cope with competitive pressures. Assuming financial exit prospects are comparable between options, the entrepreneur is likely to choose the option they perceive engenders greatest autonomy, respect for brand mission, and access to complimentary resources. However, a key driver in CPG industries is distribution 'lock-out'. This occurs when competing entrepreneurial brands begin to align themselves through SBV arrangements or pure distribution arrangements with large firm strategic partners. Depending on industry structure, options for mass distribution and brand
scaling may quickly recede once partnerships are cemented. We noted this in case #2. For example, in the U.S. beverage industry, coconut water drinks became a disruptive new category spurred by three entrepreneurial brands. Once one brand partnered up with a large firm, the pressure rapidly shifted onto the others to lock-in a strategic distributor in order to gain national coverage in large retail chains. As Esterl (2012) reports, each brand quickly became aligned with one of the three large firms in the industry: Zico with Coca-Cola, Vita Coco with Dr. Pepper Snapple, and O.N.E. with PepsiCo.

**P2:** *Concentration of brand distribution in the hands of a few large incumbents coupled with competitive tie-ins, positively impacts whether entrepreneurial brand ventures enter SBV relations.*

*Figure 8.2 - Strategic Brand Venturing Distinctives*

b) **Endogenous factors**
The creation of a brand venturing unit inside the large firm significantly moderates the potential for value creation. First, and as previously argued, an SBV unit is more likely to access boundary-spanning ideas without being restrained by internal rigidities. Second, SBV units provide a dedicated organizational mechanism to build, leverage and mobilize support from intra-firm functions and operating units thereby helping the corporation to deliver on support commitments made to entrepreneurs while also achieving the corporation’s strategic objectives. Third, building a trust-based relationship is a critical foundation between the large firm and the
external venture community. Venturing arrangements differ from outright acquisition and require more dexterous relational architectures and skills since the partnership may evolve through progressive phases of minority to majority equity positions. SBV units provide this relational focus point as entrepreneurs will prefer to interface with the same team members that both structured the deal and that remain active counterparts throughout the duration of the relationship. Fourth, the presence of a SBV unit enhances the prospect that those vital elements in the pre-acquisition courting period, such as the brand’s mission, positioning and culture are assimilated and integrated in one location before making decisions that impact the marketing approach. The Snapple and Quaker Oats case study outlined earlier heralded the dangers of brand acquisition integration without understanding brand soul. Finally, involvement in relationships with brand entrepreneurs is likely to increase the stock of entrepreneurial knowledge and absorptive capacity within the SBV organizational unit i.e., the ability to recognize, assimilate and use additional external knowledge (Cohen and Levinthal, 1990). As a result, the large firm is more likely to learn entrepreneurial marketing practices and skills and as a consequence, launch more successful brand incubation ventures (i.e. a form of value creation). The following proposition is tabled.

**P3:** Value creation in SBV relationships is positively related to large firms that have dedicated SBV units that manage the relationships with external brand ventures

As previously discussed under the section describing the differences between technology and brand-based venturing, the founding entrepreneur plays a critical role within the brand venture. This is evident in at least two respects: the curation and expression of the venture’s brand personality, soul and ethos; and also the responsibility for achieving stakeholder support (suppliers, consumers, retailers, angel investors) including access to growth financing. These responsibilities fall primarily on the shoulders of the entrepreneur. This latter aspect is not unique to brand venturing as this applies to any founding entrepreneur. However, the brand entrepreneur imbues the brand with its distinctiveness (Rode and Vallaster, 2005), the brand and the person are symbiotic (Krake, 2005; Kaputa, 2012), and the entrepreneur as a brand fuels the potential for the brand’s culture and continued success (Boyle, 2003).

As evidenced in the Snapple vignette inter-organizational relationships can hemorrhage when cultures collide or are not respected (Deighton, 2002). Oftentimes these mission-driven brands have mission-driven, iconoclastic founders and countercultural workforces, and the large firm needs to cultivate the art of allowing this point of differentiation and uniqueness to thrive while the venture and its entrepreneur is associated with it. Not all large firms have the relational dexterity to do this, and as such it has an influence on value creation potential.

**P4:** SBV is positively related to firm performance where brand soul, culture, and uniqueness as exemplified by the symbiosis between brand and entrepreneur is respected and supported by the large firm
c) Exogenous community

According to Van Durme et al. (2003), brands are relational market-based assets determined by both the focal firm’s brand-customer relationship (in our case the brand entrepreneur firm) and by the partner firm’s brand-customer relationship (in our case the incumbent large firm practicing SBV). Building on Simonin and Ruth’s (1998) work that examined the effect of brand alliances on consumer attitudes in co-existent situations, Van Durme et al. (2003) broaden ‘spill-over’ effects to include relational constructs of trust and reputation, and how this impacts brand meaning. In the case of a SBV relationship involving a sustainability-driven venture or social icon brand (some evidenced in this study), trust and reputation may behave in an asymmetric fashion where the consumer perceived unfavourable brand (the large firm) is unable to gain trust or reputation from the arrangement, while the positively perceived entrepreneur brand may lose both. I therefore posit:

\[ P5: \text{A large firm’s corporate image and reputation will moderate the effects of the entrepreneurial brands performance on loyal consumer evaluations of the entrepreneurial firm.} \]

