Highline Beta

6 Reasons to Partner with a Venture Studio

Ben Yoskovitz, Founding Partner & CPO

Featured in Pointers, an Innovation Leader Magazine

Six Reasons to Partner with a Venture Studio

BY BEN YOSKOVITZ, FOUNDING PARTNER, **HIGHLINE BETA**

Venture studios are having a moment. More and more people within corporate innovation are talking about them — what they are, how to build them, how to work with them, and so on. A quick look at Google Trends for the term "venture studios" reveals a 280% year-on-year increase in search volume from April 2021 to today. The interest in venture studios is a good thing, but with it comes a fair amount of confusion. For starters, what is a venture studio?

> **"An internal venture may find itself pulled into achieving the corporate's more immediate goals, leading it away from net innovation and growth opportunities."**

While corporations are building versions of venture studios in-house, I want to focus on venture studios that live outside large organizations. In my view a venture studio is both a builder and funder of startups. Many innovation consulting firms or venture builders may position themselves as venture studios, but if they're not investing capital into the startups they create, I don't think they're providing the full benefits of a venture studio.

Venture studios that don't work with corporate partners are really startup studios, but the semantics can get confusing between venture studios, startup studios, corporate venture studios, etc. Ultimately the question we want to answer today is this: Why should big companies partner with venture studios to build & fund spin-out/independent startups?

1. Your company is often constrained by legal, compliance, regulations, legacy technology stacks, security or other things designed to minimize risk

Big companies have constraints. As operationally-focused organizations with longstanding products and systems, it's not easy to explore new technologies or opportunity areas. Often big companies have legal or compliance risks that are too difficult to overcome. Startups win on speed and iteration, but corporate systems are designed for neither.

2. Your company needs to focus on shorter-term objectives

Particularly true for publicly traded companies, everything is measured in quarters. When you're focused on hitting quarterly sales targets, it's difficult to invest time or money into a new venture that's going to take years to hit any meaningful scale. Very quickly, H2 & H3 innovation — transformative and disruptive initiatives — look like cost center sinkholes with no potential for real ROI.

3. Your company lacks entrepreneurial resources

Most companies are made up of smart, hard-working people that want their employers to succeed. But structurally, big organizations are not well-suited for entrepreneurs, those that paint outside the lines and don't focus on traditional career paths. There are mavericks and hustlers in every company, but they're hard to identify, empower, and incentivize.

Ultimately, big companies are not designed to foster rapid innovation outside their core — to build new ventures or startups that can one day be billion-dollar businesses. Venture studios help solve this problem.

4. Venture studios minimize gravitational pull of corporate

By building startups on the outside, you can minimize the influence and focus on the core business. A startup is, technically speaking, an

Ben Yoskovitz
Highline Beta

independent entity. It is incorporated separately with its own governance structure. While there are plenty of variables to consider, this typically enables that startup to chart its own path. In comparison, an internal venture may find itself pulled into achieving the corporate's more immediate goals, leading it away from net innovation and growth opportunities.

5. Venture studios share the financial risk creating aligned incentives

By the definition provided earlier, a venture studio must also invest in the startups it helps create. While big companies often have a tendency to want to "own everything" it's not necessary for the creation of scalable value. Instead, venture studios invest alongside corporate partners and other investors, sharing the risk and aligning incentives. When everyone owns a piece of the pie, everyone is motivated to grow the pie. Additionally, as a startup requires increased levels of funding, a corporate may not want to incur that expense on its own, especially if the startup is not helping to hit short-term targets, whereas other investors (i.e., angel investors and venture capitalists) are more comfortable making these bets.

6. Venture studios execute faster

Startups win based on their ability to iterate and learn faster than the competition. As independent entities, startups can do everything more quickly from hiring, to building products, to pivoting, and so on. Startups do struggle with scaling, because the skillset, approach, and systems needed are very different from the earliest days — which is precisely what big companies are built to do. Venture studios, as creators and investors into startups, are a great "tool in the toolbox" for going from zero to one, and bigger companies are better suited to scale. This is why the relationship between a corporate partner and venture studio is so important and can lead to genuine unfair advantage in the creation and growth of new businesses.

Is a venture studio the right option for your company?

The short answer: maybe and it depends. Without question, the idea of incubating new ventures and spinning them out as independent startups may be seen as fairly radical, but it's not. There are ways to build necessary controls and governance into the model around what the startup can and can't do, or how it might get re-acquired, while benefiting from the externality of it —independent founders with upside potential, external capital (so your company doesn't have to foot the full bill), and the ability to move incredibly fast.

If you've tried building new ventures in house, you'll likely have faced most if not all of the challenges described above. This is not to suggest you shouldn't keep trying. I believe big companies need internal venture building capabilities, but you can balance that with a venture studio model that creates new, spin-out startups as well.

Learn more about Highline Beta at www.highlinebeta.com.