



Corporate venture capital: An opportunity for mobile operators and start-ups in emerging markets

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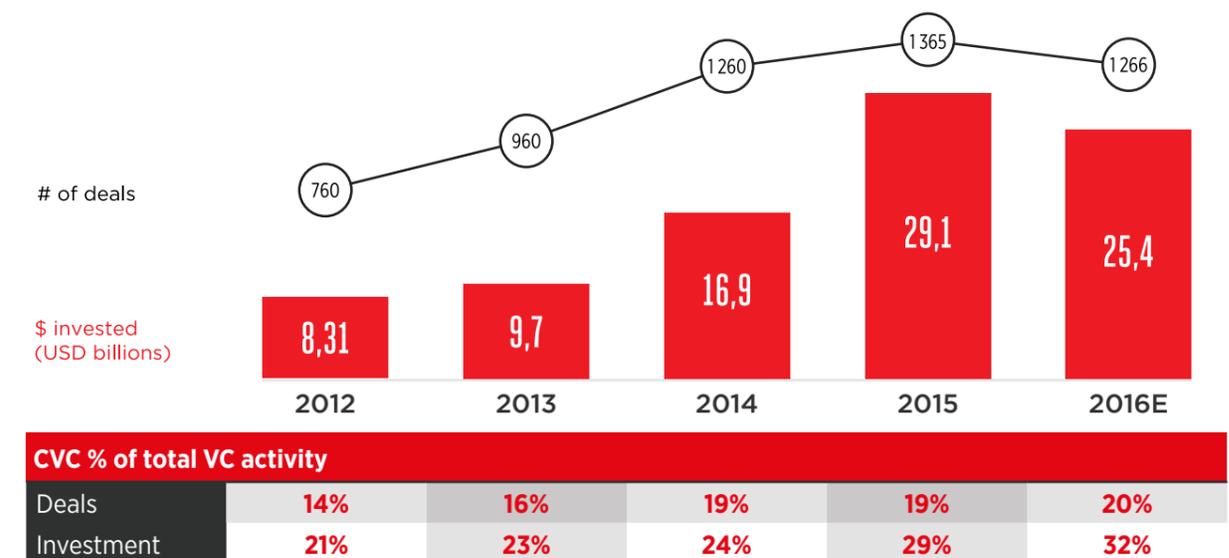
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In a world where digital disruption dominates, telecommunications players are not immune to its effects. Such disruption has led to a significant rise in corporate venture capital (CVC) activity where mobile operators have sought to invest in start-ups to accelerate innovation. While this model is certainly not new (Johnson & Johnson started making CVC investments over 40 years ago), the rise of CVC investing in recent years has been phenomenal. In the last five years alone, CVC investments have more than tripled (see Figure 1), accounting for over 30 percent of all venture investments, 10 percentage points up from 2012.

Figure 1

CVC investment activities



Source: CB Insights¹

Mobile operators have been relatively active in the CVC arena. From global giants such as SoftBank in Japan, which has invested nearly USD two billion since inception,² to single country operations such as [Mobily Ventures](#) in Saudi Arabia, CVC activities are now a widely accepted strategic pillar in mobile operators' ongoing efforts to innovate. However, these efforts have been mostly concentrated

in developed markets, and mobile operators in emerging markets have only recently realised the potential of the opportunity. In this report, we will examine in detail their motivations to pursue start-up investments, the merits of CVC as an investment vehicle, and the benefits this can bring to start-ups and society.

Collaborations between mobile operators and start-ups in emerging markets

The mobile operator's perspective: innovation, revenue diversification, and capital growth

The digital revolution has profoundly transformed the telecom landscape. As the boundaries between traditional telecom and media have blurred, the industry has amalgamated into a bigger ecosystem that includes connectivity, content, and a variety of other digital services (e.g. advertising, Internet of Things, cloud, health tech, fintech and more).

While mobile operators have tried to lead in this new ecosystem, newer and more innovative digital players have often been very successful in capitalising on the changes, capturing the opportunity at a faster pace, and even cannibalising some of the mobile operators' value-added services. This has led mobile operators to realise that collaborations with tech start-ups are essential to their own development, allowing them to:

- Drive user acquisition and retention by enhancing their product offering
- Create new avenues of ARPUⁱ growth beyond access revenues
- Improve customer engagement and customer satisfaction by modernising touchpoints and providing more relevant services to their customers
- Generate cost efficiencies through digitisation of the core telecom business

i. Average Revenue Per User

"The world's corporates and industries are facing a need for innovation that they don't manage to drive themselves."