Often entrepreneurial brands achieve distribution and in-store availability using small, region or city-specific independent distributors (such as the Snapple case) that target outlets in influencer communities and high-image retailers in order to support brand-building efforts. The advent of a large corporation making an investment in an entrepreneurial brand usually signals to the distributor ‘the clock is ticking’ on their contract. Typically, once the large firm owns the brand they switch distribution into their company-owned distribution and selling system to achieve cost synergies and leverage key account management strengths. This SBV investment therefore may create a disincentive for the distributor to continue to push the entrepreneurial brand in question unless long-term contracts, special incentives, or attractive buy-out provisions have been pre-negotiated. Further, some of the retailers serviced by these independent distributors may have a special affinity for entrepreneurial brands versus large corporate brands as part of a shopper marketing proposition of offering produce, brands, and products that connote images of local, fresh, ethnic, hand-crafted, or small business. For example, Whole Foods an influential trend-setting retailer in the U.S. and U.K. refuses to have large company distribution vehicles service their stores, and has a clear preference for promoting entrepreneurial niche brands over mass-marketed corporate brands. The following proposition flows from the above discussion.

\[ P6: \text{Value creation is moderated by legacy distribution channel members (i.e. distributors, retailers) once a SBV partnership is formalized between an entrepreneurial brand and a large firm.} \]

As previously mentioned, no studies could be traced within the corpus of corporate venture capital literature that examines the role exogenous stakeholders such as consumers, distributors or retailers play on venturing partnerships. This is an important addition in the proposed SBV model. Dushnitsky’s (2012) review of CVC also outlines the need for further research into the role played by broader external constituencies beyond just venture capital firms.
d) Value creation

The ultimate dependent variable is value creation measured in terms of strategic and financial performance. For both large and entrepreneurial firms several valuable intermediate benefits accrue from participation in SBV (as previously highlighted in Table 2). SBV partnerships combine consumer-preferred, innovative and disruptive entrepreneur brands with large firm financial resources and organizational capabilities in an attempt to create strategic and financial value. In the case of the large firm building a competitively advantaged and high growth brand portfolio with strong financial returns is the ultimate goal. For the entrepreneurial venture, the primary motive is enhanced venture survival and exit and in the process the heightened prospect of creating an iconic (and hopefully international) brand through partnership with a large, reputable CPG firm.

\[ P7: \text{SBV is positively related to building a high growth brand portfolio for the large firm and to enhanced venture survival for the entrepreneurial firm.} \]

To the author’s best knowledge, no venturing model that focused on the unique distinctives of venturing with brands versus high-technology have been put forward in literature. A novel contribution has therefore been outlined above and proposed for further empirical examination.

8.3.5 A viable alternative to build or buy?

Brand portfolio growth strategies are limited in the literature to build, buy, alliance options (e.g. Doyle, 1990). An extension of this typology is posited and studied in this dissertation that incorporates brand venturing as a third strategic growth option. It is hypothesized that venturing provides a strategic option that either compliments the build of buy options, or in certain situations may create a more advantaged option than the others.

8.3.6 Possible applications of intersection theory

Finally, one conceptual application emanating from the analysis taken in the literature review on intersections is to postulate whether differing emphases of the intersections could resemble different firm postures. Figure 8.3 captures the posture of firms deploying varying combinations of each domain that differ from the version already justified in Chapter 3 (see Figure 3.2). Where entrepreneurship, strategic management and marketing all occur independently or are absent from each other, the firm’s approach to opportunities, to resource leverage, or relationships could be characterized as a competitively disoriented one.
Figure 8.3 - Different Combinations of the Three Core Domains

<table>
<thead>
<tr>
<th>DISORIENTED FIRM</th>
<th>DEFENDER FIRM</th>
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<td>E</td>
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<td>M</td>
<td>M</td>
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<td>S</td>
<td>S</td>
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</table>

Source: Author

Key: E = Entrepreneurship; M = Marketing; S = Strategic Management

Such firms are similar to the Miles and Snow (1978) typology of the ‘Reactor’ firm that does not have a plausible response to the entrepreneurial problem. Where the firm has developed the habit of integrating strategic management with marketing, they may leverage their strategy effectively with current constituents but perhaps lack the innovative flair, or opportunity identification skills that a more entrepreneurial orientation would contribute leaving themselves potentially vulnerable to unexpected disruption in the industry. Typically, they end up being the defender firm having to invest heavily to protect themselves against the new entrepreneurial threat. A good example of this would be Sony sticking to its core business (Walkman) while being outmaneuvered by Apple’s invention (iPod) and taking many years to respond with a counter innovation, or Kodak rigidly marketing its film technology versus digital. This broadly corresponds to the Miles and Snow typology of the ‘Defender’ firm that attempts to secure or ‘seal-off’ a segment of their industry and create a stable set of products and customers. Where a strong symbiosis exists between entrepreneurship and strategic management, innovation can become a core strategic thrust whether internally developed or whether accessed via external corporate venturing. This is somewhat analogous to the Miles and Snow typology of the ‘Prospector’ firm. A preoccupation however with innovative technologies even if derived from a sound business strategy, can lead to a disconnection with the ultimate customer base and the benefits that the technology should produce for the end-user. Marketing provides the necessary focus on the end-user and ensures that creativity and innovation, technology-based or otherwise, ultimately has strategic value from both an economic and customer relationship standpoint.

The final scenario is where a dominant marketing and entrepreneurship culture is allowed to foster without being counterbalanced by the necessary rigor of the strategic management process. This can lead to an infatuation with novelty and creativity, with expensive innovation projects that are not mission critical, or with initiatives that create one-time benefits versus

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19 The inspiration for four configurations came from Thompson (1999) who examined the impact of leadership on the congruence or incongruence of values, resources, and the environment.
creating a strategic platform that enables long-term competitive advantage. The notion of varying organizational postures was not be covered or tested in the dissertation, but may provide a stimulus for future thinking and research.

