



CVCA Speech to

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Fredericton and Innovation

It's a pleasure to have the opportunity to speak before you here in Fredericton today – our topic today is very timely as Fredericton is transforming itself into something of an innovation hub.

CVCA holds a Deal of the Year award to celebrate the very best investment successes of our member funds – and, for the past two years in a row, that award has gone to those funds which invested in two Fredericton software companies.

These successive successes say something significant about innovation today, namely: it's happening everywhere. If you doubt this, then read a fascinating book about the technological revolution in Israel, called Start UP Nation. In the space of 60 years, Israel has gone from an agricultural backwater to a country whose main export is new technology.

Defining Innovation

What can be said about Innovation that hasn't already been covered by my distinguished colleagues on the panel?

Innovation tends to be a catch phrase that means anything and everything to almost anyone. So, I do have some wiggle room.

To my mind, Innovation is synonymous with the Chinese characters for Crisis – namely, threat and opportunity.

I'll come back to this later on in my remarks – but I want you to think about: Innovation=Crisis=Threat and Opportunity.

Situating Individual Firms

Where does your firm fit in this equation? How innovative is it with respect to its products and its processes? Is it poised to take advantage of new opportunity or is it at risk? Is your company's future Apple's or Yellow Pages? Even if you are you selling the world's best typewriter, aren't you putting your company's future at risk?

In fact, in today's hyper-competitive economy, it is less risky to demolish your own business model than to put all your faith in your existing one.

For larger companies, including those in the transportation sector, the least risky path may be to back those new technologies that hold the prospect of making their own current products and procedures obsolete.

Incremental vs Disruptive Innovation

It is important here to distinguish between incremental Innovation and disruptive Innovation. Larger organizations tend to promote incremental innovation. A tweak here and a tweak there. 25 miles per gallon instead of 22. They do this because they develop vested interests in, and indeed become prisoners of, a certain paradigm or technology.

However, true progress isn't achieved by a whole sequence of add-on innovations. True progress takes place when something totally new is introduced and then swiftly takes hold.

Venture capital and Innovation

Where does venture capital fit in?

What does venture capital have to do with Innovation?

How many in the audience know what venture capital is and what venture capital does? Raise your hands.

Is venture capital about backing some nutty professor's crazy ideas?

Is venture capital about building billion \$\$ companies?

Is venture capital about smashing old business models?

If you answered Yes to all 3, you get the gold star.

Venture capital provides the fuel that enables sometimes crazy ideas to get a foothold and then grow at warp speed, and in the process, make obsolete formerly impregnable businesses.

Think back to Bill Gates in his parents' garage in Palo Alto in 1976, which then exploded into to Microsoft which was joined by Intel, Google, Ebay. And, let's not forget the fate that befell Encyclopedia Britannica.

In a related manner, venture capital backs companies that blaze a path where no firm has gone before and end up creating whole new industries, new customers and new suppliers.

Venture capital funds do this by invest in smaller earlier-stage companies that tend to have a higher R & D component and that tend to export proportionately more than the small and medium sized business universe as a whole. And, these venture capital-backed companies tend to grow 5X faster than non- venture capital backed firms.

Venture capital funds invest in high tech companies in three broad areas:

- Information and communications technologies, including digital media, gaming, wireless – 45 – 55%
- Life Sciences, including biotech, medical devices and drugs - 30 – 35%
- Clean tech, everything from alternative fuels (biomass) and energy sources (wind, solar, tidal) to energy storage and transmission– 10 – 15 % - this proportion has grown in recent years. In the last few years, several clean tech specific funds have sprung up in Canada.

In the transportation field, there are examples like:

- BIOXX – biodiesel, renewable, non-toxic for use in unmodified diesels and is produced from a wide variety of agricultural feedstocks. (Birch Hill)
- Greenfield Ethanol (Birch Hill)
- Cnano – carbon nanotube materials for batteries (Pangaea)
- Clean Air Power – alternative fuel systems that allow diesel motors to run on either natural gas or diesel (fuel savings/environmental compliance) (Enertech)
- CVT Corp – continuous variable transmission technology for heavy vehicles (Cycle Capital).

The venture capital industry's prime challenge today is to itself raise enough capital to meet the surging demand from all parts of the innovation economy.

Governments and the private sector are spending billions every year on R & D and in the last few years a plethora of incubators and accelerators have sprung up across the country. These organizations make it easier for entrepreneurs to take those very first steps towards commercialization – towards turning a good idea into a great business. And, sooner or later, these entrepreneurs come knocking on venture capital funds' doors.

Today's Business Imperative

Today the pace of innovation is picking up and the business world is ripe for the pickings. You can either hop on the innovation bus or you'll get thrown under the bus by someone whose existence you may not even be aware of.

And, the lesson of Nortel and of RIM is that no one, no matter how successful nor how big nor how sophisticated, is immune from the relentless and ruthless forces now at play in the business world.

The real question is: how do you avoid becoming road kill on the Innovation highway?

Some modest suggestions:

- Do an innovation audit of your business and industry. Might be more objective although more costly if a 3rd party did it.
- Partner with a venture capital fund by either co--investing with that fund or by becoming an investor in the fund itself.
- Set up your own venture capital fund.
- Adopt the Andy Grove mentality (former head of Intel – which itself has a large venture capital fund), “In business, only the paranoid survive.”

Thank you.