Johanna Staaf, Director New Ventures – [Telenor Digital](#), 2015³

Collaboration between mobile operators and start-ups can take different forms, from more commercial collaborations such as distribution agreements or strategic partnerships, to minority equity investments.ⁱⁱ As one would expect, the extent of collaboration is proportionate to the mutual gains. As a result, while the previously-mentioned benefits can often be achieved through commercial models, they can be multiplied when coupled with an equity investment in the start-up partner.

The rationale for investing includes:

CAPTURING PART OF THE VALUE CREATION

By bringing scale (millions-strong subscriber bases) and additional capabilities (e.g. new payment facilities and distribution), mobile operators can drive substantial economic value for the start-up: not only revenue, but capitalisation as well. Hence, whenever a partnership is thought to have potential, it makes sense for mobile operators to consider taking a stake in the company to capture part of this value creation for themselves.

PARTICIPATION IN DECISION-MAKING

Investing also allows the mobile operator to participate more heavily in the start-up's strategic decisions. While it is important to preserve the start-up's culture in the venture and keep corporate involvement light, board seats or participation provide the ability to influence the direction of the partner. It becomes particularly relevant when the collaboration has a strong strategic angle for both parties.

DEEPER LESSONS

The ability to understand the industry and a partner's business model is often a motivation to invest. Beyond this, having a clear view of how start-ups approach business challenges, develop their products, and structure their organisations, for example, can be very helpful for a mobile operator to modernise their own business. This requires deeper involvement in the company through direct participation in operations, which is typical only where investments have been made.

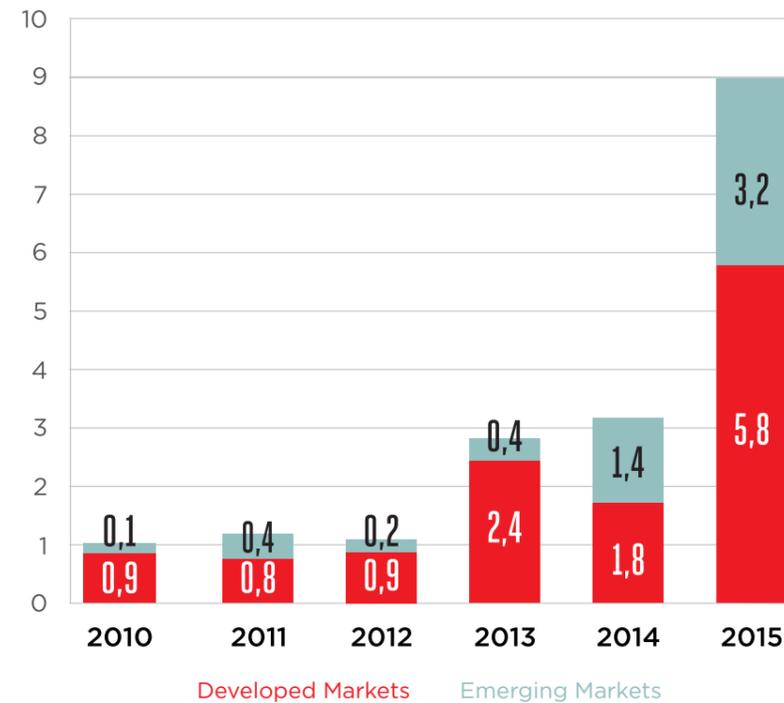
Having realised the benefits of both commercial collaborations and equity investments, mobile operators are now investing more money in start-ups: equity investments almost tripled from 2014 to 2015 (see Figure 2). While the bulk of investments still come from mobile operators in

developed markets, emerging market operators are slowly catching up as they realise the potential of these types of investments. In 2015 alone, telecom operators invested \$3.2 billion in tech companies in emerging marketsⁱⁱⁱ.

ii. This report covers only minority investments in start-ups. Majority investments, or acquisitions, are much more complex and require a different approach to understanding the benefits of collaboration.
iii. This represents investment in tech companies. It includes but is not limited to start-ups.