8.4 Managerial Recommendations and Implications
Given that this dissertation is being submitted as a DBA and not a PhD, the managerial implications are more extensive than the theoretical implications. Several recommendations and implications can be gleaned from the empirical work for top management when considering whether to initiate a SBV program within a large firm. These are described below:

8.4.1 Galvanic, Savvy and Relational Leaders
Selection of the right galvanic leader in any organizational endeavour is crucial and often transcends other factors. Livesay (1989, p. 3) puts it this way:

"History has shown repeatedly that, given the right manager, any form of organization can work or be reorganized until it does work, whereas the wrong people can cripple the most vigorous firm despite the presence of a structure thought to be self-correcting".

Leadership of several organizational kinds were noted in the case studies: the senior executive sponsor(s) of strategic brand venturing, and the SBV leader heading the entrepreneurial unit inside the large firm, and the relational orientation of SBV.

a) Executive sponsors and ombudsman
For any sustainable venturing endeavour, the visible and active support and sponsorship of senior management starting with the CEO was critical. As one executive put it:

"What is our level of commitment to this? Are we committed like the chicken in a ham and egg sandwich or are we committed like the pig? And I think you need to be a pig. You need to be committed fully. And the CEO needs to be committed and the CEO needs to understand what the risks are and where the friction points are going to be and they need to support the venture team fully" [E1].

Appointing a venturing ombudsman to represent the interests of strategic brand venturing across all its manifestations inside the large corporation is also advised. The ombudsman ensures interoperability between the core business and the venturing unit in terms of decision rules, face-offs, and governance thus diminishing indecisiveness, inaction, politics, and personality-turf battles. However, senior executives that oversee a SBV strategy must themselves be capable of transformative vision and demonstrate a willingness to attach themselves to the good and the bad of venturing. It is worth repeating the axiom that 'you can't expect to achieve significant change unless you are willing to change something significant'.

b) SBV unit leader
One common observation noted in the case studies was the importance of the political and strategic nous of the overall SBV unit leader. SBV leaders constantly engaged in a range of interlocking activities and deft strategic shifts to avert rupture and maintain survival and health
of the SBV unit. Savvy leaders accomplished this through building dependency linkages, risk reduction linkages, and grafting strategic relevance. In contradistinction, venture unit leaders who were less successful navigators or displayed undue arrogance for their status, attracted resistance from functional and divisional management:

“And I’ll have to say our functional people weren’t as empathetic as they should have been and [the venture unit] was more arrogant than I thought they would be. And hence there was a division where the larger organization felt insulted by [the venture unit] doing things blatantly to say we’re different than you rather than…they should have said what they are, but they spent all their time saying what they are not and so the perception formed” [B3].

c) Relational orientation of SBV
Reflecting on all the case studies it would appear that several key relationships are at work in a strategic brand venturing context. There is the dyadic relationship between the SBV unit leader and the brand entrepreneur and all that can entail in terms of trust, dependency, moral hazard, and adverse selection. There is the exchange relationship between the founding entrepreneur and the consumer of their brand that revolves around making mutual promises of devotion to the brand mission, product performance, and word-of-mouth advocacy conducted via blogs, emails, twitter exchange, live interaction at marketing events, conducting sampling, hosting exhibitions, and in-person visits. There is the endorsement relationship between the entrepreneur and their brand and the inseparability of brand and person mutually reinforcing credibility (wherever the entrepreneur goes, so too the brand; wherever and however the brand is manifest through marketing, so too it messages about the entrepreneur). There is also the crucial relationship between the brand and the consumer. Much has been written about this notion since the pioneering work of Fournier (1998), and advocates of this notion, portray this as a mutual relationship based on keeping promises each to the other. The brand promises to deliver its functional and emotional benefits every time the consumer purchases and consumes the brand. The brand promises to remain true to its social mission and authenticity of story, and it promises to be ubiquitously available for consumers to find and enjoy. The consumer on the other hand, promises to remain loyal to the brand and to imbue the brand with positive stories and associations amongst their friendship circles and extended community. The consumer promises to be a brand ambassador and represent the interests of the brand to skeptical shoppers, consumers, and store managers.

8.4.2 Strategic Program Design
A common pitfall is to treat new venture units the same way than regular operating units. This is based on a flawed understanding of the fundamental differences that exist in temperament and mission between the two organizational forms. A few notable themes are specified below:

a) Newsstream organization
In most of the cases studied, a separate business unit led by a seasoned operating executive was created with equal reporting status to existing brand marketing groups. The units were tasked with focusing on ‘new and next’ by investing in external brand entrepreneurs (equity or
full acquisition, crafting new business models, and launching internally developed brands led by intrapreneurs. New designs to ferment disruption or cope with change are also evidenced in the literature. For instance, Achrol (1991, p. 77) forecasted that ‘unusual forms of marketing organization (that are ambidextrous and highly flexible) will be needed to cope with complex and dynamic task environments’. An illustration of this is encapsulated in this quotation extracted from the fieldwork:

“So from an organization standpoint probably the single most important thing that management did was treat it as a business unit. So it’s an operating unit within the North America group and responsible for the business results, reporting directly to the president of the North America group. The chairman of [Alpha Corporation] is intimately familiar with and supportive of the group and so structurally that was a really important thing…You know what we want to do is replicate as much as we can the entrepreneurial model that we saw externally, but keep all the advantages that a [large] company could bring in enabling growth of emerging brands through things like: procurement scale, and distribution muscle, and marketing insights and knowhow, and being able to connect to that world was just as important as creating an entrepreneurial culture, and combining the two is what’s so powerful about the way we’ve structured ourselves in the way we are organized and governed”[A1].

b) Lean forward failure

Top management and in particular the venturing ombudsman should encourage experimentation of a lean forward nature versus a conservative safe bets nature. Failure should be acceptable and even encouraged since little of significance will be created without repeated attempts at boundary-defying acts. For instance:

“Business development executives can’t be afraid of finding the cliffs, of finding the danger zones, of spending some money and some maybe some personal expense, right. We’re going to lose some guys out there…but what the company gains is a clear path to what might be potential growth opportunities…We just recalibrated and we said we’re going to continue to pursue X, Y and Z activities and we did. In fact for a small group and not a lot of money it’s actually a good thing”[G3].

c) Dispersed not disparate entrepreneurship

One case study revealed several organizational units attempting to conduct SBV activity with very little intra-unit sharing and strategic choreography. This ‘menagerie’ approach seemed to lack senior awareness and sponsorship according to one mid-level executive when probed about the need for coordination:

“I think it’s got to be somebody who is a VP who really believes and sees the disconnect and then can see the order that is available to us in the future if we take a leadership role and organize all of this. But [Delta Corporation] is a very…It’s kind of decentralized. And also you know we’re just getting these – everybody is just getting these lists and just starting to have these territory conversations. So it’s going to be ways off so I’m not sure and if given my track record of seven bosses, I don’t know who I’ll be reporting to next”[D2].

While dispersed entrepreneurial activity is desirable within an organization, there needs to be some architecture that guides venturing such that the activities leverage synergies and knowledge, that perceptions of venture failure are managed within an organizational learning
framework, that a common relationship approach is adopted with external entrepreneurs, and that strategic clarity exists on innovation charters between the mainstream business and new venture unit(s). In the Beta case study, because of lack of strategic alignment on the role and guardrails of the venture unit, the core business launched a new brand idea originally waived by the venture unit, adopting many of the emerging brand marketing principles originally pioneered and espoused by the same venture unit. Internal competition was allowed to unfold that led to sub-optimal resource utilization and questionable feelings between organizational members. Commenting on the internal competition, the chief executive of the venture unit lamented:

“I think it really was the result of lack of strategic clarity in regards to what [the venture unit’s] role and purpose was…” [B1].

8.4.3 Flexible Operating Models
Venture management requires certain counter-cultural commercial and go-to-market approaches some of which are delineated below.

a) System agnosticism
Firms are often constrained by legacy go-to-market systems (Nadler and Tushman, 1999) and forcing new brands that require nurturing and incubation and a high-touch marketing model are often incompatible with the design and demands of a high velocity existing system. The intrapreneur must be able to leverage a 3rd party ecosystem of manufacturing, selling and distribution when appropriate without being tied to legacy corporate systems and capabilities thus avoiding certain liabilities of largeness or core rigidities (e.g. “we can only launch brands this way”). The benefits of this are aptly summarized below:

“It allows us to be a lot more efficient by having this strong ecosystem because we’re not burdened with the cost of operating all those different entities that are in the ecosystem so we can access the ecosystem in a marginal way from our investment both time and energy and money standpoint” [A5].

b) Epistemology
New learning was made possible in several ways. For instance, the presence of side-by-side external and internal brand venturing activity inside a single organizational unit, enabled role modeling and effective assimilation and application of entrepreneurial marketing skills inside the large corporation. Brand intrapreneurial learning and activity flourished more readily and challenges against corporate inertia were substantive and ‘heart-felt’ based on experiential proximity to successful external entrepreneurs. This outside-in knowledge was basically transformed into inside-out action and results. One vice president noted:

“They really helped shape our brand building model, our route-to-market thinking…and understanding the tightness between cash, decision-making and action…and to put them against the consumer to ladder up the growth of a business” [A4].
Furthermore, external ventures offered superb learning laboratories for aspiring intrapreneurs or general managers. For example, I encountered executives who were seconded into entrepreneurial brand ventures to assimilate brand culture in advance of the parent exercising the option to acquire (Alpha and California); or to accelerate value creation in advance of divestiture (Epsilon and Georgia). These secondments placed talented executives within an entrepreneurial firm working alongside brand entrepreneurs and taking responsibility for key functions such as, chief operating officer, heads of sales, finance, or marketing. Large, complex organizations often drive deeper specialization in roles and have fewer roles for associates that offer broad-based, general management competence building. Commenting on this developmental opportunity, one senior executive said:

*In mature or large legacy businesses its tough to get experience of working in either high growth, speculative businesses or new businesses…working in the [venture group] is an opportunity for an executive to make 30 decisions in a day and know that 10 are not going to be right, and when they go [back to the core business] they won’t be so fearful of making decisions outside of the normal paradigm* [A4].

c) **Confusing small with strategic**

In the research it was observed that one of the traps facing venture groups could derive from their very essence – their focus on small, emerging brands and businesses. The parent organization can be tempted to toss existing small (and mostly troubled) brands and businesses into the venture group to fix, because they mistakenly construe their competence as ‘managing small’. However, while venture groups by definition focus on emerging brands, not all small brands are emerging! Legacy small brands may be fatally flawed, be under-invested in, have lost their social cache, and require major salvage work. This is not a good use of a venture group’s limited resources and is not in keeping with its strategic mandate to focus on ‘new and next’. Case study #1 revealed the deleterious effects of this happening.