Figure 2

Telecom operators' investments in tech companies (USD billion)



Source: Operators' data, Capital IQ, Delta Partners

The start-up's perspective: capital, scale, differentiation, and monetisation

As tech investment is still not as advanced in emerging markets as in developed economies, local start-ups often find themselves with scarce funding options. For example, in 2015, the amount of tech venture capital investments across all Africa was around USD 188 million⁴ compared to over USD 34 billion in California alone.⁵ In this scenario, mobile operators can clearly be one of the best sources of the capital injection start-ups critically need. Beyond the direct impact of these funds, financial backing from mobile operators can lend a start-up substantial credibility, not only with other investors (financial reassurance), but also with governments (smooth legislation/regulatory frameworks) since

mobile operators in emerging markets are often the largest private sector employers and taxpayers.

However, mobile operators may offer other types of value to emerging markets start-ups, by:

1. Enabling start-ups to enter new markets quickly, efficiently, and effectively
2. Differentiating the start-up's value proposition in the market, allowing it to become more competitive.
3. Supporting the growth and monetisation of the start-up's existing customer base.

By leveraging their assets and experience, mobile operators can in fact help start-ups overcome some of the key challenges they face in their day-to-day operations in emerging markets: lower internet penetration, limited availability of customer information, partial reach of distribution infrastructure, smaller proportion of adults using traditional financial services, among others. The benefits are as follows:

- **EXTENDING CUSTOMER REACH**

In emerging markets, mobile operators are without a doubt the players with the longest reach: even in less-developed markets, mobile phones reach close to 60 percent of the population.⁶ This can provide a start-up with a significant head start. Beyond this, extensive distribution channels, large marketing budgets, and access to user data, allow mobile operators to drive their subscribers' usage towards the start-up's products.

"The ambition for Orange Digital Ventures is to work alongside digital companies to transform far-sighted, talented entrepreneurs into key players in their chosen markets and in so doing benefit Orange and its customers."

Pierre Louette – Orange Deputy CEO and President of Orange Digital Ventures, 2015⁷

- **LEVERAGING USER INFORMATION**

Due to the barriers individuals face when trying to prove their unique identity (as a result of limited government-issued IDs or lack of access to public registries), it can be difficult for a start-up to operate in emerging markets, especially in digital verticals like financial services which are strictly regulated and require formal ID verification. Mobile operators could help to bridge this gap by leveraging their ability to verify and authenticate their customers' identity, for instance, by relying on customer information collected through KYC (know your customer) processes. Such solutions, when developed in ways that respect customers' privacy, can be used by start-ups to enhance their service design and delivery while also enabling registered mobile users

to access a host of new innovative services. Beyond customer identification, start-ups can draw on mobile operators' depth of customer information to enhance customer profiling, improve their understanding of user behaviour, and target their activities.^{iv}

- **EXPLOITING PAYMENT INFRASTRUCTURES**

Populations in emerging markets remain largely unbanked (the majority of the world's two billion unbanked reside in emerging markets).⁸ Mobile operators provide the largest electronic money networks in many of these markets through direct billing and mobile money services, which are essential for start-ups to monetise their services. As of December 2015, mobile money services were available in 93 emerging markets and were used by 134 million active users.⁹

- **ACQUIRING MARKET KNOWLEDGE**

Partnering with a mobile operator that has been in the market for a long time and has conducted research to understand local customers' behaviour can be very helpful for start-ups seeking to localise their products. For example, adjusting product features to local market requirements, understanding willingness to pay, and identifying the most appropriate communication channels to target customers.

- **CREATING POSITIVE BRAND ASSOCIATION**

In emerging markets, mobile operators are still one of the most visible brands. Three of the top 10 brands in Africa ranked by Brand Africa¹⁰ are mobile operators (MTN, Glo and Safaricom). For a new start-up, being able to leverage positive brand recognition can be a valuable way to increase its visibility and competitive advantage.

To enable start-ups to capitalise on their assets in an effective and cost-efficient way, mobile operators have been working to modernise their infrastructure and ease the integration process with third parties. For instance, significant resources and effort have been put into building API platforms. Following the success of Globe, Axiata and Orange, more mobile operators like Smart, Telkomsel, Airtel, and Safaricom have recently launched API initiatives to foster collaborations with start-ups.^v

iv. Find out more on this topic through GSMA Digital Identity programme: <http://www.gsma.com/mobilefordevelopment/programmes/digital-identity>
v. For more information, see the GSMA paper, [APIs: A bridge between mobile operators and start-ups in emerging markets](#)

Beyond commercial benefits: the socio-economic impact of investments in emerging market start-ups

Beyond the commercial benefits for mobile operators and start-ups, investment in start-ups can have a number of direct and indirect positive impacts on a country's socio-economic landscape. Investments tend to help the local digital ecosystem to flourish by:

- **BOOSTING LOCAL EMPLOYMENT**
By creating job opportunities in local communities that lower poverty rates and cut the amount spent on social welfare.
- **INCREASING THE QUALITY OF THE LOCAL LABOUR FORCE**
By bringing knowledge and experts from innovation centres and tech hubs, mobile operators can help build local knowledge and capacity.
- **FUELLING LOCAL ECOSYSTEMS**
By driving demand to local businesses, channelling revenue to local parties through partnerships, joint ventures or distribution agreements, start-up investments can help boost the ecosystem in a specific vertical, driving indirect employment and wealth.
- **IMPROVING DIGITAL (AND NON-DIGITAL) LITERACY**
By prompting more users to embrace the internet and work towards the basic level of education required to benefit from these services, mobile operators investing in start-ups may boost digital literacy growth.
- **SOLVING LOCAL CHALLENGES**
Start-ups are often formed when a gap needs to be filled and a creative way is needed to solve or reinvigorate an outdated approach or inefficient way of performing a task. It is particularly true in emerging markets, where local market challenges (e.g. access to information, financial services penetration, limited reach of traditional distribution networks) are constricting economic development. For instance, mobile money and tech-driven credit scoring have led to greater financial inclusion in many emerging markets.

"We believe inspiration of new business leaders in Africa and their enablement to success, will be key drivers for the future rapid evolution of a broader start-up culture on the continent. This is an environment already teeming with excellent potential and we hope to assist in accelerating its further growth and to raise MTN's role in creating new businesses in Africa."

Herman Singh – MTN Group Chief Digital Officer, 2016¹¹

Mobile operator approaches to investing in start-ups: Different ways to crack a nut

While commercial collaborations help to bridge the divide between start-ups and mobile operators, investments go the extra mile in ensuring the collaboration is mutually beneficial. However, as this is new territory for many, and given the importance of a strategic rationale for any investment, it is critical that mobile operators devote time and effort to determining the approach that best suits their objectives. There are a multitude of investment strategies mobile operators can consider. The choice of strategy depends on whether:

- the investment is a one-off event or an ongoing, structured pursuit;
- the main objective is to achieve financial returns or a strategic relationship with the core business;
- they have the internal capabilities to manage the investment(s) or will need to learn them; or
- they intend to invest alone or in collaboration with other partners (telecom or not).

Depending on their answers, a few investment models are possible.

Figure 3

Investment model options for mobile operators

| "Balance sheet" investments | |
|--|--|
| Investment made directly in an investee without leveraging a fund or holding company | |
|  | PLDT's participation in RocketInternet Holding |
|  | Digicel's investment in Boom Financial |
| Directly managed CVCs | |
| Fund set up by mobile operators as entities separate from their telecom business A way for operators to invest their profits in a structured and systematic manner, while ensuring a certain degree of control over the direction of the fund | |
|  | SingTel Innov8 |
|  | Axiata Digital Innovation Fund |
|  | Telekom Indonesia MDI Ventures Fund |
| Indirectly managed CVCs | |
| Similar to the previous model; in this case the fund is managed by an external party, traditionally an expert venture capitalist (VC) | |
|  | STC Ventures fund handled by Iris Capital |
|  | Spark Venture Fund managed by TBL Mirror Fund |
| Third-party holding companies | |
| This approach involves creating a new entity with dedicated funds and management to manage single or multiple investments Generally co-created as a result of a collaboration between operators or with other players | |
|  | Jumia (formerly Africa Internet Group or AIG), initially a joint venture between Millicom and Rocket Internet, now joined by MTN, Orange, AXA, Goldman Sachs and CDC |
| Indirect investments / Funds of Funds | |
| Complete outsourcing of the investment process, leveraging third-party funds more or less specialised in areas the operator is interested in gaining exposure to. | |
|  | MTN's investment in Amadeus' first Digital Prosperity Fund |