d) **Graduating brands to the core business**

Alpha was the only case corporation studied that had experience with this. One of their first ventures was an outright acquisition of an entrepreneurial brand. After nurturing and rapidly growing the brand to scale from $75 million to $240 million in revenue over a 20-month period, senior management urged the SBV unit to graduate the brand into a core category business unit. Initially the growth rate continued until the category unit decided to extract savings to undergird sagging results in their core business. The category unit proceeded to sever the sales force, integrate all functional support into existing structures and pruned the marketing budget. This had a very negative impact on growth and strategic health of the brand raising the importance of the ‘if’, the ‘how’ and the ‘when’ of graduating brands from venture units to core business units. Graduating brands from the SBV unit into the broader brand portfolio requires diligence around preserving the entrepreneurial culture that embodies the brand. A simple ‘lift and shift’ approach into a brand management structure and into the mainstream business system is bound to impair some aspect of the unique ethos and soul of the mission-driven brand. In addition to the Alpha example cited above, the Harvard written Snapple case is also
very instructive in this regard albeit that the latter is an example of an inter-organizational versus an intra-organizational graduation.

8.5 Delimitations and Suggestions for Future Research

8.5.1 Delimitations
Several delimitations need to be mentioned concerning this research.

a) Self-research
The role of the researcher as both the investigator but also as the practitioner being subjected to empirical examination is clearly a delimitation with respect to the two Alpha cases. As previously noted however, concerns regarding external validity were traded off against the unique opportunity to gain deeper insight into an as yet incompletely documented phenomena. The specific issue of self-research was discussed in Section 5.6.7 under ‘Research Strategy’ and the importance of reflexivity and self-assessment was described. Furthermore, the sequence of fieldwork was deliberately arranged in such a manner to ensure the two internal cases were sequenced ex post the five external cases. This was done to allow for ideas and practices of other corporations to shape early empirical observations and help counter-balance pre-conceived biases that may have existed in approaching the data analysis phase. Conscious measures were also taken in ensuring the field settings for the internal case interviews were as neutral as possible and devoid as far as possible of any political symbolism.

b) A priori model
A pure grounded approach to qualitative research was not undertaken and would have been methodologically disingenuous given the direct experience of the researcher in the research topic at hand.

c) Realism
Given the three layers of reality espoused by realism, the question arises as to whether the ontology of strategic brand venturing progressively revealed in this study is the ‘real’ dimension (the truth) or not. Although this delimitation is not contested, and our conceptual capabilities may be finite rendering us vulnerable to ‘epistemic fallacy’, Sayer (1992) contends that instead of obsessing with ‘absolute truth’, the realist researcher is encouraged to focus on ‘epistemic gains’ regarding truth irrespective of how meager these may appear at first.

d) Spurious dichotomy?
At first glance, a dichotomy between CPG brands and technology appears to be posited in this dissertation. A few caveats are necessary to more appropriately position this issue for readers:

i) Historically, literature has posited that a consumer/industrial marketing dichotomy exists (Industrial Marketing Committee Review Board, 1954) based on the type of goods being purchased, the buyer’s decision process, and characteristics of the market. This has resulted in brands being positioned
within a consumer-marketing domain and technology within an industrial-marketing domain. However, this is a fallacious position as insufficient empirical justification has been presented to substantiate whether fundamental differences exist in reality (Fern and Brown, 1984). Furthermore, branding is increasingly being researched within the industrial marketing literature (see Special Issue in the Industrial Marketing Management journal as one example – Leek and Christodoulides, 2011). Third, the lines between consumer and business marketing are being blurred with a shift towards a “knowledge-based” society that is spawning new technologies and business models (Wind, 2006).

ii) Brands and technology are similar in that they both represent strategic assets that can be accessed via a corporate venturing strategy and both could provide rent generating capability and competitive advantage for a corporation – the difference is in their characteristic not their value - brands represent an intangible asset (Hall, 1993), technologies do not.

iii) It was not the author’s intention to imply that brands do not, or may not, have a technological component, or conversely that technologies do not lead to nor denude the prospect of creating a disruptive brand. A cursory examination of the global list of most valuable brands reveals that many of the top brands are indeed disruptive technology brands (e.g. Apple, Google, etc.).

iv) The intention was to highlight the paucity of corporate entrepreneurship practice and academic work on brand-based venturing within the CPG industry, distill its unique features and requirements, and to outline implications for implementation in large CPG corporations. This is an important emphasis since firms that focus on assembling a superior brand portfolio and enhancing brand value, produce a tangible impact on stock price and shareholder value (Kirk et al., 2013).

e) Large firm perspective

The relationship between a large firm and a small venture has spawned interesting metaphors in the literature borrowed from the animal kingdom and elsewhere: the elephant and the mouse (Austin and Leonard, 2008); large firms as sharks (Katila et al., 2008); Goliath and David (Moradi, 2005); and dancing with gorillas (Prashantham and Birkinshaw, 2008). While colourful in their depiction, these metaphors represent underlying concerns about what is quintessentially an asymmetric partnership and one where resource dependence and misappropriation tensions can surface. For example, Pisano (1990) demonstrated how new firms are less able to defend themselves once ties are formed. This dissertation adopted the large firm perspective to SBV. A delimitation of this position is that, by potentially under-appreciating the perspective from the other side of the dyad, this could lead to decisions and behaviours that worsen prospects for the entrepreneurial brand venture. As indicated at the conclusion of Chapter 6, a case typically feared by entrepreneurs and described in agency theory as moral hazard (Jensen and Meckling, 1976) is where the brand or technology is either marginalized, emulated, or discarded post the investment for the sole benefit of the large corporation. This would be particularly
damaging to the brand venture since recovery would be contingent upon finding a new
corporate or private financier after “rejection” from the initial incumbent investor. New suitors
may view the brand as “tarnished”, else why would the incumbent have discarded or demoted
the venture to begin with? Inequity in outcomes could also trigger inappropriate behaviour and
jealousy from venture managers.

Furthermore, venture managers become “king-makers” by virtue of selecting high potential
ventures and by marshalling large firm funding, advice, and resources to help scale these
brands to achieve success. If the venture is fully acquired by the large firm, the founding
entrepreneur benefits from a significant financial payout whereas the venture manager remains
a salaried employee. This may lead to higher calibre venturing executives exiting large firms for
venture capital firms (Gompers and Lerner, 2000) resulting in venturing units being endowed
with sub-optimal managerial and investment competencies. Worse still, venture managers may
allow jealousy and inter-personal frictions with the founder to affect their recommendations to
top management as to whether the venture should even be acquired. Some firms have devised
compensation schemes that partially emulate venture capital firms using “phantom stock” grants
(e.g. Eli Lilly) to incentivize growth-driven and outcome-driven behaviour. However, the
literature is inconclusive on whether entrepreneurial financing and incentive schemes can ever
be compatible with the organizational realities of large firms (Dushnitsky and Shapira, 2010).
The net benefits of offering lucrative schemes for large firm employees are dubitable (Block and
Ornati, 1987) since they can lead to resentment, or envy among operating executives, who
respond by overtly or passively undermining the success of the SBV unit, or withholding
resources and operational know-how. However, allowing venture managers to directly invest in
the venture using their own income, or forego a component of their customary compensation
whereby equity gains are payable and contingent only upon venture success, or some return on
investment metric may be more defensible in large firms. This more closely resembles the risk-
reward aspect of true venturing. Sykes (1992) found that plans that matched reward against
some level of personal risk and that were designed with goal congruence between the venture
team, the venture, and the corporation stood the best chance of mitigating internal conflicts
related to equity and equality. Implementing 360 degree performance reviews, partnership
audits, ensuring senior management governance over the venture team, as well as ensuring
appropriate representation from third parties on venture boards are just some of the
mechanisms that can be instituted to curtail the risks mentioned above.

Finally, from a research methodology perspective, interaction literature in the industrial
marketing and purchasing fields could also provide useful dyadic and network frameworks with
which to analyze SBV cases (Håkansson, H. 1982; Naudé and Holland, 1996; Ford and
Håkansson, 2006) and would add further depth and insights into the phenomenon of strategic
brand venturing. Researchers are encouraged to consider an interactive, multi-stakeholder
stance in future studies.
f) **Sector and/or country differences**

Finally, researchers should investigate whether the drivers of brand entrepreneurship, supportive retail channel structures and availability of venture financing are different and contingent on industry sector characteristics and/or geographical factors, such as, the role of government in creating incentives and support for innovation to flourish. This study examined SBV within a United States and CPG context and surfaced data that suggests SBV is an emerging practice among prestigious CPG brand firms and could be a potentially viable complimentary growth strategy. This finding may not hold true in other parts of the world. The search for disruption external to the boundaries of large reputable brand firms may also be symptomatic of a deeper corporate malaise or inability to unshackle from legacy systems or outdated definitions of their business. The recent demise of a brand icon such as Kodak was in part due to a blinkered fixation with marketing their core competency (i.e., film) despite external innovations in digital technology that ultimately eclipsed them resulting in a core competency becoming a core rigidity that led to a core redundancy. This dissertation has only touched on some root causes that may trigger a pursuit of approaches such as SBV but further work is needed to more fully diagnose this larger problem.

8.5.2 **Suggestions for Future Research**

It is customary to conclude academic work with suggestions for further research that emerge from the findings of the study in question. Instead of offering a ‘garden path list’ of topics that might be intriguing to know, four topics were short-listed by the researcher.

a) **Comparative case studies of technology versus brand venturing**

Several differences were postulated in the dissertation between external corporate venturing involving high-technology products and consumer branded products. Case studies can help pinpoint principles for locating breakthrough and new ideas that can later serve as a basis for testing on larger populations (Aharoni, 1993). An initial case analysis comparing brand venturing with technology venturing would help identify the critical distinctions and commonalities, relevant theory, and the implications for venture design and corporate entrepreneurship within the large firm. Further, the SBV model 3.0 can also be used as a framework for conducting in-depth comparative case studies between corporations practicing SBV. In this way, the core processes and elements of SBV can be better comprehended.

b) **Corporation to founder relations**

Partnering with founders of disruptive brands requires understanding the subtleties of human ambition and personal strategic styles. Just how should large corporations’ court and partner with disruptive, social icon brand founders? What are the strategic, organizational, and cultural fit issues of corporation to founder relations? (see Mirvis, 2008; Austin and Leonard, 2008). The literature on the unique considerations of conducting empirical inquiry into entrepreneur elites and experts (e.g. gaining access) could also be instructive here (Moyser and Wagstaffe, 1987; Littig, 2009). Elite research is under-represented in literature since researchers’ generally do not “study up” (Ostrander, 1993). Additionally, unlike other research populations, the researcher
may encounter notions of formative and interpretive power according to Littig (2009). Gaining access to and insights from brand entrepreneur experts and elites is a *sine qua non* to the furtherance of empirical work on SBV thus presenting interesting challenges to the researcher.