Figure 4

Two investment examples: CVC and third-party holding

| Directly managed CVC: Axiata Digital Innovation Fund | AXIATA DIGITAL |
|---|---|
| <p>Axiata Digital Services houses Axiata Group's CVC and partnership activities with start-ups, providing access to about 290 million subscribers across the Axiata Group. The objectives of the business are:</p> <ul style="list-style-type: none"> • Providing digital services that can increase customer engagement within Axiata • Supplementing the core mobile business revenues with a new revenue stream that monetises the existing mobile assets • Transforming the core mobile business into an OTT/Internet of Things (IoT)-ready business • Building and expanding digital skills, mindsets and capabilities across Axiata <p>In line with these objectives, Axiata has made a number of mutually beneficial investments to transform its value proposition and operating model across markets.</p> <p>For instance, the investment in Yonder (an emerging market-focused music streaming service) is being leveraged by Celcom to create an attractive exclusive music offering for its subscribers in Malaysia.</p> <p>Similarly, the investment in WSO2.Telco (an open source, mobile-focused, digital-enabled platform) was used to build an API-driven digital enablement layer across the Axiata Group.</p> |   |
| Third-party holdings company: Jumia | JUMIA |
| <p>Jumia (formerly Africa Internet Group or AIG) was founded by Rocket Internet to house the company's start-ups throughout the continent in a vehicle strategic partners could also participate in. The business has been highly successful in soliciting investments from mobile operators, initially Millicom, MTN, and more recently Orange.</p> <p>The investments made by mobile operators have been well received by financial markets, with the operators seeing higher stock prices and significant coverage from analysts on the benefits of such initiatives:</p> <ul style="list-style-type: none"> • the expansion of mobile operators into a relevant digital vertical like e-commerce; and • the ability to leverage the experience of a strong partner with a complementary footprint. <p>The engagement led to a much deeper collaboration between MTN/Millicom and Rocket Internet beyond the injection of funds, and helped drive Jumia's business forward.</p> <p>A number of joint marketing, cross-promotion and cross-selling activities were launched. In Nigeria, for instance, MTN and Jumia's e-commerce platform worked together to sell MTN SIMs/devices on Jumia's web portal, promote Jumia services in MTN stores, and co-sponsoring digital literacy events.</p> <p>Similarly, MTN and Tigo mobile money services were integrated across Jumia e-commerce platforms to help overcome the challenge of credit card penetration.</p> |    |

Source: Axiata, MTN, Rocket Internet, press releases, Delta Partners

Each investment model option has a different rationale and motivation:

INDIRECT INVESTMENTS/FUNDS OF FUNDS

are the preferred route when a mobile operator wants to avoid the complexity of building its own investment arm, to leverage its professional expertise, to distance itself from the start-up, and/or to have financial gain as the primary objective. The latter is the main reason why there are few examples of mobile operators making indirect investments. In fact, strategic considerations typically drive mobile operators' investment decisions, with financial considerations taking a secondary role.

"BALANCE SHEET" INVESTMENTS

on the other hand, tend to be used for investments in highly strategic partners with which the level of collaboration is expected to be high. This approach is often used when a mobile operator is approaching the digital world before creating a fund-like structure. However, it is not usually viable in the longer term as the set-up and governance may be an obstacle to effectively managing multiple investments.

THE REMAINING MODELS, CVC (DIRECTLY AND INDIRECTLY MANAGED) AND THIRD-PARTY HOLDING COMPANY

are the most popular as they enable operators to reap the benefits of start-up investments (mutual gains, influence, emphasis on deep lessons), while limiting the impact on core business financials. However, the two models are very different: while the third-party holding company model tends to be used for significant and highly strategic one-off investments, CVC models provide the opportunity to pursue serial investing activities with varying ticket sizes and levels of collaboration. The examples below further elaborate these two approaches.

An overview of mobile operators' investments in emerging markets (see Figure 5) shows that operators are experimenting with all of the models, but directly managed CVC seems to be the preferred approach. The trend in start-up investments in emerging markets began in Asia and the Middle East, with operators like SingTel

and STC creating their CVC funds in 2011 and 2012 respectively. However, more recently, there have been significant investment activities in Africa too. Operators like Vodacom, Orange, and Safaricom introduced investment vehicles in 2015/2016, adding to earlier forays by MTN and Millicom, which continue to expand their investments.



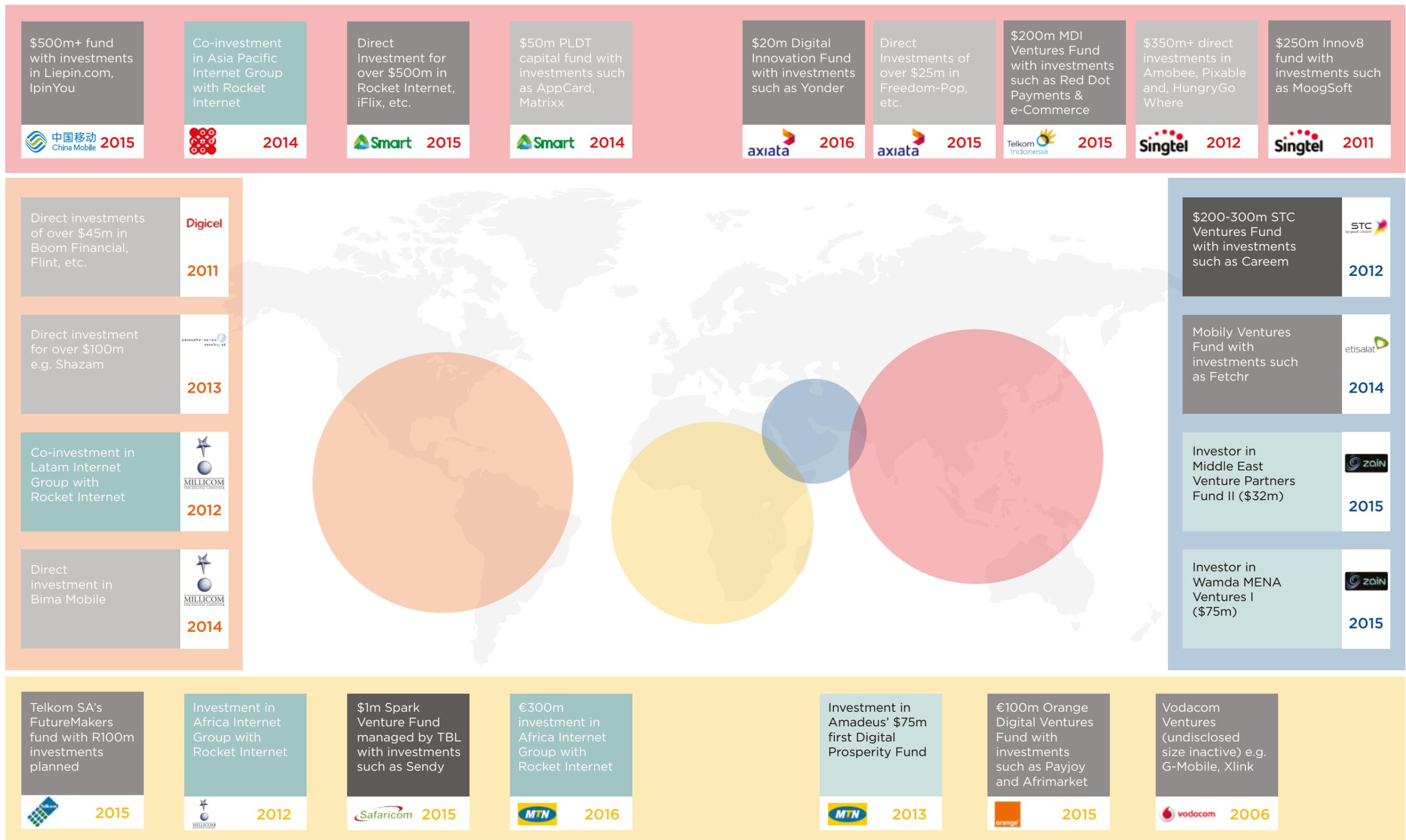
“Operators are experimenting with all of the models, but directly managed CVC seems to be the preferred approach.”

Figure 5

Investment efforts of selected mobile operators in emerging markets (by investment model)

KEY

- Balance sheet investments
- Directly managed CVCs
- Indirectly managed CVCs
- Indirect investments / Funds of Funds
- Third party holding companies



Source: Operators

Non-telecom players are also engaging in CVC activities in emerging markets often with dedicated investment arms focusing on these markets, and Africa and India are two key focus areas. Google launched a tech incubator programme in South Africa (Umbono)¹² which provides funding in addition to mentorship and business development opportunities to promising local start-ups. Cisco created a \$40-million India Innovation Fund

geared towards accelerating the development of early-stage start-ups by connecting them to the expertise and resources of various Cisco businesses.¹³ About 50% of Intel Capital's \$11 billion investments have been in emerging markets, where dedicated funds were created for Brazil, India, China, and Middle East/Turkey, total \$950 million. Intel Capital is now considered one of the top venture capitalists in Africa.