c) *Researching propositions related to SBV distinctives*

Seven propositions were outlined in Section 7.2.3 that encapsulate some of the distinctive features of SBV from technology venturing and general literature appertaining to corporate venturing. Further empirical examination and repudiation or verification of these would go a long way toward establishing whether SBV is just a nuance within corporate entrepreneurship and venturing literature or a new vector worthy of a fuller academic treatment.

d) *Other alternatives?*

While this dissertation argues the novel case for SBV, it has also not positioned SBV as the only or preferred growth strategy, but has on several occasions positioned SBV as a complimentary growth strategy alongside traditional strategies such as new brand development, brand acquisition, or brand alliances. However, there are still further avenues available for companies to access external disruptive innovation, such as, open innovation (Chesbrough, 2002) or consumer co-creation (Pitt et al., 2006). For example, Vanhaverbeke et al. (2008) examined open innovation within the context of corporate venturing taking a real options perspective. They hypothesized that open innovation could play a complimentary role to help reduce risks inherent in making early stage external corporate venturing investments. Their research however discovered that the benefits did not materialize automatically and that new skills and practices were needed within venturing units to extract the full potential of open innovation strategies. Nevertheless, this is an interesting alternative that merits further empirical inquiry. One internal avenue could be brand intrapreneurship where the incentives of equity ownership, decision and creative autonomy characteristic of external ventures, are more seriously embedded within distinct organizational units and backed by visible senior level sponsorship. The dissertation also noted the paucity of literature on the antecedents and relative merits of each brand growth strategy with notable exceptions being: Doyle (1990), who evaluated building brands versus acquiring brands versus extending brands from a conceptual viewpoint; and Damoiseau et al. (2011), who conducted one of the first (and seemingly only) empirical studies on brand creation versus brand acquisition. Future research could more seriously examine the decision criteria and the most optimal brand growth strategies for CPG firms under alternative competitive contexts, differences in brand portfolio scope and depth, and stages of industry and firm lifecycle development.

**8.6 Concluding Thoughts**

This dissertation has hopefully contributed some novel insights to the corpus of corporate entrepreneurship literature. In the process however, part-time doctoral work has been a stretching experience with attempts at immersive analysis and scientific rigor frequently punctuated with the demands of a full-time professional career and family duty. Whilst seated at the desk of learning, the journey was characterized by moments of highs and lows as small
steps of progress were blighted by moments of confusion or being overwhelmed by the sheer amount of data inherent in mastering 7 case studies. I absolutely relate to the experience of one famed qualitative researcher, Miles (1979, p. 597), who described the research process to be:

“memorable for its moments of sheer despair in the face of mass data, alternating with moments of achieved clarity, soon followed by second-guessing skepticism”

Similarly, the notion of generalization that often plagues qualitative researchers also bothered this researcher. However, I eventually took solace in the views of Gummesson (2007, p. 230):

“Is it not better to understand a phenomenon in depth than to know how often the not understood phenomenon occurs?”

A few of the cases seemed to indicate one-off events such as the case of an SBV unit being established to divest not to invest (Case #6), or the extraordinary support provided by the CEO of a large diversified global corporation for a small venture and prolonged tenure of its entrepreneur (Case #7), or the post acquisition mutually agreed upon retention of a founding entrepreneur (Case #1). These may be unusual exemplars within venturing but as Weick (2007, p. 14) attests:

“Much of my work is basically an existence proof: if an event can happen in one place, then it likely can happen again”.

Finally, at a personal level, doing a DBA has benefited me in several respects:

• The interrogation of data validity – pursuing academic study has elevated my awareness of the need to examine data sources, data validity, and data reliability. In business situations this aspect is seldom interrogated in the haste to make decisions and move on. The source of the data, the reliability of the data is something I am much more inclined to inspect than before.
• Assumptions – being explicit about the assumptions being made in support of a proposition and how the logic ties together is another benefit gleaned from academic study. Again, this has proved to be an invaluable mental discipline as I review proposals predicated on statements of “fact” from managers.
• Peripheral vision – the benefit of studying related domains in academia when wrestling with a problem that may or may not have proven practice or empirical corroboration yet in a stated field also translates into a valuable practitioner benefit. The value of leveraging different people with diverse skills and backgrounds in solving novel problems is something I am more inclined to lean upon now in order to surface a disruptive thought or a solution path that may already have been used within a different functional area.
• Derailers – the ability to execute SBV has been significantly enhanced through experiencing and analyzing these seven case studies with particular value derived from a deeper understanding of the underlying mechanisms and the political and strategic context factors.
Overall completing a doctoral program has been a very demanding but nevertheless substantially rewarding journey. I would highly recommend it for the curious and for those eager to learn. For the professional seeking to explore complimentary strategies for accessing new growth, strategic brand venturing is worth closer examination. Hopefully these seven case studies provide some fresh insights into the ‘how’ and the ‘what’ of success and failure.

“And we must take the current when it serves, Or lose our ventures”
From William Shakespeare
Julius Caesar, IV, iii, 222.