"It's a time where high growth, innovative young businesses, or even established international technology players looking to access the emerging markets need an experienced investment partner who will help them grow and truly capitalise on their potential, regionally and internationally. This will help connect them to new markets, customers and other business partners or investors."

[STC Ventures Investment Thesis, 2016](#)¹⁴

Practical steps to building a CVC

Building a CVC is neither easy nor straightforward, particularly in emerging markets where many players in different industries have failed. The key obstacles and potential reasons for failure are:

- **LACK OF FORMALISED, FIRM STRATEGIC OBJECTIVES**
When CVCs overemphasise the need for financial return on investment, they might find themselves unfocused and unable to fulfil their intended strategic goals, especially because of the illiquid nature of investments.
- **LEARNING AS THE PRIMARY OBJECTIVE**
When investment rationale is mainly for the mobile operator to educate itself in a specific segment, excluding synergetic objectives, CVCs risk making investments that have little to no impact on either business.
- **INCOMPLETE OR INCORRECT UNDERSTANDING OF THE PRODUCT AND MARKET NEEDS**
In some cases, CVC employees lack specific knowledge of the verticals the CVC wants to focus on.
- **A SINGULAR FOCUS ON THE VALUE START-UPS CAN BRING TO OPERATORS**
Operators often base their investment choices and post-investment activities on the value

start-ups can bring. However, this approach has proven to be flawed. Only when operators also focus on the value they can bring to start-ups are they able to fully help start-ups grow, to monetise their investments, and achieve higher capitalisation.

- **GOVERNANCE INEFFICIENCIES BETWEEN CVCs AND THEIR PARENT**
There are inherent differences in the way VCs and operators operate (agility, risk-taking attitude, etc.). Mobile operators need to ensure their own processes and modus operandi do not inhibit the CVC.
- **LATE ENTRIES**
Unfortunately, CVC has tended to follow the much larger VC market, albeit at a distance. Rather than following general VC trends, mobile operator CVCs in emerging markets can build their own view of relevant areas for growth and experiment with hedging investments.

To avoid falling into these traps, mobile operators should consider their approach to building up their CVCs very carefully. We recommend following a three-step approach:

1 Defining the investment thesis

The first step is to clearly outline the thesis of the investment, which has four main elements:

- **OBJECTIVES OF THE FUND, I.E. WHAT THE MOBILE OPERATOR WANTS TO ACHIEVE WITH THEIR INVESTMENTS**

This is a matter of defining the desired emphasis on strategic versus financial gains, the trade-offs between the two, and translating this ambition into practical goals. [Axiata](#), for instance, focuses its investments on companies closely aligned with the core business of the mobile operator. On the other end, [SingTel's Innov8](#) seems to adopt a more financially driven approach when it comes to decisions on investment options. Though very different, both approaches seem to be paying off.

- **VERTICAL FOCUS**

Selecting which digital verticals to invest in (e.g. mobile entertainment, FinTech, IoT), supported by a rationale linked to the investment objectives. Telkom Group's investment arm, [MDI Ventures](#) (Indonesia), is a good example of a fund with a clear focus on five verticals: Enterprise Solutions, FinTech, Adtech, IoT and Smart City Solutions.

- **GEOGRAPHICAL FOCUS**

One major decision is whether to focus strictly on the mobile operator's footprint or to invest in start-ups in key global digital innovation hubs (Silicon Valley, London, Berlin among others) and get them to expand later to the operator's geographies. Mobile operators have followed different paths: [PLDT Capital](#), for instance, makes investments exclusively in Silicon Valley to bring innovation back to Southeast Asia, while [Safaricom's Spark Ventures](#) focuses exclusively on Kenyan start-ups. The middle ground (innovation hubs plus local market) could be the winning strategy:

South African-owned [Naspers Ventures](#) CVC (non-telco) plays in both fields, growing its developing market footprint while also recently expanding its horizons to Silicon Valley.

"The benefits are two-way: we will invest and allow access to the PLDT group's customers and services and in exchange, we want them (investees) to bring their technology and talent here to the Philippines. We want our Filipino entrepreneurs to gain expertise and become world-class."

Winston Damarillo, CSO – PLDT (Smart's parent company), 2015¹⁵

- **RISK PROFILE**

This refers primarily to the stage of development of the companies the CVC wants to invest in: from early-stage companies with lower outlay but higher risk (three out of four seed investments fail)¹⁶ and longer investment prospective, to growth and late-stage companies, which demand bigger ticket sizes and produce smaller returns, but carry a lower risk. While a majority of mobile operators' CVCs tend to focus on A-series companies,^{vi} some exceptions have emerged: [China Mobile Innovation Industry Fund](#) for instance appears to make later stage (C/D) investments exclusively.