APPENDIX A

Semi-Structured Interview Guide

Spirit of the Guide
This guide will be used as a touchstone not a rigid checklist. While the guide has a structure, it will allow the content and context specificities of each interview to modify, enlarge, or truncate the guide. Time constraints would also be a governing factor. Depending on how interview flows, move to the topic of most interest to the interviewee at that point and circle back to uncovered topics later. Ask interviewee for examples and as much ‘thick’ description as possible.

Warm-up questions/comments
- Set-up research - Make reference to preparatory email, or phone conversation. Clarify time available.
- Emphasize need to position researcher as neutral and lacking in inside knowledge about the case.
- Emphasize there are no ‘right’ or ‘wrong’ answers, but honest sincere responses are the goal.
- Request permission to record the interview.

Could you elaborate on the activities of your department or firm? What are your responsibilities? Who do you report to?

Antecedents and Program Design

Antecedents
What impact or role do entrepreneurial brands play in your industry? On your innovation agenda, what is the emphasis on internal (make) innovation versus external (buy/partner) partnerships? Why have these choices been made? On external partnering, what is the preferred model? How long has your firm been involved in venture activities? What were the industry-level and/or firm-level factors that precipitated starting your SBV strategy?

Program Design
What strategic role does SBV play in your organization? What objectives have you established for your SBV program? Do you have any specific focus areas? How did you arrive at these? What organizational structure choices have you made relative to SBV?

Governance
What governance mechanisms were put in place – elaborate (e.g. advisory group etc) and what was rationale? How effective or ineffective was this approach to governance in your opinion? Who or what functions/roles made up this group? Did they have decision rights? Typical content of such a meeting?

Opportunity Identification

Strategic exploration

Ecosystem participation
To what extent is the broader ecosystem important in fulfilling your mandate? How has the SBV unit gone about developing this and ensuring it is the preferred partner for entrepreneurs?

Pick & Court entrepreneurs
In the case of BRAND X, describe how you went about picking and courting the entrepreneur(s)? What was important to them? How did you discover this?

Brand Entrepreneur Venture Relationships

Structure and Make Investments
Why did you make an equity investment in BRAND X? Why did the entrepreneur select your firm as a strategic investor? What risks did they perceive and your firm perceive from the partnership? Describe the basic structure of the deal? Any components are embedded in the deal structure that impact the relationship (if at all) and day-to-day interactions? Were different personnel involved in deal structuring versus ongoing relationship management? Any impacts, if different people involved?
Brand Life-Cycle Marketing

Does your firm have a way of thinking about how to market emerging brands that differs from mainstream beer marketing? Is this difference in approach important to your firm? What are the typical stages a brand passes through? Who makes the key brand and marketing decisions? (for internal and external ventures) How are the entrepreneurs influenced in brand marketing decisions? Give examples of marketing mix elements impacted.

Organizational Linkages

a) Inter (working together)
Reflect on your dealings with BRAND X. What are some of the key dimensions / elements of working with them? Please cite examples where possible to help bring this to life. What internal sensitivities or challenges did you experience? e.g., legal; brand portfolio; resource availability; politics; etc. Issues with the entrepreneurs? e.g., loss of control; role sort; etc. How were support arrangements handled – legal alliance agreements, informal, mixed? Any contextual factors - positive or negative - that impacted the relationship?

b) Intra (within firm)
Building internal credibility and social network to secure internal support and ensure the venturing unit delivers on commitments made to entrepreneurs. Was this important? How did you go about accomplishing this? What senior level endorsements or sponsorship was evident (if any)? What challenges/barriers did you encounter? Give examples.

c) Broader / Exogenous Network
What role, if any, did the wider network play in making the venture develop as it did? Were any of these leveraged against the investing corporation to achieve concessions or negotiate something? What reactions were there from consumers and brand advocates to the initial investment? Has the ongoing relationship and loyalty been impacted (if at all)? Please give examples of good/bad incidents.

Venture Portfolio Management

Monitoring and Options Decision

How is the investment monitored? What are the routines and cadence? Who is responsible and who is involved? What metrics are used? Is there a routine in place that enables you to assess and discuss performance and monitor expectations personally with the brand entrepreneur? Were any synergies pursued between internal incubations and Honest? If so, what were the outcomes and issues? What options has the firm negotiated (acquire; increase equity; divest)? What firm-specific and deal-specific criteria will be used to make the decision at the appropriate juncture? What is your overall assessment of the BRAND X program thus far within your firm? (Prompt: Successful; jury is still out; a failure waiting to happen; teething problems; etc.) What is likely to happen next with the SBV unit in your firm?

Graduating Brands

Does the SBV unit keep managing these brands or do they graduate? What is the reason for your approach? What is the right stage/time if they were to graduate? What metrics or criteria should be used? How will the entrepreneurial spirit be maintained? Any ongoing governance mechanisms will be / have been used between the SBV unit and the inheriting business unit?

Intrapreneurship

Did your business embark on investing in BRAND X as a result of the internal incubations done via the SBV unit? Any key learning extracted and replicated from the investment in BRAND X? (e.g., brand building, influencer consumers, improvisation, speed, distributor management, sales force, flexible routes-to-market or supply chain, impacts on culture). How was this best learned and applied? What entrepreneurial initiatives or mindset changes did BRAND X trigger inside your firm?

Wrapping Up

Make closing comments. Ask about any concerns raised during the interview. Ask if there was anything not raised that we should have covered based on the executive’s knowledge of the topic. Clarify any follow-up actions. Thank the interviewee.
APPENDIX B

Citations To Date


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