With these parameters defined, the mobile operator can then decide on the total size of its CVC and the structure of its investment vehicle (single fund versus multiple distinct investment vehicles).

2 Outlining the value proposition to investees beyond capital

A key factor differentiating a CVC from a traditional VC is its collaborative approach with the mobile operator, which makes it critical to understand how the mobile operator can leverage its assets to add value beyond capital. The approach should be built on the idea of competition for value, i.e. mobile operators are competing with other operators and investors to attract start-ups. It requires crafting a differentiated value proposition, creating clear opportunities for each start-up or

vertical, and sustaining value after the deal has been made. [Qualcomm Ventures' India-focused mobile/wireless tech fund](#) has been aiming for such an approach, promising investees tech resources (providing access to pre-release devices, boards, and APIs), market access (via connections to global carriers and OEMs), and subject matter expertise (facilitating introductions with HQ and other industry experts at international events).

3 Building the CVC fund: an operating model

Once the objectives and value proposition have been defined, the mobile operator can focus on the operating model. This is the most detailed step, involving a comprehensive evaluation of the people and governance model of the fund.

It is important to understand that mobile operators and CVCs are very different environments and that CVCs need people with distinct skillsets to achieve their goals. Those running the fund should have experience in investments (be able to bridge operators' lower risk appetite and extract adequate value from the partner post-deal), in the focus verticals and a good knowledge of the operator ecosystem, to ensure the investment is relevant and strategic and to navigate internal dynamics. Sourcing talent with these profiles is crucial, and an attractive compensation scheme – in line with VC peers – should be considered.

In terms of governance, the key issue is finding the right balance between CVC autonomy (a prerequisite for making agile decisions about

investments) and consistency with the operator's objectives. While having a clear thesis and value proposition is a good starting point, organisation, governance, and decision-making processes are always important. Ideally, the CVC would be set up independently with its own board or investment committee, while the mobile operator acts as a Limited Partner (LP).^{vii} Collaboration between the two is then ensured by having a few selected mobile operator executives on the board or management of the CVC, in periodic fund performance review meetings, and ad hoc interactions on decisions that do not comply with the investment thesis. Finding the right balance between the autonomy of the CVC and alignment with the mobile operator's goals is needed to ensure sustainability over time. Indeed, the tenures of mobile operator CEOs (three to five years) and CVC managers (seven to 10 years) typically do not match, yet the organisations are expected to continue functioning across business cycles with a clear, longer-term direction.

vi. The main differences between rounds are the maturity levels of the businesses, the type of investors involved, the purpose of raising capital, and how it is ultimately allocated. The funding rounds begin with a "seed capital" phase and follow with A, B, and finally C funding. <http://www.investopedia.com/articles/personal-finance/102015/series-b-c-funding-what-it-all-means-and-how-it-works.asp>

vii. An LP, or Limited Partner, refers to the legal status of investors in venture capital funds. Technically, they are partners in the fund with limited rights and obligations.



Calling on mobile operators in emerging markets to consider the CVC opportunity

Observing what has happened in recent years, it seems clear that the strategic logic for collaboration between mobile operators and start-ups will become more powerful. This will inevitably lead to a corresponding increase in related investments, which will keep expanding from the developed world to emerging markets. Mobile operators have a great set of tools to fill the void in VC activity in these markets, while also enabling scale and monetisation for local start-ups. These investments in local start-ups, can in turn deliver significant socio-economic benefits in developing markets through the creation of jobs and wealth, the promotion of digital literacy and increased internet usage.

Deciding which investment model to adopt is not obvious. Different models can be more suitable depending on the mobile operators' objectives,

experience, and expectations. Strategic priorities sometimes also shift over time. Some mobile operators, for instance, will start with small balance sheet investments while exploring indirect investments in funds or other vehicles, and finally moving on to CVC as they become more familiar with the space.

CVC in emerging markets might not be the best approach for all, but it represents a value-generating option for those mobile operators willing to make a mid- to long-term commitment to diversifying their portfolio and evolving their business model, and which have a clear view of the assets they bring to the table and the approach they want to follow.

Therefore, we recommend mobile operators in emerging markets to further explore the opportunity of setting up CVC arms and invest in local start-ups as a way to play a stronger role in the ecosystem.

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